

Devon and Cornwall Police Authority Resources Committee 26 April 2007

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Report of the Treasurer

THE LYONS INQUIRY INTO LOCAL GOVERNMENT

Recommendation: That members note the results of the Lyons Inquiry with concern that the financing of local government and the flaws in the council tax system still require action.

Introduction

1. The Lyons Inquiry into Local Government was published at the end of last month. Sir Michael makes a number of recommendations for an evolutionary approach to local government and its financing. Responses have been mixed and many of the strains in the current system remain.

The Need for Review

2. It is now 4 years since the government began its investigation of local government finance. First came the Balance of Funding Review which recommended another review – the Lyons Inquiry – which itself took 2.5 years. Devon and Cornwall Police Authority has been deeply concerned about local government finance and council tax and has submitted representations to each of these reviews. Our submission to Lyons is attached. Capping and stopping the intended 2005 council tax revaluation have masked some of the underlying concerns since our submission but the basic flaws in the system remain. Those who hoped for a clear solution from Lyons will be disappointed.

The Lyons Review

"...there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things. For the reformer has enemies in all those who profit by the old order, and only lukewarm defenders in all those who would profit by the new order."

Niccolo Machiavelli, *The Prince* 1513 and rather ominously quoted by Sir Michael Lyons 2007.

3. The Lyons Review runs to some 394 pages. Sir Michael's conclusions are attached. As might be expected from so distinguished an author, the report is well written and well argued. In many ways it is a masterful contribution cleverly judged for its audience. It contains much to please many of the different opinions on this thorny subject with a clear localist perspective but containing little to threaten the centralist view. What it does not do is solve the problems of local government financing in general or police authorities in particular.
4. The report is on local government as a whole rather than just local government finance or the council tax and there is much on the philosophy of local government in its widest sense. Sir Michael clearly sees the role of local authorities as 'place-shapers' reflecting local views and using a range of powers and influences to shape areas to the common good. However, he also seems to believe that local government has much

to do to win the trust of local people before more powers can be given. He also favours an evolutionary rather than a revolutionary approach and the recommendations range over at least 2 and probably more parliaments. Evolution is understandable but it fails to address the urgency of the matter. Band D council tax has now reached over £1300 and is a real burden for many. Many authorities are strapped for cash and things do not seem to be getting any easier.

Lyons Recommendations: Short Term

5. As can be seen, much of the report concerns local government in the round and many of the recommendations focus on this wider base. This paper focuses more specifically on finance. It is possible to group the recommendations roughly over 3 time periods.
6. In the short term, Sir Michael recognises the need for financial breathing space for local government to develop its 'space-shaper' role. Greater flexibility is urged through reductions in ring fencing of grants, ideas of a supplementary business tax for specific projects and an end to capping. Reductions in ring fencing have been promised before. Devon and Cornwall now receives £23.7m in specific grants and some councils now get more from specific grants than they do in general grant. An end to capping has already been ruled out by government. In practice, genuine breathing space can only be achieved by a large injection of central funds or by local authorities doing less. Neither is likely. The situation is serious and getting worse.
7. Changes to council tax benefit are critical. The report seeks to redefine it as discount, improve take up by automation, data sharing, raising the savings limit to £50,000 and having the pension service as a portal to receipt of discount. If successful this could improve the lot of some of our poorest residents and may help take some of the heat out of the annual council tax setting round.
8. Calls are also made for greater transparency, incentives to LAs to benefit from local economic growth and reviews of charging. As members will recall from experience here, charging is not without its problems and the capacity to raise large sums is debatable.

Medium Term

9. The report calls for council tax revaluation on a regular basis. This has already been ruled out by government till at least 2011 when the tax basis will be 20 years out of date. It is difficult to argue with the logic of frequent revaluations. However, in practice they would magnify the problems of a tax based on property values in a period of rapid and unequal house price rises. Cancellation of the intended 2005 revaluation benefitted an area like this where house price rises have been so rapid. Revaluation has the potential to produce some wide swings and could be destabilising.
10. As part of the process, extra bands at the top and the bottom are advocated. This has been put forward by Devon and Cornwall as one means of making the council tax system a little less regressive. Considerations are also suggested for some element of apportioned income tax and a possible tourist tax. Apportioned income tax without local determination is not helpful and a tourist tax suffers from the problem that it would be needed most in areas where the economic impact would be the most severe and therefore where it would be least likely to be implemented.

Longer Term

11. In the longer term, Sir Michael suggests the examination of rather more radical reform such as relocating the business rate and local income tax. Local government has long called for the return of the business rate back to where it started. The forces ranged against this idea are formidable. Since it was centralised, business rates increases have been deliberately limited as a matter of policy. Unlike households, businesses have not suffered the costs of shifting the burden of funding local government from the central towards the

local exchequer. Business leaders fear a return to local control would lead to higher rates for them. So far the Treasury has firmly supported central control and there are few signs of the Treasury becoming more localist.

12. The analysis of local income tax is interesting. Sir Michael retains an open mind on LIT for upper tier authorities but does point to philosophical and practical issues. Most of the objections he has received on council tax point to its 'unfairness' but what is fair? He observes that local income tax would move the burden towards those economically active. It could also could move it away from those with substantial assets in their house perhaps to those who can't afford one. Clearly, LIT is a significant political issue but many observers expected rather more conclusions from the analysis especially as council tax is highly regressive taking a higher proportion of income from the poor and less from the rich.
13. Before moving on to consider LIT, Devon and Cornwall's submission referred to a hybrid arrangement introducing the idea of equality of sacrifice to make council tax fairer. It was suggested that the system would be fairer if council tax was equalised on the basis of the hours of work necessary to pay it, rather than equal tax levels in cash. This would keep some form of property tax but with benefit to low wage areas. At present, Area Cost Adjustment actually moves money from poor areas to rich ones. This idea does not appear to feature in Sir Michael's recommendations.

Conclusion

14. At face value, the Lyons Inquiry was set up to solve some of the most pressing problems facing the financing of public service in a dualistic society. No one expected easy answers and most commentators were aware of the extremely sensitive political environment. Sir Michael has taken some time to produce an intelligent, well-written, well-researched essay examining the philosophy of government and financing. It is extremely difficult to summarise so much work into a small space and apologies may well be due to Sir Michael if some points have not been included or have been misinterpreted here.
15. Sir Michael has produced a number of ideas which could help especially on council tax benefit/discount. However, it is difficult to detect the necessary sense of urgency in any of the document and some of the proposals have already been turned down. There are major flaws in the council tax system which could threaten to destabilise the situation and impair the necessary dialogue on local service levels and place-shaping. The Lyons report will not solve them during this parliament or, even possibly, the next. It is said that we only get one definitive work on local government finance in a generation. The last was the Layfield report in 1976. That work was challenging, definitive, comprehensive and path-breaking. Unfortunately for local government, Lyons is no Layfield.

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