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WATFORD BOROUGH COUNCIL

BUDGET PANEL

Tuesday, 12th June, 2012

7.00 pm

Town Hall, Watford

Publication date: 31 May 2012

CONTACT
If you require further information or you would like a copy of this agenda in another format, e.g. large print, please contact Sandra Hancock in Legal and Property Services on 01923 278377 or by email to legalanddemocratic@watford.gov.uk .

Welcome to this meeting. We hope you find these notes useful.

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COMMITTEE MEMBERSHIP

Councillor J Dhindsa (Chair)
Councillor S Rackett (Vice-Chair)
Councillors J Aron, G Derbyshire, S Greenslade, P Jeffree, A Khan, R Martins and P Taylor

AGENDA

PART A - OPEN TO THE PUBLIC

1. APOLOGIES FOR ABSENCE/COMMITTEE MEMBERSHIP

2. DISCLOSURE OF INTERESTS (IF ANY)

3. MINUTES

The minutes of the meeting held on 8 February 2012 to be submitted and signed. *(All minutes are available on the Council's website.)*

4. BUSINESS RATES RETENTION (Pages 1 - 34)

Report and presentation on the proposed changes to Business Rates

5. LOCALISATION OF SUPPORT FOR COUNCIL TAX (Pages 35 - 54)

This report provides an update on the progress in devising a local scheme to provide support to Council Tax payers.

6. WORK PROGRAMME (Pages 55 - 58)

This report sets out the work programme for 2012/13.

7. DATES OF NEXT MEETINGS

- Tuesday 11 September 2012
- Tuesday 23 October 2012
- Tuesday 27 November 2012

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Report to: *Budget Panel*

Date of meeting: *12 June 2012*

Report of: *Head of Strategic Finance*

Title: *Business Rates Retention*

1.0 SUMMARY

1.1 This report follows on from the previous report to the Budget Panel on 25th October 2011 (**see Appendix A** for copy of earlier Paper). Since October 2011, Herts Finance Officers have engaged a consultant to carry out some financial modelling based upon work initially carried out by the Society of County Council Treasurers. The cost of the consultancy work has equated to £2k per authority and represents a value for money approach to this complex issue.

1.2 Since the original report to Budget Panel, the Government has clarified a few issues:

- any growth to the business rates base will be split 50% to local authorities and 50% to the Treasury. The share retained by the Government is apparently to be returned to local authorities as funding for specific initiatives.
- Should an authority suffer a reduction in its business rates base then such a loss would have to equate to between a 7.5% to 10% reduction in funding before any safety net protection would kick in.

The Local Government Association is not happy with either decision as it reduces the degree of reward to authorities through growing their rates base, whilst at the same time providing little relief for those authorities suffering business reductions.

1.3 The Government has also reversed its earlier proposal so that where the business rate base increases then the amount allowed to be kept by local authorities is to be split 80% to the District and 20% to the County Council.

1.4 The purpose of this further report is to receive a presentation from the consultancy company, CIPFA, of the modelling it has carried out to date and will include:

- basics of new scheme
- DCLG timetable
- forecasts for Watford Borough Council
- risks and opportunities
- pooling across county areas

Copies of the presentation will be available at the Budget Panel Meeting.

1.5 Central Government funding for district councils in general will comprise:

- receipt of business rates (rather than Revenue Support Grant Formula Grant
- continued allocation of New Homes Bonus funding.

In the case of NHB, Watford Officers are in the process of analysing likely future grant from this source and a Paper will be circulated at the Budget Panel meeting. This analysis will be more reflective of the situation within Watford when compared

to the broader brush approach of the SCT Model.

1.6 Finally the Council's Economic Development Officer is in the process of providing a short paper upon future trends that may affect the Council business rates base in the Medium Term and this again will be circulated at the meeting.

1.7 Running parallel with this major change to the way in which local authorities will be funded are:

- it is anticipated that there will be a further resource review carried out by the DCLG in the autumn with further government grant reductions being announced.
- the Government has announced it will reduce council tax benefit subsidy by circa 11.4% with effect from 1st April 2013. This will be in addition to the previously announced reduction in Housing Benefit Administration Grant. Both these issues are discussed within the next report on the Agenda of the Budget Panel.
- There has also been a very recent announcement that housing benefit administration staff will not automatically transfer to the Department for Works and Pensions when the 'Universal Credit' system is introduced. TUPE will not apply and there may well be an increased incidence of redundancy costs falling to administering authorities (including Watford).

1.8 It is the intention therefore that all these major issue (as well as local ones such as the condition of the Council's commercial rent portfolio) will be reported as part of a revised Medium Term Financial Strategy to Budget Panel on 11th September and Cabinet on 17th September 2012. It is hoped that, in the intervening period, clarification on a number of these issues may be known.

2.0 RECOMMENDATION

2.1 The Budget Panel is requested to consider this report on Business Rate changes and make comment to Cabinet as it feels appropriate.

Contact Officer:
For further information on this report please contact: Bernard Clarke or Phil Adlard
telephone extension 8189 / 8023

3.0 IMPLICATIONS

3.1 Financial

The Head of Strategic Finance comments that the financial implications will not be fully understood until the Government Grant Settlement is announced in December 2012.

3.2 Legal Issues

The Head of Legal and Property Services comments that the legal implications as they are known at present will be in the presentation.

3.3 Equalities

Watford Borough Council is committed to equality and diversity as an employer, service provider and as a strategic partner. In order to fulfil this commitment and its duties under the Equality Act 2010 it is important to demonstrate how policies, practices and decisions impact on people with different protected characteristics. It is also important to demonstrate that the Council is not discriminating unlawfully when carrying out any of its functions. In this specific instance the way in which local authorities are to be funded will not directly impact upon equalities. How the Council responds to funding variations may have an impact but that can only be evaluated once the amount of money available is known.

3.4 Potential Risks

Potential Risk	Likelihood	Impact	Overall Score
That the Council's business rates base/ new homes bonus actually falls and requires budget cuts or short term use of reserves	2	3	6

3.5 Staffing & Accommodation

There are no staffing or accommodation implications arising out of this report

<u>Appendices</u>

Appendix A previous report (and appendices) submitted to the Budget Panel on 25th October 2011.

PART A **APPENDIX A**

Report to: Budget Panel

Date of meeting: 25 October 2011

Report of: Head of Strategic Finance

Title: Local Government Resource Review: Business Rates Retention Consultation

1.0 SUMMARY

1.1 This report informs the Budget Panel of significant changes to the financing of local government which are due to take place from 1st April 2013. The proposed changes are potentially extremely complex and, as a result, all authorities have delayed making any response. The effect for Watford is that the consultation period ends on 24th October 2011 before the meeting of the Budget Panel. In reality the comments submitted to Central Government are of a general nature.

1.2 It is important that the Budget Panel is aware of the proposed changes as they will increase the potential volatility to the medium term financial planning process.

2.0 RECOMMENDATIONS

2.1 That the Budget Panel notes the content, effect, and Watford response (to follow) of this Government Consultation Paper.

Contact Officer:
For further information on this report please contact: Bernard Clarke, Head of Strategic Finance
telephone extension: 8189 email: bernard.clarke@watford.gov.uk

3.0 Detail

3.1 It should be appreciated at the outset that district councils do not have ‘technical officers’ able to devote their time to extensive dissection of Government Consultation Papers involving great complexity. The Consultation Paper was accompanied by eight technical papers and asked 96 questions many of which would require significant research. In order to take a view on such papers, district councils subscribe to the Local

Government Association where technical expertise does exist. In addition Herts County Council also has the capacity to devote time and energy to forwarding a detailed response.

3.2 Working ‘smarter’ therefore does mean tapping into these resources rather than replicating work already carried out. Attached at **Appendix 1** is a Cabinet Report (17th October 2011) produced by the Director of Resources & Performance at HCC which provides an overview of the content of the Consultation Paper.

Attached at **Appendix 2** is a briefing paper produced by the LGA into the content of the eight technical papers.

3.3 The essential feature of the system is that authorities should see a direct financial benefit from increasing their business rate income whereas at the present time any increase disappears into a national business rates pool. The downside to this relates to the fact that business rate income may actually fall as large companies either relocate or close. The paper at Appendix 1 provides a lot more detail about how the system will operate including safety nets/ top ups/ and tapers. This covering report will not repeat that information but will attempt to highlight some of the issues affecting Watford.

4.0 Potential Effect Upon Watford

4.1 The East of England Local Government Association (EELGA) has analysed by area the relative contributions into the national Business Rate Pool and this is shown below.

Contribution to the national business rate pool by region 2010-11

	Contribution to pool (£m)	**Proportion of contribution to pool (%)**	**Proportion of total population (%)**
North East	703	3.7	5.0
North West	2,164	11.4	13.3
Yorkshire and Humber	1,540	8.1	10.1
East Midlands	1,251	6.6	8.6
West Midlands	1,701	9.0	10.4
East of England	1,894	10.0	11.2
London	5,159	27.3	15.0
South East	2,960	15.6	16.3
South West	1,554	8.2	10.1
Total – England	**18,924**	**100.0**	**100.0**

4.2 The East of England is a net contributor and pays a cumulative tariff of circa £330m into the pool (Watford contributes circa £57m more than it gets back). Simplistically this will set the base for when the new financing system becomes operational (April 2013). The essence of the system is to what extent individual authorities will grow their business rates income after the base has been set. Again the EELGA has examined business rate growth in the 51 authorities within the region over a 5 year period. The 'winners' and 'losers' are shown in the table below.

The largest and lowest growth in business rates by billing authority (2005-06 to 2009-10 annual average)

Largest average growth		Lowest average growth	
Broxbourne	7.43%	Bedford	1.21%
Mid Suffolk	6.13%	Watford	1.79%
South Norfolk	5.75%	Great Yarmouth	1.81%
Broadland	5.57%	East Hertfordshire	2.10%
Castle Point	5.49%	Cambridge	2.19%
Welwyn Hatfield	5.46%	North Hertfordshire	2.24%

4.3 Watford has had the second lowest growth in business rates out of the 51 authorities (albeit it was starting from a high base position) and should this continue then it would not augur well for the future. Essentially Watford would be unlikely to accrue more income through the new business rate retention scheme and might possibly need to be in receipt of safety net protection. Obviously there may well be other areas of the country where business rates may actually fall and it will be this interaction nationally that will determine winners and losers. It is not encouraging that within our own region we have had one of the lowest increases and emphasises the need for business development initiatives such as the Health Campus, Watford Junction, and the Western Gateway.

5.0 Process and Timescale

5.1 It is probable that the Revenue Support Formula Grant for 2012/2013 will be used as the base position for the new business rates retention scheme. At the present time Watford has been provisionally notified that its Formula Grant for 2012/2013 will be £5,214k and which is a combination of Revenue Support Grant and re-distributed business rates. For 2013/2014 this will be funded solely from the business rates it collects (with the additional rates collected being passed as a 'tariff' into the national pool). The process for establishing a base position will be similar to the present except that all Watford's Formula Grant will come from its own business rate collection.

