

Report to Cabinet

Subject: Local Government Finance Reform

Date: 12th July 2012

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1.0 PURPOSE OF REPORT

1.1 This report is intended to brief on the key changes being made to council tax and non-domestic rates that are being introduced by the Local Government Finance Bill currently passing through Parliament.

2.0 BACKGROUND

2.1 The Secretary of State for Communities and Local Government introduced the Local Government Finance Bill on 19 December 2011. The Bill takes forward proposals designed to encourage local economic growth, reduce the financial deficit and drive decentralisation of control over local government finance. Currently the bill is being debated in the House of Lords and is expected to complete its passage through Parliament by the autumn of this year.

2.2 This legislation represents a radical change to the local government finance system, which complements a wider package of financial measures that the Government is pursuing. The Bill will:

- Provide a framework for the localisation of support for council tax in England which, alongside other council tax measures, will give councils increased financial autonomy, while providing continuation of council tax support for the most vulnerable in society, including pensioners. The localisation of council tax support will incorporate a 10% reduction in Government funding and enable the England share of an around £500m saving on expenditure across Great Britain to be realised.

- Make changes to council tax rules to provide further flexibility on the council tax local authorities can charge, for example on empty properties, and other changes aimed at modernising the system.
- Enable local authorities to retain a proportion of the business rates generated in their area, providing a financial incentive to promote local economic growth.
- The Department for Communities and Local Government have issued statement of intentions on Localised Council Tax Support and Business Rates retention, information from which is contained in this reports analysis of impacts.

3.0 TECHNICAL CHANGES TO COUNCIL TAX

3.1 On 28th May, the Local Government Secretary announced reforms to amend council tax rules to give local authorities greater flexibility in supporting their residents. This follows the Government's "Technical Reform for Council Tax: Consultation" that closed in December last year. (Cabinet considered this consultation at its meeting on 1st December 2011).

3.2 The reforms announced include proposals to:

- Give billing authorities power to levy up to full council tax on second homes – at present the maximum levy is 90%.
- Replace existing Class A and C exemptions for vacant homes with discounts of up to 100 per cent, the amount of which it would be for billing authorities to determine.
 - Class A exemption is currently available for up to 12 months in respect of a vacant property which requires, is undergoing, or has recently undergone major repair work to render it habitable, or structural alteration.
 - Class C exemption is currently available for up to six months after a dwelling becomes vacant.
- Abolish the Class L exemption, and make mortgagees in possession of empty dwellings liable to council tax in respect of them.
- Allow billing authorities to levy an 'empty homes premium' over and above full council tax liability in respect of dwellings which have been left empty for two years or more.
- Allow authorities to publish online the 'information to be supplied with council tax demand notices.
- Give local residents the ability to pay their council tax bills in 12 monthly payments.
 - GBC currently offer this facility.

- 3.3 The Government has stated that these proposals are designed to help local authorities keep the overall level of council tax down, supporting hard-working families and pensioners by adjusting the tax relief in respect of second homes and empty properties when authorities judge they do not merit the special treatment they currently get.
- 3.4 The Government has also indicated that Local Authorities will, under these proposals, have the ability to cushion the 10% reduction to the grant for localised council tax support by reviewing and reducing the discounts currently awarded to empty properties.
- 3.5 There are no proposals for allowing discretion on percentage changes to the Single Person Discount, currently set at 25%
- 3.6 The following table lists the current percentage discounts granted together with maximum discount percentage from 1st April 2013 and potential maximum additional Council Tax revenue generated.

Empty Property type	Current Discount	Maximum Discount /Premium	Maximum Council Tax generated
A Uninhabitable 12m max.	100%	0%	£73k
C Empty less than 6m	100%	0%	£873k
Second Homes	50%	0%	£74k
Long-term empties less than 2 years	50%	0%	£365k
Long-term empties more than 2 years	50%	0% discount PLUS 50% supplement	£274k
TOTAL			£1.6m
GBC share			£158k

- 3.7 In conclusion, prior to setting the budget and council tax base for 2013/14 it will be necessary to consider the council's approach to the technical changes to council tax, however, these do provide sufficient scope to fully protect benefit claimants, under a localised scheme (see below), if the Council so wishes.

