

Forest Heath District Council

(This report is a key decision. This report has been subject to appropriate notice of publication under the Council's Access to Information Rules)

Report of the Cabinet Member for Resources, Governance and Performance

CABINET

25 JUNE 2013

CAB13/094

LEVEL OF COUNCIL TAX SUPPORT GRANT AND CHARGING FOR PARISH AND TOWN COUNCIL ELECTIONS FOR 2014/2015 ONWARDS

1. Summary and reasons for recommendation(s)

- 1.1 This report seeks to establish the level of Council Tax Support Grant for 2014/2015 onwards for parish and town councils. The report also recommends that from 2014/2015 Parish and Town Councils should be charged for election costs which are currently borne by the District Council.
- 1.2 This report has been prepared taking into account the significant financial challenges faced by the Council, like most others, over its current Medium Term Financial Strategy. For Forest Heath District Council alone, the annual savings target for 2015/2016 is expected to be in the region of £0.6m, that's over and above the savings to be achieved through sharing services with St Edmundsbury Borough Council. Shared services alone may not address the saving requirements for next year's budget and, therefore, local savings are also expected to be developed in order to achieve a balanced budget for 2014/2015.

2. Recommendation(s)

2.1 The Cabinet recommends to full Council that:

- (i) **The level of Council Tax Support Grant for Parish/Town Councils be phased out over a 4 year period at a 25% reduction each year starting in 2014/2015.**
- (ii) **Delegated authority be given to the Head of Resources and Performance, in consultation with the Portfolio Holder for Resources, Governance and Performance, to finalise the Council Tax Support Grant Scheme design, following the Parish and Town Forum meeting on 17 July 2013, subject to there being no detrimental impact on the Council's Medium Term Financial Strategy beyond that allowed for in recommendation (i) above; and**
- (iii) **The cost of any Parish/Town Council elections (including By-Elections) from 2014/2015, be funded by the relevant Parish/Town Council.**

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3. How will the recommendations help us meet our strategic priorities?

- 3.1 This report supports the strategic priority of working together for an efficient council.

4. Key Issues

Background

- 4.1 Members will recall that the Welfare Reform Act 2012 abolished the nationally funded Council Tax Benefit scheme, and replaced it with the requirement for local billing authorities, such as Forest Heath, to create and adopt a Local Council Tax Reduction (LCTR) Scheme from April 2013. Funding for these local schemes is now by the Department for Communities and Local Government (DCLG) through a cash limited grant to local authorities, but at 90% of the previous national scheme's funded value.
- 4.2 Forest Heath, like all councils, needed to consider its options to address the 10% funding cut from central government. Given the scale of the funding shortfall, the Cabinet agreed on 3 July 2012 that it would be advisable to pass on only a proportion of the burden to claimants, in order to incentivise work. Cabinet also noted that the funding gap could be closed by taking advantage of new powers within the Local Government Finance Act 2012 to reduce the level of discounts currently granted in respect of second homes and some classes of empty properties.
- 4.3 On 16 January 2013 (Report No COU13/610), Council approved the adoption of its LCTR scheme, which included passing an 8.5% council tax liability onto working age claimants. Council also approved at the same meeting (Report No COU13/611) reductions to the level of discounts and exemptions in respect of second homes and some classes of empty properties. Both reports sought to address the 10% cut in funding from central government.
- 4.4 The technical changes implemented by Forest Heath from 1 April 2013 are summarised below:
- 'Class A' Empty Property (vacant dwellings where major repair works or structural alterations are required, under way or recently completed) – **30% discount for a maximum of twelve months** (previous 100% exemption for a maximum of twelve months)
 - 'Class C' Empty Property (an empty property that is substantially unfurnished) – **1 month exemption** (previous 100% exemption for a maximum of six months)
 - 'Empty homes premium' – **50% premium** (150% charge in total) for properties empty for 2 years (previous no premium payable)
 - Second Homes – **5% discount** (previously 10% discount)

- 4.5 The degree of changes required/made by each authority in order to arrive at a cost neutral scheme through the LCTR scheme and the technical changes were very much dependant on the profile of each authority's claimant and housing profiles.
- 4.6 An important point to highlight is that the new LCTR scheme takes the form of a discount on the council tax bill, rather than the previous council tax benefit payment onto claimants' council tax accounts. Members will recall that this change had the impact of reducing the Council's tax base. The changes to the levels of second homes and some empty properties, on the other hand, had the impact of slightly increasing the Council's tax base.

