

**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 how the Government proposes to handle those local authorities which have set excessive budgets for the current year.

The average increase in council tax in England this year is 5.9%. This is less than half the previous year's increase, and lower than many people predicted. It is also the lowest for the last nine years. A large number of authorities have set lower council tax increases than they originally proposed, following the Government's strong messages to local authorities that high increases were both unacceptable, and unnecessary. Unacceptable, because people are rightly concerned about increasing council tax bills. Unnecessary because, for two years running, the Government has provided all local authorities with above-inflation increases in general grant.

Nevertheless some authorities' budget and council tax increases are still too high and impose unreasonable burdens on council tax payers. The Government therefore intends to take action against those authorities whose budget requirements it considers to be excessive.

This is not something which we are doing lightly. The Government attaches great importance to local accountability and believes that first and foremost it is for local authorities to set their council tax and justify it to their local electors. However, we also have a duty to protect council taxpayers from increases which we believe to be excessive. Many people, including representatives of pensioner interests, have urged us to use our capping powers.

After this Government came to power, we replaced the previous government's crude and universal capping regime with new reserve powers that are more discriminating and flexible. As well as the option of in-year capping, the Secretary of State now has the power to set a notional budget to be used for future comparisons or to cap the following year's budget.

The experience of last year, when council tax rose by an average of 12.9%, showed us that not all local authorities can be relied on to behave responsibly when setting their budgets and council tax.

Of course it is not just the percentage increase in council tax which is relevant. We have first to decide whether an authority's budget requirement is excessive. In doing so, we have used the following principles. These are described in more detail in a report which is being placed in the Library of the House.

In the case of unitary authorities, London boroughs, metropolitan districts, counties, the GLA and the Isles of Scilly, our view is that budget requirements are excessive, if they involve an increase of more than 6½ per cent over last

year's budget and if council tax has increased by more than 8½ per cent over the same period.

Shire districts are in a different position, since this year authorities no longer have to contribute 5 per cent towards the cost of council tax and housing benefit. While this change has also affected some other local authorities, the amount involved represents a relatively insignificant element of their budgets whereas the change to shire district councils' much smaller budgets represents a considerable saving to them. We have therefore judged their budget requirements to be excessive if they are more than 2% higher than last year and, again, if council tax has increased by more than 8½ per cent.

As these are small authorities, whose increases in council tax may be correspondingly small in absolute terms, we have introduced a further test by applying these principles only to district councils with a Band D council tax for 2004/05 greater than the shire district average.

Police and fire authorities also have a duty to be efficient and to act responsibly in setting their precepts. At the same time, we recognise that these services face particular pressures. We have therefore judged their budget requirements to be excessive, if their budgets are more than 7% higher than last year and if their precepts have increased by more than 13%.

As these are single-purpose authorities, whose precept increases may be relatively small in absolute terms, we have applied a similar *de minimis* principle to that for shire districts. The principles have therefore been applied only to police and fire authorities with Band D precepts for 2004/05 greater than the average for the relevant category of authority – either metropolitan or shire police, and either metropolitan or combined fire authorities.

Calculations relating to the combined fire authorities and their constituent authorities are based on figures in “The Limitation of Council Tax and Precepts (Alternative Notional Amounts) Report (England) 2004/05”, which was approved by the House on Monday. These take account of the fact that combined fire authorities have become major precepting bodies for the first time this year. The alternative notional amounts for 2003/04 allow like-for-like comparisons to be made with this year.

As I have mentioned, the Secretary of State has a number of options for dealing with authorities which have set excessive budgets. He may either “designate” an authority and proceed to cap it in-year, or “nominate” it and then either set a notional budget requirement to be used for future comparisons or designate it for next year.

According to the principles I have described, four unitary authorities and two shire district councils have set excessive budgets this year. They are:

Herefordshire  
Nottingham  
Telford and Wrekin  
Torbay

Fenland  
Shepway.

We are writing to them today informing them that the Secretary of State is designating them for 2004/05 and setting a maximum budget.

The authorities have 21 days in which to respond. We will carefully consider the representations they make and the information which we have required them to send us. We will then either make an order, to be approved by Parliament, designating them at the level of the proposed maximum budget or another level, or we will withdraw the designation and nominate them instead.

Also according to the principles I have described, three police authorities and five fire authorities have set excessive budgets this year. They are three police authorities:

Cumbria, Northamptonshire and West Mercia; and five fire authorities:  
Bedfordshire  
Durham, Essex, Herefordshire & Worcester, and Nottinghamshire.

We are writing to the police authorities and four of the five fire authorities informing them that the Secretary of State is nominating them. In the light of the information we have required them to send us, and any information they themselves want to provide, we will then take decisions about whether to set notional budget requirements for 2004/05 against which increases in 2005/06 will be measured, or to designate them in respect of 2005/06.

However, one of the fire authorities – Hereford & Worcester – has set very large increases in its budget and council tax precept (19.4 per cent and 29.4 per cent respectively). We are therefore writing to that authority, informing it that the Secretary of State is designating it for 2004/05. The calculation of the maximum amount and the procedure to be followed are the same as for the unitary authorities and shire districts.

We believe that the actions we are taking represent a measured response to the increases we have seen this year. We are pleased that many authorities have heeded our warnings, but some have not. We will listen carefully to the cases put forward by the authorities I have named. And where justified, we will use the greater flexibility afforded by our new capping powers. However, authorities should be in no doubt that the Government means business.

**29 April 2004**