

There may be trouble ahead

The Local Government Information Unit (LGIU) has welcomed the extra £637 million of genuine new funding for councils announced today in the Chancellor's pre-Budget report, but warned that some councils could still struggle to avoid capping in 2005.

With the funding boost being another 'one-off' injection, similar to the extra funding last year, the local democracy thinktank warned of a renewed crisis over the council tax if radical reforms to local government finance are not in place within two years.

The LGIU believes that the extra funding reflected in today's local government settlement will assist many local authorities in moderating council tax increases in 2005/06, by bridging most of the £1 billion town hall funding gap identified recently by the Local Government Association (LGA). However, the LGIU believes that the remaining shortfall will leave some councils struggling to keep their council tax bills low enough to avoid threats of capping by ministers, and that too much reliance is being placed upon the Gershon 'efficiency savings'.

Dennis Reed, LGIU Chief Executive, said: "By helping local authorities to keep the lid on council tax increases in 2005/06, ministers may hope to have bought a second year of relative calm in which to develop reforms of local government finance that are essential for millions of council tax payers, local services and the future of local government.

"However, it seems that the problems that the remaining shortfall will cause could still leave some councils in a dispute about capping next spring. Funding for those vital local services that are not Whitehall's highest priority will remain tight and uncertainty still surrounds the financing of many of the new duties placed upon local government. There is also the distinct danger that too much reliance is being placed upon achieving Gershon efficiency savings as a means of redirecting funding to frontline services.

"In the longer term, with the revaluation of council tax bands taking effect in 2007, and the Lyons Review not making recommendations on the balance of funding until autumn 2005, the government is leaving it late to introduce reforms that are needed to make the council tax fairer and relieve some of the pressure upon domestic council tax payers. Without such reform, and if average income households face steep council tax increases from 2007, the crisis over the council tax will flare up again.

"As a result of delaying reform, ministers also still face their annual demands for extra one-off funding and a continuing dilemma over capping - a wasteful and bureaucratic process that undermines local democracy. Meanwhile, with recent independent studies demonstrating that the council tax increases of recent years were mainly caused by trends in central government policy, councillors around the country will resent having to make unpalatable decisions over tax and services that are not the result of anything they have done locally."