Tax base impact

- 4.7 The overall net impact of these changes was a reduction of 1977 (approximately 11%) on Forest Heath's tax base for 2013/2014, from the previous year's calculation. The percentage reduction at parish and town level could be more significant in areas where more residents are eligible for the LCTR scheme.
- 4.8 Reducing the tax base means that, if the Council's budget requirement remained the same, the amount of council tax charged would increase. This applies to both billing authorities (Forest Heath District Council) and major precepting authorities (Suffolk County Council and the Police and Crime Commissioner), as well as local precepting authorities (parish and town councils). Examples A and B below illustrate the impact of these changes on a tax base calculation.
- 4.9 To mitigate the impact of this reduced council tax base, DCLG distributed (through the formula grant process), a non ring-fenced grant to billing authorities and major precepting authorities. Because DCLG does not have a method for passing down funding direct to parish and town councils the grant to billing authorities also included an amount 'attributable to local precepting authorities'.
- 4.10 DCLG then expected billing and local precepting authorities to work together to manage the impact of the change in tax base on the local precepting authority. However, there was no prescribed basis on which the grant 'attributable to local precepting authorities' should be distributed by District Councils.
- 4.11 At 26 February 2013 meeting, delegated authority was given to the Head of Resources and Performance, in consultation with the relevant Portfolio Holder, to design a scheme that looked to compensate parish and town councils for the net change in their tax base from these changes. The scheme design was to be limited to the cash sum received by Forest Heath which was 'attributable to local precepting authorities'.
- 4.12 The Council's Council Tax Support Grant scheme (as it has become known) was designed to compensate each parish and town council in Forest Heath for any negative movement in that town or parish's tax base as a result of these changes. The amount granted under the scheme was based on that town or parish's 2012/2013 Band D council tax level, multiplied by the movement in that town or parish's tax base between the 2013/2014 (under the new calculation) and the 2012/2013 tax base (under the old calculation). Example C

below, illustrates the grant payment that would have been awarded using Examples A and B again.

- 4.13 Example D in Appendix A, shows how the grant scheme compensates the parish and town in these examples for the negative movement in its tax base as a result of these changes.

Future challenges – Level of Council Tax Support Grant for 2014/2015

- 4.14 The Department of Communities and Local Government (DCLG) have recently confirmed that the council tax support grant (including both the district and parish and town elements) **will only be separately identifiable in the 2013/2014** formula grant settlement. From 2014/2015 any amount received for these grants will be included within the retained business rates and revenue support grant (RSG) elements of our formula grant settlement, but it will not be separately identifiable.
- 4.15 The RSG part of our formula grant settlement will be scaled back for individual councils according to their combined spending trajectory, by service tier. The element within the retained business rates portion will not be scaled back in the same way, as this is now linked to overall business rate yield movement under the new business rate retention scheme.
- 4.16 DCLG have confirmed that the council tax support grant allocations for each authority will include the element attributable to parish and towns, and also that the amount included will not alter other than as a result of the scaling back as outlined above in 4.15 above. So in summary DCLG are confirming that the council tax support grant for both the district and parish and town elements **will be in our 2014/2015 formula grant settlement, however the amount itself will not be separately visible, and the amount will be less than in 2013/2014.** For 2013/2014, the total council tax support grant paid to town and parish councils was approximately £168k.
- 4.17 The provisional 2014/2015 formula grant settlement communicated to Forest Heath District Council, as part of the budget process, represents as much as a **24% reduction** from 2013/2014 totals expressed against the Revenue Support Grant element, the only element funded now by central government on a needs based assessment.
- 4.18 DCLG has continued to stress that it is for each local authority to reach agreement with their parish and town councils on the amount of funding that is passed down. There are still no current plans to make the redistribution of funding to parish and town councils compulsory. However, DCLG are in the process of collecting data from all local authorities to identify the amount of funding passed down to parish areas to provide them with a comprehensive picture of the approach that billing authorities have taken for 2013/2014.
- 4.19 DCLG have indicated that Ministers will be considering the appropriate measures to take with those authorities that have failed to pass on funding this year and that for 2014/2015, Ministers will continue to expect billing authorities to work with their parish and town councils to determine the level of funding that should be passed down.

