

BUDGET 2005/06 - CAPPING
(Report by the Director of Commerce and Technology)

1. PURPOSE

- 1.1 The purpose of this report is to inform the Cabinet that the Deputy Prime Minister has asked Parliament to approve his proposal to cap the Council's budget requirement in the current year.
- 1.2 On the assumption that Parliament agrees to the capping, this report outlines the actions and decisions that the Council will be required to make.

2 BACKGROUND

- 2.1 The Deputy Prime Minister wrote to the Council on the 25 March saying that he considered our budget requirement for 2005/06 to be excessive because it had increased by more than 6% **and** the Council Tax had risen by more than 5.5%. He therefore proposed to cap our budget requirement at £15.16M (an 8.1% increase rather than our approved 10.9%) which would result in a Council Tax of £99.72 (a 5.5% increase rather than our approved 12.7%).
- 2.2 He gave the Council 21 days to challenge his proposed capping and to provide any supporting information. The proposal was challenged and Annex A provides a copy of the information sent.
- 2.3 The Leader, Deputy Leader, Chief Executive and the Director of Commerce and Technology subsequently met the relevant Ministers to explain why the Council needed to make the planned increases as part of a long term financial plan.
- 2.4 On 7 July a letter was received which explained that the Deputy Prime Minister had asked parliament to approve his approval to cap Huntingdonshire.
- 2.5 This will be debated on the 20 July and, if approved, the relevant order is expected to be signed on the 21 July.

3. ACTIONS REQUIRED

- 3.1 The Council is required to approve a revised budget requirement that is no higher than £15.16M and the resulting reduced Council Tax level. If it does not do so within 21 days of receiving the order then, from that time until it does so it will not be able to transfer any money from its Collection Fund to its General Fund.

- 3.2 The Council must then re-bill all the properties in the District, based on the revised Council Tax level, as soon as is “reasonable and practicable”.
- 3.3 As the Council has significant revenue reserves it would not have any financial problems if the date of approving the revised budget were delayed beyond 21 days. It would simply use its existing money rather than the Council Tax money to fund services during the intervening period. It would earn less interest on its own reserves but more interest on the Collection Fund which would all be payable to the Council once the revised budget is approved.
- 3.4 It would be in the interests of the local tax-payers if the cost of re-billing (estimated at £60,000) could be avoided and so the LGA has been asked to take legal advice on the practicality of delaying the approval to, say, February 2006, so that it thus became “reasonable and practicable” to deal with the re-billing as an adjustment to the 2006/07 Council Tax bill.
- 3.5 We have been advised by the ODPM that Council Tax payers are legally obliged to continue paying the original Council Tax until a new Council Tax has been set and revised bills sent out

4. BUDGET REQUIREMENT

- 4.1 The Budget Requirement must be reduced to the capping limit of £15.16M or a lower amount. This can be achieved by reducing expenditure on services, increasing the amount that is funded from revenue reserves or some combination of the two.
- 4.2 If the Council wishes to maximise its ability to deliver the significant service developments approved in the Medium Term Plan it would need to maintain as high a Budget Requirement as possible i.e. £15.16M. Using extra reserves to achieve this reduction would also be consistent with this intention in the short term. In the medium term a view will have to be taken on the likelihood of a capping regime continuing to operate and at what levels. The alternative would be to cut spending in the current year.
- 4.3 Within the Minister for Local Government’s statement to the House of Commons he said:

We are keeping our promise to act on excessive council tax increases. Given that we have increased funding to local government by 33 per cent in real terms since 1997, and that all authorities have received formula grant increases either in line with or above inflation in all of the last three years, there is no excuse for excessive council tax increases. We will not hesitate to use our capping powers in future years to deal with excessive increases if this proves necessary.

