

My Ref:JD/vah
Your Ref:

Municipal Buildings
Church Road
Stockton-on-Tees
TS18 1LD
SAT NAV code: TS19 1UE

Tel: 01642 527007
Email: julie.danks@stockton.gov.uk

Date: 15 August 2014

Dear Darra,

Call for evidence on Local Government Finance

The Council welcomes the opportunity to provide its views on the local government finance system in response to your call for evidence and hopes the points we make in response to your questions assist you in formulating your final report.

The strengths and weaknesses of the current local government finance system;

Perhaps the main strength of the local government finance system is that it continues to function around components that have become familiar over the years, that is, council tax, business rates, revenue support/formula grant, specific grants and fees and charges. However, there have been changes that raise questions around if it is indeed a local finance system. Revenues are largely controlled by central government. Business rate multipliers, local share percentages, tariffs and top ups are all set centrally as is the reset period of ten years which in itself means that the system is not responsive to local changes. Within the system there is inadequate recognition of differing local circumstances including the ability and capacity to generate growth. Council Tax was a local tax, but now the freedom to set levels outside of government determined limits without the need to incur great expense on a government determined referendum has been removed.

It could be argued that local authorities have become collection agencies for revenue streams with little discretion to set the parameters that would best fit their particular local circumstances. Yet, local authorities are viewed by their electorate as being democratically accountable for these charges.

Furthermore, the system has moved away from one which tried to recognise the differing local needs and resource raising capabilities to one which is based on incentives, the increasing use of ministerial discretion, and adjustments being made to formula determined grant distribution. All

Darra Singh,
Chair,
LGA/CIPFA Independent Commission
into local Government Finance,
1 More Place,
London,
SE1 2AF.

have resulted in re-distributional effects. Variations to funding, outside of the spending review reductions, have been made by holdbacks, top-slices, existing funding being diverted to new duties, inconsistency in applying the New Burdens protocol, specific grant transfers, suspending the link to RPI in the Business Rates Multiplier, limiting Council Tax increases to below 2% etc.

All are illustrations of the government centrally determining spending and resource levels, so undermining local choice in funding local services.

The problems and opportunities it creates in tackling the challenges above;

The local government finance system evolved to allow local solutions to local circumstances. Historically, the system recognised that there should be a standard level of service entitlement for a standard level of council tax, regardless of the area of residence. This was achieved via equalisation recognising both needs and resources. Over the years this has been eroded by the centralising of funding decisions, imposition of reduced national spending limits and changes in the balance of funding between revenue support grant and business rates, leading to an incentive based system rather than a needs based system. There is little recognition in the current system of the historic reasons for larger levels of grant going to poorer regions-yet the need is still there and the major challenges faced by communities are not being well served by the current system. Recognition needs to be given to the varying difficulties across regions caused by the effects of the unfair distribution of cuts and the opportunity to remedy this should be taken in any new system.

Potential reforms that would make it easier to tackle these challenges;

The Business Rates Retention scheme should be reviewed with the aim of returning to a system where local needs and circumstances would be recognised.. This would allow scope for adequate equalisation and also address the artificial premise that local authorities totally control the factors necessary to generate increasing business rates income. This would also provide the opportunity to address the present imbalance between retained business rates and revenue support grant. A move back to formula based funding would be consistent with the distribution methods used for school and health funding.

The current limit and referendum requirement for Council Tax should be removed and the tax returned to being a truly local revenue stream, with local authorities democratically accountable for decisions made in addressing local circumstances.

The opportunity should be taken to minimise the use of holdbacks, top-slices, transfers etc. and other discretionary arrangements (for example Efficiency Support Grant, Rural Services Delivery Grant), and more reliance placed on developing a robust, evidence based, formula distribution system reflecting needs alongside a mechanism capable to reacting to changes in demands.

An independent body should be constituted to consider with government which services local government must provide and agree adequate national funding levels for these services. New burdens should be agreed by this route-with agreed national funding levels. In the event of central government imposed cuts the services affected and the national level of cuts should be agreed with government.

Specific practical solutions for changing the system that can be implemented by an incoming government from May 2015.

Key principles that we would wish to see in any new system are fairness and equality. Any new finance system should ensure that residents in all parts of the country have a right to a similar level of service, particularly services that Councils have a statutory duty to provide. This is essential to avoid the “post code lottery” scenario arising where basic services cannot be provided in the poorest areas.

A new system should include a means to recognise the different service demand pressures arising from the impact of deprivation and the ability to raise income from local tax to meet such pressures. The areas of the country that are suffering most cuts are also those most impacted by welfare reform. At the other end of the spectrum, a substantial part of southern England, outside London, is much less acutely affected.

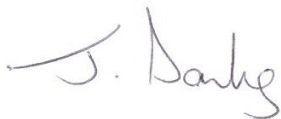
Council’s spending per head of population has fallen back to 2005 levels and councils in the most deprived areas of the country, and the North East in particular have seen the biggest spending cuts. The unequal effects arising from the application of cuts should be addressed. Evidence clearly highlights that cuts in funding have had an inequitable, unfair and disproportionate impact on the most deprived authorities including those in the North East. The Association of North East Council’s submission is endorsed by the Council and provides further details about the regional effects arising from the current system on North East Council’s.

New burdens need a more open and transparent dialogue to assess accurately the true cost of any new burdens and ensure that funding is then allocated appropriately.

Settlements should be multi-year covering the life of the parliament to give councils greater certainty in their financial planning.

I hope you find these comments useful in producing your report.

Yours sincerely

A handwritten signature in black ink that reads "J. Danks". The signature is written in a cursive, flowing style.

Julie Danks
Corporate Director of Resources