5.2 The Government intend to restrict local authorities to the Spending Review 2010 Control Totals for 2013/2014 & 2014/2015. This has included a forecast, at that time, of business rate income anticipated to be generated. Modelling carried out at the LGA suggests that the business rate total income will be above that forecast but the proposal within the Consultation Paper is that the Treasury should receive any surplus business rate income. Exact details of the affect upon individual authorities will not be known until autumn 2012. Future forecasts of business rate income will also include assumptions on collection levels and may set authorities unrealistic targets.

5.3 Under the proposals for business rate retention, local authorities will from 2013/2014 retain a share of business rates growth (split between county councils and district councils in two tier areas) as it is argued that County Councils play a large part in economic development in any area. It is likely that data relating to Revenue Account (RA) returns will be used and would result in an approximate 77%/ 23% County to District split. Police Authorities will not feature within this process and will be guaranteed a fixed level of funding from 2013/2014 onwards.

5.4 The new system will include safety nets and levies to protect authorities affected by extreme volatility within the system where by business rate income either plunges dramatically or rises significantly. In order to try and reduce this volatility within areas the Consultation Paper suggests authorities might wish to ‘pool’ their business rates across district boundaries or indeed across county boundaries. The complexity of this proposal has been identified and is not being significantly supported at the present time.

5.5 The Consultation paper proposes that the New Homes Bonus should be incorporated within the business rate retention scheme. This would be a retrograde step as any reward for increased housing supply would be ‘lost’ within a complex process. The Paper also anticipates Tax Increment Financing (whereby authorities can borrow in advance of future development (e.g for Watford an option for the Health Campus) should also come within this all encompassing rates retention scheme. A separate paper is to be issued in due course explaining this in greater detail.

5.6 The proposals within the Consultation Paper and accompanying technical releases make medium term financial planning extremely difficult to predict. Appendix 1 attached from HCC includes the Financial Implications statement…’’At this stage it is not possible to quantify the impact for Hertfordshire’’.

6.0 Response to the Consultation

6.1 At the commencement of this report it was indicated that many of the issues identified are of a technical and complex nature. It is not the intention therefore that Watford should comment upon all 96 questions to which it is invited. Discussions will be held with the Portfolio Holder for Finance and Watford’s response will be circulated as soon as it has been agreed. At the present date the only consultation response that has been received has been a draft response from HCC. The LGA and other Herts Districts have not finalised their own responses and is indicative of the complexity of the issues.

6.2 The response from Watford is anticipated to include:

- that fairness must be at the centre of the new system and that Ministerial judgement and top slicing of funding by the Treasury should be kept to an absolute minimum.
- maximum stability at its inception must be the highest priority. Authorities are already having to deal with severe funding reductions without further turbulence being introduced.
- going forward, the system must be predictable and transparent. It must reward authorities where business rates growth has occurred but must also have safety net procedures for depressed areas of the country.
- It needs to be readily explained to the business community and other stakeholder.
- It should not become all encompassing and distinct initiatives such as the New Homes Bonus must remain a separate income stream which clearly rewards authorities for increasing the local housing supply and where an 80% reward feature is distributed to district councils.

7.0 IMPLICATIONS

7.1.1 **Financial Issues**

The financial effects of this change to local authority financing may well be profound but at this point in time it is not possible to quantify.

7.2 **Legal Issues** (Monitoring Officer)

The Head of Legal and Property Services comments that there are no legal implications arising directly out of this report.

7.3 **Potential Risks**

Potential Risk	Likelihood	Impact	Overall score
That Watford will be disadvantaged by the change in government funding arrangements to be introduced in April 2013.	2/3	4	8/ 12

7.4 **Staffing**

No Direct implications as a result of this report.

7.5 **Accommodation**

None Directly

Appendices

1 – Herts County Council Cabinet Report
2– LGA Technical briefing

Background Papers

Consultation Paper Local Government Resource Review
Eight Technical Papers Local Government Resource Review

APPENDIX 1

HERTFORDSHIRE COUNTY COUNCIL

CABINET
MONDAY, 17 OCTOBER 2011 AT 2.00 P.M.

LOCAL GOVERNMENT RESOURCE REVIEW: BUSINESS RATES RETENTION CONSULTATION

Report of the Director Resources & Performance

Author: Mike Parsons, Director Resources & Performance
(Tel: 01992 555500)

Executive Member:- David Lloyd, Resources and Economic Well-Being

1. Purpose Of Report

1.1 To provide Cabinet with an overview of the Government's consultation on localising business rates and to enable Cabinet to agree the County Council's response to the consultation.

2. Summary

2.1 The consultation sets out proposals for a business rates retention scheme to replace the current local government finance system, under which business rates are distributed as part of formula grant. It also seeks views on options for enabling authorities to carry out Tax Increment Financing to fund infrastructure investment within the business rates retention scheme.

2.2 The Government will set out its detailed mechanism later this year following this consultation.

2.3 The Government intends to introduce the business rates retention scheme from 1 April 2013.

2.4 There are seven components to the proposed scheme:

- setting the baseline
- setting tariffs and top-ups
- the incentive effect
- a levy to recoup a share of 'disproportionate benefit'
- revaluation
- resetting the system
- pooling

2.5 Business will see no difference in the way they pay the tax, the way the tax is set or who is eligible for discount.

2.6 This authority is broadly supportive of the proposals but has a number of concerns in the following areas:

a) Stability / Certainty – it will be vital to reduce turbulence on the implementation of the new system given that authorities have already had to manage a range of changes in relation to inflation and demography. In particular there is a need for:
- maximum stability at outset (it is recommended that the 2012/13 Formula Grant is used as a baseline without any update / adjustments given that this is likely to introduce further uncertainty); and
- early announcement of baselines to provide certainty for medium-term financial planning.

b) Predictability – given that this will be essential for meaningful medium-term planning and investment. In this regard:
- resets should be infrequent in order to avoid significant turbulence;
- ministerial discretions / adjustments should be minimised; and
- there should be transparent operation of safety net criteria.

7. Simplicity – is important for understanding and engagement by all stakeholders. In particular the retention scheme should:
- be readily explained to citizens and businesses in ways that enhance understanding and build support for economic development activity; and
- minimise adjustments in pursuit of "fairness"; accepting an element of "rough justice" in interests of simplicity and explicability.

c) Incentivisation – the retention scheme must encourage investment / activity to grow the economy. In order to do this:
- starting forecasts for business rates in 2014/15 (and therefore amount 'set-aside') must be realistic and evidence-based;
- the levy must not be set so high as to discourage investment and (appropriate) risk-taking in pursuit of economic growth; and
- differential levy rates to encourage "pooling" is not appropriate (this should be local decision in response to local circumstances).

d) Volatility – mechanisms for dealing with this area should adopt localism principles and be kept simple. Specifically there is a need to:
- limit central government intervention to transparent operation of safety net criteria; and
- expect councils to deal with volatility through pooling and / or reserves, to suit their local circumstances.

e) New burdens – should be assessed through fair and mutually agreed methodology. Namely:

- calculation of additional / reduced burdens should be transparent and evidence-based; and
- the set-aside should be returned to local government through greater delegation of functions.

2.7 The deadline for commenting on the proposals presented in the consultation paper is 24 October 2011.

3. Recommendations

1. That Cabinet welcomes the re-localisation of business rates income and the incentivisation of local economic development activity; but notes the issues set out in paragraphs 2.6 and 6 of the report in relation to the detailed operation of the proposed system.

2. That Cabinet authorises the Director Resources & Performance, in consultation with the Executive Member for Resources and Economic Well-Being, to respond to the consultation.

4 Background

4.1 The consultation period runs until 24 October 2011. A consultation paper (detailing 33 questions) was published on 18 July followed by a series eight technical papers (detailing 63 questions) on 19 August. The Government will set out its detailed mechanism later this year following this consultation.

4.2 Under the existing arrangements, business rates income collected by billing authorities is pooled nationally by central government before being redistributed to local authorities on a per capita basis to fund a significant proportion of formula grant. The Government wants to change the current system by enabling councils to keep a share of the growth in business rates in their area. This will make councils less dependent on central government funding and give them a strong incentive to promote local business growth.

5. Key proposals

5.1 Billing authorities collect varying levels of business rate income. If all councils were allowed to keep all business rates generated in their areas, some areas would have a much larger amount than they need to deliver their services whilst some others would have much less than they need.

5.2 To ensure that no council is worse off at the outset, the Government will set a baseline position for 2013/14 for each local authority, using the 2012/13 formula grant allocations either unadjusted or adjusted for some limited technical updates.

5.3 Authorities like Hertfordshire whose business rates income is higher than their baseline position would pay the difference to central government in the form of a ‘tariff’. Those whose business rates are less than their baseline would receive the balance from central government in the form of a ‘top-up’ grant. The tariffs and top-up grants would be self funding.

5.4 The Government is seeking views on whether tariffs and top-ups should be increased each year to take account of the annual Retail Price Index (RPI) increase which is set nationally. The choice is to either uprate the year one tariff and top-up amounts to reflect movements in the RPI each year or fix the tariffs and top-ups as a cash amount that does not change in future years.

5.5 Where a group of local authorities have decided voluntarily to form a ‘pool’, then the pool would be treated as a single body for the purposes of tariffs and top-ups, which would be the sum of all tariffs or top-ups of the individual authorities.

5.6 Incentives may be offered to local authorities that form a pool by allowing them to retain a greater proportion of growth within the rates retention system or by offering additional incentives outside the system.

5.7 Measuring business rates - in order to calculate tariffs and top-up amounts, it will be necessary not only to establish the baseline, but also to have an agreed way of measuring each authority’s business rates income. There are a range of different options for carrying out an assessment of business rate income. It could be based on business rates income at a single point in time, or the average over a number of years.

5.8 There would be no cap on the amount of business rates growth an authority can benefit from under the rates retention system. However, to manage the possibility that some local authorities with high business rate tax bases could see disproportionate financial gains, and to make the system more sustainable in the long term, the Government would collect a levy recouping a share of disproportionate benefit; and use the proceeds to help manage large, unforeseen negative volatility in individual authorities’ budgets. Where local authorities come together to form pools, the pool would be treated as a single body for the purpose of the levy. But to incentivise authorities to pool, the Government will consider adjusting the levy arrangements to produce a positive outcome for pools.

5.9 For two-tier areas, there are two options for sharing business rates income between upper (county councils) and lower (district councils) tier authorities. The first is based on the national aggregate spending patterns in two-tier areas and the second is based on the local distribution of business rates.