- 4.4 If capping were to continue, consideration would need to be given to how to balance the future use of revenue reserves with efficiency improvements, service reductions and revised priorities to deliver spending increases acceptable to the government while ensuring that a sound Medium/Longer Term Plan is achieved. Options based on a variety of approaches will be included in the annual review of the financial strategy which will be considered by September Council. The Medium Term Plan will then be reviewed in the light of the Council's decisions.
- 4.5 The table below highlights the results of the Deputy Prime Minister's proposal, which will result in a reduction in the Council Tax of just £6.83 for a Band D property:

	2004/05 Budget	2005/06 Budget	Variation Budget to Budget		CAPPING PROPOSAL	Variation 2004/05 Budget to capping proposal	
	£000	£000	£000	%	£000	£000	%
Formula Spending Share	19,931	20,532	601	3.0	20,532	601	3.0
Net Spending	16,828	17,373	545	3.2	17,373	545	3.2
Use of Reserves	2,803	1,826	-977	-34.9	2,213	-590	-21.0
Budget Requirement	14,025	15,547	1,522	10.9	15,160	1,135	8.1
	£		£	%	£		
Band D Council Tax	94.54	106.54	12.00	12.7	99.71	5.17	5.5
Subsidy from reserves (per property)	49.91	32.19	-17.72	-35.5	39.02	-10.89	-21.8
Notional Council Tax (if no reserves available)	144.45	138.73	-5.72	-4.0	138.73	-5.72	-4.0

5. REBILLING

- 5.1 Subject to the option outlined in para. 3.4 above, the estimated cost of rebilling would be around £60,000. Details will be recorded separately and, where possible, attempts will be made to reduce this cost.
- 5.2 It is currently envisaged that a Council Meeting will be required in August, to either approve the new Council Tax and Budget resolutions or to determine to delay making such an approval.

6. CONCLUSIONS

- 6.1 It is expected that Parliament will approve the Deputy Prime Minister's proposal to cap the Council. The Council will need to formally approve a new budget and Council Tax that complies with the capping rules. If rebilling is to be carried out during the current year, rather than in conjunction with next year's Council Tax, there will be an estimated cost of £60,000. A Band D tax payer's annual bill will be reduced by £6.83.
- 6.2 Discussion is taking place with the LGA and legal advice is being sought on the option of delaying approval.

- 6.3 If it becomes obvious that delay is not practical then preparations for rebilling may need to commence before the Council meeting and so it is proposed that approval to grant a supplementary estimate of £60,000 be delegated to the Director of Commerce and Technology, following consultation with the Leader and Executive Councillor for Finance.

7. RECOMMENDATION

Subject to Parliament approving the Deputy Prime Minister's proposal, the Cabinet is recommended to:

- propose to Council, in due course:
 - a revised Budget Requirement of £15.16m, together with the use of an additional £387k of revenue reserves to achieve this.
 - a revised band D Council Tax of £99.71
- grant delegated authority to the Director of Commerce and Technology, following consultation with the Leader and Executive Councillor for Finance, to approve a supplementary revenue estimate of £60,000 to cover the estimated costs of re-billing.

ACCESS TO INFORMATION ACT 1985

Correspondence with the Office of the Deputy Prime Minister's Office
Budget Working Papers - Files in Financial Services

Contact Officer:

Steve Couper

Head of Financial Services ☎ **01480 388103**

HUNTINGDONSHIRE'S CASE FOR A BUDGET REQUIREMENT OF £15.547M

Background

Huntingdonshire is one of the fastest-growing Districts in the country, and is in one of the Government's designated growth areas – the M11 / Peterborough corridor. Historical and projected population levels are as follows:

Year	Population ('000s)
1996	151.8
1999	155.6
2002	158.0
2005	158.5
2008	159.6
2011	161.0
2014	163.0

This population is split approximately 50:50 between the four market towns in the District and the rural hinterland.

