



Briefing 07/23 April 2007

Lyons final report

This briefing is for English local authority contacts including Chief Executives and Council Leaders and is sent to Wales, Scotland and Northern Ireland contacts for information

Key issues

In July 2004 Sir Michael Lyons was asked to conduct an inquiry into council tax and received submissions from across local government, the wider community and business as to the impact of local authority funding.

In September 2005 the Government asked Sir Michael to conduct a further report and a series of interim papers were produced to debate the mismatch between the impact of council tax bills on individual citizens and the need for a fair system of funding for local government.

Sir Michael Lyons has now published his final report entitled '**Place shaping: a shared ambition for the future of local government**' making a series of recommendations to Government.

This briefing highlights some of the key findings of Sir Michael's Inquiry Team, key recommendations and provides member authorities with an initial APSE perspective on the report.

1. About the Lyons Inquiry

In July 2004 Sir Michael Lyons was asked by the Deputy Prime Minister and Chancellor of the Exchequer to look at changes to the local government system and in particular the operation of the council tax system.

In 2005 Sir Michael's remit was further extended to consider the role and function of local government and then in December 2006 was further extended to consider issues raised by the Barker, Eddington and Leitch reports all of which have a cross-cutting impact upon local government.

The Inquiry Team led a series of workshops, which APSE participated in, as well as receiving a wealth of written submission from across local government with both councils and local government organisations providing extensive evidence, alongside individual citizens, trade unions and business organisations.

2. The final report

After much deliberation the Inquiry Team has now reported and Sir Michael has made a series of recommendations to Government contained within the details of the final report. The report however does not form the basis of any Government action as yet and it will be for Ministers to decide which, if any of the recommendations that they intend to take forward into policy or statute.

In any event Sir Michael's recommendations are somewhat fettered by announcements from Government and indeed a further statement by Ruth Kelly, Secretary of State for Communities and Local Government that there would be no **"revaluation of council tax during the lifetime of the current Government"**

3. Overall conclusions

Sir Michael's report recognises that local government has an overall place shaping role and that it is an essential part of the local government system. The report conclusions dovetail into some of the issues that were raised within the recent local government White Paper (Strong and prosperous communities) and the Local Government and Public Involvement in Health Bill which seeks to strengthen the use of local authorities as 'place shapers' and increase the use of the Power of Community Well Being afforded by the Local Government Act 2000.

The report also concludes that 'council tax is not broke' but that there is a need for reform with longer term solutions not ruled out including a recognition that local income tax may be feasible in the longer term but would take time to implement and create significant costs. There is no immediate recommendation to make a re-localisation of business rates a reality though the report acknowledges that with both a local income tax and relocations of business rates greater public support and understanding would need to exist before any such measures could realistically be introduced.

4. Recommendations for the short term

The report recommends that the current finance system should be reformed to include:-

- Increased local flexibility
- Less use of ring-fenced funding
- Supplementary business rates
- A power to charge for domestic waste
- Council tax benefit to become an automated rebate
- Improve transparency and end capping and greater clarity on bills
- An independent voice to scrutinise funding decisions
- Improve incentives for councils in the funding system
- Reform Local Authority Business Growth Incentives schemes

APSE commentary:-

Local flexibility and business rates: APSE welcomes the recommendations to increase local flexibility and minimise ring-fenced funding. However some ring-fenced funding has been helpful in securing equitable arrangements for citizens. Any reform of the financial framework of local government must underpin the principles of 'gold standard' services for citizens regardless of locality. The reform of Business Growth Incentive schemes, and the ability for councils to charge an additional supplementary business rate, where agreed locally, would also provide a welcome balance to a relationship whereby local business helps to promote and develop the local economy, but, which in turn, can put additional costs pressures onto councils. Such cost pressures are not fully reflected under the current system of centralised business rates. The report recommendations also reflect the intentions of the Government in the White Paper, to place councils at the heart of developing local economic prosperity, and their role in stimulating and supporting the wider regional and sub-regional economic base to generate jobs and wealth creation. It is however disappointing that in an environment where numerous checks and balances exist to control council expenditure and revenue receipts that a recommendation for the immediate return of business rates to the local authority has not been forthcoming within the report.

Council tax benefit reform: The anomalous position, whereby individual citizens, who are in any event entitled to a rebate on council tax, but who have to go through a process of claiming for a council tax rebate, has meant around 370,000 pensioner households missing out on their entitlements. The recommendation to move towards a system, whereby a council tax benefit becomes an automated rebate process, (presumably at the point of council tax bills being issued) is welcomed by APSE. The reforms, if accepted by Government, will mean £1.8 billion of currently unclaimed council tax benefit being paid.

Charges for domestic waste: Local authorities are facing increasing cost pressures to deal with the cost of waste and recycling. Increases announced by the Chancellor in his March budget statement will see costs in landfill tax rise by a further £8 per tonne from April 2008 until at least 2010 creating a further cumulative increase in charges of £24.00 per tonne by 2010. Councils are already expected to pay £21.00 per tonne which will rise on 1 April 2007 to £24.00 creating a charge of £32.00 per tonne of landfill waste by April 2008.

