North Yorkshire County Council

Corporate and Partnerships Overview and Scrutiny Committee

26 November 2012

Localisation of Council Tax Benefits and Business Rates from 1 April 2013

Report of the Corporate Director – Strategic Resources

1.0 Purpose of Report

1.1 To brief Members on the Government's localisation of Council Tax Benefits from 1 April 2013 together with the Localisation of Business Rates, also from 1 April 2013.

2.0 Background

Localisation of Council Tax Benefits

2.1 Support for Council Tax (benefits) is currently funded centrally by the Department for Works and Pensions (DWP) based on a national policy with rules set by central government. Council Tax (CT) billing authorities administer the scheme on a local basis but reclaim the cost of benefits from central government.

2.2 As announced in the 2010 spending review, support for CT will be localised from 2013/14 and expenditure reduced by 10%. These proposals form part of the Government's wider commitment to reduce benefit dependency and worklessness.

Localisation of Business Rates (BR)

2.3 Under the current system billing authorities collect BR in their area based on a nationally set rate (rate in the £x property rateable value) and pay them into a national pool which is then redistributed (based on population) as part of the overall formula grant calculated for every local authority.

2.4 The key criticism of this system is that Councils have no financial incentive to promote businesses in their area as they do not directly receive any of the BR receipts from new development.

2.5 Thus Localisation of BR was proposed as part of the Local Government Resource review and is being introduced from 2013/14.

3.0 Localisation of Council Tax Benefits

Reasons for the Change

3.1 The Government highlight five reasons for the change:

(i) Give authorities a greater stake in the economic future of their area.

(ii) Provide authorities with the opportunity to reform the system of support for working age claimants.

(iii) Reinforce local control over CT.

(iv) Give authorities control over how a 10% reduction on the current CT benefit bill is achieved, allowing them to balance local priorities and their own financial circumstances.

(v) Give authorities a financial stake in the provision of support for CT.

What the Change Actually Means

3.2 CT billing authorities (District Councils in North Yorkshire) have a responsibility to run a local scheme to provide Council Tax support in their area. Local schemes have to be designed, consulted on (with major preceptors such as NYCC, and the public) and agreed ready for implementation from 1 April 2013.

3.3 Scheme designs in principle should be based on funding allocations and potential caseload. Scheme deficits will have to be financed either through CT increases for everybody or budget savings elsewhere. Thus Councils can subsidise schemes if they wish.

3.4 There is freedom to design local schemes for working age claimants only and for pensioners the level of support must continue with Central Government prescribing the criteria and allowances to be incorporated into local schemes. Local schemes also have a responsibility to, and awareness of, the most vulnerable people such as children living in poverty, disabled persons and chronically sick.

3.5 Final schemes must be adopted before 31 January of the preceding financial year. Councils will not be able to change schemes in-year but changes can be made each year, subject to local consultation where significant changes were being planned.

If a local scheme is not in place by 31 January, a national default scheme (essentially the current CTB scheme for working age recipients) is applied. Thus there is a strong financial incentive to avoid the imposition of default schemes, as this will limit the Council's ability to adjust benefits / discounts to manage the funding reduction.

3.6 Councils are able to collaborate with neighbours (eg in two areas or across a LEP area) to develop a single scheme and even pool grant funding received. In practical terms, however, this is difficult to achieve because of the differing mix, level and costs of current claimants in each individual billing authority area.

3.7 Support for CT will become fully integrated into the CT system, with support being offered as a reduction (or discount) on CT bills. This means that local decisions about discounts will need to be taken as part of the CT setting process.

Costs and Funding

3.8 Based on DWP data at April 2011 there are 5.8m national claimants for Council Tax benefit at an average weekly benefit of £15.83 per claimant. This equates to a current annual cost of £4.8bn and the 10% expenditure reduction required as part of the localisation is therefore £500m per annum.

3.9 The Government will provide a grant to Councils to support the localisation. This will be based on historical levels of CT benefit costs for each Council area reduced by the 10% set out in the 2010 spending review. Thus the grant does not take into account any perceived future increase in demand due to the economic downturn together with other factors that will increase costs.

3.10 As CT benefits now become CT discounts, the total CT yield reduces and this impacts on the billing authority and all major precepting authorities (Counties, Police and Fire). Thus grant is being paid to all these authorities in line with their shares in the 2012 CT for each area, with the result that in areas such as North Yorkshire most of the grant (about 69%) and risk falls on the upper tier County area.

