

**Submission to the Lyons Review**  
**in response to the further interim report of May 2006**  
**by the Retired Members Section of**  
**the Devon County Branch of UNISON**

**Introduction**

We represent some 900 retired members of the Devon County Branch of UNISON and have already made a submission in relation to the original terms of reference of the Lyons Review into Local Government Funding and again in response to its extended remit.

We looked to the Review as being an opportunity to clarify the roles of Government and Local Government, to ensure that a more equitable form of funding could be obtained in place of Council Tax, to ensure that there was a proper link between functions and funding and finally to ensure that precepting authorities, if they were to continue, had proper democratic accountability.

We feel that hitherto there has been an emphasis on greater devolution of powers and responsibilities to local communities but without adequate consideration of how this is to be funded and without any thought as to how there can be proper accountability. Indeed we believe that the Review and Government is leaning towards ways in which the Government can divest itself of responsibilities but the issue of funding has been left open.

We fear that it is the Government's intentions to use this review as a means of reducing its share of the bill, leaving local authorities with the need to secure even greater amounts of income from their local communities. If this is still to be primarily a tax on property, then pensioners are going to be hit even harder in the future than they are now.

We make the point, once again, that the fairest form of taxation is to tax incomes and business profits; these have a far wider tax base than property and both relate totally to ability to pay.

It is timely therefore that your final piece of investigative work entails examining the links between funding and function and their implications for reform. In responding to your four specific key areas, we will inevitably draw to your attention points we have made in our earlier submissions which we regard as fundamental to the overall debate.

Finally we welcome the opportunity to have been able to contribute to this debate. We draw on the experience of our members who have worked in local government as well as being able to take a more detached objective view, now that we are retired.

## **1. Greater Flexibility in funding in relation to place-shaping and the different options to deliver such flexibility**

- 1.1 Your previous work investigated the strategic role of local government in terms of place shaping. This role has been over-emphasised in our view. What the public wish to see is a seamless provision of public services which are necessary or desirable but which provide good value for money and without excessive bureaucratic interference or cost.
- 1.2 The current mish-mash of service provision through partnerships, non-elected quangos and various other bodies cause confusion in the public mind, dilutes accountability and increases cost. This service provision muddle arises through diffusion of accountability.
- 1.3 One of the current headaches of all local authority treasurers is the various ring fenced funding streams. When the Regional Development Agencies were set up in England, their funding streams initially came from 14 different Government sources. Eventually these were narrowed down to three. If local authorities are to have greater devolved responsibilities for their communities then it is they that should be determining the priorities, not Government. On this premise, there is a strong argument for making just one block grant. This would then provide the greatest flexibility.
- 1.4 Having said that, is it likely to happen? Probably not, because a natural desire of Government is to control what is spent, on what and where. Its justification for this is one of accountability of public funds and its statutory duties.
- 1.5 Rather than consider options for this greater flexibility, we believe that the most important area to determine, first, is the link between function and funding.

## **2. Local Accountability and a clear link between function and funding**

- 2.1 We support the principle of accountability in that there needs to be a clear link between funding and function – the principle of no taxation without representation. What we oppose is a diffuse and complex system of service provision where accountability becomes drowned in a sea of largely meaningless performance indicators and tick boxes.
- 2.2 Our position on this is quite clear – we would call it the Caesar principle – it all depends whose head is on the coin. For those services that the Government requires to be carried out, it is to the Government that payment should be made. For those services which the local authority chooses to carry out, it is to the local authority that payment should be made. The flip side of the coin is that the public will hold the Government to account in respect of the services that the Government requires to be carried out and the public will hold the local authority to account in respect of those services it decides to carry out.

- 2.3 We see the need for accountability at Government level as well as at the local level. We know that local government is constrained by the principle of “ultra vires”; it cannot exercise any powers unless expressly provided by statute. In fact there is considerable discretion afforded by statute as to what services a local authority can provide for the well-being of its community.
- 2.4 We maintain that, in broad terms, Local Government must be about
- Responsibility for the delivery of those services which the Government requires to be delivered at the local level and for which the Government must fully fund and be ultimately accountable
  - Responsibility for the delivery of those discretionary services which the local community believes are priorities and for which it is prepared to pay
- 2.5 This provides the clearest link between function and funding, and the clearest accountability.
- 2.6 It ensures that the Government takes full responsibility for the likes of education, social services and transportation; it can take the credit if it goes right but must take the blame if it goes wrong.
- 2.7 It ensures that local government is responsive to local needs and priorities in terms of the discretionary services it can provide. For once, local councillors will be elected to look after the interests of their community, to do what they want (within the powers provided by statute) and at a cost which the community is prepared to pay. This is the sort of community politics that are needed and which will revitalise local elections. Councillors will be empowered to make a difference in their local community rather than remain, for the most part, an agent of central government.
- 2.8 Critics may argue that standards of delivery may vary in respect of the mandatory functions. In our view, it is the Government that mandates and it is the Government that must set the standards and be judged by them.
- 2.9 Whilst we maintain that this clarity of distinction between what is mandatory and what is discretionary is vital if there is to be proper accountability, we do recognise that there are constraints brought about by the levels of relative prosperity in an area. Poorer areas where incomes are low will be less able to afford local funding to improve their communities. There does therefore need to be some element of resource equalization. This is covered in the next section.
- 2.10 On the issue of accountability, we again draw attention to the fact that, currently, both police authorities and fire authorities exist with the right to levy a precept, but to which there are no directly elected members. Some would argue that there should be changes made to ensure that members to these authorities are directly elected and so directly accountable to the communities they serve.
- 2.11 That would be an improvement but we propose a different solution. Both police and fire could be described as emergency services. Certainly the police forces are directly accountable to the Home Office and the Home Secretary in particular. Police authorities do not have the ability to select where crimes will or

