

# Scrutiny Committee



Report of Head of Finance

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To: Scrutiny

DATE: 21 November 2013

## **Council tax reduction scheme grant for town and parish councils**

### **Recommendation**

that the committee reviews the options for distributing the council tax reduction scheme grant to town and parish councils, taking into account feedback from town and parish councils, and makes any recommendations to the Cabinet Member for Finance

### **Purpose of Report**

1. The purpose of this report is to allow the committee to review the different options for distributing the council tax reduction scheme to town and parish councils and make any recommendations to the Cabinet Member for Finance.

### **Strategic Objectives**

2. The council receives an annual grant from central government to be passed down to town and parish councils to mitigate the impact of the council tax reduction scheme on their tax bases. Passing down the grant can help keep down the town and parish element of council tax bills. Distributing the grant will help meet the objective of excellent delivery of key services.

## Background

3. The new council tax reduction scheme (CTRS) takes the form of a discount on the council tax bill and, like other discounts (e.g. the single person's 25 per cent discount), has the effect of reducing the council's council tax base. Reducing the tax base means that, if the council's budget requirement remained the same, the amount of council tax charged would increase, or if council tax was not increased the income generated would reduce. This applies to both billing authorities (South) and major precepting authorities (Oxfordshire County Council and the Police and Crime Commissioner), as well as local precepting authorities (town and parish councils).
4. To mitigate the impact of the reduced council tax base, each year the Government is distributing, via revenue support grant and business rates retention, a grant that is not ring fenced to billing authorities and major precepting authorities. Because the Government does not have a method for passing down funding direct to town and parish councils the grant given to billing authorities includes an amount "*attributable to local precepting authorities*".
5. For 2013/14 the council received a sum of **£200,742** to be passed down to town and parish councils. The mechanism for allocating the funding was approved at full Council on 12 December 2012. The full amount of the grant was passed down to Vale of White Horse towns and parishes, based upon their relative need following the reduction in their respective tax bases. Some district councils elsewhere in the country did not pass the grant to towns and parishes.
6. The "Revenue Budget 2013/14 and Capital Programme to 2017/18" report to Cabinet and Council in February 2013 advised (paragraph 12) that for future years the amount of grant was not known and it was assumed that no grant at all would be received. Therefore to partly mitigate the impact on town and parish budgets, the intention was to continue to support the town and parish precepts, but to gradually phase out support over the MTFP (i.e.: a 20 per cent reduction year on year).
7. Therefore, under this option, the total amount to be distributed to towns and parishes for 2014/15 would be **£160,593** (a reduction of £40,148).

## Options for distributing the grant

8. For 2013/14, for each parish tax base, a calculation was undertaken to look at the negative effect of the council tax reduction scheme in isolation; a further calculation to look at the positive effect of increasing charges for second homes and empty properties in isolation; and, one further calculation which looked at the net effect of both changes combined.
9. The net effect of the two changes (i.e. the net amount of band D equivalents removed from tax bases) was then multiplied by the individual town and parish band D council tax amounts for 2012/13. This gave a notional council tax "shortfall" figure and towns and parishes were then given a grant equal to 87.3 per cent of the notional. This was because the parish element of the grant (£200,742) only covered 84 per cent of the total notional shortfall. A worked example of this is in **Appendix 1**.

10. There are two different options for distributing the grant in 2014/15, both with their own pros and cons.

#### OPTION 1

11. For 2014/15 the council could decide to distribute the pot of money by the same proportions as 2013/14 e.g. if Parish A received 2.2 per cent of the total grant of £200,742 (£4,416), then it would receive 2.2 per cent of the total grant of £160,593 for 2014/15 (£3,533).
12. This would be the simplest method administratively and would also provide stability for town and parish councils. However, if any town or parish has had an increase in residents claiming CTRS during 2013/14, this will not be taken into account in the 2014/15 grant. Also, some towns and parishes did not receive any grant at all during 2013/14 because they had not been impacted by the introduction of CTRS (either because none of their residents were claiming, or the positive impact of council tax discount changes was greater than the negative effect of CTRS). If circumstances have changed in these particular towns and parishes, this would not be taken into account under this proposal.

#### OPTION 2

13. Alternatively, the CTRS effect could be recalculated again for 2014/15 using up to date CTRS figures. This would involve more administration for the council but would mean that the grant is based on current circumstances. However, it would introduce an element of volatility for town and parish councils if circumstances in their area have changed significantly.
14. The council would then use the 2012/13 town and parish band D figures to calculate the notional shortfall upon which their share of the grant would be based.
15. The Government's model for calculating the amount of grant attributable to town and parish councils was based on 2012/13 council tax levels and this is why the council will continue to use 2012/13 as the baseline. Also, by continuing to use the 2012/13 band D council tax figures there will be an element of consistency to help negate the potential volatility of recalculating the CTRS effect.

### **Views from town and parish councils**

16. Briefing sessions were held with town and parish councils on 15 October 2013 and 21 October 2013. These were very well attended events with 34 towns and parishes represented. Options 1 and 2 were put to the towns and parishes and the feedback, and favoured option was number 2.

### **Financial Implications**

17. The council tax reduction scheme grant from the government is contained within the council's revenue support grant and the council's baseline funding level for business rates retention. The actual amount of grant for 2014/15 is unknown but overall funding is reducing year on year. The MTFP allows for the 2013/14 grant to reduce by 20 per cent each year so this proposal fits in with the council's medium term plans.

## **Legal Implications**

18. Whilst the council tax reduction scheme grant is not ring fenced, there is an expectation that councils will use it to mitigate the effect on local precepting authorities of the reduced council tax base.

## **Risks**

19. There is a risk that some town and parish councils may challenge the methodology if they believe that they have not received an appropriate share. However, the Government has not specified any methodology to follow and there is no legal requirement for any of the funding to be passed on.

## **Other Implications**

20. There are no other implications arising directly from this report.

## **Conclusion**

21. The council will receive funding during 2014/15 that is attributable to town and parish councils to mitigate the impact of the council tax reduction scheme on their tax bases. A decision is required on how that funding should be distributed.

22. This paper sets out options for Scrutiny Committee to consider

## **Background Papers**

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## Worked example of 2013/14 grant allocation calculation

|          |   |               |
|----------|---|---------------|
| <b>A</b> | Original 2013/14 tax base                 | 4,000         |
| <b>B</b> | Dwellings gained through CT reform        | 50            |
| <b>C</b> | Dwellings lost through CTRS               | 200           |
| <b>D</b> | Revised tax base (A + B – C)              | 3,850         |
| <b>E</b> | <b>Band D equivalentents lost (A – D)</b> | <b>150</b>    |
|          |   |               |
| <b>F</b> | 2012/13 band D council tax                | £30           |
| <b>G</b> | Lost income (E x F)                       | £4,500        |
| <b>H</b> | <b>Grant paid (G x 84%)</b>               | <b>£3,780</b> |