

Potential Impacts of additional funding for Local Council Tax Support 2021-22

Introduction

At spending review Government committed to provide additional funding of £670m to fund local council tax support (LCTS) in 2021-22. The funding is being split between local government and major preceptors. Billing authorities need to consider how this additional funding is treated to prevent any adverse impact on its major and local preceptors

The issue

Unlike the LCTS hardship scheme in place during 2020-21 the announced funding is not expected to be passported to LCTS claimants, rather it is intended to cover additional costs of LCTS as a result of higher levels of unemployment leading to increased claims for local council tax support during 2021-22.

As this is not a discretionary discount to be awarded under S13A 1 (c) of the Local Government Finance Act 1992, in the same way the 2020-21 funding was, billing authorities and preceptors will need to consider how their share of the funding is to be reflected in their council tax requirement and tax base calculations.

If billing authorities and preceptors treat the funding differently it could have an adverse impact on the levels of council tax set, particularly for preceptors.

Major and local preceptors do not play any part in the setting of the tax base, rather their tax base is derived from accumulating the tax bases of all billing authorities they levy a precept on.

Therefore, if a billing authority has chosen to reflect an anticipated increase in LCTS claimants by reducing their tax base accordingly, then the major preceptor needs to do the same. Alternatively if the billing authority has chosen not to reflect the increase in tax base and, for example, increase reserves to reflect a potential deficit on collection fund at the end of 21-22 in the event of an increase in LCTS claimants, again, the major preceptor would need to mirror the actions of the billing authority.

A further issue arises where different billing authorities, with a mutual major preceptor, choose to take different actions, leaving major preceptors with the potential for having to instigate a hybrid of the two scenarios outlined above, reflecting an increase in income to offset the reduced tax base and increasing reserves to offset a potential collection fund deficit.

As outlined above I believe there are two potential treatment of the funding

1 - Move the grant funding into reserves, leaving their council tax requirement the same as it would have been without the grant, so that if an increase in LCTS claims does materialise, resulting in a deficit on collection fund at the end of 21-22, they have the funding in reserves to cover their share of the deficit. This works for local preceptors as they are entitled to receive their full precept so do not pick up a share of the deficit. It also works for major preceptors as they can do the same as the billing authority, i.e. transfer the funding to reserves so they have the funding to cover their share of the 21-22 collection fund deficit.

2 - Reduce tax base to reflect anticipated increased LCTS claims. This would result in a reduced council tax requirement as they would need to include the grant as income which

would offset the lower tax base. This again works for major preceptors as they could do the same as the billing authority. However, local preceptors will be disadvantaged by this as they are not getting a share of the funding so they would need to increase their precept to offset the reduction in tax base.

There is of course the option to do neither of the above and just recognise an increase in income from the grant, however, this will lead to the additional funding being shared across the whole tax base.

Examples

In this section I have tried to exemplify the different scenarios to better highlight the potential issue.

Column 1 "Normal" shows what the calculation would look like excluding any additional funding and no adjustments to council tax requirement or tax base.

Column 2 "Additional Grant" shows the impact on the level of council tax if the grant income is included but expenditure is not increased and/or tax base is not reduced. The column highlights that not offsetting the increased income with either increased expenditure or reduced tax base, in effect, spreads the benefit of the grant across the whole tax base.

Column 3 "Increased Exp" shows the impact of increasing both income and expenditure but not adjusting tax base. In effect a "net nil" position with council tax requirement and council tax being the same as column 1.

Column 4 "Reduced Tax Base" shows the impact of increasing income, not increasing expenditure but reducing tax base to offset the additional income. Demonstrates that not increasing expenditure results in a lower council tax requirement, however, the additional income is offset by a reduced tax base, resulting in the same level of council tax.

Column 5 "Increased Exp & Reduced Tax base" shows the impact of increasing income, expenditure and reducing tax base. This column highlights that taking both actions will result in council tax being set higher than column 1 on the basis that the council tax requirement has not been reduced but tax base has been reduced leading to the same level of requirement being spread over a smaller base.

	"Normal"	Additional Grant	Increased Exp	Reduced Tax base	Increased Exp & Reduced Tax base
Budget Requirement	£130,000	£130,000	£135,000	£130,000	£135,000
Grant	£10,000	£15,000	£15,000	£15,000	£15,000
NNDR	£20,000	£20,000	£20,000	£20,000	£20,000
CT Requirement	£100,000	£95,000.00	£100,000.00	£95,000.00	£100,000
Tax base (Band D)	100	100	100	95	95
BAND D CT	£1,000	£950.00	£1,000.00	£1,000.00	£1,052.63

Conclusion

As preceptors have no role to play in the setting of the tax base, unless there is communication between billing authorities and preceptors, they will not be aware of the actions they need to take to offset the increased funding they have been given.

The issue is compounded for local preceptors, who are not receiving any funding, so that if billing authorities decide to reduce their tax base to reflect an anticipated increase in LCTS claims, they will either need to accept a lower level of income or increase their precept to offset the reduction in tax base.