

Task and Finish Group Review of Concurrent Funding
Report To The Finance, Resources and Partnerships Scrutiny Committee
Wednesday 5th November 2014

Background

A Task and Finish Group was set up in order to investigate the stream of funding given to our ten Town and Parish Councils through Section 136 of the Local Government Act 1972.

Following the Royal Consent given to the above Act, Local Government was re-organised in 1974 with some of the newly-formed Parish and Town Councils choosing to retain control over assets and services that would henceforth have been the responsibility of the County Council and the District Council of Newcastle-under-Lyme.

The reason for the retention of control over these assets (war memorials, common land, allotments, playgrounds and civic buildings for example) could be seen at the time as a source of civic pride and a desire that local people should retain local responsibilities. However, as time has progressed, the maintenance of these assets has become more and more of a financial burden.

Section 136 of the 1972 Act allows grants to be made to the Town and Parish Councils in order to assist with the aforementioned duties but there is no legal obligation to do so. In fact nationally there are more than 400 Councils who make no grant whatsoever whereas a small minority had budgets in 2010 in excess of £1 million.

Newcastle makes a grant to its Town and Parish Councils of approximately £62,500 in total. This is calculated at a rate of four times the base Council Tax rate. Grants range from a few hundred pounds to more than £20,000 depending on the size of the Parish. Keele has a minimum grant of £2,000 due to many of its residents living on the University campus and not paying local taxes.

In essence this grant remains roughly the same year on year with slight increases to the budget for individual Parishes if the number of Band D properties has increased.

It should be stated – as a matter of fact and not as a loaded statement -that Silverdale Parish receives S136 money even though it was not existence in 1972. A poll of parishioners led to its creation from April 2002.

The NALC document “Managing Double Taxation” of January 2011 gives a non-exhaustive list of concurrent functions that S136 money can be used for. Until recent times there was no requirement for the Parishes to report on how the grant had been spent and any money not spent could be retained by the Parish or Town Council

Parish and Town Councils are able to fund their activities through three principal funding streams.

- *Precept*

This is a local tax levied by the Council. Unlike Council Tax this can be raised by whatever percentage the Parish Council wishes without the need for a local referendum. In practice it accounts for an average 62% of income for the parishes as a whole. The lowest rate was 38% and the highest 75%.

- *S136 money*

This is the amount given by NULBC and provides 15% of income for the Parishes on average with a lowest rate of 6% and a highest of 25%.

- *Other income*

This could be in the form of grants for Concurrent Services from Staffordshire County Council, income from the leasing of land and property and grants from other sources such as the Police and Crime Commissioner. These averaged 25% of the income with a highest rate of 61% and a lowest of 11%.

There is also the possibility of Parish Councils being able to use reserves and this will be dealt with later in the report.

One final set of figures to be considered is that since 2010/11 the income for NULBC from central government has decreased by 44.6% in real terms and by 51.2% once inflation is taken into account.

The Task Group

The group was set up with representation from all parties except the Green Party. No one political group commanded a majority. It was agreed that the findings should be reported to the Parish Forum in October, to FRAP in November and to Cabinet in December so that a final decision on funding could be made in time for budgets to be drawn up for 2015-16.

After considering the NALC document and taking advice from the Finance Department it was decided that we would request face-to-face meetings with the Clerk and one elected representative from each Town and Parish Council. We also requested audited accounts for 2013/14 and statements on concurrent expenditure for 2013/14. This process was explained to representatives of Parish Councils at a Forum and the process was met with general approval.

The Town and Parish Councils were also informed that they would be asked

1. How is S136 money spent?
2. From where is other income derived?
3. What effect would a cut in S136 money have?
4. What are the priority areas for expenditure?
5. What is kept in reserve?

It was agreed that whatever decision was made regarding the future of S136 funding should apply equally to all Town and Parish Councils. It was also promised to the Town and Parish Councils that the results and recommendations of the Task Group would be based on the facts and figures that became evident.

The face-to-face-meetings

On behalf of the Committee I would like to thank the representatives of the majority of Councils who attended for the open and amicable discussions with one exception.

The general results were as follows.

How is the grant spent?