4.0 LOCALISED COUNCIL TAX SUPPORT

- 4.1 On 17th February 2011 the Government published the Welfare Reform Bill, containing provisions for the abolition of council tax benefit paving the way for new localised council tax support schemes. The Welfare Reform Bill was enacted on the 8th March 2012. The Local Government Finance Bill requires Billing Authorities to establish local schemes by 31st January in

the preceding financial year to which they apply, for example, schemes for 2013/14 will need to be approved by 31st January 2013.

- 4.2 Local authorities will be expected to consult widely on their proposals for local schemes, the Government's code of practice on consultation states that a period of 12 weeks is appropriate. The Government has acknowledged that due to time constraints it may not be possible for Local Authorities to accommodate a 12 week consultation period. Under the Bill billing authorities will have a duty to consult with major preceptors.
- 4.3 If a local authority fails to agree a local scheme then it will be required to implement the default scheme which will be based on the previous council tax benefit scheme. The default scheme will not achieve the 10% savings and will fall to be met from other council taxpayers through the council tax, by savings from other expenditure, or other income sources.
- 4.4 The extremely tight timescale imposes severe constraints on what may be possible:
- A scheme needs to be designed and modelled.
 - Proposals need to be consulted upon.
 - IT system suppliers need to be engaged and amend systems.
 - Final regulations are not expected until autumn.
- 4.5 A County wide working group consisting of key officers from all Nottinghamshire Billing Authorities, County Council, Police and Fire Authorities has been established to work together, where possible, to develop new council tax support policies. The working group has made progress and identified a number of options for consideration including:
- Delay any change until year 2 to allow time to develop a more robust and better designed new system from April 2014.
 - Change key factors in the current scheme to achieve the required savings.
 - Design a completely new discount system.

These options have been put forward to the Leaders group for strategic direction. Leaders have requested that more detailed modelling and an impact analysis be presented to them and the additional options of utilising "technical" changes to fund some protection of the existing scheme are being developed.

4.6 Impact of localised council tax support schemes

- 4.7 The council tax support scheme will operate as a discount so that less council tax income is receivable by all authorities. To compensate for this loss of income all authorities, including major precepting bodies, will receive a grant. The new funding arrangements will no longer be demand

- led and will incorporate a 10% reduction in grant. This will mean that any increase in demand will represent a significant risk to all authorities because the increased council tax support expenditure will not be covered by the government grant and will fall upon the council taxpayer. The Government is currently consulting local authorities on the proposed distribution mechanism which, for Gedling Borough Council, results in the shortfall being in excess of 10%.
- 4.8 Last year the amount of council tax benefit administered and awarded by Gedling Borough Council was approximately £7.8m. Some early modelling based on the Government's proposed distribution mechanism suggests that the shortfall between the notional grant and the amount of council tax benefit/support awarded could be up to £1m. This would equate to a 12.7% cut in expenditure rather than a 10% cut. For Nottinghamshire as a whole the shortfall is estimated to be in excess of £13m.
- 4.9 The Government does not intend to pay grant directly to parishes, instead a notional amount will be incorporated within the billing authorities grant and it will be up to the billing authority to decide how this portion of the grant will be administered. There is an expectation that billing authorities and parish councils will work together regarding the scheme.
- 4.10 The Council currently receives an administration grant from the Government based on workload levels for new benefit claims and caseload maintained, (Gedling Borough Council currently receives £770,000). However, it has been indicated that changes to Housing Benefit and support for council tax will impact on administration costs and the Government has yet to identify how the net impact of the housing benefit centralisation and localisation of council tax will impact on administration.
- 4.11 The impact of converting the estimated council tax support awarded into council tax discounts will need to be taken into account when setting the council tax base. Councils will need to estimate what next year's council tax bills and hence discounts will be in order to forecast the total cost of discounts. These discounts will then need to be converted into a percentage reduction to the council tax base.
- 4.12 The Government's policy is that pensioners must be protected and reminds councils of their statutory duties towards other vulnerable groups including disabled people and child poverty. This means that if the reduction in spending is passed on to working age claimants it will fall on a relatively smaller proportion of current claimants who would experience a much more significant reduction in their benefits as a result. If working age claimants have to pay more, or pay for the council tax for the first time, billing authorities will have increased costs of collection and a