Our medium-term plans are geared around this growth agenda and the specific challenges which it presents, such as:

- the increasing infrastructure deficit in the area.
- the need to “pump prime” investment in the market towns to attract new businesses.
- the need to expand and improve facilities such as leisure centres

Financial Planning

Our CPA report, published in July 2004, which considered us to be an **excellent and improving** Council, referred to our planning in the following terms:

- *The council's capacity to deliver future improvements is strong; it has been successful in building its internal capacity around people, finance, processes and technology.*
- *It has a good awareness of local, sub-regional, regional and national influences. For example, the council has been proactively responding regionally to the pressures for expansion.*
- *Resources are being invested in priorities. This is done via growth bids and efficiency savings. The council has prioritised its capital programme around the six corporate priorities. The council is thus using its resources to help deliver outcomes in priority areas.*

- *The council has clear and effective plans to manage its finances in the medium to long-term, as detailed in the medium term plan and there is a clear commitment to revisit this plan, through a member led review in autumn 2004. This will assess the ongoing viability of the schemes contained within the current plan. This would appear prudent, given that reserves and the resultant diminishing levels of investment income will reduce over this period, resulting in a significant projected increase to council tax levels in 2008/09. The review will need to ensure the sustainability of the council's capacity to deliver services.*

We have since carried out that review and updated our financial plans. In particular, we considered the profile of Council Tax increases that we would need to make in order to reach a sustainable level of taxation for the long-term, once our reserves had been reduced to minimum prudent levels.

We chose to adopt a strategy of constant, affordable increases rather than a series of low rises followed by a very significant increase. This is prudent, sensible and reflects the views of our Council Tax payers (see "Public Support" below).

Capping would destroy this strategy and render our future plans unsustainable. Those plans are based on a budget requirement for 2005/6 of £15,547,000, and this is what we need to be able to deliver them.

Level of Council Tax

The following table shows the impact of the strategy referred to above. It sets out the Council Tax levels for the last 5 years and how we plan to increase it over the next 5 years. It clearly shows how small cash increases create large percentages because of the low starting point.

	Council Tax			
	Huntingdonshire			Shire District Average *
	Tax	Increase		
	£	£	%	£
2000/01	76.32	3.28	4.5%	
2001/02	79.75	3.43	4.5%	
2002/03	82.54	2.79	3.5%	
2003/04	82.54	0.00	0.0%	
2004/05	94.54	12.00	14.5%	137
2005/06	106.54	12.00	12.7%	145
2006/07	118.54	12.00	11.3%	152
2007/08	130.54	12.00	10.1%	160
2008/09	142.54	12.00	9.2%	168
2009/10	154.54	12.00	8.4%	176

* *Future years' Shire District average is based on 5% per year increases. (the 2005/06 average increase was over 5%)*

The Council's tax level:

- has risen by an average of only £6.04 per year over the last 5 years
- **is still 19th lowest out of 238 in 2005/06 (lowest 8%)**
- is 27% below the average
- is 17% below the figure of £195 assumed by ODPM (*2005/06 Settlement – Headline Allocations*), taking into account the average Town & Parish precept of £55
- is likely still to be only 88% of the average in 2009/10 despite our planned continuation of £12 per year increases.

Had any of the three highest-taxing District Councils increased their Council Tax by £12, it would have amounted to less than 5.5% and would not have fallen within the capping criteria. **It is inequitable for one of the lowest-taxing Districts to be capped when one of the highest-taxing Districts could have made the same financial increase and not been capped.**

The Government's view last year, when it set the capping criteria, was that:

"As [district councils] 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."

While ODPM made it clear that it would not necessarily apply the same capping principles this year, we consider that this approach is entirely appropriate for low-taxing Councils.

It would be extreme and inappropriate to shift from not capping any District with a Council Tax in the bottom 50% to capping one which is in the lowest 8%.

Use of Reserves

It is understandable that the budget requirement (excluding local precepts) was originally chosen as the basis for the capping legislation, as it would capture any sums included in Council Tax to increase revenue balances.

However, it has an unfair and, we would suggest, unintended impact when, as in our case, Councils reduce the level of Council Tax subsidy from one year to the next. In these circumstances, capping becomes a penalty for having kept Council Tax levels down historically.

The situation is summed up in the following table, which shows that the increase of 10.9% in the budget requirement is due primarily to a 35.5% reduction in the subsidy from reserves. Budgeted net spending has only increased by 3.2%. Spending in both 2004/5 and 2005/6 is well below Formula Spending Share (FSS).