There is clearly confusion in some parishes as to what functions can be paid for with NULBC S136 grants. There was evidence that some money was being spent on highways (a County Council function) and to support local churches. It was also acknowledged that S136 money is not necessarily being ring-fenced. Rather, it goes into the general "pot" and the grant money is allocated to projects retrospectively. See Appendix 'C' attached.

However -and most importantly- it was generally felt that NULBC is getting value for its money. Grant money is used to provide services such as grass-cutting, play areas, recreation areas, public seating and bus shelters at a more economical rate than could be provided by principal Councils.

With just one exception, Parish Councils overspend on concurrent functions to an average 17% and it was agreed by Committee members that a drastic and immediate reduction in S136 grant money would have a negative impact on parishioners who are ultimately Newcastle's residents.

What other sources of income are there?

This has mostly been explained by the comments above. Parishes argued that the precept has been held down in most cases in line with Council Tax. Some Parishes have raised their precept to pay for particular projects. Consultation exercises lessened the negativity from parishioners but increases in Precept are always unpopular. Some grants from other sources such as the PCC are for specific projects and can distort the balance sheet. See Appendix 'D' attached.

The effect of a cut in S136 money

In almost all cases an unwanted rise in precept would have to be considered. One Parish commented that assets retained in 1974 would be returned to the Borough Council. Consultation with a Borough Legal Officer confirmed that such a move would be very difficult for the Parish to force through and would be resisted by the Borough.

There would also be a reduction of money spent on services that could impact on the more rural communities. They spend a significant proportion of their total income on ensuring that untreated roads remain passable in extreme weather and on village halls that are a social lifeline.

Priority Areas

In many cases the desire is to continue providing services at their current levels. There was a wish from some Parishes to take responsibility for more bus shelters but the main concern is the maintenance of assets.

Playgrounds have become subject to increasingly stringent Health and Safety legislation and their maintenance and replacement have become a drain on financial resources. Areas of woodland that need a significant amount of arboricultural work are also cited as a priority over the next 1-2 years.

Reserves and Assets

This was an area that concerned the Committee members the most. At the end of Financial Year 2013/14 the Parishes had in excess of £400,000 in cash assets with the amount of assets increasing from the previous year in seven cases. If these cash assets are taken as a percentage of income from precept only three parishes have less than one year's precept equivalent in reserve. The remainder have significantly more than one year's equivalent with the highest being 3.11 years.

It was felt by the Group that these amounts are excessive although it is acknowledged that there are extenuating circumstances in some cases. One Parish admitted that a previous Clerk had advised the Parish Councillors not to spend money. Another Parish admitted that previous Parish administrations had neglected regular maintenance leaving some assets as serious safety liabilities and these had to be addressed in the immediate future.

There was significant debate at the Parish Forum on October 15th regarding the amount of cash assets held in reserve by Parish and Town Councils and its relation to S136 monies. One Parish Council stated that comparing the amount of cash assets to the annual precept was wrong and believed that the amount of assets kept by a PC should be equivalent to at least two years of revenue produced by annual precept, another stated that the "Bible" for Parish Clerks indicates that reserves should be calculated as a proportion of gross expenditure and there was general opposition to the idea of Reserves being taken into account.

However, one Clerk who acts as Parish Clerk and/or Responsible Financial Officer to three Parish Councils admitted in the face-to-face interview that money from NULBC is not ring-fenced and it could be reasonably assumed that this would be the case in other Parish Councils. If that assumption is correct then it is felt that it would not be unreasonable to argue that S136 money has helped seven of our Parish Councils to increase their cash assets in the financial year ending in April 2014. The argument put forward by one Clerk that the figure given on the Return in April was merely a snapshot of a financial position is surely an erroneous one. This date is commonly taken as the end of a financial year when stock is taken of the assets held before new income from precept and annual grants is received.

The case against the possession of large amounts of cash in reserve becomes even stronger when the NALC document "Governance and Accountability for Local Councils" is studied. Paragraphs 2.25 and 2.26 of this publication are quoted in full below:

As Councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for specifically earmarked purposes, whenever a council's year-end general reserve is significantly higher than the annual precept an explanation should be provided to the auditor.