5.10 In relation to the Government’s renewable energy commitment, the scheme will ensure that business rate revenues from new renewable energy projects are kept by the local authorities within the area of the project and that those revenues are discounted in the calculation of any levy that might be applied to growth in business rate revenues. This would mean that authorities would keep all of the business rates generated from new renewable projects. It is proposed that at least the greater proportion of this funding should go to the level of the local planning authority to maximise the community benefit.

5.11 Adjusting for revaluation - the tariff and top-up amounts for each authority would be adjusted when business rates are revalued; so that the sum of top-ups and tariffs is the same after as before revaluation. The document does not propose any other changes to revaluation; so the multiplier would still fall to reflect any increase in overall taxbase. It is proposed that the impact of transitional relief allowed following revaluation is stripped out from the business rates retention scheme.

5.12 Resetting the system - to achieve a strong incentive effect, the tariff and top-up amounts will remain fixed. However, over time it is likely that resources will move away from changing levels of underlying need and, as a result, the Government would want to be able to ‘reset the system’. The paper outlines two possible approaches to the reset period; not to set a fixed period for resets in advance; or set fixed periods for resets.

5.13 When undertaking a reset for need and resources either partial or full the paper proposes that it would be open to the Government to change the basis on which need was determined. Any reset could determine the assessment of need and resource, and, therefore, the distribution of business rates,on some other basis than formula grant if the Government agreed such an approach.

5.14 The New Burdens principle will continue to operate. For example, departments could pay a section 31 grant to local authorities to meet the costs of a new burden, before mainstreaming the funding into the business rates retention system or other funding streams, such as the current Local Services Support Grant.

5.15 The Government also proposes that all uplift in business rate revenues within an Enterprise Zone would be retained by the Local Enterprise Partnership and not subject to a levy or reassessment of tariffs or top-ups.

5.16 The Government is committed to continuing to fund the New Homes Bonus within a business rates retention system.

5.17 The Government is proposing that Tax Increment Financing (TIF) could operate within a business rates retention system. TIF is a way of funding infrastructure investment by borrowing against future business rates income. Following responses to this consultation, the Government will publish a technical paper setting out more detail on Tax Increment Financing.

5.18 The Government is proposing that police authorities will not be part of the business rates retention scheme in 2013/14 and 2014/15, and is posing a similar question regarding single purpose fire and rescue authorities. Rather than having their funding affected by fluctuations in business rate income in 2013/14 and 2014/15, they would receive guaranteed funding at the levels agreed in the 2010 Spending Review for these years.

6. Issues And Concerns

General

6.1 The timescale for implementing such a major change is short; it is essential that local authorities have the time to test robustly the final model since neither local nor central government can afford to get this reform wrong.

6.2 There is no correlation between assessment of need (spending pressures) and business rate growth.

Setting the baseline

6.3 The Government's proposal to update its forecast of national business rate figures in the 2010 Spending Review (2010 SR) in the autumn of 2012 will be a key consideration when setting the baseline, since authorities will benefit only to the extent business rates actually raised exceed the forecast level. Consequently, local government should be actively involved in the decision-making process in particular testing Government's forecast assumptions.

6.4 The Government's proposal is to retain the full proceeds of growth (as part of set-aside) above the 2010 SR national spending totals for 2013/14 and 2014/15. Set aside would be used to fund other grants to local government. This would operate to local government's disadvantage as it does not recognise the greater pressures arising from higher inflation over the 2010 SR period.

6.5 Single purpose fire and rescue authorities should be treated no differently to combined fire and rescue authorities. This means single purpose fire and rescue authorities should not be treated like police authorities who will receive guaranteed funding for 2013/14 and 2014/15.

Setting tariffs and top-ups

6.6 Tariffs and top-ups amounts should be fixed as a cash amount that does not change in future years. This would ensure tariff and top-up authorities are exposed to similar levels of risk in terms of managing fluctuations in business rates income.

The incentive effect

6.7 Restricting business rates growth to physical footprint does not encourage or reward knowledge or internet based growth. Some businesses and industries do not generate high levels of rate income, such as digital/hi-tech and advanced manufacturing micro-businesses.

6.8 Local authorities are only one part of the jigsaw that influences business success and growth.

A levy to recoup a share of 'disproportionate benefit'

6.9 The principle to collect a levy recouping a share of disproportionate benefit and use the proceeds to help manage large, unforeseen negative volatility in individual authorities' budgets is sound. However, this would have to be seen in the context of tariffs and top-ups. The Government acknowledges that it needs to discuss these issues further with the local government sector before reaching decisions about which tariff, top-up, levy and safety net options to adopt. Consequently, we look forward to participating in those discussions.

Resetting the system

6.10 Since there is no correlation between business rate growth and pressures on services, there could be serious funding problems if the time between resets is too great - a 10 year timescale is mentioned in the consultation paper.

Pooling

6.11 The principle is sound but it might prove difficult to achieve in practice.

Government's renewable energy commitment

6.12 Neither option reflects the role of upper tier authorities in planning and procuring waste plants generating renewable energy.

7. Financial implications

7.1 At this stage it is not possible to quantify the impact for Hertfordshire.

Background Information

Department for Local Government and Communities (DCLG):

- Main consultation document dated July 2011
- A Plain English Guide dated July 2011
- Technical papers dated August 2011

The main consultation paper and the series of eight technical papers can be accessed by clicking on the web link below.

http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgresourcereview/

Local Government Association:

- Briefing on Technical papers dated 22 August 2011

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Title **Local Government Resource Review Technical Papers on Business Rates retention**

Date: 22 August 2011

Local Government Association

Briefing

Introduction

The government is currently consulting on proposals for a Business Rates retention scheme that will run from 2013-14 onwards.
The government consultation document is at
http://www.communities.gov.uk/publications/localgovernment/resourcereviewbusinessrates

The LGA Briefing on this document is at http://www.lga.gov.uk/lga/tio/19377920

On 19 August the government released eight Technical Papers covering detailed aspects of the Business Rates retention scheme. These Technical Papers can be accessed on the same website as the main consultation document.

This Briefing summarises the eight Technical Papers and provides some initial analysis and comment. The LGA will make further its analysis available to member authorities to assist with the preparation of consultation responses which are due back with CLG by **24 October 2011**.

Key points

- The Technical Papers are thoughtfully constructed documents that should assist authorities in gaining a proper understanding of the government's proposals for Business Rates retention.
- It is in particular helpful that the government has provided an Interactive Calculator to assist understanding of the trade offs that might be needed in the detailed design of the Business Rates retention scheme.
- The LGA has previously made clear that **fairness must be at the heart of any new system**. All local authorities need to be satisfied that the reforms will deliver a fair deal for their local communities. It is therefore disappointing that the Technical Papers envisage that the government might retain for itself both inflationary increases in business rates yield up to 2014-15 and an element of forecast growth above inflation. The LGA believes that, in order to deliver a fair outcome for local authorities, Business Rates retention needs to allow local government to retain the full proceeds of growth.
- In providing comprehensive coverage of the design of the new scheme, the Technical Papers necessarily touch on a number of points of complexity, such as the interaction between the proposed 'safety net' arrangements and the tariff, top-up and levy elements of the scheme. The design options discussed frequently assume that Ministerial intervention is the first or only option to resolve such issues, rather than exploring the use of automatic or local government-led mechanisms that could be both more localist and more effective.

Local Government House, Smith Square, London SW1P 3HZ
Email info@local.gov.uk
Tel 020 7664 3000 Fax 020 7664 3030
Information centre 020 7664 3131 www.local.gov.uk

Technical Paper 1: Establishing the baseline

1. Under the proposals for Business Rates retention, local authorities will from 2013-14 retain a share of business rates growth by either:
    a. retaining their Business Rates income, if that income is less than a baseline figure reflecting the current level of Formula Grant, and in addition receiving a top-up amount; or
    b. retaining their Business Rates income less a tariff, if the Business Rates income is more than a baseline figure reflecting the current level of Formula Grant.

2. The way in which the new scheme will work for individual local authorities is therefore critically dependent on the baseline figure that is set. Technical Paper 1 is about how the baseline is calculated.

3. The Technical Paper first of all confirms that the government intends that local authorities' funding from Business Rates should be managed within the totals set out in the 2010 Spending Review. These totals are £24.2bn for 2013-14 and £22.9bn for 2014-15, plus £0.5bn in each year to cover repayments to authorities arising from errors in forecasting Business Rates yield.

4. The government therefore proposes that the baseline will be set by reference to its calculation of *Forecast National Business Rates* for 2013-14 and 2014-15. Authorities will benefit only to the extent that Business Rates actually raised exceed the forecast level.

    LGA comment: The government's forecast will not be made until the autumn of 2012. In the meantime, local authorities have had to manage the substantial additional costs of higher than expected inflation. Furthermore, it is not clear what expectation of future real growth will be built into the government's forecast. A model of business rates retention in which the government retains all the yield attributable to higher than expected inflation, and quite possibly yield attributable to an initial estimate of real growth in business rates in 2013-14 and 2014-15, would operate to local government's disadvantage and give most of the benefit of incentives for growth to the Treasury, rather than to local people and local businesses. The proposals need to be amended to deliver a deal for local government that is demonstrably fair.

5. The government proposes that amounts of forecast national business rates for 2013-14 and 2014-15 above the Spending Review 2010 control totals will be *set aside*. The baseline figure for the Business Rates retention scheme will be based on the 2014-15 spending control total. The amounts of forecast business rates above this amount will be set aside and may be used to fund other grants to local government.

6. At individual billing authority level, the amount of *set aside* will be determined as a fixed proportion of the authority's forecast business rates income. Set aside money will have to be paid to the government.

7. For 2013-14, authorities will be retain amounts in addition to their individual baseline figures that, in total, equal the £1.3bn by which the Spending Control Total for that year exceeds the corresponding figure for 2014-15. At individual local authority level, it is proposed that this adjustment is calculated by reference to a notional formula grant calculation. The *set aside* for 2013-14 will then be calculated after making this adjustment.

8. The Technical Paper discusses in detail how individual baseline figures should be calculated. The broad approach that the government proposes to adopt is to:
    a. take the 2012-13 Formula Grant settlement (after applying damping) as the starting point; then
    b. make a calculation of 2013-14 Formula Grant equivalent, based on the 2012-13 numbers; and then
    c. make a calculation of the 2014-15 baseline figure using the 2013-14 Formula Grant equivalent as the starting point for the calculation.

9. Within that framework, the Technical Paper offers some choices about how the calculations are done:
    a. **Option 1** – adjust 2012-13 numbers by reference to the average year-on-year changes in the Spending Control totals (which would require the overall 2012-13 Formula Grant figure to be split between lower-tier, upper-tier, police and fire elements according to a standard methodology set out in detail in the Technical Paper); or
    b. **Option 2** – re-apply the 2012-13 Formula Grant methodology to arrive at revised numbers for 2013-14 and 2014-15.