greater level of losses. For Gedling Borough Council this could impact on up to 4,500 households.

4.13 Establishing Local Schemes

4.14 There will be three main steps in the process of establishing the local scheme:

- Design
- Consultation
- Feeding into the budget and council tax setting process

4.15 The following timetable outlines the Governments expectations for the implementation of a localised council tax support scheme.

Autumn/Winter 2011/12

- Government publishes a response to the consultation
- Introduction of Local Government Finance Bill (includes provisions for localisation of council tax support)
- Central and local government begin working on model schemes

Spring 2012

- Primary legislation in passage through Parliament
- Government preparing and publishing draft secondary legislation

Summer 2012

- Primary legislation passed
- Secondary legislation prepared
- Local authorities designing and consulting on local schemes

Autumn/Winter 2012/13

- Local authorities establishing local schemes – putting in place systems, notifying claimants of changes
- Local authorities setting budgets

Spring 2013

- Local schemes in operation

4.16 In conclusion, the council will need to determine a scheme for council tax support as soon as possible and at the latest by 31st January 2013. Although to allow parishes time to develop their own budget proposal an earlier view of the impacts of the likely scheme will have on parish tax bases will have to be considered, reducing this challenging timetable even further.

4.17 A suggested model local scheme has been discussed with the Finance portfolio holder which has aspects that:-

- Simplifies administration processes for a local scheme.
- Makes some reductions to benefit payments.

- Increases incentives to work.
- Introduces changes to Council Tax discounts that offset any funding loss incurred as a result of the localised Council Tax discounts/benefits.

A copy of this suggested scheme is attached at Appendix A and is likely to feature as part of our consultation process.

5.0 BUSINESS RATES RETENTION

- 5.1 On 18th July 2011, the Department for Communities and Local Government published proposals for business rates retention, as part of the Local Government Resource Review, for consultation. (Cabinet considered this consultation at its meeting on 1st September 2011). This was followed by a series of 8 technical papers which provided further detail. The Government's response to the consultation was published in December 2011.
- 5.2 The proposals focus on the distribution of business rates tax revenues, rather than changes to the system of business rates taxation. This means that businesses will see no difference in the way they pay tax or the way the tax is set. Rate setting powers will remain under the control of central government and the revaluation process will be unchanged.
- 5.3 Under the proposals fifty per cent of business rates will be localised through a system of top-ups and tariffs that fix an amount to be paid by high yield authorities that will be distributed to low yield authorities, this amount will be increased with inflation. Local authorities will be able to retain a proportion of all business rate growth or conversely will experience a fall in resources if the business rate base declines.
- 5.4 The remaining fifty per cent of business rates will be distributed in a similar way as is currently through the formula grant process. This allows the Government to retain a proportion of business rates centrally to meet public expenditure targets.
- 5.5 In addition there will be a levy on disproportionate growth which will be used to provide a safety net for those authorities experiencing little or negative growth and allow the Treasury to top-slice business rates income.
- 5.6 Top-up and tariffs are set so that all other things being equal a local authority will start with the same resources under the new system as it had under the old. The top ups and tariffs will automatically increase for inflation. This gives top-up authorities a guaranteed increase in part of

their resources and means that a tariff authority will lose resources unless it ensures NDR growth keeps pace with inflation.

