**Appendix Three**

**HEREFORD CITY COUNCIL**

**COUNCIL MEETING 1ST December 2015**

**COUNCIL TAX SUPPORT GRANT**

**1. Background**

1.1 In 2012 the Department of Communities and Local Government (DCLG) changed the way the tax base for local authorities was calculated. This was a technical adjustment which was described at the time as cost neutral for local authorities. Unfortunately, DCLG did not understand the effect it would have on parish councils who saw a sharp reduction in the tax base (that is the number of Band D equivalents) in their parishes. This had the effect of creating unforeseen and significant drop in revenues unless local tax levels were sharply increased. In the case of the City Council the shortfall in the first year was indicated at some £102,000.

1.2 Realising what had occurred, the Secretary of State introduced the Local Council Tax Support Grant. This was a payment made to billing authorities (in our case Herefordshire Council), to be passed on to parishes (precepting authorities). DCLG did not set up a direct payment to every parish. The arrangement had no legal force and to date the DCLG have declined to give it any.

1.3 The following year DCLG decided not to identify a specific amount as the local grant, but to assert that it was within the settlement with each billing authority. This means that the funds disappear as a separate item in the DCLG statement to each principal authority. As DCLG support for principal authorities has been sharply reduced as the government seeks to stop paying any rate support grant from 2018-2019, many Chief Financial Officers of principal authorities have argued that the money for parishes has already been cut. Equally ministers insist it is still included and that as a result the settlement with each principal authority is slightly larger than it would otherwise be.

1.4 NALC have persistently complained that without statutory force the grant is at the mercy of billing authorities who may legally keep it, and increasing numbers do so. Even in the first year some councils retained the local council tax support grant, and ministers took no action beyond sending letters asking them to reconsider.

1.5 Earlier this year officers of Herefordshire Council indicated that the grant was reducing by around 35% per annum, in line with the overall reduction in DCLG grant to the authority. There is some dispute about exactly when this starts, but it left parishes in the county with a predicted reduction to zero over three years. However, in answer to a question from the Market Towns Forum, the Leader of Herefordshire Council has stated that he intends to stop all local council tax support grant payments with effect from the next financial year. This year the value of the payment was in excess of £80,000 to the City Council and would have been projected as around £53,000 next year. It is not known when this would have been announced had the question not been raised. This has not yet been confirmed by a public decision such as a cabinet or council resolution.

**2. Impact of the Change in Herefordshire Council Policy**

2.1 Finance and Policy Committee have considered this and decided in principle that the budget for 2015-20916 should be prepared assuming no transfer of funds from Herefordshire. This may well lead to an increased council tax level. This will be reported as part of the budget formation process and is not for debate at this meeting.

2.2 The implication for the Council that does need to be considered is the position regarding devolved services. It is already known that Herefordshire does not intend to devolve any budgets for the services it is proposing to move over to parish council responsibility. This creates a phenomenon known as double taxation, whereby a citizen pays council tax to Herefordshire for a range of services, some of which are then provided by the parish council, also funded by the same citizen as part of the local precept on their overall bill. There is no reduction on the principal authority’s tax demand as a result of service transfers, although it can be argued that devolution of services enables the principal authority better to manage the requirement of DCLG not to increase tax levels by more than 1.9% despite severe reductions in central government support.

2.3 In discussions with Herefordshire Council, officers of the City Council have been mandated to accept, however unwelcome, that we will not be paid by Herefordshire to take on devolved services. However, we have also been mandated to say it is the City Council’s view that devolution can only be considered while the full value of any local council tax support grant is passed onto parishes. Technically therefore, officers ought not to continue with any discussions about possible devolution of service now that Herefordshire have proposed to change their position. If members wish discussions about devolved services to continue they will need to vary the mandate given to officers.

2.4 A number of parishes have already protested to Herefordshire both about the decision regarding local council tax support grant and the late notice of the change in policy. The bleak financial position of principal authorities across the county is mirrored in Herefordshire where the principal authority finds its support from DCLG being reduced while its statutory duties remain unchanged (or even increased) and its tax raising power is effectively capped. It is likely therefore that service reductions and full closures of service will continue and devolution to parishes may be the only option for retaining them. At present the City is discussing taking over parks and open spaces and public rights of way. It is also committed to supporting local friends groups and similar organisations who wish to take responsibility for a local park or play areas. Member may feel that however regrettable the Council’s decision to stop passporting money from DCLG to the parishes may be, it does not diminish the need for the City Council to be prepared to take on more responsibility for local services in response to perceived community need. If that is indeed the case it would be logical to change the mandate to officers regarding devolved services.

**3. Recommendation**

**3.1 That Council decides whether it wishes to continue to mount some form of protest or challenge to the proposed decision by Herefordshire Council’s cabinet to stop passporting money from DCLG to parishes.**

**3.2 That Council decides if it is prepared to continue to discuss possible devolution of services from Herefordshire Council to the City Council in the light of this proposed change in policy.**

Steve Kerry

Town Clerk