    The Technical Paper points out that Option 2 would be likely to lead to greater changes to the current distribution than Option 1, and that in applying Option 2 there are a number of further choices to be made, including:
    - whether to update data (in particular, population data);
    - whether to review the formulae for around £2bn of funding currently included in Formula Grant via tailored distributions;
    - whether to review concessionary travel formulae; and
    - whether to amend the weightings in the grant formulae for needs and resources elements.

10. Finally, the Technical Paper explains how funding for New Burdens, adjustments for local authority boundary changes and provisions for periodic resets of the system might be managed.

Technical Paper 2: Measuring business rates

1. Under the proposed business rate retention scheme, individual local authorities' baselines will ultimately be set by reference to the government's calculation of *forecast national business rates* for 2013-14 and 2014-15. Technical Paper 2 explains how the Government proposes to calculate *forecast national business rates,* given that estimates from billing authorities will not be available in time. The paper then goes on to set out proposals for how the national baseline will be apportioned between individual authorities.

2. The Government proposes to establish the *forecast national business rates* using:

   - the actual national non-domestic multiplier for 2013-14;
   - an estimated non-domestic multiplier for 2014-15, based on the latest published Office for Budget Responsibility forecast of the retail prices index;
   - a mid-year estimate of the rateable value on local rating lists for 2013-14 and 2014-15.

3. The Government intends to publish the methodology for establishing *forecast national business rates* as part of the summer consultation on the local government finance settlement.

4. The resulting yield, adjusted for mandatory reliefs and other items, will form the national business rates baseline, from which individual billing authorities' baselines will be derived on the basis of *proportionate shares*. Once set, the proportionate shares would be fixed unless a reset of the rates retention system was undertaken.

5. A billing authority's *proportionate share* would be its individual business rates income expressed as a percentage of the aggregate of all billing authorities' rates income. For single tier authorities, this percentage multiplied by the national baseline would yield the figure for their individual baseline (depending on the treatment of single purpose police and fire authorities). However, in two-tier areas, there would be a further apportionment between billing authorities and county councils (discussed in more detail in Technical Paper 3).

6. The Government also proposes to use proportionate shares to determine how much a billing authority is required to contribute to the national *set aside* (discussed in Technical Paper 1) and other adjustments.

7. *Individual authority business rates* would be calculated using each authority's gross yield, adjusted for any additional income and allowable deductions such as mandatory and discretionary reliefs. Transitional relief is proposed to operate outside of the rate retention scheme.

8. The Government sets out two options for how individual authorities *proportionate shares* of business rates could be calculated:

   - **Option 1** – a spot assessment on a particular day of authorities' estimates of their 2012-13 business rates yield;
   - **Option 2** – an average of an authority's rates income over two or three years.

   The paper points out that whilst Option 1 could provide the most up-to-date snapshot of authorities' business rates income, it would not necessarily take into account volatility and poses the risk of measuring rates yield at a particularly high or low point that may not result in a fair starting point. By contrast, Option 2 could have the effect of smoothing the effects of year-on-year volatility and provide an accurate reflection of what authorities had actually collected.

9. In addition to the existing relief schemes, the Government proposes to introduce a number of allowable deductions that would be factored into the calculation of an individual authority's business rates, including:

    - Charges on property
    - Costs of collection
    - Interest payments
    - Losses in collection
    - The City of London offset
    - Uplift in rates revenue within Enterprise Zones

LGA Comment:

Local authorities need assurance that, in addition to a fair starting point providing a proper incentive for growth, any new system ensures that their resources keep pace with spending needs. The fairness of individual baselines depends on both an accurate calculation of the forecast national business rates and the extent to which that calculation discounts growth that local authorities should be allowed to retain. As one of the factors in the methodology for establishing *forecast national business rates* relies on forecast inflation, local authorities need greater clarity on how the Government intends to address any discrepancies between estimates and the final totals, particularly if future inflation turns out to be lower than forecast. Greater clarity is also required on the basis on which rateable value is to be estimated for 2013-14 and 2014-15: it would not be appropriate for local authorities to be held to committing up-front to pass over to the government their forecast real growth in yield.

Technical paper 3: Non-billing authorities

Summary

1. The paper considers how non-billing authorities (county councils, police and single purpose fire and rescue authorities) would be funded within the Business Rates retention scheme.

Options

2. **County Councils –** The paper proposes that the incentive for growth should apply equally to counties and districts in two-tier areas to reflect levers for growth. To achieve this, a fixed percentage of all Business Rates income collected by districts in a two-tier area will be paid to the county.

3. The paper consults on whether this percentage should be calculated on the basis of:
   a) fixed national shares (each tier would be allocated a standard proportion of Business Rates based on average national spending).
   b) individually-tailored shares (based on each district council's Business Rates yield as a proportion of the county total, so for example if a district council's Business Rates yield was 20% of the county total it would retain 20% of the billing authority business rates baseline with the remainder going to the county).

4. **Police Authorities** – The paper argues that police authorities have more limited levers to influence growth and therefore proposes that they will receive a fixed sum of forecast national business rates for 2013-14 and 2014-15. The Home Secretary will decide how that funding is allocated to individual police authorities. The government will review police authority funding beyond this period and any resulting changes would be implemented from 2015-16.

5. **Fire and Rescue Authorities –** The paper proposes that county fire authorities should be funded in the same way as other county services, through a percentage share of retained business rates and any tariff or top-up. The paper asks for views on whether single purpose fire authorities should be funded in the same way as county fire authorities or through fixed funding allocations as for police authorities. It highlights that the government intends to fully review the way fire and rescue authorities are funded after 2014-15.

   LGA Comment
   Councils, police and fire and rescue authorities will respond to the options proposed taking into account local circumstances and it is likely that different authorities will have different views. The LGA invites views from its member authorities to ensure the issues and risks of each of the options to share Business Rates income are properly understood and that the rate retention system produces a fair outcome for all billing and non-billing authorities.

Technical paper 4: Business Rates Administration

1. Technical Paper 4 considers how payments and information flows to central government and between billing and non billing authorities will be administered.

2. **LGA comment:** It is essential that these proposals ensure a transparent and efficient system for both billing and non-billing authorities. Any additional process costs for authorities should be funded as a new burden.

<u>Information requirements</u>

3. This Technical Paper outlines the information the Government will provide to billing and non-billing authorities. This will include:
    - The authority's *tier-split share.* Billing authorities will also be notified of the *tier-split shares* of their non billing authorities.
    - For billing authorities; the payments that are due to central government as its share of the *set aside* and *adjustments* and any payments due to, or from central government by way of *transitional adjustments.* These will be expressed as a fixed sum. Non -billing authorities will also be notified of these payments.
    - The authority's *tariff* or *top up*.
    - *Levy* or *safety net* payments.

4. At the start of each year the government will provide all authorities with a statement of account itemising all direct transactions between authorities and central government and providing a schedule of payments. At the end of each year, central government will provide a final account that will be audited by the National Audit Office.

5. Billing authorities will be required to provide precepting authorities with a schedule of payments. Billing authorities will also be required to provide end-year outturns to central government and non billing authorities. These will be audited in line with current arrangements for NNDR3 returns.

6. The information requirements set out in the Technical Paper will be provided through the NNDR1, NNDR2 and NNDR3 returns.

<u>Payments</u>

7. In line with the current system, *tariffs, top ups*, *transitional adjustments* and any payments due to or from central government as its share of *set aside* and *adjustments* will be expressed as a fixed sum and should be paid in 24 fortnightly payments.

8. <u>In the first year only</u>, each non billing authority's *tier-split share of the billing authority business rate baseline* will determine both its *individual authority business rate baseline* and the gross payments due to it from billing authorities. The net payment from billing authorities to non billing authorities (gross payment due to it from billing authority +/- the non billing authority's share of any *transitional adjustment)* should both be paid in 24 fortnightly payments.

9. As explained in Technical Paper 5 any *levy* or *safety net* payments due from, or to, authorities will be determined at the end of that financial year and paid as a single payment. This will be calculated on the basis of an authority's *pre-levy income.*

10. *Year end reconciliation* will cover the provisional *transitional adjustment.* This will ensure that the provisional transitional adjustment (based on prior year forecasts) is reconciled with the amounts of transitional relief actually paid. This reconciliation would be carried out following receipt of audited outturn data. Any additional sums owed to the authority would be netted off payments due from the billing authority in the following year; any sums due would be added to the following years payments. The government propose that billing and non-billing authorities determine locally how any sums due from one to another are paid. Billing authorities' contributions to the *set aside* and *adjustments, tariffs* and *top ups* will not require reconciliation as these will be fixed sums.

11. A system whereby payments to non-billing authorities are set at the beginning of the year and only reconciled to actual collection rates at year end would place the entire risk of <u>in year</u> volatility on the shoulders of billing authorities. The government therefore proposes a means by which billing authorities can provide their non-billing authorities with amended payment schedules, reflecting in-year forecasts of the business rates they will collect. Key issues for local authorities will include the frequency of such changes and how such payment schedules are agreed – for example at fixed points during the financial year.

12. The arrangements outlined for year one in the Technical Paper would be expected to broadly continue in subsequent years. Billing authorities and their non-billing authorities would, in advance of the financial year need to agree a payments schedule. Following year one this would be based on a forecast of the business rates that the billing authority expected to collect.

<u>Enterprise zones and renewable energy projects</u>

13. The government propose that billing authorities exclude from their payments to non-billing authorities all yield in respect of renewable energy projects from 2013 and enterprise zones. Allocation of this funding would take place via the *year end reconciliation.*

14. Both growth in Enterprise Zones and business rates generated by new renewable energy projects coming into existence after April 2013 will be excluded from the levy calculation. Business rates collected in the area prior to the Enterprise Zone coming into existence and already generated by renewable energy projects prior to April 2013 will however be part of the business rate retention scheme. Baseline Enterprise Zones business rates will be determined for each Enterprise Zone by means of a spot assessment based on business rates yield on 31 December 2011.

Technical Paper 5: Tariff, top-up and levy options

1. Under the proposals for Business Rates retention, local authorities will from 2013-14 retain a share of business rates growth by either:
    a. retaining their Business Rates income, if that income is less than a baseline figure reflecting the current level of Formula Grant, and in addition receiving a top-up amount; or
    b. retaining their Business Rates income less a tariff, if the Business Rates income is more than a baseline figure reflecting the current level of Formula Grant.

2. Technical Paper 5 is about the design of the tariff and top-up arrangements. It also covers design options for a supplementary levy that might be applied in cases where an authority could be said to benefit disproportionately from Business Rates retention.

3. In order to illustrate the impact of the options in the Technical Paper, CLG have helpfully published an *Interactive Calculator* to enable users to explore the principal features of the proposed Business Rates retention scheme.

