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Dear Philip,

Council Tax Precept 2008-09

I enclose a copy of a statement I am making to the House of Commons today about Council Tax levels for 2008/09 and the Government's proposals for use of its capping powers. As you will see, your authority is one of those affected.

On the basis of principles determined by the Secretary of State, my statement explains why your authority is considered to have set an excessive budget requirement.

Officials have written to your officers today informing them that your authority has been 'designated' under the capping legislation. As that letter explains, this is a means of initiating a process which may lead either to our setting a maximum budget requirement for the authority for 2008-09 or to 'nomination'.

My statement to the House of Commons today is the start of the process and your authority has 21 days to respond, should it wish to challenge our decision and raise any specific circumstances you believe justify its budget and council tax increases. We will consider carefully all representations the authority may wish to make before reaching final decisions and I stand ready to meet with a delegation from the authority to hear your case in person.

I regret that it has been necessary to initiate this action, but authorities can have been in no doubt about the Government's concern about excessive council tax increases and our intention to use our capping powers if necessary.

A handwritten signature in black ink, appearing to read "J Healey", with a horizontal line underneath.

JOHN HEALEY MP

Statement to the House: 27th March 2008

John Healey MP

Introduction

With permission, Mr Speaker, I would like to make a statement on council tax and the action the Government proposes to take with authorities which have set excessive budgets for 2008-09.

The Department has released figures today showing that the average council tax increase in England next year is 4.0 per cent.

This continues the downward trend in council tax increases.

This is the lowest average increase in council tax for 14 years.

There are three reasons for this.

Firstly, central Government funding. Next year is the 11th successive year that central Government has increased funding for local government by more than inflation.

Since 1997, our funding for councils has risen by 39% in real terms.

And by 2010-11, central government grant for local government will have increased by 45% above inflation.

The second reason is local authorities. Local councils set their budgets and set their council tax, not central Government. And these figures show that in the main local authorities are recognising their responsibility to local residents, making hard choices about local priorities and, above all, continuing to achieve efficiencies.

I very much welcome this and we have made £385m available over the next three years to support local government improvement and efficiency.

And the third reason is council tax capping itself. I know it is unpopular among authorities. But they know that the Government is prepared to use its reserve powers as necessary to protect taxpayers from excessive council tax increases.

We said we expected to see an average council tax increase for 2008-09 of substantially below 5 per cent.

We said that we were prepared to act if necessary.

We said this would apply to all authorities.

The Chancellor made this clear in his CSR statement and I made this clear during my statement to the House on the provisional local government finance settlement on 6 December, and set it out again in a letter to all local authority leaders that month.

So, next year will see the second lowest average increase since council tax was introduced in 1993. I welcome this. Almost two thirds of authorities have set council tax increases below 4.1%, 1 in 6 have set Council tax increases below 2.5% and a further 21 have either set no increase at all or are reducing their Council tax bills.

But I know that many households are finding their finances under pressure, particularly those like pensioners who have fixed incomes.

So, with some authorities setting double digit increases, it is right that we should step in to help protect council tax payers.

That is why I want to set out for the House today the action we propose to take over the weeks ahead.

Excessiveness principles

The legislation requires the Secretary of State to determine her excessiveness principles, one of which must relate to an authority's budget requirement – which, broadly speaking, is the authority's spending financed through formula grant and council tax.

The Secretary of State can also determine other principles and, as in previous years, the Government has decided to set a second principle based on council tax.

The principles – applied equally to all classes of authority – are that an authority's budget is excessive if it has set:

- a budget requirement increase of more than 5% in 2008-09 compared with 2007-08; AND
- a council tax increase of more than 5% in the same period.

Only authorities which have exceeded both principles are subject to action.

For 2008-09 eight authorities have exceeded these principles.

Portsmouth City Council,
Bedfordshire Police Authority,
Cheshire Police Authority,
Leicestershire Police Authority,
Lincolnshire Police Authority,
Norfolk Police Authority,

Surrey Police Authority and
Warwickshire Police Authority.

These have all set budgets increases above 5%, up to almost 7%, with the exception of Lincolnshire which has set a budget requirement increase of 29%.

In addition, four authorities have set council tax increases over 10%: Warwickshire at 13%, Leicestershire at 15%, Cheshire at 17%, and Lincolnshire at 79%.

This list is predominantly police yet over the past ten years we've seen a massive increase in police office numbers – an extra 14,000 since 1997.

We've also more than doubled investment in policing – by an extra £3.6bn over the same period. In addition last December the Government announced the police funding settlement for the next three years that will give every police authority a guaranteed increase of at least 2.5% in each of the next three years, with more going to those with the greatest need.

Let me be clear, I am not today announcing a cap on the council tax of these authorities. I am confirming the start of a process that could lead to this.

I am announcing the start of a process, not its conclusion, and during the coming weeks we will listen carefully to the representations all authorities make to us.

Next steps

Authorities have a right under the legislation to challenge our proposal.

They have a right to raise any specific issues they believe justify their budget and council tax increases. We will consider carefully and seriously all representations that authorities wish to make before reaching final decisions and I am writing today to the chairs of all 8 authorities confirming that I and my Rt Hon Friend, the Minister for Policing, will meet with them should they wish to make their case in person.

Our final decision could be to nominate an authority, which means either capping the authority for the following year, or setting a 'notional budget' for 2008-09, which would provide the basis for judging future increases. In this case there would be no re-billing and authorities would have a further chance to make representations.

Our final decision could be to cap an authority in year. We could either confirm the cap proposed today or we could set a different cap. Capped authorities would then need to re-bill for a lower council tax.

My officials are today writing to the designated authorities, which provides the legal basis for informing them of the principles the Secretary of State has proposed.

At the end of the process, I will either inform or seek the approval of the House, as required. So it will be this House that will take the final decision on any contested in-year capping.

Conclusion

Whilst I am disappointed that it has been necessary to take action this year, I make no apologies for it.

Authorities can have been in no doubt about the Government's approach.

Keeping council tax under control is and will remain a top priority for Government.

And we will act to protect council tax payers from excessive increases.