

**Full Council**

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| <b>Date:</b>                  | <b>15 January 2013</b>  |
| <b>Title:</b>                 | <b>Budget and Precept</b>   |
| <b>Purpose of the Report:</b> | <b>i) To agree the budget for 2013-14<br/>ii) To agree the precept for 2013 -2014</b> |
| <b>Contact Officer:</b>       | <b>Helen Stewart, Town Clerk</b>  |

**Background**

Members will be aware that this year the budget process is different from previous ones. This is because of the introduction of the new Council Tax Support (CTS) scheme. The scheme and its impact on local (town and parish), councils is not simple, so an explanation is provided below which may be of use.

Under current arrangements help with paying council tax is provided by central government. It sets the rules and conditions for how much benefit is awarded, and to whom, and it provides the funding. Eligible taxpayers therefore get help from the government to pay their council tax. The new scheme is fundamentally different from the Council Tax Benefit (CTB) scheme.

Local billing authorities (e.g. SODC), will now determine local schemes (albeit within parameters set by Central Government) and they will now reduce the amount that eligible persons have to pay. Crucially this reduces the amount that the authority bills the taxpayer and, consequently, reduces the tax base. Because people who qualify for a reduction in their liability receive smaller bills, the amount that the billing authority can collect for any given level of council tax will be less. In accounting terms, under the present scheme, benefit is treated as a credit that helps people to pay the full amount of the council tax, whereas under the new system, the debit, itself, is reduced.

The Government is continuing to accept that the cost of supporting people with their council tax is a national responsibility, and so it is providing a grant to principal councils and other major precepting bodies to compensate them for the reduction in the tax base.

This is at a rate of 90% of current scheme costs. No such grant is, however, being paid to local councils. Instead their share is, effectively, being included in the grant paid to the billing authority. This means that, other things being equal, the tax levy associated with any given level of local precept will rise significantly next year. Earlier attempts to avoid this unintended consequence of the new scheme by means of statute have not proved to be practical and so the Government has made it clear that billing authorities should, as a moral obligation, pass on to local councils their fair share of the Government grant.

**Budget Setting**

In determining the precept for Thame, the grant received from SODC has been deducted from the budget requirement to arrive at a new precept figure and the level of tax required using the new reduced tax base has been calculated. (Appendix 1).

The grant being paid to local councils by the billing authority is voluntary and it is not known how permanent it is going to be, both in terms of its existence and its amount. The Government is including its grant to principal councils in the share of business rates that these councils are retaining from next year and so it will increase by inflation each year. The base, however, will be fixed so it will not, at least for a few years, reflect any changes in the amount of reductions actually awarded to eligible taxpayers. Each billing authority will make their own decisions and many may follow this principal when cascading the grant down to parishes. However, as the tax base will vary according to what happens to individual household in their area, local councils could now face greater volatility in their budget setting from now on.

**The voluntary nature of the arrangements cannot be emphasised enough.** There will now be a risk, each year that the grant may not be paid, or may be reduced. Clearly assurances should be sought, and the stronger the commitment that can be extracted, the better. Most principal councils will, probably continue to accept their moral obligation, but, when it clashes with political expediency, there could be difficult situations in the future.

A further area of uncertainty relates to the referendum regime. Again, local councils are not included next year. So, if there is a large increase in a council's tax levy for 2013-14, because the billing authority did not pay any grant over to the local councils (Appendix 2) then, apart from having to explain the increase, there would be no other consequences. Also, having set a new base line, future increases would be largely under the council's control. There is an element of risk that some local council may be brought within the "excessive increase" criteria in the future. If this were to happen in a year when the billing authority decided to reduce or remove the grant, then there would clearly be significant shortfall issues.

The Town Council needs to think carefully about its decision. With a possibility of capping from 2014-2015 onwards, it is important that the Council sets a full and sustainable precept level for 2013-2014. Any shortfall in precept funding of budgetary requirements will be extremely difficult to rectify in future years if increases are constrained, and limited to, inflation (historically measured as CPI in the September preceding the Precept Year – September 2012 =2.2%).

### **Budget Proposal for 2013-14**

The proposed budget for 2013-14 is attached as Appendix 3. This informs Appendix 1 and 2 and explains any significant differences on figures for this year.

### **Action**

The Council is asked:

- i) To agree the proposed budget for 2013-2014***
- ii) To agree the level of precept to be levied for 2013-2014.***