

IMPLEMENTATION EXECUTIVE BUDGET WORKING GROUP
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COUNCIL TAX EQUALISATION – EFFECT ON INCOME IF PHASED OVER TWO YEARS

Summary:

- The political and CLG imperative is for unitary authorities to deliver their bid promises – maximum acceptable Council Tax increase 3.80% and equalisation to lowest rate within 2 years.
- MTFS income foregone in 2009-10 can be eliminated while still keeping an average maximum increase of 3.80%, but that moves the income foregone to 2010-11 **unless** the 2010-11 increases for the two lowest-CT predecessor districts are increased to over 4.0%.

The “cost of Council Tax Equalisation” has been estimated as income of £0.94m foregone in the first year of the new council (IE Finance Update 14 April 2008 Agenda Item 10).

This is the difference between the income that would have been collected for 2009-10

- if it were ‘business as usual’ with all five authorities increasing their council tax by 3.8%: and:
- income for the new Wiltshire Council under the current policy of the Administration, with council tax for the whole county held to the level of the lowest district council tax in 2008-09 plus a maximum 3.8% increase in the first year of the new authority.

This paper models different options for equalising Council tax over two years instead of one.

1. The base position is potential income if all councils were to increase Council Tax by 3.80%. This base position is set out in table (a) below:

Table (a)	CT Increase over previous year %	Council tax	CT increase over previous year £p	CT gap up to the highest charge	Council Tax yield	Income foregone (-) gained (+)
2009-10						
Salisbury	+ 3.80%	£1,192.57	+ £43.66	£14.50	£54.495m	
North Wilts	+ 3.80%	£1,194.24	+ £43.72	£12.83	£61.620m	
Kennet	+ 3.80%	£1,197.61	+ £43.84	£9.46	£38.195m	
West Wilts	+ 3.80%	£1,207.07	+ £44.19	£0.00	£58.237m	
1C4W average	+ 3.80%	£1,197.87	+ £43.85		£212.548m	
2010-11						
Salisbury	+ 3.80%	£1,237.89	+ £45.32	£15.05	£56.566m	
North Wilts	+ 3.80%	£1,239.62	+ £45.38	£13.32	£63.961m	
Kennet	+ 3.80%	£1,243.12	+ £45.51	£9.82	£39.647m	
West Wilts	+ 3.80%	£1,252.94	+ £45.87	£0.00	£60.450m	
1C4W average	+ 3.80%	£1,243.39	+ £45.52		£220.625m	

This position is not sustainable as DCLG require the Council to move to equalisation.

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2. The table below shows equalisation in 1 year at a maximum increase of 3.80%, and shows an income shortfall of £0.94m over paragraph 1 and table (a) above.

Table (b)			CT increase over previous year £p	CT gap up to the highest charge	Council Tax yield	Income foregone (-) gained (+)
	Increase %	Council tax				
2009-10						
Salisbury	+ 3.80%	£1,192.57	+ £43.66	(equalised)	£54.495m	
North Wilts	+ 3.65%	£1,192.57	+ £43.72	(equalised)	£61.534m	- £0.086m
Kennet	+ 3.36%	£1,192.57	+ £43.84	(equalised)	£38.035m	- £0.161m
West Wilts	+ 2.55%	£1,192.57	+ £44.19	(equalised)	£57.538m	- £0.700m
1C4W average	+ 3.34%		+ £43.85		£211.602m	- £0.946m
2010-11						
Salisbury	+ 3.80%	£1,237.89	+ £45.32	(equalised)	£56.566m	£0.000m
North Wilts	+ 3.80%	£1,237.89	+ £45.32	(equalised)	£63.872m	- £0.089m
Kennet	+ 3.80%	£1,237.89	+ £45.32	(equalised)	£39.480m	- £0.167m
West Wilts	+ 3.80%	£1,237.89	+ £45.32	(equalised)	£59.724m	- £0.726m
1C4W average	+ 3.80%	£1,237.89	+ £45.32		£219.643m	- £0.982m

This is the expectation in the MTFs and costs £0.946m in foregone income.

3. If we equalise over 2 years with 3.80% maximum in Salisbury (the lowest-charging predecessor district) the income foregone is £0.540m, an income shortfall £0.406m less than option 2.