will not occur, nor should they be held financially responsible for undertaking security duties which are imposed on them by state visits. For example, the costs of covering high level security for the visit of President Bush to the Prime Minister's constituency had to be met by the local police authority, a direct charge on the local people through Council Tax and in respect of which they derived no benefit whatsoever.

- 2.12 We believe that, as essential emergency services, both police and fire authorities should be treated in the same way as other such services such as those defending our country, or indeed the health service, and be funded 100% from national taxation.
- 2.13 The review, so far, has failed to recognise the anomalous situation regarding these services. We believe it should and we have put forward the solution.

### **3. Fairness of the funding system, equalization and incentives**

- 3.1 The system of Income Tax and Corporation Tax, receipts from Capital Gains Tax and Inheritance Tax and, to a degree, stamp duty are all based on the principle that the more one earns, the more one pays. These embrace the concept of fairness and ability to pay.
- 3.2 In terms of tax collection from such sources, it will follow that the more prosperous areas of the country in terms of incomes and profits will raise more funds for national coffers than the less prosperous areas. This provides the basis for equalization of resources by Government to support those areas of need.
- 3.3 Local income tax, whilst in theory satisfies the criteria of fairness and ability to pay, will not in itself provide fairness in terms of the resources needed for a particular area, as it would otherwise mean that poorer areas, with lower incomes, will have to find a greater proportion of their incomes in supporting local services than those in more prosperous areas.
- 3.4 If we accept that the Government should fully fund all mandatory services to a required standard, it does not mean that all areas will receive the same level of funding. The key point is that funding must be adequate to ensure that the services are delivered to the required standard. This might cost more in some places than in others.
- 3.5 When it comes to local discretionary services, we believe that primarily these should be funded locally, in part through local revenues (car parks, property rents, tourist bed night tax and business rates, although the latter should be set locally and not be subject to the constraints of the Uniform Business Rate). This would then be topped up with a share of national income and corporation tax receipts.
- 3.6 The difficulty is in assessing what that appropriate share should be. We are back in the realms of the Government deciding what is appropriate through the complex formula of the SSA (Standard Spending Assessment) which we think most local authority treasurers abhor.

- 3.7 We believe that instead of an annual SSA, local authorities should justify to Government their local (i.e. discretionary) spending priorities through a Business Plan based on a 4 year programme, to be presented within 9 months of each complete local authority election. This would then fit in with the 4 year cycle of local authority elections.
- 3.8 This Business Plan would need to demonstrate how the authority assesses its needs, how it has established its priorities and the costs attached to each priority, the order of priority and how it has consulted, and drawn up such plans, with the local community. This would give certainty of planning, a clear table of priorities and certainty as to a level of funding over a 4 year period. Should funding be constrained, then the authority will be limited to spending resources according to the order of costed priorities.
- 3.9 We emphasise that this Business Plan will only relate to those services which are discretionary and which currently form a relatively small proportion of the total budget. Critics might argue that such a Business Plan is unnecessary and wasteful. In our view it is good business practice and one which is essential in commerce where funds are sought. Why should local government be any different?
- 3.10 Incentives to local authorities should not be a carrot and stick approach which many of the current Public Service Agreements provide. Instead the efforts of local authority should include the attraction of their areas for business development, jobs and housing provision, all of which will ultimately enhance the tax base, locally as well as nationally.

