

# TONBRIDGE & MALLING BOROUGH COUNCIL

## CABINET

11 January 2012

### Report of the Director of Finance and Cabinet Member for Finance

#### Part 1- Public

#### Matters for Information

#### 1 COUNCIL TAX FREEZE GRANT AND TRIGGER OF COUNCIL TAX REFERENDUMS

**A report informing Members of the details of the council tax freeze and the 'trigger' criteria for council tax referendums.**

##### 1.1 Council Tax Freeze Grant

- 1.1.1 Members will be aware from the Director of Finance's verbal update to the meeting of Cabinet in October, and from the local government press, that the government has offered a further council tax 'freeze' grant to local authorities that meet the criteria set.
- 1.1.2 The Department for Communities and Local Government (CLG) wrote to Chief Executives in November setting out the details. A copy of the letter is attached at **[Annex 1]** for information.
- 1.1.3 Members will note that the scheme is voluntary and, unlike the 'freeze' for 2011/12, the council tax freeze grant for 2012/13 will involve a **single one-off payment** which will not be built into the 'baseline'.
- 1.1.4 For this Council, the grant would only be payable if the council tax increase prior to the grant being applied is limited to 2.5%. (In other words, the government would fund through grant the value of a 2.5% increase on a one-off basis). The value of the grant to TMBC is in the order of £213,000.
- 1.1.5 Members will be aware, however, that the assumption reflected within the Medium Term Financial Strategy approved by Council in February 2011 is that increases in council tax from 2012/13 will be 3% year on year across the medium term.
- 1.1.6 It is important to stress that this particular offer of council tax freeze grant is limited to one year only. **The Council would, therefore, need to bear the ongoing financial impact of the 'freeze' of the income base for future years.**

- 1.1.7 In the Director of Finance's report to the Finance & Property Advisory Board earlier this month, Members were advised that if the Council were to implement the 'freeze' and accept the one-off grant, our four saving tranches will need to be in the order of £760,000 (a total of £3.04 million) .
- 1.1.8 Putting this into perspective, if Members were instead to adopt the 3% increase as is currently scheduled in the Medium Term Financial Strategy, those equivalent savings tranches would be in the order of £670,000 (a total of £2.68 million). Members will therefore see that, were the Council to accept the freeze, further work to identify and implement ongoing savings of circa £360,000 from the base budget would need to be undertaken.

## **1.2 Council Tax Referendums**

- 1.2.1 Members will be aware that the Localism Act (elsewhere on this agenda) abolished the capping regime in England. Instead, the Act makes provision for council tax referendums to be held if an authority sets a council tax increase which exceeds principles determined by the Secretary of State.
- 1.2.2 The Secretary of State has now determined the principles in relation to 2012/13 and which are contained in a letter dated 16 December addressed to Chief Executives. A copy of the letter is attached at **[Annex 2]**. **For this Council, the 'trigger' point would be 3.5%.**
- 1.2.3 If we increase the council tax by 3.49% (at the limit of the threshold set by the Secretary of State) the four saving tranches I refer to in paragraph 1.1.7 would reduce to circa £660,000 (in total £2.64 million). The increase may differ slightly due to the requirement to exclude the payment of any special levies from the calculation.

## **1.3 Implications for our MTFS**

- 1.3.1 The implications of accepting the grant to freeze council tax again in 2012/13 are damaging to our longer-term financial planning. Whilst it is, of course, desirable to assist council taxpayers in the short term by holding council tax levels, the consequences of this 'one-year' action would be that more severe cuts to frontline services than the Council's current strategy envisages may have to be made over the next few years.
- 1.3.2 Alternatively, for a 3.49% or £6 per annum increase in council tax at Band D (equivalent to 12p per week), the Council could avoid having to take, from its base budget, additional service costs of some £400,000. (This is the difference between £3.04 million in paragraph 1.1.7 and the £2.64 million in paragraph 1.2.3).
- 1.3.3 Were the other major precepting authorities to implement the freeze, which is the indication at the present time, and TMBC were to implement an increase of

3.49%, just below the 'trigger' point, then the increase to the overall council tax bill would be 0.4%.

- 1.3.4 It is not the purpose of this report to seek to determine which route Members ultimately take, but **a discussion as to the potential way forward** would be helpful in order **to inform the supporting papers in readiness for the Budget meeting in February**.
- 1.3.5 To assist the debate, we attach at **[Annex 3]** a graph illustrating how the Council's income base from council tax receipts would diverge over the period of the ten year MTFS if:
- 1) The Council were to implement the council tax freeze in 2012/13; and
  - 2) The Council were to implement a council tax increase of 3.49% in 2012/13.
- 1.3.6 **For simplicity**, and to avoid over-complication for the purpose of the illustration, we have assumed that the council taxbase remains static over that time period. In reality we would anticipate that the taxbase will increase in that timescale, and when updating the MTFS the Director of Finance will factor in an uplift to the taxbase.
- 1.3.7 Nevertheless, even with this simplified illustration Members will note from the divergence of the two lines on the graph, the amount of council tax revenue over the life of the MTFS that the Council would forego if it were to adopt the 'freeze' as opposed to the 'trigger'. An increase in taxbase over that time would make the difference in council tax revenue achieved wider.
- 1.3.8 Members will note that in the final year of the MTFS period (2021/22), the difference in tax revenue between the two lines based on this simplistic model has widened to £384,000 (and hence why we mention at paragraph 1.3.2 that the Council would need to take from its base budget additional service costs of some £400,000).
- 1.3.9 The cumulative amount of revenue foregone over that timescale, based on those two choices, would be almost £3.2 million.

## **1.4 Legal Implications**

- 1.4.1 The Localism Act gives local communities the power to veto excessive council tax increases. The Secretary of State will determine a limit for council tax increases which has to be approved by the House of Commons. If an authority proposes to raise council tax above this limit they will have to hold a referendum to get approval for this from local voters who will be asked to approve or to veto the rise.

## **1.5 Financial and Value for Money Considerations**

- 1.5.1 As set out above.

## **1.6 Risk Assessment**

- 1.6.1 Any increase above the relevant principle, even by a fraction of a percentage point, would require a referendum to be held. We need to take care, therefore, that we do not inadvertently trigger a referendum by exceeding the relevant principle by some tiny margin.

Background papers:

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Nil

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