	2004/05	2005/06	Variation	
	£000	£000	£000	%
Formula Spending Share	19,931	20,532	601	3.0
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Capping would force us to increase the subsidy from reserves in the current year, at the very point when we are in the process of phasing it out. This level of subsidy is not sustainable, hence the strategy referred to in Financial Planning above.

Level of increased spending

As shown in the table above, we have budgeted our spending to increase by just 3.2% in 2005/6. This increase arises as follows:

	£000	£000
2004/5 budget		16,828
Inflation	988	
Refuse collection & recycling	448	
e-government - Customer First	304	
Funding costs for new health centre for the Primary Care Trust	214	
Pensions	200	
Housing	102	
Other service variations	-13	
Interest on investments	-773	
Base budget reductions	-523	
Efficiency savings target	<u>-402</u>	
Total changes from 2004/5 budget		<u>545</u>
2005/6 budget		<u>17,373</u>

Three things are evident from this table:

- many of the cost increases are unavoidable (e.g. inflation and pensions)
- those that aren't relate to service improvements and / or delivery of the Government's agenda (e.g. refuse collection & recycling and e-government)
- we have already made reductions to our base budget, without reducing levels of service. We have also set an even higher target for cashable efficiency savings

than ODPM's 2½% (£402k compared to £287k); this reflects our confidence in our ability to reap the benefits of our investments both in new technology and in developing the capability of our staff to continue innovating and improving our services.

We have accepted the challenge to increase recycling, despite the revenue impact increasing from £1.9m in 2001/2 to £4.5m in 2005/6, over 25% of our net spending. This should result in a 48.5% recycling rate in 2005/6, which few Councils will be able to match.

Since the change in the funding of Social Housing Grant, the Council has been prepared to invest over £1m per year of its own money in this high priority area. Many Councils have not.

We had to absorb £487,000 of additional capital expenditure in 2004/5 due to the Government's restriction on its contributions towards statutory Disabled Facilities Grants. We expect there to be a similar shortfall in 2005/6 and future years.

Our CPA inspection noted that:

- *The council provides a good level of front line service and is performing well in priority areas such as waste collection and recycling,and the delivery of affordable homes.*
- *The council, along with other districts, county council, EEDA and GO East, is part of the local 'infrastructure partnership' to deliver the Government's sustainable communities plan in the Cambridge sub region. A local delivery vehicle has been formed with the chair and chief executive to oversee the plan.*

This is a well-managed, prudent, responsible Council, delivering on the Government's agenda and addressing national, regional and local priorities and pressures, notably the growth agenda. It could not continue to do so if it were capped.

Public support

Our CPA report made the following comments about the extent of public support for our plans.

- *The council has challenging and ambitious, yet realistic aims that reflect the needs of the local community. These aims have a sound basis in comprehensive consultation. The council has... pulled together the views of the community to inform priority setting, the budget process and service planning.*
- *In addition, the council is planning detailed three-yearly budget consultation exercises. The first will inform the 2005/06 budget and will follow an ODPM approved, statistically reliable public perception model. This uses a trade off analysis between levels of service provision and council tax levels. This will provide a robust analysis of local opinion and together with the base budget review, will further inform the MTP process.*

The main results of the latter consultation were that:-

- there was little support for cuts in services or significant changes to the distribution of spending between services
- 64% of residents opted for larger tax rises than had previously been applied, to achieve their personal preferences for services
- on balance, rises in Council Tax of up to £14 per year, would be broadly acceptable, **providing** the Council provided the combination of services which local people valued.

The actual increase in 2005/6 was £12, less than the amount which local people were prepared to pay. The public has accepted this increase, because of the service improvements which we have committed to deliver for the additional charge, and because the overall change in their total bill was lower than in previous years (see "Overall Impact" below).

The local press is also supportive of our position. [The Editor's Comment in the Hunts Post on March 30th read:](#)

"We don't want cheap and nasty council services in Huntingdonshire. We have been asked, and we have said so. But we risk having to make do with second-rate services because our District Council may be forbidden to ask us for a few extra pence a week.

The Hunts Post takes no political party position. The Liberal Democrat opposition on HDC, though it would prefer to move to a local income tax to replace Council Tax, has supported the controlling Conservative group both in its longer-term strategy for £1-a-month increases year-on-year and also on the 12.7 per cent increase from next month.