- 4.20 Different approaches were taken across the Suffolk Authorities with regards to the re-distribution of the 2012/2013 parish and town element of the council tax support grant. The table below outlines this:

District/Borough	Approach for 2013/14
Babergh	Passed on the grant in full
Coastal	Grant if applied for
Forest Heath	Passed on the grant in full
Mid Suffolk	Passed on the grant in full
St Edmundsbury	Passed on the grant in full
Waveney	No grant distributed

Future challenges – The cost of parish and town council elections (including by elections) for 2014/2015 onwards

- 4.21 Forest Heath District Council is amongst only a few councils in the country that still funds the cost of parish and town elections. This includes the 4 yearly elections costs as well as the cost of any by elections. The cost of parish and town polls are the only cost currently funded by the parish and town councils.
- 4.22 The cost to Forest Heath District Council of the parish and town councils by-election costs are in line with the costs included at Appendix B in respect of local referendum costs for each parish and town council.
- 4.23 If the 4 yearly parish and town elections take place at the same time as other elections then there are significant reductions in overall cost. For example, combined with a district election the cost would be reduced by 50%, if there is also a parliamentary election on the same day the cost could either be split 33% to each election, or 50% parliamentary, 25% local and 25% Parish.
- 4.24 Based on the cost of holding the 2011 elections, the cost to Forest Heath District Council of funding the parish and town element of the 2015 elections is likely to be in the region of £15k (as there is also a parliamentary election), the cost for the 2019 elections is likely to be in the region of £30k. **NB** cost also varies depending on the number of contested seats with the parish and town wards and also assumes that the government confirms that parish elections may be held on the same day as district and parliamentary elections.
- 4.25 As the Council's revenue budgets continue to come under pressure from continuous reductions in central government funding, increase in service demand and inflation,, the continuation of the funding by the district for the parish and town elections costs needs to be considered.

Future challenges – Council Tax Referendum at parish and town level - 2014/2015 and onwards?

- 4.26 From 2012/2013 DCLG announced that, should a local authority (covering County, District/Borough and Police and Crime Commissioners) wish to raise their level of council tax by more than 2%, they would need to hold a local referendum giving their local electorate the opportunity to approve or veto the increase.
- 4.27 Although this referendum requirement was not imposed at parish and town level, DCLG have continued to keep this under annual review. On 19 March 2013, a Bill (first reading) was introduced which aims to cap parish and town preceptors by imposing referendums on a precept increase of 2% or more.
- 4.28 This Bill, 'The Parish and Town Council Precepts (Referendums) Bill' was a Private Members' Bill which was introduced by Kris Hopkins MP via a Ten Minute Rule Motion on 19 March. These Bills do not often become Acts but the process allows the MP to raise the profile of a particular subject. This Bill, like all uncompleted Private Members Bills, has now fallen following the prorogation of Parliament on 25 April, the day before the Bill was scheduled to have its Second Reading. It is open to the MP to decide whether he wishes to re-introduce the Bill in another parliamentary session, to date this has not taken place.
- 4.29 Although this Bill has not progressed further, Members should note that in any event, DCLG already has powers to make parish and town precept increases subject to a referendum of local people, following the introduction of provisions for council tax referendums in the Localism Act 2011.
- 4.30 To date, DCLG have not used these powers in relation to parish and town councils, but they have confirmed that they are continuing to monitor parish and town precept increases and **will keep the situation under review** with regard to making excessive increases subject to a referendum in future years.
- 4.31 If DCLG choose to exercise these powers for parish and town precept increases, **the cost to hold a local referendum would be picked up by the relevant town or parish councils**. The District Council would run the local referendum and then fully recharge that cost on. The approximate cost per local referendum for each parish and town council are included at Appendix B for information. It is likely that most parish and town councils would not have planned for or even earmarked any funds for such local referendums to be held.
- 4.32 Parish and town councils are really concerned about the possibility of the referendum cap coming in for 2014/2015, especially as they are unsure of the amounts to be made available under the council tax support scheme and the parish grant scheme, together with not even allowing them the opportunity to make any financial provision for the potential cost of holding a local referendum.