Earmarked reserves, which are set aside for specific purposes and for savings for future projects, should be realistic and approved by the Council. It is generally accepted that general (i. e. un-earmarked) revenue reserves usually lie within the range of three to twelve

months of gross expenditure. However, the amount of general reserve should be risk-assessed and approved by the Council.

It would be interesting to discover if any auditor has actually raised concerns regarding reserves and if not then why not. Nevertheless, despite protests to the contrary, it is felt that the above paragraphs do give Newcastle-under-Lyme Borough Council the authority to take the level of general reserve held by a Parish Council into consideration when determining the future level of any s136 grant. How this could be implemented is explained in the list of recommendations. See Appendix 'E' attached.

Many Parishes also have significant fixed assets. However it was felt that the value placed on assets is largely for insurance purposes and is not a realistic resale valuation. These have therefore not been used in any recommendations.

Recommendations

NULBC has a number of options available to it with regard to the future of S136 grants

1. Do Nothing

It is felt that this is not an option. The current system gives the Borough no control over the grant and allows for the possibility of funding being wasted. There is also little or no accountability on the part of Parish Councils.

2. Reduce by 50%

There would be a logical reason for this as money from Central Government has been cut by a similar amount in the lifetime of the current Parliament. However if the policy of matching s136 money to the rise and fall of income from Central Government were to be adopted then the amount available for distribution would be likely to fall for the foreseeable future. This would result in some Parish Councils receiving very negligible amounts in s136 money.

3. Abolish S136 grants

As there is no legal reason for the grant to exist then the Borough Council would be within its rights to withdraw all S136 money. However it is felt that this would cause unnecessary friction and would probably result in rises in precept. The Borough Council could be accused of bringing in taxation by the back door.

4. Establish a more closely monitored system

This is the Task and Finish Group's favoured option.

As previously stated it is felt that the Parish and Town Councils generally give value for money not only in managing assets and functions devolved under S136 but as a service to their residents. It is therefore recommended that the calculation of grant should remain unchanged for 2015/16.

However there are concerns from the Group regarding evidence of underspend and/or use for non-S136 functions. At a time when the Borough Council is facing restrictions on its own spending it would be wrong for S136 grant money to be issued with no strings attached.

The Task and Finish Group is therefore recommending that a cross-party monitoring group should be established. Prior to any grant money being issued in April 2015 individual Towns and Parishes would need to provide this group with proof that the grant for 2014/15 has been used in full and for its intended purpose. Failure to do so could result in an amount equivalent to any shortfall in 2013/14 being deducted from the grant for 2015/16. This could be used as a model for the issue of S136 monies in future years.

The above recommendation was generally approved at the Parish Forum.

The Group also remains concerned at the level of cash assets held by Town and Parish Councils. It is recognised that reserves need to be held for emergencies and money has to be set aside for large-scale maintenance. However it is felt that Town and Parish Councils should be encouraged to be more open and transparent with cash assets if they wish to continue to receive S136 money.

It is therefore recommended that by April 2016

- General reserves should be set at a level of six months of gross expenditure – in line with NALC recommendations. This would be calculated by averaging the previous three “normal” years of expenditure i.e. discounting any year of abnormally high or low expenditure.
- Any remaining cash assets should be earmarked for specific projects or maintenance with practicable and realisable end dates agreed by the Borough Council.

It is recommended that failure to provide a clarification of the purpose of any reserves held could lead to the withholding of all or a percentage of future grant money. There was opposition to the principle of this level of accountability with some saying that they would recommend to their Councillors that they should opt out of applying for S136 money should the above recommendation be implemented.

However the members of the Task and Finish group are convinced that the Borough Council needs to be absolutely sure that if it is to continue to provide a significant proportion of income to the Town and Parish Councils then that money has to be used prudently and for its intended purpose. That is the duty that it has toward every council tax payer in the Borough.

Other observations

Although probably outside the remit of this group it has to be brought to general attention that the cost of salaries and administration was found to be high with two Councils spending more than half their income on these items.

Also with the Borough Council currently considering the outcome of the Planning Peer Review it should be noted that a number of Parish Councils stated that finances are increasingly being used to put forward their views on proposed planning applications.

Dave Stringer
Chair Task and Finish Group