Tariffs and top-ups

4. The government proposes that the Business Rates retention scheme will operate for each local authority by reference to a baseline, calculated by reference to 2012-13 Formula Grant, that sets an initial funding level. Authorities entering the new arrangements with a level of Business Rates higher than the initial funding level will pay a *tariff* to the government. Authorities that enter the new arrangements with Business Rates that are lower than the initial funding level will receive a *top-up*. The authority's status as a tariff payer or top-up recipient will only be changed thereafter on a reset of the system.

5. The Technical Paper discusses two options for tariff and top-up amounts. Either:
    c. these amounts can remain fixed in cash terms; or
    d. the tariff and top-up amounts can be increased by reference to RPI inflation.

6. The Technical Paper illustrates that different authorities are likely to have different preferences, and seeks view on the options. A fixed tariff is likely to be preferred by authorities liable to pay it; by contrast, top-up authorities are likely to prefer indexation of the top-up amount.

7. The Technical Paper also illustrates how arrangements for top-ups and tariffs might work for authorities electing to be part of a pooling arrangement, and asks whether there is agreement that, in such an arrangement, the pool's tariff or top-up position should simply be the aggregate of its members' individual tariffs and top-ups.

LGA comment: As the Technical Paper notes and discusses in detail, decisions about top-up and tariff arrangements cannot be taken in isolation from other key decisions, in particular about how any *levy* on 'disproportionate benefit' should operate, and what arrangements should apply to provide a *safety net* for authorities experiencing significant dips in Business Rates income. The overall design of tariff, top-up, levy and safety net arrangements needs to represent a consistent package that is fair to all types of authority.

The levy and the safety net

8. The Technical Paper recognizes that some authorities could gain significantly more than others from the basic tariff and top-up arrangements. The government therefore proposes to recover 'disproportionate' benefit through a *levy*. The levy proceeds would be redistributed to local government, principally through a *safety net* to protect authorities whose Business Rates income falls, either temporarily or permanently.

9. The Technical Paper notes that the levy could be calculated by reference to year on year changes in Business Rates income, or by reference to change compared with the original funding baseline. A preference for the latter approach is stated, with the baseline either fixed in cash terms or indexed, to follow the decision taken on the tariff and top-up design.

10. The design of the levy could be either:
    e. a **flat rate percentage** of growth above the baseline; or
    f. **banded percentages** of growth above the baseline, with progressively higher levy rates; or
    g. a **proportional** levy that seeks to ensure that there is a fixed relationship between the percentage increase in an authority's Business Rates and the percentage increase in its retained income.

11. The Technical Paper seeks authorities' views on the design options, and also asks for views on whether pooling arrangements should be incentivized by being allowed a more favourable treatment for the purposes of the levy than would have applied had the authorities concerned not been members of a pool.

12. The Technical Paper offers various options for the design of the safety net:
    h. it could operate to protect authorities experiencing a significant year on year decline in Business Rates income;
    i. it could operate on declines in income by reference to the original baseline funding level (or by reference to the indexed baseline);
    j. safety net funding might need to be scaled back, if the proceeds of the levy proved insufficient, or recouped from future levy income.

Technical Paper 6: Dealing with volatility

1. The Business Rates income that local authorities collect from one year to another can be affected by changes, either in the rateable value of properties or because properties move between different authorities' rating lists. In practice, there can be significant negative volatility.

2. The main consultation paper proposed that a proportion of the levy pot should be used to help manage the impact of significant negative volatility, which may be increased where alterations – for example, appeals against valuations – have a retrospective effect back over, potentially, several years.

3. Technical Paper 6 considers how such income volatility could be handled and considers different ways in which authorities could be compensated:
    a. **Option 1:** to isolate the specific events giving rise to that volatility and provide authorities with compensation for those events;
    b. **Option 2:** to adopt an application-based approach, under which authorities would have to apply for support from the levy pot;
    c. **Option 3**: to put in place a *safety net* that provided support if local authorities' Business Rates income fell below pre-determined thresholds.

4. The Technical Paper points out that Option 1 would allow support to be focused on unforeseen changes to local rating lists, but in practice would rely on judgments within the Valuation Office Agency. Option 2 would depend on the decision of central government in response to specific applications. As it would provide no certainty to local authorities it might be of limited help therefore in planning for the impact of volatility.

5. The government is therefore minded to adopt **Option 3** which would provide a safety net to local authorities and provide them with financial support where their retained income fell below pre-determined thresholds, regardless of the reason for that fall. (Greater detail about how the safety net would work, and about the interaction between the thresholds that might be set are provided in greater detail in *Technical Paper 5: Tariff, Top Up and Levy Options.)*

6. The Technical Paper seeks authorities' views on whether or not some financial assistance should be provided to authorities for the effects of volatility. Authorities are asked which of the options they would prefer.

Technical Paper 7: Revaluation and transition

1. The proposed Business Rates retention scheme does not involve changes to revaluation or the scheme of transitional relief to ratepayers in order to phase in changes to their bills. Operating within the context of a new retention-based system, these aspects of Business Rates could result in significant turbulence in authorities' income if they are not managed carefully.

2. Technical Paper 7 sets out the government's proposals for managing the impacts of revaluation, including the transitional relief scheme. The next revaluation is expected to take place in 2015.

3. **Revaluations** are currently carried out to a constant national yield, and the government does not propose to change this approach. This means that as the business taxbase goes up, the nationally-set multiplier automatically falls. The impact of the lowering of the multiplier inevitably has a variable impact on local rates yield and historic evidence shows this could lead to considerable change in the local Business Rates income following a revaluation, even if the local taxbase has stayed constant or even grown.

4. To address this risk, the government proposes to adjust each authority's top up or tariff, following a revaluation, to ensure that their retained income is the same after revaluation as immediately before. There will be no further adjustments to deal with appeals: the provisions on volatility (Technical Paper 6) will cover this situation.

5. The issue of handling **transitional reliefs** in a more localised system is trickier. Currently, the transitional relief scheme is set up to be self-financing at a national level, such that the phasing in of increases to some ratepayers is essentially paid for by a similar phasing in of decreases to other ratepayers. However, this balance does not always hold at a local level, where an authority could well have more ratepayers on transitional relief than in downward transition, or vice versa. As a result, an authority could face losses or windfall gains in Business Rates income related entirely to the transitional relief scheme rather than changes to its local rates base.

6. Because of the potential volatility that might be attributable to transitional relief, and the risk that the growth incentive of the new scheme could be unintentionally obscured, the government proposes to take transitional relief out of the Business Rates retention scheme and deal with it by means of a separate series of *transitional adjustments*.

7. The *transitional adjustments* will be worked out by comparing the Business Rates income of a billing authority including transitional relief with the income excluding relief. If an authority's income including transitional relief is less than its income exclusive of transitional relief, the billing authority will receive an additional payment from central government. If the situation is the reverse, that authority would need to pay the balance to

central government. In both cases, the payments would be apportioned between billing and non-billing authorities.

8. Unlike most elements of the proposed scheme, transitional adjustments would be reviewed on an annual basis, based on forecasts and re-adjusted on outturn figures.

9. Even though the transitional relief scheme is designed to be self-financing, it can run on a deficit even at a national level in early years, unwinding in later years to come into balance. Currently, the cost of any deficit is managed within the national Business Rates pool. The government proposes that any deficit in the transitional relief scheme could be charged to the pot of funding derived from the proposed levy on disproportionate growth discussed in Technical Paper 5.

Technical Paper 8: Renewable Energy

1. The government is committed via the Coalition Programme to allow communities that host new renewable energy projects to keep the additional Business Rates that are generated. This Technical Paper seeks to clarify what kinds of projects are covered, who determines whether a project is covered and how the Business Rates from renewable energy projects should be apportioned between authorities in two-tier areas.

2. The Technical Paper first sets out the renewable energy technologies that the government proposes should be eligible as follows:
    a. onshore wind power
    b. offshore wind power – as applies to substation buildings and cables on land
    c. hydroelectric power
    d. biomass – using 100 per cent non-waste biomass fuel for combined heat and power only – which leaves out energy only, heat only generation and co-firing with fossil fuel
    e. biomass conversion from coal
    f. energy from waste including combustion for energy only and combined heat and power. This applies to the rateable value of the energy plant only and not any additional waste treatment plant (i.e. Materials Recycling Facility) on the same site
    g. anaerobic digestion, landfill and sewage gas
    h. advanced thermal conversion technologies – gasification and pyrolysis
    i. geothermal
    j. photovoltaics

    The government seeks comment on this list.

3. The Technical Paper proposes that ‘new’ projects are those that are entered onto the rating list from 1 April 2013

4. The Technical Paper sets out three categories that could be considered for Business Rates retention or part retention as new renewable energy projects:
    a. development of a new property whose primary purpose is the generation of a qualifying renewable energy (“new renewable power station”) – the proposal is that all Business Rates income from such developments should be retained in full
    b. expansion of an existing property whose primary purpose is the generation of a qualifying renewable energy – the proposal is that above RPI increases in Business Rates income from such developments, other than increases directly attributable to five yearly revaluations, should be retained
    c. new renewable technologies on properties used primarily for other purposes – the proposal is that, where the technology has a

separately identifiable impact on the rateable value of the property, the Valuation Officer should certify the relevant proportion of the total RV attributable to this, and the Business Rates income arising would then be retained.

The government seeks comment on whether this approach, involving the creation of a baseline of business rates on all existing renewable energy projects with new growth considered in light of the baseline, is the most effective mechanism for capturing growth. Comment is also sought on whether the previous statutory definition of "renewable energy projects" remains appropriate.

5. The Technical Paper seeks feedback on who determines whether a property is a new renewable energy project and provides two options:
    a. The relevant billing authority while working closely with the Valuation Office Agency (the government's preferred option)
    b. The Valuation Office Agency

6. Finally, the Technical Paper seeks feedback on the allocation of revenues from business rate retention with two options offered:
    a. The local planning authority retains all of the Business Rates revenue generated by renewable energy projects (the government's preferred option).
    b. The alternative could be splitting revenue along the same lines as the New Homes Bonus where the lower tier receives 80 per cent with 20 per cent going to the upper tier.

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Agenda Item 5

PART A

Report to:	**Budget Panel**
Date of meeting:	**12 June 2012**
Report of:	**Head of Revenues & Benefits**
Title:	**Localisation of Support for Council Tax**

1.0 SUMMARY

1.1 This report provides an update on progress in devising a local scheme to provide support to Council Tax payers and outlines the areas in which potential savings may be considered.

2.0 RECOMMENDATIONS

2.1 The Budget Panel is asked to consider this report and make recommendations to Cabinet regarding the options detailed at Section 4 of this report..