5. Other options considered

- 5.1 Other options have been considered, including looking at the period of phasing out the grant; however given the continued financial pressure on the District Council, the recommendations proposed are considered the appropriate way forward and will also provide some certainty for town and parish councils.

6. Community impact and Consultation

- 6.1 With the possibility of council tax referendums being imposed at town and parish level it is considered, in the interest of the town and parish councils, that Forest Heath should look to communicate at the earliest opportunity any potential reduction in the level of funding for both revenue schemes. This is not to say that the council expects that parish and town council will simply resolve any reduction in funding from the district through a progressive increase in their precept levels (per band D property), but that it is considered only right to allow the town and parishes to consider this as an option.
- 6.2 Engagement with parish and town councils will take place at 17 July 2013 Parish and Town Forum meeting. Officers will continue to work with the Portfolio Holder for Families and Communities to develop a workshop approach to the forum meeting, designed to support discussions around managing the impact of these changes at a local parish and town level.
- 6.3 Appendix B details the approximate cost of holding a local referendum or election for each parish and town council within the Forest Heath area. This information will be shared with each parish and town councils so that they can take this into account when setting their annual precept requirement.
- 6.4 Appendix C confirms the current level of council tax support grant funding for each parish and town council in the district.

7. Financial and resource implications

- 7.1 Recognising the financial challenges facing Forest Heath District Council over the current Medium Term Financial Strategy, it should be acknowledged that neither the council tax support grant nor the cost of the parish and town elections are financially sustainable schemes going forward. The council tax support scheme will be subject to annual reductions through the scaling back of council funding by central government. The cost of the parish and town elections, like all revenue expenditure items will be subject to review as a result of the overall financial pressures on the council.

8. Risk/opportunity assessment

Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
	High/Medium/Low		High/Medium/Low
The scheme is unaffordable for 2014/15 because the level of Revenue Support Grant reduction is higher than currently included within the provisional grant announcement for 2014/15	Medium	Budget estimates will be prepared based on a grant scheme at 75% cost of the 2013/14 value, with any negative movement in the final grant settlement for 2014/15 being accommodated at the District level	Low
Parish and town councils are unaware of the reduction in the level council tax support grant from the District Council	Medium	Communication to take place at the Parish and Town Councils Forum meeting in July 2013. Officers to confirm exact	Low

Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
	High/Medium/Low		High/Medium/Low
		amounts for the next four years of the level of council tax support grant funding for each parish and town council as part of the 2014/15 precept setting process	

9. Legal and policy implications

- 9.1 DCLG distributed (through the formula grant process) a non ring-fenced grant to billing authorities and major precepting authorities. Because DCLG does not have a method for passing down funding direct to parish and town councils the grant to billing authorities also included an amount 'attributable to local precepting authorities'. There was no prescribed basis on which the grant 'attributable to local precepting authorities' should be distributed by District Councils.
- 9.2 Forest Heath is amongst only a few councils in the country that still funds the cost of parish and town elections. This includes the 4 yearly elections costs as well as the cost of any by elections.

10. Ward(s) affected

- 10.1 All

11. Background papers

- 11.1 Council - 16 January 2013 - Report No COU13/610 - Local Council Tax Support Scheme and Report No COU13/611- Reductions to the level of discounts and exemptions in respect of second homes and some classes of empty properties.

