

AGENDA ITEM:

REPORT TO: Meeting of the	MERSEYSIDE FIRE & RESCUE AUTHORITY
DATE:	4TH OCTOBER, 2012
REPORT NO.	CFO/134/12
REPORTING OFFICER:	DEPUTY CHIEF EXECUTIVE, KIERAN TIMMINS
CONTACT OFFICER:	KIERAN TIMMINS, DEPUTY CHIEF EXECUTIVE, EXT. 4108
OFFICERS CONSULTED:	
SUBJECT:	COUNCIL TAX BENEFIT LOCALISATION – KNOWSLEY SCHEME

THERE ARE APPENDICES TO THIS REPORT

APPENDIX A	TITLE	CFO/112/12 Localisation of Council Tax Support
B		Proposed Scheme from Knowsley

ATTACHED – HARD COPY

Purpose of Report

1. To present to members the proposed local Council Tax Benefit Scheme for Knowsley Council. Knowsley is consulting with Merseyside Fire & Rescue Authority as a precepting Authority as required under legislation.

Recommendation

2. That Members:-
 - 2.1. Note Knowsley District Council's proposed Council Tax Benefit Localisation Scheme.
 - 2.2. Approve a response to Knowsley in line with the points made in paragraph 14.

Introduction & Background

3. Members will recall that the Government is moving away from a centrally set system for Council Tax Benefit to a requirement where each Local Authority sets its own scheme (CFO/112/12 attached as Appendix A gives more information).
4. Approximately 30% of Council Tax payers in Merseyside receive Council Tax Benefit support.
5. At the same time as requiring new schemes to be set locally, the Government is seeking to make savings in the overall benefit bill. To do this it has applied a 10%

reduction in the money available to support the scheme (from 2010/11 expenditure levels). Because the grant is based on old data and the bill has increased, the true cut is nearer 13% approximately.

6. In designing schemes, Authorities are also required to protect certain groups – notably those over 60. In Merseyside, 45% of CTB recipients are over 60. This means that the potential cuts for other groups will be much higher (circa 20%).
7. Merseyside Fire and Rescue Authority will see a reduced precept income by about 30%. This will be replaced by an amount which the Government assesses is the local CTB attributable to MFRA in 2010/11 less the assumed 10% saving. This will be paid as a direct grant to MFRA.
8. In designing schemes, the five districts of Merseyside face difficult choices.
9. MFRA has previously written to the 5 districts, which seek to make the new scheme as cost neutral as possible (i.e. a hope that the districts would seek to recover the cash in other ways since otherwise MFRA will need to make savings).

Knowsley

10. A proposed scheme has now been received from Knowsley (Appendix B).
11. The Districts are required to consult with precepting authorities on their schemes. The proposals from Knowsley are set out in detail in Appendix B. Knowsley's consultation period is due to end 9th November, 2012.
12. Knowsley propose maximising income from empty homes. The Borough is already seeking to maximise the number of homes available for residents and, as well as raising additional funding, changes to the approach to empty homes would provide an incentive for homeowners to bring empty homes back into use.

Knowsley identify that there are only two main options which would deliver the remaining level of annual savings needed to fund the overall scheme :-

- (i) Calculate Council Tax Support based on a percentage of the Council Tax liability; or
- (ii) Apply a percentage reduction to the amount of Council Tax Benefit currently awarded.

Both of the options set out above would be relatively easy to administer and for customers to understand. However, option (ii) would mean that those customers receiving the highest amount of Council Tax Benefit (and therefore those on the lowest incomes) would lose the most amount of money.

The proposed draft local scheme for Knowsley is therefore based on option (i), using 80% of the Council Tax liability. This means that every household (excluding pensioners covered by the national pensioner scheme) would in future have to pay at least the first 20% of the Council Tax bill. Council Tax Support would then be calculated on the remaining 80% of the Council Tax bill.

The table below illustrates the impact on specific households.

Council Tax Band	Claimant Households	2012/13 Council Tax Bill *	20% Annual Contribution	20% Weekly Contribution
		£	£	£
A	11,511	976.04	195.21	3.75
B	1,790	1,138.71	227.74	4.38
C	612	1,301.39	260.28	5.01
D	201	1,464.06	292.81	5.63
E	71	1,789.41	357.88	6.88
F	7	2,114.75	422.95	8.13
G	3	2,440.10	488.02	9.39
H	0	2,928.12	585.62	11.26

* Annual bill including Police and Fire and Rescue precepts

Other elements of the proposed draft local scheme include :-

- (i) Seeking a consistent approach to the backdating of claims.
- (ii) Removing the Second Adult Rebate.
- (iii) Amending non-dependant deductions – the term “non dependant” generally refers to any other adults (with some exceptions such as the claimant’s partner) who live in a household.

13. The proposals minimise the requirement for any direct saving for MFRA. However, there are risks around caseload and reduced collection rates.

Proposed Response

14. It is recommended that the Treasurer responds on behalf of the Authority to the consultation, making the following points :-

- (a) Recognising the difficult financial position and choices having to be made by Knowsley in designing a scheme;
- (b) Supporting the proposed scheme as one that minimises the likelihood of additional savings for MFRA;
- (c) Recognising the risks around the scheme and asking Knowsley to consider what joint monitoring reports can be provided to MFRA to monitor those risks throughout the financial year.

Financial Implications

15. 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'.

16. **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

	2010/11 CTB Subsidy	2013/14 Illustrated Grant Funding	Savings Requirement
	£m	£m	£m
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	
Total	155.626	137.354	18.272 (11.74%)

17. 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 Governments target reduction in CTB of 10% announced at the time of the Comprehensive Spending Review.
18. 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.

19. 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 £m	Scenario 1 £m	Scenario 2 £m
2012/13 Council Tax Requirement (£m)	28.481	28.481	28.481
New Specific Grant (£m)	0	-6.206	-6.206
Revised Council Tax Requirement (£m)	28.481	22.275	22.275
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
Revised Tax base	422,815	330,683	318,423
2012/13 Band D Equivalent (£)	67.36	67.36	67.36
Amount Raised through Council Tax (£m)	28.481	22.275	21.449
Estimated Savings Requirement	0.000	0.000	0.826

20. 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 23 firefighter posts.
21. 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

22. 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.

23. 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.
24. 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

25. 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.
26. 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.

27. 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.
28. 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

29. 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

30. 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

31. The Government published The Local Government Finance Bill 2010-12 to 2012-13 this year that will require Billing authorities to implement localised council tax support schemes in 2013/14. Where a Billing authority fails to adopt a scheme before 31st January 2013, a default scheme, to be provided for in Regulations, will take effect.

Financial Implications & Value for Money

32. 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

33. None directly related to this report.

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

34. 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