#### **4. The role and future of Council Tax**

- 4.1 The advantage of Council Tax is that it is levied on property, something that is immovable. However it is also levied on something that does not in itself create income, other than property that is let.
- 4.2 Everyone needs a roof over their heads. Some people rent property out of choice. Others seek to purchase a property through a long-term loan. The latter is no longer subsidised by any form of tax relief. House purchase facilitated by way of a mortgage is perceived as an investment whereby one foregoes income now to ensure that there is security of owning outright your own home in later life. Regrettably flexibility in the housing market (and the labour market) is impinged by high rates of stamp duty, agency, conveyancing and removal costs.
- 4.3 If Council Tax had been kept to a very low level and its annual increase pegged to inflation, the concerns of many people on low or fixed incomes might have been more muted and indeed this Review deemed unnecessary. The problems with Council Tax have been exacerbated by the fact that inflation in the public sector – and that means the purchase of goods and services by local authorities, not staff salaries – have been increasing at a faster rate than the Retail Price Index. Examples include the cost of care home provision and the increasing costs of maintaining roads as the price of bitumen is directly affected by the oil price. There have been increased responsibilities devolved from Government that are not always matched by additional funding. But above all, there has been

a significant leverage effect caused by the capping of the Uniform Business Rate to the level of inflation.

#### 4.4 Let us take a simple example

Assumptions:

- A revenue budget of £500m in Year 1
- Public sector inflation of 5% p.a
- Level of Govt grant 75% in Year 1
- Level of Govt grant increase of 3% p.a.
- Level of Business Rates 10% of revenue budget in Year 1
- RPI of 2.5% p.a. (to which Business Rates are linked)
- No additional income

In Year 1, the revenue budget of £500m is met by Government grants of £375m and Business Rates of £50m. Council Tax meets the difference of £75m (15% of the budget)

In Year 5, the revenue budget has grown to £638.1m  
Government grants now amount to £434.7m  
Business Rates have increased to £56.6m  
Council Tax to meet the difference is now £146.8m (23% of the budget)

In Year 10, the revenue budget has grown to £814.4m  
Government grants amount to £504m  
Business Rates have increased to £64m  
Council Tax is now £246.4m (30% of the budget)

4.5 Using this example it demonstrates that, over a 10 year period, the burden of Council Tax has increased by 100% as a proportion of the total revenue budget. More to the point, the individual Council Tax payer will have seen his contribution rise by 228%, compared to an RPI increase of 28%.

4.6 It was Albert Einstein who remarked that the greatest discovery was compound interest. It doesn't take an Albert Einstein to realise that Council Tax is taking a higher and higher proportion of disposable income each year. For the pensioner whose income is fixed or rises in line with the RPI each year, Council Tax, as a non-discretionary item of expenditure, has a serious and increasing impact causing unnecessary distress and worry.

4.7 The Government's response is in terms of assistance to those who need it most – pension credit and occasional one off payments, such as the one before the last General Election, which has since been withdrawn.

4.8 Some suggest that there should be a wealth tax based on the value of one's home at, say, 1%. This does not take into account that a home is essential, not a privilege, nor can it be subdivided into multiple shares. For many pensioners who have scrimped and saved to buy their own house it is now a case of being relatively capital rich and income poor. There are other taxes on capital and one which is recouping such capital is Inheritance Tax. We should not be encouraged to take further loans on one's house just to pay Council Tax.

- 4.9 Recent research undertaken by Norwich Union shows that pensioner households now spend 22.7% of their disposable income on bills. Overall pensioner household bills climbed by 7.4% in 2005 whilst the RPI increased by 2.2% over the same period. This year, the difference is expected to be even higher given the very large increases in utility prices.
- 4.10 We maintain, most strongly, that Council Tax should be scrapped altogether as it is an unfair, regressive, tax, does not have a wide enough tax base and does not relate to ability to pay. Moves to widen the number of bands do not remove the unfairness of such a tax.
- 4.11 Income and Corporation Tax represent the two main sources of national taxation which are both based on fairness and ability to pay. Our key message remains that these must be used in preference to any residential property ownership or occupation based tax.
- 4.12 Locally derived revenue sources should continue to include business rates, but these should no longer be capped. Other sources of income could include a tourist tax based on bednights, efficiency and energy savings, parking charges and some form of topping up out of national taxation.

## **5. Conclusions**

- The public wish to see a seamless provision of public services which are necessary or desirable but which also provide good value for money and without excessive bureaucratic interference or cost
- The current service provision muddle arises through diffusion of accountability
- The need to adopt the “Caesar principle” in terms of accountability and the distinction between mandatory and discretionary services
- Police and fire authorities, as essential services, should be 100% funded by Government
- Local funding should be sought for local discretionary services, subject to a nationally funded top up, as a means of equalizing resources to poor and needy areas
- Business rates should not be pegged to inflation
- A 4 year Business Plan for local discretionary services, costed and prioritised, should be introduced
- Council Tax remains an unfair tax and it is having an increasing impact especially on pensioner incomes; extending the bands does not improve what is intrinsically a bad tax
- Council Tax should be scrapped and replaced principally by Income Tax and Corporation Tax, both being based on fairness and ability to pay
- Local revenue could be provided through a tourist tax based on bednights, efficiency and energy savings, parking charges and some form of topping up out of national taxation.