

COUNCIL TAX CAPPING

(Oral Statement by the Rt Hon Nick Raynsford MP, Minister of State for Local and Regional Government)

With permission, Mr Speaker, I should like to make a statement about council tax in 2005/06 - and the action the Government proposes to take in response to those local authorities which have set excessive budgets.

Mr Speaker, figures released today confirm that the average council tax increase in England in 2005/06 will be 4.1%. This is the lowest council tax increase in more than a decade, and the 2nd lowest ever.

The reason council tax increases have come down markedly compared with previous years is two fold.

Firstly, the Government has provided another good settlement for local authorities – one which was approved by this House on 2 February.

For the 3rd year in succession, all authorities will receive a grant increase in line with or above inflation in 2005/06. Many will receive substantially more. The average formula grant increase from Government is 5.6%. Adding in specific grants to authorities takes the increase up to 6.3%.

We have increased funding for local government by 33% in real terms since 1997 – this is in stark contrast to a 7% reduction in the four years up to 1997.

Secondly, the Government's judicious use of its capping powers has shown how seriously we view the need to protect council tax payers against excessive increases.

In 2004/05, when we made it clear that we were prepared to use our reserve capping powers for the first time, the average increase in council tax dropped to 5.9% from 12.9% the previous year. The 2005/06 increase has come down even further to 4.1%.

Given our substantial investment in local government – and the scope for efficiency gains - we gave a clear message to all authorities about council tax in 05/06. We said we expected to see an average increase of less than 5%.

I set this out in a letter to local authority leaders on 9 December. At the same time, I informed them that we were once again prepared to use our capping powers to deal with excessive increases.

I later wrote to individual authorities which, despite our warnings, were reported as proposing high increases. We informed them that the 2004/05 capping principles should not be considered a benchmark for 2005/06, making clear we were prepared to take even tougher capping action than we did in 2004/05.

I am pleased that the vast majority of authorities have responded positively to the Government's strong message on council tax – this is borne out by the fact that we now have the lowest increase in more than a decade. I congratulate all those authorities. I know most authorities are taking seriously the need to minimise demands on their council taxpayers.

However, there remain a small number of authorities that have set excessive budget and council tax increases. That is why I am again, this year, making a statement to the House about the action we are proposing to take against authorities whose budget requirements are excessive.

I should like to remind Hon. members about the provisions of the capping legislation. In order to determine whether budgets are excessive, we must consider a comparison of the authority's budget requirement for 2005/06 with that of a previous year. The legislation also allows us to determine other principles, such as increases in council tax.

In 2004/05, we determined a range of budget and council tax principles for different categories of authority. This was in recognition of specific factors affecting these types of authority that year. I detailed the principles when I reported to the House on 29 April last year.

For 2005/06, we made it clear that we were prepared to take tougher capping action than last time and that the principles used for 2004/05 should not be taken as a benchmark. Our view is that authorities' 2005/06 budget requirements are excessive if they show:

- an increase of more than 6 per cent over their 2004/05 budget; and
- if their council tax has increased by more than 5½ per cent over the same period.

These principles have been applied to all authorities.

According to the principles I have described, 9 authorities have set excessive budgets for 2005/06.

These are:

- Aylesbury Vale
- Daventry
- Hambleton
- Huntingdonshire
- Mid Bedfordshire
- North Dorset
- Runnymede
- Sedgemoor and
- South Cambridgeshire

We are writing to these authorities today informing them of our decision to designate them with a view to capping them in year and notifying them of the maximum budget we propose to set for each of them.

The authorities now have 21 days in which to respond. We will carefully consider the information we have required them to send us, along with any other representations they make, before we take final decisions.

We can then either:

- make an order, to be approved by Parliament, designating them at the level of the proposed maximum budget or another level; or
- withdraw the designation and nominate them instead.

Hon members will recall that in 2004/05, we took capping action against 14 authorities. 6 authorities were designated for capping in-year, and a further 8 authorities were nominated and set notional budgets for the purpose of future capping comparisons. I am pleased to say that none of the authorities against which we took capping action in 04/05 has set an excessive budget in 05/06.

This, and the fact that the average council tax increase in 05/06 is the lowest in a decade, shows that - although we have used it only reluctantly - capping has been effective in restraining council tax increases.

We would, of course, have preferred not to use our capping powers. We would not have to take action had all authorities heeded our clear message about increases in 05/06. However, we also have a duty to protect council taxpayers from excessive increases – and we will continue to do so. The actions we are taking represent a measured response.

If anyone thought the Government's capping action in 2004/05 was a one-off, they will now surely think again. The message we are giving is loud and clear. High council tax increases are a thing of the past. The public will not tolerate excessive council tax increases either now, or in years to come. And neither will the Government.