3.11 Provisional grant allocations for 2013/14 were notified in May 2012 with final figures expected, as part of the provisional Local Government Finance Settlement, in December 2012. Although it is intended that allocations will be published annually, the Government is looking at multi year settlements and a new basis for distributing grant from 2015/16.

3.12 Grant Funding will not be provided as a separate grant but will be part of the overall Business Rates Localisation funding baseline (**see paragraphs 2.3 to 2.5 and 4**). This risks funding being used for other purposes and systematically under funding the scheme in future years.

3.13 There are other ‘knock on’ funding implications such as a resulting lower CT setting base producing a lower yield from % increases in CT in future years.

A Local Perspective

3.14 A summary of costs and indicative funding in North Yorkshire is as follow:

Item	**£m**
Government’s estimated CT benefit costs in North Yorkshire in 2013/14	36.8
Less: 10% cut in funding	-3.7
= 90% funding to be made available to NYCC authorities	**33.1**

3.15 Indicative grant allocations for the NYCC area based on relative 2012 Council Tax levels are:

Authority	£m	
Districts	3.9	(12%)
Parishes (this is being reviewed)	0.6	(2%)
NYCC	22.8	(69%)
Police	4.4	(13%)
Fire	1.4	(4%)
Total	**33.1**	**(100%)**

3.16 Thus most of the financial risk of North Yorkshire Districts not being able to achieve the 10% funding cut (after protecting pensioners etc plus increased demand, appeals and bad debts write-off) falls on NYCC as follows:

Item	£m
Costs becoming CT discounts (based on Government's Estimates above) and thus reducing CT yield = £36.8m x 69%	25.4
Less: Indicative NYCC grant (**paragraph 3.15**)	-22.8
= Initial net cost to NYCC	**2.6**

3.17 In terms of individual Districts (their own more up-to-date estimates) the position is as follows

District	Number of Estimated CTB Claimants in 2013/14	Estimated Cost in 2013/14	10% Reduction in Funding	NYCC Share of Funding Reduction	
		£m	£000	£000	%
Craven	3,554	3.3	326	225	69
Hambleton	5,250	4.3	430	314	73
Harrogate	10,203	8.4	836	548	68
Richmond	2,810	2.4	244	166	68
Ryedale	3,752	3.3	333	230	69
Scarborough	12,756	10.7	1,075	731	68
Selby	5,807	4.9	486	335	69
Total	**44,132**	**37.3**	**3,730**	**2,549**	**69**
National Total (April 2011 Actuals)	**5,828,580**	**£4,800m**	**£500m**		

3.18 It is apparent from the above table that Scarborough have the most claimants / cost and thus financial risk to the County Council, followed by Harrogate.

3.19 The following sets out the current position in terms of progress being made by the Districts in implementing their local schemes.

(a) Joint consultation proposals from the seven Districts but with separate scheme proposals for each District were received in July 2012 followed by a consultation meeting (including Fire and Police) in August.

(b) Each District resolved to attempt to fully cover the cut in funding through a combination of local proposals including:

- maximum eligible CT support = a cut in benefit for all working age claimants (**see paragraph (g)** below
- removal of second adult rebate
- introducing a Council Tax Band restriction for claimants
- various other changes to benefits (now CT discounts) eligibility
- the residual funding gap would be bridged through using recently introduced freedoms on certain existing Council Tax discounts and exemptions, mainly second homes discounts and empty / unfurnished properties

The above proposals did however acknowledge a resulting increased level of bad debts and this was factored into the net impact of the proposals.

(c) Each District's proposals (see **paragraph (b)** above) varied depending on local circumstances. Harrogate, however, proposed to maintain existing benefit levels and rely wholly on tightening up CT discounts and exemptions to fully cover the funding cut.

(d) District proposals also highlighted a range of additional costs falling on them including additional collection costs, setting up a hardship fund and various administration costs. These totalled £628k of which NYCC were being asked to contribute £445k (in proportion to relative CT levels). These figures have subsequently reduced however (see **(g)** below

(e) Following discussion at Cabinet, the key message in the County Council's consultation response was a desired cost neutral outcome position which took into account any contribution to additional costs (**paragraph (d)** above) incurred by the Districts as a result of implementing the various changes.