Contact Officer:
For further information on this report please contact Phil Adlard, Head of Revenues & Benefits, telephone extension 8023, email phil.adlard@watford.gov.uk

3.0 INTRODUCTION

3.1.1 The current method of providing support to Council Tax payers, Council Tax Benefit is to be abolished from 1 April 2013 by virtue of Section 33 Welfare Reform Act 2012.

3.1.2 This will be replaced by the power given to individual Local Authorities to create their own local scheme to support Council Tax payers as outlined in the Local Government Finance Bill, currently in progress through Parliament

3.1.3 This change in support will be underpinned by a 11.48% reduction in funding from the Government for expenditure on Council Tax Support and for Watford the 'target' is estimated to be £794k. At the outset however it needs to be appreciated that WBC will only suffer 16% of this reduction (£127k); with HCC suffering a £588k, and HPA a 10% (£79k) reduction in funding.

3.1.4 Herts County Council in particular is extremely concerned that district councils can make decisions (after suitable consultation) but the majority of any shortfall in funding will fall upon the County Council and the services it provides (to Watford residents as well as the rest of the County). It is estimated that should the current benefit scheme not be amended that HCC will suffer a £6.6m funding shortfall across the County as a whole.

3.2 A paper was presented to Cabinet on 20 March 2012 and it was agreed (Minute 49) that Budget Panel took the lead to review the work on a County-wide scheme and the development of a scheme for Watford. (The report to Cabinet on 20th March is attached at **Appendix B** as background information).

3.3 Two meetings have been held of a Working Party made up of Heads of Service and Section 151 officers at County Hall in which an evaluation of the potential solutions have been considered and are set out in this report.

4.0 ISSUES UNDER CONSIDERATION

4.1 The working party, reporting to the Herts Chief Finance Officers Group (HCFO) has identified areas in which Council Tax Support may be limited in order to achieve the savings required by the 11.48% reduction in funding. Figures have been collated County-wide to support decision making and the latest projections will be circulated at the Budget Panel meeting (as they are constantly being revised).

The particular elements are detailed within the next sections of this report.

4.2 Reducing the Capital Limit above which an individual will not be entitled to receive support from the current limit of £16,000. One possible aim of the review should be looking to a scheme that offers help for those that need it most. There is an argument that if an individual has capital at their disposal then this should be utilised before any assistance is received through a local benefit scheme. Figures have been gathered at £2,000 incremental levels and potential savings have been detailed at **Appendix A** and are shown as 'per week' figures, (the right hand column at Appendix A are the figures being referred to as they do not reflect those categories likely to be exempt from any changes). So, for example, if the capital limit was reduced by half to £8,000, then the weekly saving is estimated to be circa £587 and would equate to £30,500 in a full year.

4.3 Limiting the maximum level of Council Tax Support to that equivalent to a Band D or Band E Council Tax. Under the current arrangements, there is no incentive for existing claimants to seek smaller, more affordable accommodation. By implementing such a restriction claimants will be encouraged to move to cheaper accommodation. It is estimated at Appendix A that if the cap were set at Band D then the saving would equate to £3,820 per week (£198k in a full year). If however the cap was set at Band E then the annual saving would reduce to £40,500.

4.4.1 Increase the level of non-dependant deductions (deductions from benefit in respect of other adults resident in the property) so that they are double the existing rates. The current CTB scheme provides that where an adult non-dependent (usually a grown-up son or daughter) is living in a property, they are deemed to make a contribution towards the household expenses. This is accounted for in the form of a non-dependent deduction. This deduction is taken from any CTB award and is based on the non-dependent's gross income.

4.4.2 Calculations using the DCLG tool have been based on the deductions for 2011/12 which are as follows:

In receipt of Pension Credit, Income Support, JSA (IB) or ESA (IR)	Nil
Aged 18 or over and in remunerative work	
Gross Income greater than £387.00	£8.60
Gross Income £310.00 – £387.00	£7.20
Gross Income £180.00 – £310.00	£5.70
Gross Income less than £180.00	£2.85
Aged 18 or over and not in remunerative work	£2.85

4.4.3 These deductions represent 2-3% of a person's gross income if in remunerative work (work in excess of 16 hours per week) and amount to 29% of the Council Tax liability based on a Watford Band D property.

4.4.4 To set this in further context an individual with an income of £387.00 per week would be highly unlikely to qualify for Council Tax Benefit in their own right due to the level of their income.

4.4.5 Initial calculations suggest the savings that could be generated by doubling the existing level of non-dependent deductions but keeping the Income bands as shown could equate to £42.5k from this measure (again, line 12 at Appendix A).

4.5.1 Increase the "taper" from 20% to 25% so that the rate at which support reduces is greater if an individual's income is above minimum levels. Under the current scheme, if a claimant has an "excess income" (income above their needs), this results in a 20% reduction in any CTB award for every £1.

4.5.2 A simple, broad brush means of reducing expenditure in a local scheme would be to increase this taper and 25% has been used in the initial calculations at Appendix A. Such a change would result in an annual reduction of £74k.

4.5.3 The disadvantage of this course of action is that it will only affect non-passported cases (cases not in receipt of Income Support, Jobseekers Allowance (Income Based) or Employment Support Allowance (Income Related) and will not encourage individuals to look for work if there is a perception that they will be worse off by working.

4.6 In all cases the calculations have been based upon the following scenario:

a). Only Pensioners are protected from any reduction in Support with the introduction of the new scheme (as suggested by the DCLG)—and reflected at Appendix A, column 1.

b). Cases where only Pensioners and households where the youngest child is under 5 are protected (column 2)

c). Cases where only Pensioners and households where a member of the family is disabled are protected.(column 3)

d). Cases where only Pensioners and households receiving Employment Support Allowance (ESA) (column 4)

e). Cases where all of the above are protected (column 5 which has been used to evaluate likely savings).

4.7 The rationale for 4.6 is that the DCLG have stated that it is their intention that Pensioners will be protected from the impact of any reduction in the new scheme in addition to "vulnerable" groups. No definition of "vulnerable" has been forthcoming as yet so we have referred to existing duties with regard to Child Poverty and Equality Legislation.

4.8 In an attempt to alleviate the impact of any reduction in grant, the Government has made provision in the Local Government Finance Bill to increase the discretion of Local Authorities to reduce the discounts and exemption periods for empty and unoccupied properties.

4.9 The Government has indicated that in this area, its intentions are:

a) to abolish the exemption for property that are undergoing major repairs and replace with a power to award a discount from 0 to 100%.

b) to abolish the exemption for property that are empty and unfurnished and replace with a power to award a discount from 0 to 100%.

c) to allow authorities to levy up to full Council Tax on second homes. Watford is unique amongst Hertfordshire Districts in that it currently allows a discount of 50% as compared to 10% discount in all other districts.

d) to allow an "Empty Home Premium" of 50% (currently 100%, so an additional 50% on top) be levied on empty property that has remained so for two years.

4.10 Indicative calculations show that the total expenditure (and therefore the total savings should we take full advantage and allow no discount) are as follows:

a) £179,000
b) £136,000
c) £45,336
d) has not been costed at this stage

5.0 FINANCIAL IMPLICATIONS

5.1 The extent of any financial saving will be dependent ultimately upon the decisions of Watford Council. Section 4 of this report presented a range of options and, clearly, should a review of current discounts take place (as detailed at Paragraphs 4.9 & 4.10) then a full year saving of £360k might be realised. This would be without affecting the Council Tax Benefit Scheme at all.
The Budget Panel are reminded that the target saving (to compensate for loss of Government funding) is estimated to be £794k.

5.2 In addition, it is anticipated that there will be a reduction in the Benefits' Administration Grant received by Watford and which is currently £678,000.

6.0 LEGAL IMPLICATIONS

6.1 .The head of legal and property Services comments that If no scheme is decided by 31 January 2013, a "default scheme" will be imposed. This default scheme largely replicates the current local council tax benefit scheme.

7.0 CONSULTATION PROCESS

7.1 To avoid any legal challenge, before the local scheme is decided upon, the proposals must be submitted for extensive consultation. It is hoped that a provisional 'timetable' can be circulated at the Budget Panel meeting.

8.0 POTENTIAL RISKS

Potential Risk	Likelihood	Impact	Overall Score
That no agreement is reached on a county-wide scheme and that Watford has to devise and implement its own local scheme	3	2	6
That the Software required for a local scheme is not in place in time for the scheme to be fully operational in 2013	4	3	12

9.0 EQUALITIES

9.1 Watford Borough Council is committed to equality and diversity as an employer, service provider and as a strategic partner. In order to fulfil this commitment and its duties under the equality Act 2010 it is important to demonstrate how policies, practices and decisions impact on people with different protected characteristics. It is also important to demonstrate thet the Council is not discriminating unlawfully when carrying out any of its functions. In this instance, it is anticipated that a full Equalities Impact Assessment will be necessary before any scheme can be adopted.

Appendices: Appendix A Anticipated Weekly Council Tax benefit Savings
Appendix B Report to Cabinet 20th March 2012.

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Appendix A – Anticipated Weekly Council Tax Benefit Savings

	WBC		Savings per week			
		Pensioners only	Pensioners	Pensioners	Pensioners	Pensioners
	IN all cases pensioners are protected		and children under 5	and Disability	and ESA	& children under 5 & Disability &ESA
1	Capital limit £2000	3150.51	3129.92	3146.87	3150.93	3128.81
2	Capital limit £4000	1754.59	1752.50	1753.07	1755.01	1751.40
3	Capital limit £6000	1055.66	1055.67	1054.14	1055.66	1054.15
4	Capital limit £8000	588.57	588.58	587.06	588.57	587.06
5	Capital limit £10000	467.91	467.91	466.39	467.91	466.39
6	Capital limit £12000	200.22	200.22	198.23	200.02	198.23
7	Capital limit £14000	122.38	122.38	122.38	122.38	122.38
8	Minimum Benefit award £5	412.59	280.25	377.23	412.59	249.96
9	Maximum Council Tax Band D	7123.23	5348.69	5506.70	7079.42	3820.04
10	Maximum Council Tax Band E	1405.97	1120.45	1051.82	1401.71	779.74
11	Taper 25%	2557.86	1663.23	2294.34	2550.23	1430.23
12	Non dependant deductions are doubled	1023.96	949.71	892.85	1021.11	818.60

Note: The savings shown are exclusive. Should there be a combination of savings, i.e. Capital Limit at £8000 and Maximum Council Tax Band at D, the total savings will not be the sum of the two elements.

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PART A **APPENDIX B**

Report to: Cabinet

Date of meeting: 20 March 2012

Report of: Managing Director

Title: Local Council Tax Benefits

1.0 SUMMARY

1.1 In the Spending Review 2010 the Government announced that it would localise support for council tax from 2013-14, reducing expenditure by 10%. A consultation paper has been issued which sets out proposals on key elements of a framework for local support for council tax. This framework has been established in a local government finance bill due to be enacted imminently. It is intended that local authorities will establish their own local schemes by April 2013 having developed them in the summer and undertaken consultation with residents in the autumn.

