

Scrutiny Committee Report



Report of Head of Finance

Author: Ben Watson

Telephone: 01491 823834

Textphone: 18001 01491 823834

E-mail: ben.watson@southandvale.gov.uk

Cabinet member responsible: David Dodds

Tel: 01844 212891

E-mail: david.dodds@southoxon.gov.uk

To: Scrutiny

DATE: 5 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 which can be passed down to town and parish councils to mitigate the impact of the council tax reduction scheme on their taxbases. 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 ringfenced 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*". There is no legal obligation for the council to pass on this grant and indeed some district councils elsewhere in the country did not pass the grant to towns and parishes.
5. For 2013/14 the council received a sum of £245,946 to be passed down to town and parish councils. The mechanism for allocating the funding was approved at full Council on 13 December 2012. The full amount of the grant was passed down to South Oxfordshire towns and parishes, based upon their relative need following the reduction in their respective taxbases.
6. Although the Government identified the specific amount attributable to local precepting authorities in 2013/14 it has said it will not do so for 2014/15. In it's 2013 Spending Review the Government indicated that funding for the council is reducing by 13.7 per cent in 2014/15. Therefore, assuming all components of the overall Government funding – including the towns and parishes CTR grant component - reduce equally by the same 13.7 per cent, the 2013/14 town and parish grant figure of £245,946 becomes **£212,251** for 2014/15.

Options for distributing the grant

7. For 2013/14, for each parish taxbase, 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.
8. The net effect of the two changes (i.e. the net amount of band D equivalents removed from taxbases) 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 (£245,946) only covered 87.3 per cent of the total notional shortfall. A worked example of this is in **Appendix 1**.
9. There are two different options for distributing the grant in 2014/15, both with their own pros and cons.

OPTION 1

10. 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 £245,946 (£5,410), then it would receive 2.2 per cent of the **£212,251** grant for 2014/15 (£4,669).
11. 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

12. 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.
13. 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.
14. 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

15. Briefing sessions were held with town and parish councils on 16 October 2013 and 23 October 2013. These were very well attended events with 39 towns and parishes represented. Options 1 and 2 were put to the towns and parishes and the favoured option was option 2.

Financial Implications

16. 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. Overall funding is reducing by 13.7 per cent therefore, by reducing the grant to be distributed to town and parish councils by 13.7 per cent there is a neutral financial impact on the council.

Legal Implications

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

Risks

18. There is a risk that some town and parish councils may challenge the methodology if they believe that they have not received what they think is 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

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

Conclusion

20. 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 taxbases. A decision is required on how that funding should be distributed.

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

Background Papers

- None

Worked example of 2013/14 grant allocation calculation

A	Original 2013/14 taxbase	4,000
B	Dwellings gained through CT reform	50
C	Dwellings lost through CTRS	200
D	Revised taxbase (A + B – C)	3,850
E	Band D equivalents lost (A – D)	150
F	2012/13 band D council tax	£30
G	Lost income (E x F)	£4,500
H	Grant paid (G x 87.3%)	£3,928.50

This page is intentionally left blank