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| <b>REPORT TO:</b><br>Meeting of the | <b>MERSEYSIDE FIRE AND RESCUE AUTHORITY<br/>POLICY &amp; RESOURCES COMMITTEE</b> |
| <b>DATE:</b>                        | <b>26 JULY 2012</b>  |
| <b>REPORT NO.</b>                   | <b>CFO/112/12</b>  |
| <b>REPORTING OFFICER:</b>           | <b>KIERAN TIMMINS, DEPUTY CHIEF EXECUTIVE</b>                                    |
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| <b>OFFICERS CONSULTED:</b>          |  |
| <b>SUBJECT:</b>                     | <b>LOCALISATION OF COUNCIL TAX SUPPORT</b>                                       |

## **THERE ARE NO APPENDICES TO THIS REPORT**

### Purpose of Report

1. The purpose of this report is to inform Members of the proposed changes to localise Council Tax Benefit (CTB) and the potential financial implications for the Authority.

### Recommendation

2. That Members;
  - a) note the contents of this report; and
  - b) indicate their support (in general terms) for localised council tax support schemes which would be cost neutral to the Authority; and
  - c) direct the Deputy Chief Executive to convey the Authority's views with regard to the design of localised council tax support schemes to the Billing Authorities in Merseyside.

### Executive Summary (if report 3 pages or more long)

This report outlines for members the challenge facing Billing authorities when considering what local schemes to adopt from 2013/14 for council tax benefit schemes following the Government's decision to change the current system.

Although the detailed mechanics of the scheme will be devolved to local authorities, the Government have announced they will only provide a fixed level of grant support to councils up to 90% of the existing support.

Billing authorities must decide how this loss of funding is to be offset, either by reducing the level of discount offered to vulnerable groups in society or by finding savings elsewhere within the council's budget to make-good this loss.

This report outlines the potential financial risk to the Authority.

### Introduction & Background

3. As part of the Comprehensive Spending Review 2010 the Government announced its intention to abolish the current national scheme of CTB, forming part of the wider 'localisation' agenda. The existing scheme of CTB will be abolished and replaced with the introduction of localised schemes of support for council tax. The government also announced that within this, the grant funding provided to councils to fund localised schemes will be reduced by 10%. Subsequently, the Welfare Reform Act 2012 contains provisions for the abolition of CTB, paving the way for new localised schemes.
4. CTB is a means tested benefit that is awarded against an individual's council tax liability. CTB is administered by local authorities on behalf of the Department for Work and Pensions (DWP). Claimants in receipt of means tested out-of-work benefits generally receive full assistance; eligible claimants who work or have other income are likely to get partial relief; nationally around 60% of all pensioners are entitled to CTB, although not all who are entitled actually claim.
5. Local authorities are reimbursed currently at a rate of 100% for correctly awarded council tax benefit. Local authorities claim subsidy directly from the DWP by completing a claim form setting out the amount of council tax benefit awarded. Consequently, at present there are no direct financial implications for local authorities from the payment of CTB. In addition, this system also helps increase the collection rate and the tax base calculation.
6. However, the Government intends that in future, support should be offered in the form of council tax reductions, i.e. discounts, according to criteria set by local authorities. These new arrangements will have financial implications for both Billing and Major precepting authorities, i.e. single purpose fire authorities, as the reductions will have the effect of reducing the tax base on which council tax is levied. Responsibility for localised schemes will fall to the Billing authorities. However, any financial risks of the schemes are to be shared with the Councils, Fire Authorities and the Elected Policing Bodies.

### **Localisation of Council Tax Support Scheme**

7. The Government has published The Local Government Finance Bill, which passed its Third Reading in the House of Commons on the 21<sup>st</sup> May 2012. The Bill contains provisions to implement localised council tax support schemes. These proposals were the subject of a National consultation. The main aspects of the proposed new policy are:-
  - (i) In future CTB will be replaced by council tax reductions, i.e. discounts. These will have the effect of reducing the tax base on which council tax is levied;
  - (ii) Pensioners will be protected from any changes to eligibility for council tax support; thus, if they are eligible for CTB under the current system, they will continue to remain eligible under the new localised schemes. In

addition, it is expected that the discount pensioners receive under the new scheme will be equivalent to the benefit received under the current scheme;