(f) Following this consultation each District Council has been progressing public consultation on their proposed schemes via newspaper advertisements etc referring to the proposal documents on their websites.

(g) A significant feature of the District proposals was to cut the level of support for every working age claimant (first bullet point under **paragraph (b)** above). At individual District level the cuts proposed were up to 30% (except Harrogate) (see **paragraph (c)** above).

This scenario was being repeated nationally and on 16 October DCLG announced transitional additional funding of £100m to help authorities implement the Localisation of CT Support. Formally the purpose of this one-off funding is to encourage best practice but DCLG are also using it to mitigate the worst impacts on those who are currently claiming 100% CT benefit.

The key criteria for receiving this one off funding is that where 100% CT benefit is being paid, the reduction in local schemes should be no more than 8.5% and that the taper rate does not increase above 25%.

All North Yorkshire Districts are now reviewing their earlier proposals with the aim of qualifying for this transitional grant which would total:

Authority	£000
Districts	121
NYCC	617 (69%)
Police	120
Fire	39
Total	**897**

At this stage the overall impact of this late development on the County Council is unclear.

A consequential impact however is that the Districts are now asking for a lower £160k contribution to additional costs being incurred (was £445k – see **paragraph (d)** above)

(h) Based on the initial local schemes being proposed by North Yorkshire Districts, and the recent transitional grant offer to qualifying authorities (**paragraph (g)** above), it is currently unclear what the overall net impact will be on NYCC. The Districts are still aiming for an ultimate cost neutral outcome but it remains to be seen whether this can ultimately be fully achieved.

NYCC's MTFS continues to reflect a latest forecast outcome and at this stage does assume an overall 'net cost'. This will be reviewed and updated on an ongoing basis however until the Executive finally approve the Budget / MTFS on 5 February 2013.

Particular Issues

3.20 Many issues and concerns have been expressed about this significant change including:-

(a) Greater autonomy will give Councils the freedom to target CT relief to those who really need it but the 10% reduction in funding will mean that adopting this responsibility will not be easy.

(b) The funding cut is much greater than 10% after fully protecting pensioners (about 55% of the total claimants cost in North Yorkshire) , protecting vulnerable people, potential future increased demand, potential future increased appeals and bad debts write-off.

(c) The Government's default scheme does not deliver the 10%+ cut in funding. They are asking Councils to take decisions about who will bear the cuts which they are not willing to take themselves. Conversely the Government is specifying how these cuts must not happen through protecting pensioners and the vulnerable.

(d) The main practical administrative impact of the change falls on billing authorities (District Councils) in terms of scheme design, changes to IT systems, consultation, implementation and administration etc. 'New Burdens' funding has been promised towards additional costs, but no details of this have yet been announced. The financial risk of the funding cut, however, falls across all authorities relative to CT levels with Counties bearing most risk (69% in NYCC area).

(e) The take up of CTB is at a historic low and the shift away from a benefit to a discount will encourage more people eligible to claim.

(f) The new system means that a current national uniform rate/scheme of CT benefit is lost.

4.0 Localisation of Business Rates (BR)

Key Points

4.1 How the system will work is set out briefly below but what set out as a fairly simplistic model has now developed into a very complex set of arrangements:

(a) There will be no change to the way businesses pay rates or how they are set centrally by the Government. Councils will not have the power to vary the rate.

(b) An initial funding baseline will be established for each council for 2013/14 using the current formula grant system, although various proposed updates and changes to the grant formula are expected to be implemented. The overall funding baseline will be contained within the overall expenditure control totals of the 2010 CSR.

(c) A BR allocation (baseline) will be determined for each billing authority area based on historical levels of BR collected. In two tier areas such as North Yorkshire this BR baseline will be allocated as follows.

- 50% to the Government – central share
- 40% to the District Council
- 9% to the County Council
- 1% to the Fire Authority

50% local share

(d) Thus the locally retained share at 50% is much less than the full localisation originally suggested. The 50% central share will be used in its entirety to fund local government through:-

- revenue support grant needed to fully fund Council's funding baselines (top ups offset by tariffs). This is needed because of the 50% being retained centrally by the Government
- other specific grants (including Police – see **(m)** below)

(e) If a council's BR allocation exceeds its funding baseline, it will pay the difference to the Government as a 'tariff'.