- 5.7 The Government has said that the starting point will be based upon 2012/13 levels of support received through the formula grant system. It is however possible for the Government to adjust the 2012/13 figures for technical changes or changes in functions as it does under the formula grant system.
- 5.8 The Government has indicated that a safety net will apply to protect local authorities experiencing reductions in the level of business rates due. The safety net will be triggered when a local authority's income falls by a figure equivalent to a fixed percentage of its expenditure and will be funded from the levy. Indications are that the safety net will not come into effect unless an authority experiences a reduction of at least 7.5% – 10%.

6.0 FINANCIAL IMPLICATIONS

- 6.1 The Government has stated that the amount of the grant for localised council tax support will not be demand led but fixed and will be reduced by 10%. The grant will be paid to the District Council and major preceptors including the County Council, Police and Fire Authorities. An element for local precepting authorities will be paid to the District Council who will decide how this amount should be treated.
- 6.2 The Government is currently consulting on the funding arrangements for localising council tax support which gives an indicative funding grant total of £651,000 for Gedling Borough Council and £47,000 in respect of the local precepting authority's element.
- 6.3 The consultation sets out how the Government intends to distribute funding to support local schemes and seeks views on possible adjustments to allocations to avoid potential budgetary pressures in a few authorities. The Government is proposing to set a floor and ceiling to protect those authorities facing the greatest pressures. In order to minimise risk to Gedling Borough Council it is suggested that the council support this proposal.
- 6.4 It is difficult to be precise about the level of reduction in benefit grant; however some early modelling has indicated that the estimated shortfall in grant to localised council tax support awarded (based on the current scheme) would be £1,000,000. Of this amount the Gedling Borough element only would be £95,000. A suggested local scheme is attached at Appendix A.

- 6.5 Revenue raised by further reducing the second home discount can be retained locally. There are currently 113 properties identified within this category, the anticipated benefit to the District Council if the discount for second homes was reduced from 50% to 10% would be £5,657 paid into the Council Tax Collection Fund, equivalent to £0.14 reduction on Council Tax for a band D property.
- 6.6 There are currently 748 long-term empty properties within the Borough. The estimated additional revenue generated by reducing the discount from 50% to 0% and levying a 50% premium on those that have been longer than 2 years would be £60,915 equivalent to a reduction in Council Tax of £1.58 for a band D property
- 6.7 The anticipated benefit to the District Council if the discount currently awarded to properties that qualify for a Class A and Class C exemption was reduced from 100% to 25% is £67,484, equivalent to a Council Tax reduction of £1.75 for a band D property.
- 6.8 If all potential Council Tax discount options are implemented, along with the benefit changes summarised in 4.17, there would be a cumulative Nottinghamshire surplus of £440,000 from which our share would be £46,000. However, given additional collection costs and increased associated risks this is considered to be a broadly neutral position at General Fund level.

7.0 THE OVERALL IMPACT OF THE CHANGES

- 7.1 The changes being made to council tax and non-domestic rates will bring a degree of risk and variability to local government funding that has not been experienced before.
- 7.2 Local authorities are used to forecasting expenditure and income such as fees and charges. The changes will increase the level of instability in the forecast of resources and the interaction of both with economic growth will increase the associated risks. As an example the decline of a major employer could result in both a decline in the business rate base and an increase in council tax support demand.
- 7.3 Local authorities will need to take account of national growth assumptions and local area forecasts to estimate potential future business rates growth and demand for council tax support.
- 7.4 Any changes during the year in the level of business rates or council tax support will initially fall upon the collection fund. There is likely to be increased instability within the collection fund as a result of the changes and the level of surpluses and deficits is likely to rise. The Government is

looking at the cash flow implications for billing authorities and may introduce an ability to share cash flow shortages with major preceptors at a fixed point during the year.