1.2 The Council will need to decide how it wants to develop its scheme, and whether to do so in partnership with the County or other districts.

2.0 RECOMMENDATIONS

Cabinet is recommended to:

2.1 Consider the option of supporting the development of a County wide scheme;

2.2 Provide guidance on the process for developing a Watford scheme including how to best engage with members.

Contact Officer:
For further information on this report please contact: Manny Lewis, Managing Director
Extn 8185 manny.lewis@watford.gov.uk

3.0 DETAILED PROPOSAL

3.1 The intention of the local scheme is for local authorities to provide support for council tax for the most vulnerable in society, including pensioners. The localisation of support for council tax is taking place within a wider programme of welfare reform which is supposed to help move people back into work. However, there are certain low-income groups, in particular pensioners, whom the Government does not expect to work to increase their income and therefore intends protecting pensioners from any change in award as a direct result of this reform.

3.2 At this stage there has been no guidance as to how “pensioners” and “vulnerable” will be defined.

3.3 Where someone of working age receives council tax benefit, there will be changes which will affect them from April 2013. The changes will affect how they claim support with their council tax bill and may affect how much support they can claim. The Government has suggested that councils should be free to decide who should pay less council tax and how much less they should pay, as long as what it does means that pensioners are no worse off and people are generally better off working than claiming benefits.

3.4 Councils will have the discretion to require council tax benefit claimants to pay more of their council tax than they currently do. This will have to be carefully considered as customers that receive 100% council tax benefits will struggle financially if their benefit is reduced and they are asked to pay increased council tax. The implications for both Three Rivers District Council and Watford Borough may well be a reduction in council tax collection as pursuing customers with little money for a proportion of their council tax will prove expensive, and will increase arrears.

4.0 FINANCIAL ARRANGEMENTS

4.1 <u>Current Arrangements</u>

4.1.1 Subsidy is received in two forms; Administration Subsidy and Housing Benefit/Council Tax Benefit Subsidy.

4.1.2 Administration Subsidy is a specific grant paid to local authorities to help meet the cost of administering Housing Benefit/Council Tax Benefit. Individual allocations to local authorities are calculated annually based on a formula that is responsive to caseload. The funding contribution for the council tax benefit element is one element of this (together with elements for verification and fraud).

4.1.3 The current and future Administration Subsidy for each authority is:

Financial Year	2011/12	2012/13
Three Rivers DC	£509,275	£472,518
Watford	£715,379	£679,971

4.1.4 Local Authorities have already experienced reductions in Administration Subsidy over the past two years and it is anticipated that this trend will continue especially with proposals for the Universal Credit to be administered by the DWP / HMRC from October 2013, and the creation of a Single Fraud Investigation Service also from 2013.

4.1.5 Housing Benefit/ Council Tax Benefit Subsidy is paid in respect of the benefits paid out and both authorities are reimbursed at 100% for correctly processed claims. Payments are made on a monthly basis based on initial workload estimates submitted to the Department for Work and Pensions during the year (revised each August). A final subsidy claim is submitted the following year and subject to external audit.

4.2 **Future Funding of Council Tax Benefit Administration**

4.2.1 Changes to both housing benefit and support for council tax will have implications for their administration. The government has stated that it does not intend the administration of local schemes to put pressure on local government finances and they will therefore work with local authorities to assess the net impact of housing benefit centralisation and localisation of support for council tax, including the transitional costs of moving to the new arrangements.

4.3 **Proposed Funding Arrangements**

4.3.1 In future local authorities will need to design schemes for working age claimants, taking into account available funding and the support to be provided to pensioner claimants. There will be a new government grant to local authorities from the Department of Communities and Local Government and not the Department of Works and Pensions.

4.3.2 The government intends to reduce the funding for council tax benefit by 10%, and allow local authorities to develop their own ways of paying it. Pensioners will be protected from any cuts by this policy (as will the "vulnerable" claimants) but this does not affect the overall scale of the funding cut, so those below pension age and not vulnerable will suffer disproportionately.

Each authority will be affected differently depending on the size of the pensioner caseload as shown in the following table.

4.3.3

Authority	Pensioner Case-load	Ctax Benefit Currently Paid £k	Less 10% Reduction £k	Ctax Benefit to Pensioners £k	Remaining Benefit paid £k	Reduction in Benefit Payable
Three Rivers	47%	5,364	536	2,521	2,307	18.86%
Watford	39%	7,818	781	3,049	3,987	16.39%

4.3.4 Working age benefit claimants would therefore be expected to pay an additional 18.86% or 16.39% council tax depending on which authority they live in. The council tax payable on a band D property in Three Rivers (unparished) is £1,458, so this could potentially mean that an additional £275 per annum, £5.29 per week from working age claimants. For Watford the respective figures would be £1,516 band D meaning an additional £248 p.a. or £4.77 per week.

4.3.5 There is a worst-case scenario and that will depend on the definition of "vulnerable claimants". At present, claimants in receipt of Income Support (IS), Employment Support Allowance (Income Related) (ESA (IR)) and Jobseekers Allowance (Income Based) (JSA (IB)) currently receive 100% council tax benefit. If these claimants come under the definition of "vulnerable" and as a result be protected from any reduction, it increases the protected caseload to 80% for Three Rivers and 84% for Watford and consequently increases the impact of the 10% reduction.

4.3.6 The government envisages funding to be paid to local authorities in the form of an unringfenced special grant. This means that councils who experience lower than expected demand, or who are able to hold down demand by encouraging people into work, are able to use any surplus to help reduce the impact of these changes. There is however a distinct possibility that the total value of benefits subsidy actually paid exceeding the value of the grant received from the government. This is because the grant will be based upon a forecast prior to the start of the financial year and may not anticipate unexpectedly high levels of demand for support from eligible claimants.

4.3.7 Changes to the local scheme will not be permitted part way through the year so it is likely that authorities will need to make provision for increases in demand for the financial impact to be neutralised. Should an authority not do this then a shortfall will occur which would need to be financed from reserves or council tax generally. Any shortfall would be shared between the council and the precepting authorities (HCC and HPA).

5.0 EXPLANATION - PRINCIPLES OF THE SCHEME

5.1 The Welfare Reform Bill contains provisions for council tax benefit in its current form to be abolished across the whole of Great Britain by March 2013.

5.2 Local authorities will have a duty to run a scheme to provide support for council tax in their area. Any local scheme set up needs to align with universal credits and is supposed to support work incentives, and in particular avoid disincentives to move into work. For pensioners there should be no change in the current level of awards, as a result of this reform. Local authorities have also been advised to consider ensuring support for other vulnerable groups.

5.3 As a first step it will be necessary to establish the parameters of the new scheme taking into account the funding likely to be received from Government and includes:.

5.3.1 The framework set by central government: in particular requirements relating to support for pensioners and ensuring work incentives are supported.

5.3.2 Other duties and responsibilities, including the requirement under the Child Poverty Act to reduce, and mitigate the effects of, child poverty.

5.3.3 Local priorities, such as tackling unemployment.

5.3.4 Assumptions about take-up, including the assessment of the proportion of potential eligible groups that will actually apply for support.

5.3.5 The level of grant available, including any other sources of funding, and any estimated impact on council tax yield, for example as a result of non-collection.

5.3.6 An appeals process.

6.0 CONSULTATION

6.1 Both Three Rivers District Council and Watford Borough Council will need to submit individual schemes to some form of public scrutiny or challenge, including making the data underpinning the scheme publicly available. This could include formal public consultation as well as sign-off by elected Members. We will also need to ensure that the County Council and the Police have an appropriate role in this process. It would also be prudent to seek the views of the External Auditor to help ensure our scheme is robust.

7.0 COUNTY-WIDE SCHEME

7.1 The Hertfordshire Chief Finance Officers are considering whether a County wide scheme could have benefits for both residents and ease of administration and a further report will be produced in due course.

7.2 Chief Finance Officers and Chief Executives considered the attached report **(Appendix 1)** at their meeting of 1 March and agreed to refer the issues to the Leader’s meeting taking place on 8 March.

8.0 **IMPLICATIONS**

8.1 **Financial**

8.1.1 The Head of Strategic Finance comments that the revenue budget for 2012/2013 has made provision for the reduction in Housing Benefit Administration subsidy referred to within the body of the report.

8.1.2 With regard to the financial arrangements to apply from 1st April 2013, this was referred to as a key risk within the Draft Revenue Estimates Report to Cabinet on 16th January 2012 (paragraph 10.7 referred). A 10% reduction in Central Government support for housing benefit equates to circa £700K but the draft regulations, as currently framed, indicates that Watford would only experience 16% of this reduction (£112k), with HCC facing 74% and HPA 10%. It is always possible however that this may change as regulations are finalised.

8.2 **Legal Issues** (Monitoring Officer)

8.2.1 The Head of Legal and Property Services comments that the legal implications are included in the body of the report.

8.3 **Equalities**

8.3.1 As this will be a new policy for the Council it will be necessary to carry out an equality impact analysis to ensure the Council can meet it's equality duties before the policy is approved and implemented.

Appendices

Appendix 1 – Briefing Note to Hertfordshire Chief Executive Group and Hertfordshire Chief Finance Officer Group 1st March 2012

Appendix 1 to Cabinet report

BRIEFING NOTE

To: **Hertfordshire Chief Executive Group and Hertfordshire Chief Finance Officer Group**

Date: **1st March 2012**

Localising support for Council Tax in England – Government Proposals

Background

The Government announced, as part of the Spending Review in 2010, that it would localise support for council tax from 2013/14, reducing expenditure by 10%.

The proposals are part of a wider policy of decentralisation aimed at giving council's increased financial autonomy and a greater stake in the economic future of their local area. The proposals will take place within a wider programme of welfare reform. The framework is established in the Local Government Finance Bill.

Councils will be required to establish local schemes by April 2013. The Welfare Reform Bill contains provisions for council tax benefit in its current form to be abolished across the whole of Great Britain. The Welfare Reform Bill also contains provisions regarding the introduction of Universal Credit which will impact on the future administration of Housing Benefit. Proposals are for a phased approach to introduce a new single welfare credit which includes a housing element from autumn 2013.

The reform of Council Tax support will be accompanied by a new Government grant to Councils which will be taken into account when setting the local scheme.