12. Documents attached

- 12.1 Appendix A – Tax Base Calculation Examples
 12.2 Appendix B - Estimated Parish Referendum/Election Costs
 12.3 Appendix C - 2013/14 Council Tax Support Grant funding per Parish and Town Council

Appendix A

Example A – Using the previous tax base calculation pre April 2013

Property example	No. of Band D properties a	% used in tax base calculation b	No. used in tax base calculation = (a x b)
No council tax benefits, discounts or exemptions	100	100%	100
In receipt of 100% council tax benefits	20	100%	20
In receipt of Second person discount (25%)	10	75%	7.5
In receipt of 10% second homes discount	10	90%	9
In receipt of 100% exemption (i.e. USAFE servicemen)	2	0%	0
Tax base calculation 2012/13			136.5 c
Precept requirement 2012/13			£5,000 d
Precept per Band D equivalent 2012/13			£36.63 =e (d / c)

Example B – Using the new tax base calculation post April 2013

Property example	No. of Band D properties f	% used in tax base calculation g	No. used in tax base calculation = (f x g)
No council tax benefits, discounts or exemptions	100	100%	100
In receipt of 91.5% council tax discount (passing 8.5% liability onto the working aged claimant)	20	8.5%	1.7
In receipt of Second person discount (25%)	10	75%	7.5
In receipt of 5% second homes discount (previously 10%)	10	95%	9.5
In receipt of 100% exemption (i.e. USAFE servicemen)	2	0%	0
Tax base calculation 2013/14			118.7 h
Precept requirement 2013/14			£5,000 i
Precept per Band D equivalent 2013/14			£42.12 j =(i / h)

Summary between A and B above:

Description	Tax base	Precept Requirement	Precept per Band D equivalent
Example A – Pre April 2013	136.5	£5,000	£36.63
Example B – Post April 2013	118.7	£5,000	£42.12
Reduction in tax base	17.8		
Change in precept requirement		£0	
Increase in precept per Band D equivalent			£5.49

f

Example C – Calculation of the Council Tax Support Grant

Illustration of how the Council Tax Support Grant would have been calculated using the above examples:

Example A – 2012/13 Precept per Band D equivalent	£36.63	e
Reduction in tax base	17.8	f
Council Tax Support Grant	£652.01	g = (e x f)

Example D – Town or Parish income

From the town or parish's perspective, the total amount of income for 2013/14 would still have been £5,000 for 2013/14, if the town or parishes wished to maintain the Precept per Band D equivalent at the 2012/13 level.

Illustrated as follows:

Precept requirement	£4,347.99
Tax base x Precept per Band D equivalent (h x e) 118.70 x £36.63	
Council Tax support Grant	£652.01
Total income	£5,000.00

Estimated Parish Referendum/Election Costs

The costs below are based on a stand-alone referendum where all costs incurred would be recharged to the parish.

Parish	Electors	Costs
Barton Mills	679	£1,760
Beck Row	1914	£3,150
Brandon East	3937	£4,850
Brandon West	2792	£3,220
Dalham	177	£1,460
Elveden	199	£1,450
Eriswell	142	£1,410
Exning	1612	£2,350
Freckenham	272	£1,480
Gazeley	560	£1,710
Herringswell	146	£1,430
Icklingham	347	£1,540
Kentford	329	£1,530
Lakenheath	3208	£4,840
Mildenhall (GH)	2888	£3,730
Mildenhall (Market)	2963	£3,840
Mildenhall (WR)	1168	£2,520
Moulton	876	£1,830
Newmarket (All Saints)	2846	£3,210
Newmarket (Severalls)	3520	£4,740
Newmarket (St Mary's)	4428	£5,740
STP	1651	£2,360
Red Lodge	2464	£3,390
Santon Downham	185	£1,440
Tuddenham	298	£1,500
Worlingham	370	£1,540
Total	39971	£68,020