

COUNCIL TAX CAPPING

Oral Statement by Phil Woolas MP, Minister for Local Government

With permission, Mr Speaker, I would like to make a statement on council tax for 2006/07 and the action that the Government proposes to take with regard to those local authorities that have set excessive budgets.

Figures released today show that, excluding the council-tax element of the funding package for the 2012 Olympic Games, the average council tax increase in England for 2006/07 is 4.2%. With the council-tax element of the Olympics, it is 4.5%.

We have a mature working relationship with the Local Government Association. We have worked with them to look at the pressures councils face in the next two years, and how central and local government can manage those pressures. Under the settlement for 2006/07, which the House approved on 6 February, total support for local government, including specific grants, will rise by 4.5 % compared with 2005/06. This included an extra £305m above previous plans.

The provisional settlement for 2007/08 will provide an increase of a further 5%, with £508m above that previously planned. Through introducing multi-year settlements, we are enabling authorities to plan ahead more effectively in budgeting for service delivery. We have now provided a framework for authorities to deliver effective local services over the next two years which takes account of the pressures that authorities face.

By 2007/08, Government grant for local services will have increased by more than the rate of inflation for 10 years in succession. This represents an increase of 39% in real terms since 1997. It can be compared very favourably with a real term reduction of 7% in the four years up to 1997.

I would also remind the House of the council tax support that the Government provides to those on low incomes. 14% of total council tax is paid through council tax benefit. Nobody who is unable to pay is made to pay, and we are working to ensure that all who are eligible do claim the benefit.

Given our significant extra investment of grant, and the continuing scope for efficiency savings, we made it very clear again this year that we expected authorities to budget prudently. It was only with the greatest reluctance, following the 12.9% rise in council tax in 2003/04, that we first made use of our reserve capping powers.

However, as we said in our 2005 Election Manifesto, we will use capping to protect council-tax payers from excessive increases. There can be no doubt that the recent, more modest, increases in council tax could not have occurred without the Government making judicious use of these powers.

When we announced the provisional settlement in December, we said that we expected the average increase in council tax in England to be less than 5% for each of the two years 2006/07 and 2007/08. I set that out in a letter to all authorities. Ministers later wrote to those authorities reported to be considering setting increases of above 5%. I also wrote jointly with my Rt. hon. Friend, the Member for Salford to all police authorities reaffirming the Government's expectations.

I am pleased to report that the overwhelming majority of authorities have responded positively to our messages. Most authorities fully recognise the need to minimise the demands that they place on council tax payers.

Regrettably, however, there remain a very small number which have set excessive budget and council tax increases. It is for this reason that I am making a statement to the House today about the action that we propose to take.

I should like to remind hon. Members of the provisions of the capping legislation set out in the Local Government Finance Act 1992, as amended by the Local Government Act 1999. In order to determine whether each authority's budgeted expenditure - as defined in the legislation - is excessive, we must consider a comparison of the authority's budget requirement for 2006/07 with that of the previous year. The legislation also allows us to determine other principles such as the level of increases in council tax.

This year, the increase in budget requirement for authorities providing education, police and fire services is measured using the alternative notional amounts given in the "The Limitation of Council Tax and Precepts (Alternative Notional Amounts) Report (England) 2006/07", approved by the House on 6 February. Alternative notional amounts are notional figures used for capping purposes to help give a like-for-like comparison of budget requirements between years.

Our view is that authorities' 2006-07 budgets are excessive if they show:

- an increase of more than 6% in their budget requirement compared with 2005-06, and
- if their council tax has increased by more than 5% in the same period.

As was the case in 2005-06, a single set of principles has been applied to all authorities.

Despite the principles being more stringent than in 2005-06 - when authorities' budgets were judged excessive if they showed an increase of more than 6% in budget requirement compared to 2004-05, and if council tax had increased by more than 5.5% - we are proposing to take action against only two unitary authorities this year. That is to be compared with 2004-05 when we took capping action against 14 authorities, and 2005-06, when we took action against nine authorities.

The two authorities are Medway Borough Council and York City Council, which have both set excessive budgets according to the principles that I have described.

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 that we propose to set for them.

The authorities have a statutory right to challenge the proposed caps. They have 21 days in which to do so. If they wish to challenge, we will carefully consider the information that we have required them to send us, along with any other representations they make, before we take final decisions.

We will then either:

- make an order, to be approved by this House, designating the authorities at the level of the proposed maximum budget, or another level; or
- withdraw the designation and nominate them instead. Nomination would allow us either to set them notional budgets for 2006/07 for future capping comparisons, or to cap them in advance for 2007/08.

Two shire districts, Aylesbury Vale District Council and Wellingborough Borough Council, have also breached the limits. However, as they have done so by very small amounts - only 12 pence and 9 pence respectively in terms of Band D council tax - we are not proposing to take action against them.

We have always made clear our reluctance to take capping action. These are powers of last resort and we would prefer not to have to use them. But the public has a right to be protected from excessive council tax increases.

Under our wider "localism" agenda, we are giving local authorities more freedom over how they deliver their services. However, this must be set within a framework of prudent financial management and value for money.

Mr Speaker, the vast majority of authorities – 99% - have responded well to our clear message for council tax in 2006/07. No one would have been happier than I if it had been 100%. However, we remain committed to taking action against those increases which we believe to be excessive.

[1,307 words]