

Item 5

Local Audit and Accountability Bill: Council Tax Referendums

Purpose of report

For discussion and direction.

Summary

The Local Audit and Accountability Bill makes an amendment to Chapter 4ZA of Part 1 of the Local Government Finance Act 1992 so that the key referendum principle takes account of levy increases.

As proposed, the legislative change will have an enormous impact on Integrated Transport Authorities, the local authorities in the areas they cover and the city deals that those authorities have negotiated with government. This paper discusses the implications and actions to be taken.

Recommendation

Members are asked to consider the implications of the Local Audit and Accountability Bill for Integrated Transport Authority areas.

Action

As directed by members.

Contact officer: Eamon Lally
Position: Senior Adviser
Phone no: 020 7664 3132
E-mail: eamon.lally@local.gov.uk

Item 5

Local Audit and Accountability Bill: Council Tax Referendums

Background

1. The Localism Act 2011 introduced measures which mean that council tax increases which exceed a level pre-determined by the Secretary of State are put to the local electorate for approval in a referendum. At present, levies are excluded from the billing and precepting authorities' calculations of whether their council tax increase is above the level set by the Secretary of State and requires a referendum to be held.
2. The Local Audit and Accountability Bill amends the legislative framework for council tax referendums. For the financial year beginning 2014:
 - 2.1. Increases set by levying bodies such as Waste Disposal Authorities, Integrated Transport Authorities, Pension Authorities and Internal Drainage Boards will be taken into account when local authorities determine whether they have set an excessive amount of council tax each year.
 - 2.2. Referendum criteria for 2014/15 can, at the discretion of the Secretary of State, include the level of council tax increase in 2013/14 once the new definition of the basic amount of council tax, which will include levies, is applied. This means that the legislation as proposed is retrospective.

Impact on city deal infrastructure/transport investment funds

3. Local government has endured the steepest reductions over the current Spending Review with 33 per cent cuts in real terms. The current financial position of many councils is unsustainable in the medium to long term. Including increases in levies set by outside bodies in the calculation of council tax referendum limits adds further uncertainty to council finances and could lead to further reductions in essential local services.
4. The LGA opposes a centrally imposed limit on council tax levels as the cycle of local elections is the democratic and proper place for people to pass judgment on their council.
5. The implications of the Bill for those city regions that have included transport investment funds in their city deals are very significant. The investment funds have been established on the premise that transport body levies would contribute to these funds. City deals have been developed with the full engagement of the Department for Communities and Local Government, HM Treasury, the Department for Business Innovation and Skills and others. The changes outlined in the Local Audit and Accountability Bill undermines the city deals and the enormous amount of work that has gone into their development.
6. The proposed legislative changes challenges those city deals that are already established transport investment funds and will prevent others from going ahead with their plans. There is a significant risk that infrastructure projects that support economic growth will not go ahead as a result of the measures set out in the Bill.

Item 5

7. The purpose of the funds is to give long term stability for transport investment. However, this is put at considerable risk if all the authorities in an Integrated Transport Authority area are required to hold referendums every year.
8. Further, the cost of the referendums could be prohibitively expensive. An impact assessment on the council tax referendum scheme, published in August 2010, set out the estimated costs, stating that “it seems reasonable to estimate the range of costs of such referendums as £85,000 - £300,000”.
9. Local authorities are currently considering whether a combined authority precept is a possible alternative to levies as these will not be included when establishing the basic amount of council tax.

Retrospection

10. As currently drafted, the Bill (clause 39 (15)) could allow the Secretary of State to retrospectively impose a different referendum limit on authorities where their council tax increase for 2013-14 would have been excessive under the new definition, but not under the current definition. This is not fair on those authorities who have taken decisions in good faith based on the legislation in place at the time.
11. Seven local authorities in Greater Manchester, which have already begun the process of establishing a transport fund as part of its city deal, could be affected by the retrospective element of the new legislation. The authorities are Bolton MBC, Bury MBC, Manchester City Council, Oldham MBC, Rochdale MBC, Stockport MBC and Tameside MBC.

Conclusion and next steps

12. The LGA is calling for the Government to remove clause 39 from the Bill.
13. The LGA prepared an on the day briefing to support the second reading on 22 June and will continue to engage with members through the successive stages of the Bill.
14. The LGA is coordinating its work with Passenger Transport Executive Group (PTEG).