- (iii) Local authorities will have the freedom to design schemes for working age claimants, taking into account their responsibilities towards vulnerable groups and the importance of supporting incentives to work, reducing demand for support;
- (iv) The Department for Communities and Local Government (DCLG) will make funding, based on 90% of the forecast council tax benefit expenditure for 2013/14, available to Billing and Major precepting authorities. This funding will have the effect of reducing each authority's 'Council Tax Requirement' and so help to off-set the reduction in the council tax base as a result of the creation of new council tax reductions to be set out in local schemes;
- (v) Billing authorities are required to consult on their draft schemes with Major precepting authorities and their tax payers;
- (vi) Funding will not be ringfenced, and Billing authorities will have choices about how they design their schemes, taking into account factors including: the cost of providing services; available funding - including funding for council tax support schemes - whether raised locally through business rates, or provided by Government; and decisions about council tax; and
- (vii) Where a Billing authority fails to adopt a scheme before 31<sup>st</sup> January 2013, a default scheme, to be provided for in regulations, will take effect.

### **Proposed Funding of Localised Council Tax Support Schemes**

8. The Government proposes that from 2013/14 a grant will be paid to Billing and Major precepting authorities. This would have the effect of reducing each authority's 'Council Tax Requirement' and so helping to off set the reduction in the council tax base as a result of the creation of new discounts. Nationally this grant will be 90% of the forecast subsidised council tax benefit expenditure for 2013/14. However, it is noted that the precise reduction will vary amongst Local Authorities (see paragraph 5.3 below).
9. The Government intends to make funding available through retained business rates for all authorities except Local Policing Bodies, (Local Policing Bodies will be funded from outside the business rates retention system).

### **Distribution of Funding**

10. From April 2013 funding for localised council tax support will be distributed on the basis of previous shares of subsidised council tax benefit expenditure, to ensure that relative costs and take-up levels are reflected in the distribution at the outset. Funding will be allocated according to the following steps:-
  - (i) Total funding for England will be based on the Government's estimated expenditure on council tax benefit for 2013/14. The latest forecast for 2013/14 for total estimated expenditure in Great Britain, announced in

Budget 2012, is £4.359bn, of which England's share is £3.697bn, based on previous expenditure.

- (ii) The amount for England will be distributed between Billing authority areas based on each authority's share of subsidised council tax benefit expenditure in 2011/12.
  - (iii) In each Billing authority area the funding will be distributed between the Billing authority and Major precepting authorities according to 2012/13 shares of council tax.
11. Both the total funding available and each Billing authority's share (Steps (i) and (ii)) will be based on information which has yet to be published. Revised forecasts for subsidised council tax benefit expenditure will be published in the autumn and 2011/12 outturn data on subsidised expenditure, which will be used to calculate shares, will be made available in the summer.

### Financial Implications

12. The DCLG has published illustrative funding levels for each local authority, based on the Budget 2012 forecast of expenditure, 2010/11 shares of subsidised expenditure and 2012/13 shares of council tax. The final allocations will change from these indicative amounts 'both in amount and also in the relative distribution between authorities'. Nevertheless DCLG state the figures published 'provide a clear basis for planning'.
13. **Table 1** below details the indicative funding levels across Merseyside and the cost of the CTB subsidy in 2010/11. It is noted that these are the latest figures available.

**Table 1: Comparison of Cost of 2010/11 CTB to Illustrated Grant Funding 2013/14**

|               | <b>2010/11 CTB Subsidy</b> | <b>2013/14 Illustrated Grant Funding</b> | <b>Savings Requirement</b> |
|---------------|----------------------------|--|----------------------------|
|               | <b>£m</b>                  | <b>£m</b>                                | <b>£m</b>                  |
| MPA           | 0.000                      | 13.877                                   |                            |
| MFRA          | 0.000                      | 6.206                                    |                            |
| Knowsley MBC  | 20.278                     | 15.282                                   |                            |
| Liverpool CC  | 61.269                     | 46.352                                   |                            |
| Sefton MBC    | 26.690                     | 20.122                                   |                            |
| St Helens MBC | 16.038                     | 11.945                                   |                            |
| Wirral MBC    | 31.351                     | 23.570                                   |                            |
| <b>Total</b>  | <b>155.626</b>             | <b>137.354</b>                           | <b>18.272 (11.74%)</b>     |

14. From the table above it can be seen that potentially, Merseyside Local Authorities will have to make savings equivalent to 11.74%, which is more than the Government's target reduction in CTB of 10% announced at the time of the Comprehensive Spending Review.