(f) If a council's BR allocation is below its funding baseline, it will receive the difference from the Government as a 'top-up'. Because counties such as NYCC are only receiving a 9% allocation of local BR, all will be top-up authorities.

(g) Tariff and top-up payments to and from the Government in future years will be increased by RPI in September of the previous financial year. This is the same basis used for increasing BR bills on an annual basis.

(h) The local BR allocation (baseline) of the initial funding baseline will increase (or decrease) each subsequent year in line with local BR growth.

(i) There will be a safety net to protect councils from significant negative shocks to their future BR income. This will be funded by a levy on councils that experience disproportionate financial benefit from BR growth.

(j) Councils can form pools which would aggregate levy payments and BR growth amongst member authorities. It would then be up to the pool to decide how to distribute BR revenues. Pooling offers opportunities for councils to share both the risks and rewards of the BR retention system across a wider area and to co-operate to maximise the potential for growth.

(k) The system from 2013/14 will, through the use of the tariff and top-up system (**paragraphs (e) and (f)** above), ensure that BR are redistributed to meet need and ensure councils with high need and low BR bases do not start the scheme at an unfair disadvantage. Thus councils total 'start up' funding for 2013/14 will equate to what it would have been if the new system had not been introduced.

(l) A full reset of the system is proposed in 2020.

(m) Police authorities will be funded outside the rates retention system to recognise that these authorities have limited levers to influence growth. The Government will provide a fixed allocation of BR (out of their 50% central share) in 2013/14 and 2014/15 to support Home Office grant funding of police bodies.

(n) Although there has been various exemplification of what all the figures mentioned above might be they will not be known with any certainty until the provisional Local Government Finance Settlement now expected on 19 December 2012.

A local Perspective

4.2 Based on the local share allocations set out in **paragraph 4.1(c)** an estimated allocation of BR in North Yorkshire based on estimated 2012/13 net rating income is as follows:-

District	Net 2012/13 estimated rating income	Central 50% share	Allocated to District 40%	Allocated to NYCC 9%	Allocated to Fire 1%
	£m	£m	£m	£m	£m
Craven	18.5	9.2	7.4	1.7	0.2
Hambleton	26.7	13.3	10.7	2.4	0.3
Harrogate	60.1	30.1	24.0	5.4	0.6
Richmondshire	12.7	6.4	5.1	1.1	0.1
Ryedale	16.5	8.2	6.6	1.5	0.2
Scarborough	32.6	16.3	13.0	3.0	0.3
Selby	44.5	22.3	17.8	4.0	0.4
Total	211.6	105.8	84.6	19.1	2.1

4.3 Thus NYCC would only receive about £19.1 (9%) of locally collected BR and therefore the impact of future growth (or contraction) on the County Council will be minimal.

4.4 Most of the County Council's baseline funding allocation from the Government (£117m in 2012/13) will therefore be provided in the form of an annual top up from the Government (**paragraph 4.2(f)**). This top up will be increased by RPI each year.

4.5 Thus the actual impact of localisation of BR on the County Council's funding levels from 1 April 2013 will be minimal. There will be change however to:

(i) funding streams and payment between Central Government, District Councils and the County Council will be different

(ii) future funding increases will be subject to local BR growth for only about £19m of NYCC's funding requirement with the rest (top up) being subject to RPI. At present annual funding increases (or decreases under the current climate) are determined through the formula grant system.

4.6 Of much more significance to the County Council's future funding allocations is the overall envelope of funding the Government makes available to Local Government as part of the 2010 CSR (for 2013/14 and 2014/15) and the next CSR due in 2014. Significant cuts were made in the last CSR and more are expected in the future.

The Government will be able to continue these cuts as part of the Rates Retention system from 2013/14 through reducing the Revenue Support Grant element of the new system.

4.7 Although a North Yorkshire BR pooling proposal has not been submitted to DCLG for 2013/14, one will be considered for 2014/15. There are however risks as well as advantages from such arrangements and further work is therefore being carried out to assess these. For 2012/13 Harrogate have agreed to be part of a Leeds City Region pooling submission to DCLG along with the City of York. Craven were originally part of this proposal but have recently withdrawn.

5.0 Recommendation

5.1 That Members note the key details of the localisation of Council Tax Benefits and Business Rates that will start on 1 April 2013.

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