HDC will deal with all the technical reasons for not capping. We add some practical ones.

- *We want a district that we can be proud of. In the fastest-growing area of the country, that implies expanding good-quality, efficiently-provided services for real people. It includes minimising social exclusion, looking after the most vulnerable in society, designing out and reducing crime and improving local amenities, including the transport links that enable people to make use of them.*
- *Having been consulted in a balanced and independent survey, two-thirds of the Huntingdonshire population endorsed HDC's strategy. It was what we said we wanted.*
- *There is a large degree of agreement between the parties locally on the vision for Huntingdonshire's future, if not always on the detail.*
- *Capping HDC spending will put that vision, that public safety, that social integration, the quality of life – the very things the*

Government claims to set such store by – at considerable and lasting risk”

Capping would be contrary to the wishes and the interests of the public of Huntingdonshire, and would make it impossible to meet their priorities. It would be difficult to explain to them that, despite the Government’s apparent support for local democracy, they would not be able to have services that they are quite willing to pay for.

Overall Impact

Because the District Council’s charge is only one of the constituent parts of the total Council Tax bill, it is important to consider the total impact on our tax payers. The average tax bill (Band D) has only gone up by 5.1% - comfortably below the capping criteria of 5.5%.

The importance of the level of the overall bill to customers’ perception of fairness is shown by the number of complaints about the size of bills compared to the actual level of tax increases:

- We have only had a handful of complaints this year, even though Council Tax levels have a higher profile than in previous years because of the forthcoming general election
- We had more complaints in 2003/4, when we had a **zero** increase in the District’s Council Tax, than we did in 2004/5, when we increased it by £12 (14.5%). This is because the **overall** increase was lower, due mainly to the County Council’s increase being smaller than in 2003/4.

The Government has achieved its aim of keeping overall Council Tax increases around or below 5%. Capping us is unnecessary in that context, which is the context in which tax payers view their bills.

Consequences of Capping

If we were capped at £15,160,000 the short-term impact would be as follows:

- The average Band D tax payer would get a reduction of just 68p per month on their £119 instalment (0.57%). This is less than the cost of a postage stamp per week. Our residents would have great difficulty understanding why we had been forced to re-bill for such a trivial amount.
- The Council would be faced with extra direct costs of nearly £60,000 for rebilling, together with the potential for further costs through the loss of cash flow.

More significantly, the long-term impact would be catastrophic. With no guarantee of the policy which the Government might choose to apply year on year, we would be forced to plan on the assumption that this year’s policy would be applied in future. We would therefore have to constrain future Council Tax increases and thus, for the foreseeable future, continue with our Council tax at about **27% below** the Shire District average. This would not allow us to make significant improvements in services, despite public, regional and government pressures to do so.

This would involve our having to budget for cuts of £5.6M per year (22% of planned net spending) by 2011/12, over and above our target for efficiency savings, which is already higher than ODPM's 7½% target for 2005/6 to 2007/8. The graph attached shows how dramatic a cut in spending this would be, with a correspondingly severe impact on services.

Government support

We have received a grant increase of 8.5% this year. However, we still suffer from the continued deferment of the grant we have been due ever since the formula was changed to include this District in the "area cost adjustment". We are still the most under-funded District Council in the country in cash terms, based on ODPM's own figures.

The grant we will receive in 2005/6 will be nearly £750,000 less than we are due. In comparison, the amount which you are proposing to cap us by is less than £390,000. **This is neither fair nor reasonable.**

The assumed level of Council Tax (the sum of the District tax and the average Parish / Town Council tax) built into the grant calculations for Huntingdonshire is £195 (*2005/06 Settlement - Headline Allocations*). The actual average tax for 2005/6 is £161. If the grant calculation was based on the actual instead of theoretical Council Tax, we would be due an extra £1.9m.

We are effectively being penalised for being a low-spending, low-taxing Council. It would be an added injustice for us to be hit with capping as well.

FUTURE IMPACT OF CAPPING ON SPENDING