- 7.5 The additional instability in resources may have an impact upon reserves and should be considered when deciding upon the overall level of reserves needed. In taking into account the risks associated with changes in resource levels local authorities need to consider the basis of estimation of receipts and the level of confidence they have in achieving any underlying growth or collection rates and managing demand.

8.0 EQUALITIES IMPLICATIONS

- 8.1 In designing localised council tax support schemes / reviewing council tax discounts and exemptions local authorities will need to be mindful of their statutory duties towards other vulnerable groups including disabled people and child poverty. A robust and evidence based impact assessment will therefore need to be conducted and consider the impact of any changes to the current scheme on these and other groups.

- 8.2 Should the authority fail to adopt a local scheme then the default scheme will be imposed and there will not be a need to conduct an impact assessment since the existing scheme will continue to be used.

9.0 RECOMMENDATIONS

Cabinet notes the report.

Appendix A

Gedling's preferred scheme.

Gedling's preferred option is a combination scheme of benefit changes and additional income generation. The principles are to fund any shortfall by devising our local scheme with the following amendments (a) to (e), and the generation of income to fund the gap, from Council Tax discounts changes.

Also, consideration has been given with the amendments to streamlining the administration of the Benefits scheme itself in anticipation of further administration grant reductions (these will be in addition to the main scheme reductions referred to in the report).

Scheme amendments:

- a) **£8k capital limit for all.** Currently, claimants with capital greater than £16k cannot get benefit (£8k for Passported – Income Support). Gedling Borough Council new scheme increases fairness of scheme.
- b) **Remove Second Adult rebate.** Few current cases as poorly understood and administration of the claims outweighs the benefits.
- c) **Flat rate deduction of £5 per non-dependant.** Currently, a whole range of deductions and tapers exists. Gedling Borough Council new scheme is simpler to administer and easy to understand.
- d) **Remove 'Good Cause' need in the Back-dating of claims.** Currently a maximum of 6 months backdating for Working Age claims allowed but only where they can show "good cause" as to why they couldn't / didn't claim earlier. Current maximum is 3 months for pensioners and no "good cause" required. Gedling Borough Council new scheme, maximum 3 months for all, no "good cause" required. Fairer - if they were entitled to claim then we should simply pay it. Reduces administration of these claims substantially.
- e) **12 Week Extended run-ons** (carry on paying their benefit when they start work). Currently maximum of 4 weeks benefits payment period after finding work, the new scheme extends this to 12 weeks giving a better incentive to work – one of governments stated aims of the new legislation.

Changes (a) to (e) above have a net impact of reducing claim payments by £40,000.

The Council Tax Benefit main scheme shortfall for the whole of Gedling is estimated to be £1 million (a 12.7% cut). The Borough Council's share of this is expected to be £95,000. In addition to these costs the impact of (a) to (e) have also to be included. Overall, then, this new scheme will have an impact of £960,000 for the whole of the Borough and £91,000 for the Gedling Borough element.

Net Cost Funding.

Funding the net cost has been achieved by "Technical Council Tax Discount" changes below based on the potential reforms announced by the Secretary of State on 28th May 2012.

Empty Property type	Current Discount	Proposed Discount	Additional Council Tax generated (£)
A Uninhabitable 12 months max.	100%	25%	£55,000
C Empty less than 6 months	100%	25%	£654,000
Second Homes	50%	10%	£60,000
Long-term empties less than 2 years	50%	0%	£365,000
Long-term empties more than 2 years	50%	0% discount PLUS 50% supplement	£274,000
TOTAL FOR THE WHOLE BOROUGH			£1.4m

The changes in the Gedling preferred scheme along with the technical adjustments above generate overall surpluses for the Whole of the Borough. At Borough Council level, the net impact is a surplus of £137,000 from which the Borough Council will need to fund additional collection costs estimated to be £20,000 per annum as well as continuing to fund any shortfalls in the administration costs of the revised benefits scheme.