15. It will be for Local Authorities to decide how to address the difference between the current funding and the proposed grant. The main options are:-
- (i) Design a scheme that is cost neutral in terms of local authority funding, i.e. a scheme which would reduce the benefits to certain categories of local residents (see scenario 1 below);
  - (ii) Maintain the current level of benefits and absorb the impact of the loss of funding by cutting expenditure available for local service provision(see scenario 2 below);
  - (iii) Maintain the current level of benefits and absorb the impact of the loss of funding by raising additional income;
  - (iv) Design a scheme that shares the impact between reductions in benefits and reductions in spending.

It is important to understand that whilst these critical decisions are in the hands of the Billing authorities their implications have a direct financial impact on the Major precepting authorities. This is highlighted in paragraph 5.6 below.

16. The potential financial impact on the Authority of the change in funding arrangements is detailed in **table 2** below. The table compares the impact of the following two potential scenarios:-
- **Scenario 1:** all Local Authorities approve a cost neutral scheme, i.e. equal to the grant funding; and
  - **Scenario 2:** all Local Authorities approve a scheme equal to 2010/11 CTB Subsidy.

It is noted that a number of potential scenarios could exist as potentially each Local Authority could have their own scheme.

**Table 2: Illustrated Impact on the Authority of Localised CT Support Schemes**

|   | 2012/13<br>£m  | Scenario 1<br>£m | Scenario 2<br>£m |
|---|----------------|------------------|------------------|
| 2012/13 Council Tax Requirement (£m)  | 28.481         | 28.481           | 28.481           |
| New Specific Grant (£m)   | 0              | -6.206           | -6.206           |
| <b>Revised Council Tax Requirement (£m)</b>                                   | <b>28.481</b>  | <b>22.275</b>    | <b>22.275</b>    |
| 2012/13 Tax Base (Band D equivalents)   | 422,815        | 422,815          | 422,815          |
| Estimated reduction in Tax Base equivalent to cost of Local CT Support scheme | 0              | -92,132          | -104,392         |
| <b>Revised Tax base</b>   | <b>422,815</b> | <b>330,683</b>   | <b>318,423</b>   |
| 2012/13 Band D Equivalent (£)   | 67.36          | 67.36            | 67.36            |
| <b>Amount Raised through Council Tax (£m)</b>                                 | <b>28.481</b>  | <b>22.275</b>    | <b>21.449</b>    |
| <b>Estimated Savings Requirement</b>  | <b>0.000</b>   | <b>0.000</b>     | <b>0.826</b>     |

17. From **Table 2** above it can be seen that if all the Local Authorities approve local council tax support schemes that are equal to the level of funding allocated, the impact on the Authority will be neutral. However, at the opposite extreme if the Local Authorities approve schemes that cost the equivalent of the 2010/11 CTB Scheme, the Authority would be required to find recurring savings of £0.826m. For illustration purposes this level of savings equates to either 23 firefighter posts.
18. Alternatively to recoup this amount through the precept would require an increase of 2.6%, before any other cost pressures or the likely threshold for the requirement for a Council Tax Referendum are taken into account.

