

Factsheet: Approval of principles for determining whether council tax excessive (Clause 4)

What are council tax referendum principles?

The Local Government Finance Act 1992 allows the Secretary of State to determine a set of principles for each financial year which a range of local authorities in England must use to determine whether their council tax increase is excessive. The principles always include a comparison of the 'relevant basic amount' of council tax (i.e. Band D) set by the authority with that set for the previous financial year, but may include additional matters. They must be approved by the House of Commons by the time that it approves the annual Local Government Finance Report (also known as "the Settlement").

If the authority sets an excessive increase it must seek the approval of local voters in a referendum. If the increase is not approved, the authority must set a lower, non-excessive, amount of council tax. If the Secretary of State does not determine any referendum principles he must lay a report before the House of Commons explaining his decision.

Authorities which may be set referendum principles include county councils, shire districts, unitaries, police and crime commissioners, single-purpose fire authorities, the GLA, and town and parish councils.

What is the policy hoping to achieve and where are we now?

The measure will align the process of setting referendum principles with reforms to the wider local government finance settlement, which will no longer be subject to annual approval by the House of Commons. It will enable the Government to offer local authorities more certainty about their future financial position by setting referendum principles for multiple years. Before making a report containing principles, the Secretary of State must consult representatives of local government. The final report must be made before the start of the first financial year to which it relates. It must be sent to each billing and major precepting authority and published in an appropriate format. Referendum principles can be amended by making a further report. A report must still be made and disseminated if the Secretary of State decides not to set any principles for one or more years.

The measure also amends the process for setting Alternative Notional Amounts where local authority functions or structures have changed. The Secretary of State must consult affected authorities prior to making a report before the start of the financial year to which it relates. He must also send them a copy of the final report, which will not be subject to the approval of the House of Commons.

The Government is not seeking to remove transparency from the process of determining what is considered to be an excessive level of council tax. The measures contain a new requirement to consult representatives of local government, and to publish the principles. The Government is also not seeking to impose rigid long-term referendum principles on local government. The Secretary of State will consider a range of factors, as well as consultation responses, before finalising principles, and will be able to change them for any year.

Why is legislation needed?

The requirement to determine referendum principles annually and seek the approval of the House of Commons is set out in Chapter 4ZA of the Local Government Finance Act 1992. It may not be amended by regulations.

Why is a delegated power to determine referendum principles and Alternative Notional Amounts required?

Reforms to the wider local government finance settlement process mean that there will no longer be an annual local government finance report and no annual vote by the House of Commons. Allowing the Secretary of State to determine council tax referendum principles and Alternative Notional Amounts following consultation will bring these processes into line with the new approach.

How do we see this working in practice?

When a set of principles is to be made (either to create a new set, or to change existing principles) it is anticipated that the Secretary of State would consult local government and its representatives, and take into account representations received from Members of Parliament, members of the public and any organisation with an interest. He would do this during the autumn prior to the financial year in which they would first have effect. If a report only relates to certain categories of authorities, those authorities would be consulted. The final principles report will be made, issued to billing and major precepting authorities, and published before the start of that financial year. Where the report only relates to specific categories of authority, it will be sent to them. In practice, the making of reports is likely to be completed by the middle of February in order to assist local authorities when setting their budgets and council tax.

How can I find out more?

The Bill and Explanatory Notes have been published on the Parliament website, these will be updated regularly: <http://services.parliament.uk/bills/2016-17/localgovernmentfinance.html>. The Government's response to the consultation will be published in due course.

Key questions & answers:

Why are council tax levels not left to local decision-makers, with the authority answerable to local people in council elections?

- Government defining an 'excessive increase' has long been part of the council tax system. The Government was clear in its Manifesto that it would work with local authorities to keep council tax down. We are implementing that commitment by creating a statutory requirement to consult on the level of referendum principles. Giving local taxpayers the final say over excessive increases is democracy in action.

Why are you allowing referendum principles to be set over multiple years?

- In line with the move away from annual local government finance settlements, the government wishes to be able to offer certainty about excessive council tax levels over multiple years.

Why are you removing the requirement to obtain the approval of the House of Commons for referendum principles?

- This is in line with the new approach to the funding of local government which will reduce local government's dependency on central government, offer greater certainty to the sector and no longer require annual settlements.
- The process will be transparent, with new statutory requirements to consult local authorities and inform them of the principles. Parliament will approve the quantum of funding for local government following each Spending Review and Budget, and there will be ample opportunity for regular parliamentary scrutiny and debate without the need to prescribe this in legislation.