At the same time investment in new plant and equipment to facilitate increased participation in recycling, and new workforce measures, to ensure that councils are able to meet the changes in dealing with waste issues has been funded within current resources. Such cost pressures mean that a greater proportion of council tax bills are used towards paying towards waste services. The ability to strip out from the overall council tax bill the cost of waste ought to provide the public with a greater understanding about the cost, of their approach, to waste and recycling. In addition the ability for councils to introduce variable charging for waste may provide a welcome source of revenue. Overall volume of council tax collected would not be expected to rise as a result of these provisions but the variable charges would be expected to reflect the fact that waste charges reflect the volumes of waste produced by households. However the structure of such charges would need to be carefully considered before being introduced on the basis that any charges used as a 'blunt instrument' could be found to be a regressive form of taxation, impacting adversely on some of the poorest families.

5. Recommendations for the medium term

- Council tax: revalue properties, update the tax base and restore link between property values and council tax

- Introduce additional council tax bands to the top and bottom of the current bands so that people in the highest value properties pay more; people in the lowest value properties pay less
- Consider apportioning a fixed amount of income tax to local government as a further revenue stream
- Power to levy a tourism tax is a strong case could be made and local support assured
- Improve incentives through reform of the grant distribution system.

APSE commentary

Council tax revaluation and additional bands: The Government has already made it clear that council tax revaluation will not take place during the lifetime of the existing Government. However the pressing need for revaluation, whilst undoubtedly unpopular with electors still leaves an iniquitous arrangement whereby poorer households still pay a far greater proportion of their income in council tax. The addition of increased bands provides a fairer solution, but, as with charges, it must not introduce a regressive form of taxation, where individual citizens are penalised, for example an older person remaining in a large family home after raising a family or larger families. Such measures need to be balanced by effective use of the rebate system. Accordingly even if the Government rejects the overall proposal for revaluation the introduction of expanded council tax bands, as a more immediate measure, would be of benefit in ensuring greater distribution of the council tax burden at a lower level.

Income tax as a fixed proportion of local government finance: APSE views this element of the reports recommendations to be problematic in that there is a mismatch between where people reside and where they might work. With an increasingly mobile workforce it is likely that the traditional home / work location boundaries will continue to change. Moreover the level of income tax within an area may not match local needs, with poorer areas, recovering a lower level of income tax from a population made up of lower earners. Therefore the report recognises that even with a balanced formulae for redistribution of a proportion of income tax to local authorities, the cost of such a scheme, and ensuring that it remains fair and equitable, could be extremely problematic.

6. Recommendations for the long term

The report references the differing positions of political parties and by default does not 'rule out' any of the longer term policy objectives from the broader political spectrum including:-

- Local income tax
- Relocalisation of business rates

APSE commentary

Local income tax: The report recognises many advantages to a local income tax but suggests that without widespread public support, and a mechanism to deal with the costs associated with moving to an entirely new system, such a move in terms of replacing the existing framework of local government finance, is unlikely in the foreseeable future. The Government has previously expressed its resistance to the idea believing that citizens would view this as a new form of taxation. It is therefore unlikely within the current administration to be considered for introduction.

Relocation of business rates: Relocalisation of business rates is strongly supported across APSE member authorities and therefore it is disappointing that there has not been a stronger recommendation to return business rates, sooner rather than later, to local authorities. Arguments that business rates may increase, in an uncontrolled environment, and would jeopardise business growth, is a fallacy. Many local authorities can take the credit for having developed strong and prosperous local economies, with direct intervention to ensure regeneration has a much broader economic basis than simply the physical improvements to an area. In any event recent local government legislation has operated on the basis of providing much broader powers to local government with reserve powers for the Secretary of State to intervene should councils act irresponsibly. Whilst the recommendation to allow for localised supplementary business rates is welcomed there could be a resultant unhealthy competition between authorities competing for the development of business, based not on local need, but on the acceptability or otherwise, of the business community, to supplementary charges.

7. APSE Conclusion

Sir Michael Lyons took on a very difficult and onerous task in delivering a report on local government's role and responsibilities; A role which was already to an extent fettered by Government announcements relating to council tax revaluation. However the current climate in which local government operates means that local service and local solutions need to be found in an environment whereby the largest elements of spending are dictated by central government and indeed where spending is controlled, even over local raised funds, through council tax capping.

There are many sensible points within Sir Michael's report that support the broader direction of local government. The issues raised within the Local Government White Paper on allowing local authorities a greater role in economic development could be supported by immediate changes and new flexibilities that reflect the new dynamic relationship between local authorities and their communities.

One of the most tasking elements for councils currently is the issue of waste charges. The draft Climate Change Bill will undoubtedly increase the pressure on local government to develop effective methods to deal with waste. The increase in landfill tax charges, referred to above, will create an added imperative for alternative ways to fund waste, maximise waste minimisation strategies and increased participation in recycling. However there is also little comfort for authorities who face immediate pressures on their social care budgets, particularly within adult care services, in suggested delays for introducing much more radical reform to the structure of local government finance.

It will now be for the Government to determine its acceptance or otherwise of the recommendations.

APSE always welcomes the views of our member authorities and accordingly if you have any specific matters that you would like to make in response to the final report of Sir Michael Lyons please email Mo Baines on mbaines@apse.org.uk

For further information please visit www.apse.org.uk

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