

**CUMBRIA AND LANCASHIRE POLICE AUTHORITIES
PRECEPT HARMONISATION (For Information)**

A REPORT BY THE TREASURER

1. The issue

1.1 In 2006/07 Cumbria's council tax (for a Band D property) is almost exactly £50 more than Lancashire's: £163.08 as against £113.09.

1.2 In a combined Authority, the two figures would have to be "harmonised" to a single one, which in 2006/07 would have been £126.74; an increase of £13.65 or 12.1% in Lancashire, and a reduction of £36.34 or 22.3% in Cumbria.

1.3 This is a "zero sum game" which basically transfers £6.3m between the council taxpayers of Lancashire and Cumbria: the total council tax take in the combined area remains precisely the same, at some £80m.

2. The assumption

2.1 Following discussions with the Home Office, we proposed that the harmonisation should take place in three equal steps of £2.1m per annum.

2.2 This would mean three annual increases averaging £4.55 (some 4% pa) in Lancashire, and three annual reductions averaging £12.10 (some 8% pa) in Cumbria.

2.3 The cash movements should be seen in the context of overall band D tax bills of around £1,300 in the two counties at present. Also, although they are calculated conventionally at the band D level, in fact the most typical property band is 'B' in Cumbria and nearer 'A' in Lancashire. Using these bands would put the cash increase closer to £3 in Lancashire, and the reduction nearer to £10 in Cumbria.

3. The problem

3.1 These changes would be on top of the annual rise required each year in the combined Authority's council tax (for inflation etc). In 2006/07 this was 5% in each authority (at the capping limit), which would have translated into total increases of 9% in Lancashire and reductions of 3% in Cumbria.

3.2 It seems that there is an agreement between government departments to apply capping not just to the combined authority but also to its constituent parts. Confirmation for this assumption is taken from the draft of the parliamentary amalgamation order, which, at each revision, would have allowed the Home Secretary to limit increases in the council tax in the precursor areas i.e. Cumbria and Lancashire taken separately.

3.3 If applied, this would almost certainly have put the new Authority in a worse financial position than Cumbria and Lancashire would have enjoyed if they had remained separate, even allowing for savings arising from merger.

Cumbria Police Authority

4. Worked example

4.1 Suppose the capping limit were 5% in future years, as it has been over the last two. This would then apply not just to the combined Authority but also to the Cumbria and Lancashire constituent areas individually. Lancashire's increase would be limited to 5% overall, and not the 9% increase assumed earlier. The only way harmonisation could then be achieved would be for Cumbria's increase to be significantly less than 5%, or Lancashire would never catch up, and so harmonisation would never take place.

4.2 Suppose then that Cumbria's increase were 0%, or that in effect the Cumbria council tax were "frozen" until Lancashire came level with it. It would take eight years for that to happen naturally (i.e. until 2014/15). In those eight years, the combined Authority's budget would be increasing not by the overall 5% allowed to standalone authorities, but by approximately 3.5% (the combination of 5% in Lancashire and 0% in Cumbria). By the time harmonisation had been achieved, the combined Authority's annual budget would be £13.3m lower than if the full 5% increase had been allowed it each year.

4.3 By contrast, the savings assumed from merger were estimated at between £5m and £7m per annum, and needed to be retained in the budget anyway to improve level 2 policing.

4.4 The government was proposing powers to require precursor Police Authority precepts to be 'harmonised' over a maximum period of five years, whilst also maintaining separate capping control over the (lower of the) two taxes. This would mean that in the sixth year, the new Strategic Police Authority would have to set a common level of council tax across its whole area. Instead of convergence being achieved in year 8 (2014-15) it would be imposed in year 6 (2012-13). This would require that the smaller of the two taxes which would otherwise have applied in that year (£151.56) be applied to both precursor areas. This would crystallise an ongoing precept income loss of £10m pa which, in the absence of compensating grant, would have to be matched by equivalent savings over the same period. Nationally the precept income loss could be of the order of £100m or £250m depending on capping controls being applied at 3% or 5%.

4.5 Cumbria and Lancashire Police Authorities continued to make strong representation that they should be free to choose the period over which its precursor taxes were harmonised. A strong preference was expressed for three years, with capping controls being applied only to the 'average' of the two taxes and not to the individual taxes during the harmonising period.

4.6 In the event, the Home Office appears to have been unable to secure a relaxation of government policy so as to permit capping to be applied at the average area level, rather than at precursor level. In addition, it has been unable to secure or propose sustainable grant funding to enable the amalgamation to take place independently of the need for precept harmonisation. It is anticipated that a significant factor was due to the scale of funding which would have been required nationally on the basis that any amalgamation between Cumbria and Lancashire would be quoted as a precedent in future years by Authorities seeking a similar treatment.

4.7 The Minister advised that his Department was unable to offer any alternative sustainable solution and that consequently the Funding Offer and the candidacy of the two Authorities for voluntary amalgamation was being withdrawn.

4.6 Appendices illustrate the figures quoted in this report.

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Cumbria Police Authority

Cumbria and Lancashire Police Authority

**Appendix 2
Capped Precursors**

Precept harmonisation by freezing higher council tax at 2006-07 level and limiting annual increases in lower council tax to 5% pa

2006 - 07 Precursor Police Area	Precept £,000	C - tax £.p	Tax Base Growth %	Assumptions in this model	
Cumbria	28,313	163.08	(0.5%)	Maximum Council tax increase for capping	5%
Lancashire	52,278	113.09	(0.5%)	Growth rate in whole area tax base as calculated	0.50%
Combined Area	80,591	126.74	(0.5%)	Maximum increase in annual precept requirement	5.525%
				Maximum increase in C-tax requirement before transition	5%
				Capping of Harmonisation - maximum increase in lower	5%

Assumed Cumbria Ctax frozen at 2006-07 level of £163.08 and annual increase in Lancashire Ctax limited to 5%					
	Band 'D' Council tax			% Change	Restricted Precept Income £,000
	Cumbria	Lancashire	(equivalent) (Combined)		
2007 - 08	163.08	118.75	(130.85)	(3.2%)	83,621
2008 - 09	163.08	124.69	(135.17)	(3.3%)	86,811
2009 - 10	163.08	130.92	(139.70)	(3.4%)	90,170
2010 - 11	163.08	137.47	(144.46)	(3.4%)	93,708
2011 - 12	163.08	144.34	(149.46)	(3.5%)	97,434
2012 - 13	163.08	151.56	(154.70)	(3.5%)	101,359
2013 - 14	163.08	159.13	(160.21)	(3.6%)	105,493
2014 - 15	167.09	167.09	(167.09)	(4.3%)	110,573
2015 - 16	175.45	175.45	(175.45)	(5.0%)	116,682

Requirement for compensating grant Loss of precept income compared to existing 5% capping limit			
Existing Harmonised Ctax (5%) £. p	Entitlement to Precept Income £,000	Year on year Precept Loss £,000	Compensating Grant Requirement £,000 pa
133.08	85,044	1,423	1,423
139.73	89,742	1,508	2,931
146.72	94,701	1,599	4,530
154.05	99,933	1,694	6,225
161.76	105,454	1,795	8,020
169.84	111,280	1,902	9,922
178.34	117,429	2,014	11,936
187.25	123,917	1,408	13,343
196.62	130,763	737	14,081

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