Table (c)			CT increase over previous year £p	CT gap up to the highest charge	Council Tax yield	Income foregone (-) gained (+)
	Increase %	Council tax				
2009-10						
Salisbury	+ 3.80%	£1,192.61	+ £43.70	£8.27	£54.497m	+ £0.002m
North Wilts	+ 3.66%	£1,192.61	+ £42.09	£8.27	£61.536m	- £0.084m
Kennet	+ 3.37%	£1,192.61	+ £38.84	£8.27	£38.036m	- £0.159m
West Wilts	+ 3.27%	£1,200.88	+ £38.00	£0.00	£57.939m	- £0.299m
1C4W average	+ 3.52%	£1,194.68	+ £40.66		£212.007m	- £0.540m
2010-11						
Salisbury	+ 3.80%	£1,237.93	+ £45.32	(equalised)	£56.568m	- £0.002m
North Wilts	+ 3.80%	£1,237.93	+ £45.32	(equalised)	£63.874m	- £0.087m
Kennet	+ 3.80%	£1,237.93	+ £45.32	(equalised)	£39.481m	- £0.165m
West Wilts	+ 3.09%	£1,237.93	+ £37.05	(equalised)	£59.726m	- £0.724m
1C4W average	+ 3.62%	£1,237.93	+ £43.25		£219.650m	- £0.975m

DCLG regulations now allow unitary authorities to set differential rates of council tax for their predecessor areas providing that the area with the previous highest rate of council tax receives the lowest increase in £p. The figures in the table above have been modelled and checked against the draft DCLG regulations.

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4. If equalisation is phased over 2 years with a higher increase in Salisbury in year 1 then the average increase for year 1 can still be held to a maximum of 3.80%;

Table (d)

	Increase %	Council tax	CT increase over previous year £p	CT gap up to the highest charge	Council Tax yield	Income foregone (-) gained (+)
2009-10						
Salisbury	+ 4.09%	£1,195.91	+ £47.00	£7.97	£54.648m	+ £0.153m
North Wilts	+ 3.95%	£1,195.91	+ £45.39	£7.97	£61.706m	+ £0.086m
Kennet	+ 3.65%	£1,195.91	+ £42.14	£7.97	£38.141m	- £0.054m
West Wilts	+ 3.53%	£1,203.88	+ £41.00	£0.00	£58.083m	- £0.154m
1C4W average	+ 3.80%	£1,197.90	+ £43.88		£212.579m	+ £0.031m
2010-11						
Salisbury	+ 3.80%	£1,241.32	+ £45.41	(equalised)	£56.723m	+ £0.157m
North Wilts	+ 3.80%	£1,241.32	+ £45.41	(equalised)	£64.049m	+ £0.088m
Kennet	+ 3.80%	£1,241.32	+ £45.41	(equalised)	£39.589m	- £0.057m
West Wilts	+ 3.11%	£1,241.32	+ £37.44	(equalised)	£59.890m	- £0.561m
1C4W average	+ 3.63%	£1,241.32	+ £43.42		£220.251m	- £0.373m

This is a better total outcome but does not meet the 3.80% maximum criteria set against individual predecessor districts in Year 1.

There is also further flexibility in Year 2 to yield additional income by applying an average 3.80% increase and for the second year, not keeping a 3.80% maximum for any individual authority (as shown in Table (e))

Table (e)

2009-10

As Table (d) above

	Increase %	Council tax	CT increase over previous year £p	CT gap up to the highest charge	Council Tax yield	Income foregone (-) gained (+)
2010-11						
Salisbury	+ 3.97%	£1,243.37	+ £47.46	(equalised)	£56.817m	+ £0.251m
North Wilts	+ 3.97%	£1,243.37	+ £47.46	(equalised)	£64.155m	+ £0.193m
Kennet	+ 3.97%	£1,243.37	+ £47.46	(equalised)	£39.655m	+£0.008m
West Wilts	+ 3.28%	£1,243.37	+ £39.46	(equalised)	£59.989m	- £0.462m
1C4W average	+ 3.80%	£1,243.37	+ £45.47		£220.615m	- £0.010m

5. In conclusion, if the new Council chooses to equalise over two years rather than one but keep the primary objective to limiting the maximum increase to 3.80% then option (3) is the best choice (Table C). This generates £0.4 million more than equalising in one year.
6. If the Council was prepared to consider a slightly higher increase in Salisbury the best option is (4). Further, if the Council was prepared to consider higher levels than 3.8% in 2010-11 also, then this generates a similar level of income as would be achieved if equalisation was not required. This is due to the higher increases in the non principal area (above 3.8%) effectively paying for the reduced increase required in the principal area (West Wilts - below 3.8%).

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7. In considering the above, the policy on fees and charges may also be relevant. At present, Salisbury has the lowest Council Tax but does have a policy of high discretionary charges for services. Equalisation of Council Tax should therefore be considered in the context of harmonising fees and charges and the overall cost pressures/impact on the taxpayers in an area. This could mean a potential loss of income in Salisbury for discretionary fees and charges if the overall impact on taxpayers in an area is to be harmonised to any extent.

The bid commitments are set out in "Next steps" (the County Council would reduce the rate of council tax increase from the 4.8% in its Medium Term Financial Strategy to 3.8% per annum for One Council for Wiltshire - p22) and in "We're ready" (council tax would be equalised over the Districts within two years of the new Council - p.44)

Please note that the taxbase figures used for this exercise are estimated based on the MTFs. An updated taxbase will be available in November which will reflect revised housing completion levels (including the impact of the credit crunch) and any harmonisation of discount policies along with normal consideration around the final taxbase..