### **Further Potential Impacts on the Council Tax base and the Collection Fund**

19. Each Billing authority is required annually to set its Council Tax base. The Council Tax base is defined as the number of Band D equivalent properties within an area. In order to calculate the Band D equivalent all domestic properties within an area are valued (at a 1991 price base) and placed in one of eight bands (A to H), ranging from values of less than £0.040m (Band A) to values of over £0.320m (Band H). These figures are then converted to a number of Band D equivalent properties. The Band D equivalent figure is then adjusted for discounts and exemptions, e.g. single persons discount and empty properties. The final Tax base for tax setting purposes is then determined by applying an assumed 'collection rate' to this figure. The collection rate represents an estimate of the amount of Council Tax due that will be ultimately collected in the forthcoming year.
20. It is most likely that Billing authorities will have to reduce their assumed 'collection rate' estimates as it is likely to prove more difficult to collect council tax from taxpayers who had previously benefited from CTB entitlement. This will have the impact of reducing the Authority's Council Tax base, i.e. the Band D equivalent, and consequently the yield from council tax will be less, which would put additional pressure on the revenue budget. In addition, Billing authorities could struggle to collect increased amounts of council tax from those households who experience a reduction in support with their bill. This may lead to Billing authorities declaring a deficit on their collection fund, which the Authority would be required to finance their share of.
21. The impact of funding CTB via a grant and the effect this has on reducing the council taxbase by 21%, will also impact on the Authority's income yield in any future precept increases. The approved plan assumes year on year increases in the precept of 4%, with each 1% increase resulting in an additional £280k. The reduction in the council taxbase will see precept income fall by 60k for each 1% point increase. This would equate to a reduction in precept income to that assumed in the plan of 240k per annum, as the plan assumes a year on year 4% increase.

### **Additional Risks**

22. The introduction of the localisation of council tax support will have a significant financial impact on the Authority if any of the Merseyside Local Authorities approve a council tax support scheme that awards discounts greater than the

grant funding provided. There is the potential for five different schemes on Merseyside which increase the risk of this happening.

23. In addition, given that the grant funding will be fixed for any given year, there is a risk that expenditure may increase for individual Local Authorities. The following could all lead to increased expenditure:-

- **Economic downturn:** A recession could see unemployment rise or incomes fall leading to a greater eligibility for support with council tax.
- **Localised job shock:** If a large local employer were to go out of business it might have a substantial impact on local authorities' expenditure as former employees become eligible for support with council tax.
- **Increase in take-up:** The DWP research report 'Income Related Benefits: Estimates of Take-Up in 2008/09' estimates that, for pensioners, only 57% to 66% of council tax benefit expenditure is claimed. That figure increases to 74% to 84% for working age claimants.
- **Demographic change and change in demand:** As the number of people aged 65 and over increases then so will the eligibility for support. In addition, changes in economic circumstances, either at a national or local scale, may well impact on the level of eligibility for support.

Any increase in expenditure would lead to the Billing authorities seeking a share of the additional expenditure from the Major Precepting authorities. This would have to be either financed in year or through the collection fund mechanism; either way this would put pressure on the Authority's revenue budget.

24. Reducing support for council tax could create an additional pressure on authority budgets if authorities struggle to collect from claimants used to paying no, or only small amounts of, council tax. This could lead to a period of sustained and higher declared collection fund deficits by the Billing authorities which the Authority would have to consider how best to finance, any sustained period of significant collection fund deficits could lead to pressure on the revenue budget as a permanent provision to fund future collection fund deficits may be prudent.

25. These additional financial pressures are in addition to the Authority being required to make significant financial savings to balance its budget and achieve the required budget savings over the Comprehensive Spending Review period.

#### Equality & Diversity Implications

26. Whilst the Government's stated aim is to protect Pensioners and vulnerable groups, in practice any attempts by Local Authorities to bring about cost neutral council tax support schemes will inevitably impact on poorer sections of society. Individual Billing authority proposals will require a full equality impact assessment for members of the relevant authority to consider.

#### Staff Implications

27. Any increase in the future financial challenge is likely to require a further review of staffing costs in order to deliver additional budget savings.

Legal Implications

28. The Government published The Local Government Finance Bill this year that requires Billing authorities to implement localised council tax support schemes in 2013/14. Where a Billing authority fails to adopt a scheme before 31<sup>st</sup> January 2013, a default scheme, to be provided for in regulations, will take effect.

Financial Implications & Value for Money

29. Any Billing authority that approves a scheme that is not cost neutral (*in that it does not offset the loss of Government support for current council tax benefit schemes by reviewing the council tax charges to those non-pension groups currently in receipt of this benefit*) will result in an increase in the budget saving target for this Authority.

Risk Management, Health & Safety, and Environmental Implications

30. None directly related to this report.

Contribution to Our Mission – To Achieve; Safer Stronger Communities – Safe Effective Firefighters”

31. Any need to identify additional budget savings will take into account the Authority’s service priorities.

**BACKGROUND PAPERS**

None

**\*Glossary of Terms**

CTB - Council Tax Benefit

DCLG – Department of communities and local government