Government Expectations and Rationale

- Protection for low income pensioners from any change in award as a direct result of this reform
- Councils should consider ensuring support for other vulnerable groups
- Localised schemes to support the positive work incentives
- Reinforce local control over council tax.
- Councils to have a significant degree of control over how a 10% reduction in expenditure on the current council tax benefit bill is achieved. This includes freedom to collaborate to reduce costs, develop schemes that support priorities that are shared by a number of neighbouring authorities and manage financial risks
- Provide Councils the opportunity to reform support for working age claimants more closely with the existing system of council tax discounts and exemptions

Prepared by: S. Marshall 28 February 2012
Corporate Director (Finance & Governance)
Dacorum Borough Council

Principles of the scheme

The Government is proposing that the following principles underpin the local schemes:

- Councils to have a **duty** to run a scheme.
- Any local scheme should align with Universal Credit.

Establishing Local Schemes

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

- Design – parameters likely to guide the scope of the scheme:
  - Government framework eg support for pensioners and ensuring work incentives
  - Other duties and responsibilities eg Child Poverty Act; duty to prevent homelessness etc.
  - Local priorities eg tackling unemployment
  - Forecasts for demand eg assessment of potential size of eligible groups
  - Assumptions about take-up eg assessment of the proportion of eligible groups that will apply for support
  - Level of grant available
  - and impact on council tax yield eg as a result of non-collection

- Consultation
  - Requirement to submit the proposed scheme to some form of public scrutiny or challenge.
  - Requirement to consult with other precepting authorities

- Feeding into the budget and council tax-setting process

  Councils will need to:
  - Know their indicative grant allocation in advance of the budget-setting process.
  - Have designed, consulted on and agreed the local scheme in advance of the budget and tax setting process.
  - Take account of value of discount offered under scheme as part of establishing the tax base.
  - Make any adjustments to individual's council tax bill to include information on support.
  - Ensure that any review of the scheme is consulted upon with adequate notice, NB schemes cannot be revised in year.
  - **Scheme must be adopted by 31 January 2013.**

Joint working

In two tier authorities, the billing authority will be the default lead on the design and administration of localised council tax support schemes. However, the Government sees there are benefits from local authorities collaborating with others to reduce administrative costs, manage financial risks (ie manage funding over a broader area) and ensure local schemes support wider local priorities for growth.

There is also the suggestion that there could be the pooling of funding received from Government if cross County working operated.

Managing Risk

Council tax benefit is currently demand led. However, from 2013-14 funding will be through DCLG grant paid from departmental expenditure limits. Therefore, Councils will need to consider how to manage any possible financial pressures as a result of a fall in collection rates, potential scenarios are:

- Collection rates decline because households receive a reduction in the support they receive to pay their council tax bill;
- There are unexpectedly high levels of demand for support from eligible claimants which exceeds the forecasts at the point where the budgets and council tax levels were set.

The Government proposes the following principles for managing these risks:

- The billing authority (in the two tier system) should be able to share any financial pressure as a result of unexpectedly high increases in demand for support with major precepting authorities (ie County Council and Police Authority). NB. Parish councils would be excluded from this.
    - If demand is higher than estimate this would result in a deficit on the collection fund
    - If demand is lower than estimate this would result in a surplus on the collection fund
    - Deficits and surpluses on the collection fund would be shared at the start of the new financial year.
- The billing authority should not be exposed to the totality of the financial pressure in-year (the effect of this may be there would need to be flexibility in precept payments to major preceptors in this scenario – the government is minded to enable billing authorities to vary the amount of precept paid to major preceptors in year).

Administration

Government wants to give councils as much freedom as possible, within certain parameters, to design their scheme. Government parameters include:

- Minimising complexity for claimants moving between councils. E.g. establishing identity by continued use of National Insurance number. Or, definitions such as income and capital (but with freedom for councils to define their own thresholds for working age claimants).
- Support joint working and data-sharing.

Fraud and error

The system for fraud investigation under a system of localised support for council tax will rest with the council, whereas the DWP Single Fraud Investigation Service will deal with Universal Credit and Housing Benefit fraud (with effect from 2013). Therefore, it will be necessary to identify means of collaboration.

Funding

Historically, funding for Council Tax Benefit has come from the Department Works and Pension Annually Managed Expenditure (AME). In the future funding will be cash limited and paid from the Departmental Expenditure limit (DEL) budget of DCLG. Also the amount made available will be reduced by 10%.

Schemes will need to be designed based on fixed grant allocation, Councils will also need to have contingency arrangements for unplanned increases in demand or take up.
The grant is likely to be an unringfenced special grant. Initially, it is proposed there will be an annual review of the allocation of grant. The Government have confirmed councils will be able to “top up” schemes from their own resources.

Administration grant funding – current funding is based on workload levels (new claims and caseload maintained). Changes to housing benefit and support for council tax will impact on administration costs. Government is proposing to work with Councils to assess the net impact of housing benefit centralisation and localisation support for council tax, including transitional costs of moving to new arrangements.

Timetable for implementation of localised schemes (subject to Parliamentary timetable)

Autumn/Winter 2011	Spring 2012	Summer 2012	Autumn/Winter 2012	Spring 2013
• Response to consultation • Local Government Finance Bill (provision for C/Tax support) • Central & Local Government work on model scheme	• Primary legislation through Parliament • Government prepare & consult on draft secondary legislation • Technical consultation on grant distribution	• Primary legislation passed • Secondary legislation prepared • Local Authorities design scheme • Information Technology changes scoped	• Secondary legislation passed • Grant allocations published • Local Authorities consult on scheme • Local Authorities set budget • Local Authorities adopt scheme	• Local scheme implementation

Hertfordshire base data
The existing annual value of Council Tax Benefit across Hertfordshire is around £73million (based on data as at 31.3.10) and the total number of beneficiaries was around 74 thousand. Based on this information the estimated savings requirement across Hertfordshire is £7.3million

Appendix A shows the detailed breakdown of the caseload, the average Council tax liability and benefit by caseload type for each Hertfordshire District. The table overleaf summarises these figures by category of claimant type.

Fig 1. Summary of Hertfordshire Claimant Categories **Category Type**	**Number of claimants**	**Ave. Council Tax liability £**	**Average Benefit £**	**Total weekly Benefit £**
Working Age (passported benefits)	25,239	20.42	20.18	509,304
Working Age – Earners	10,243			
Working Age – Non-earners	4,762			
Working Age – 2nd Adult rebate	472			
Working Age – Total non passported benefits	15,474	21.89	15.81	244,582
Elderly – Pension Credit	20,564	20.87	20.53	422,219
Elderly – Earners	745			
Elderly – Non Earners	12,304			
Elderly – 2nd Adult rebate	232			
Elderly – Total non Pension credit	13,281	21.98	16.24	215,692
Total Claimants	74,403			1,391,797

The proportion of working age and elderly claimants summarised by authority as follows:

Fig. 2	**Working Age claimants as % of caseload**	**Elderly as % of caseload**
East Herts	48.26	51.74
North Herts	50.18	49.82
St Albans	53.56	46.44
Three Rivers	53.61	46.39
Dacorum	53.82	46.18
Welwyn	55.19	44.81
Hertsmere	55.74	44.26
Stevenage	56.58	43.42
Broxbourne	59.97	40.03
Watford	61.39	38.61

Appendix B provides detailed information relating to 9 case studies undertaken by Welwyn. The case studies assume that to protect pensioners and still achieve the 10% saving requirement a saving of 24% would be required from Working Age Claimants. The impact of this is summarised below:

Case Study	Weekly Council Tax Benefit Existing scheme £	Weekly Localised Council Tax Support taking account of 10% savings req. Non pensioners £	Extra Annual Amount to be found by claimant £
1. Family with 2 earners – Band D tax	10.87	9.78	56.67
2. Couple with Capital – Band D tax	12.88	11.59	67.18
3. Self Employed Earner – Band B tax	10.83	9.75	56.47
4. Single Parent Earner – Band C tax	11.14	10.03	59.12
5. Passported Single Parent with Non Dep Band C tax	25.98	23.38	135.47
6. Family 2 earners with Non Dep Band D Tax	20.10	18.09	104.81

7. Disabled Carer with a Boarder – Band B	11.63	10.47	60.64
8. Second Adult Rebate – Non Dep on passported benefits – Band C tax	6.24	5.63	32.85
9. Disabled Couple with Capital over £6k – Band D tax	23.92	21.53	124.62

Issues for initial discussion and consideration

1. Political
    a. Political will for county wide scheme and collaborative working?
    b. Political implications resulting from introduction of localised scheme(s)
    c. Politicians preferred scheme criteria? (eg definition of vulnerable groups; tapered approach etc.)

2. Financial
    a. Affordability (eg. take up; top up)
    b. Impact on collection rates
    c. Administration grant funding impact on revenue budgets
    d. Grant funding to be paid to billing and major precepting authorities. Decision yet to be made regarding local precepting authorities. DCLG have asked should some funding go to parishes. If so, how can this be achieved?

3. Practical Issues
    a. Method of consultation and involvement of major preceptors in the development of the local scheme
    b. Information Technology capability
    c. Impact on existing contracts for delivery of Revenues and Benefits Services

4. Risks
    a. Timescale to implementation (ICT readiness)
    b. Impact on Collection Fund
    c. Demographic/Economic impact on take-up (risk borne by Major Preceptors)

Prepared by: S. Marshall 28 February 2012
Corporate Director (Finance & Governance)
Dacorum Borough Council

*PART A

Report to: Budget Panel
Date of meeting: 12 June 2012
Report of: Head of Legal and Property Services
Title: Budget Panel Work Programme 2012/13

1.0 SUMMARY

1.1 This report sets out the draft work programme for 2012/13. The Scrutiny Committee is asked to review the programme and consider additional items it wishes to include during the year.

2.0 RECOMMENDATIONS

2.1 That Budget Panel agrees the draft work programme for 2012/13.

Contact Officer:
For further information on this report please contact: Sandra Hancock, Committee and Scrutiny Officer
telephone extension: 8377 email: legalanddemocratic@watford.gov.uk

Report approved by: Carol Chen, Head of Legal and Property Services

Appendices

Appendix A – Draft Work Programme 2012/13

Background Papers

Minutes – Budget Panel 2011/12

File Reference

None

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APPENDIX A

Budget Panel
Rolling Work Programme

2012/2013

Committee Membership:

Chair Councillor Jagtar Dhindsa
Vice-Chair Councillor Steve Rackett

Councillors Jeanette Aron, George Derbyshire, Sue Greenslade, Peter Jeffree, Asif Khan, Rabi Martins and Peter Taylor

Date of Meeting	Item for agenda	Officer
12 June 2012	Business rates retention	Head of Strategic Finance
	Local Council Tax benefit Scheme	Head of Revenues and Benefits
	Work Programme	Committee and Scrutiny Officer
11 September 2012	Income Policy Review	Head of Strategic Finance
	Medium Term Financial Strategy	Head of Strategic Finance
	Financial Outturn 2011/2012	Head of Strategic Finance
	Finance Digest.– 5 month update	Head of Strategic Finance
	Review of Recharge System	Head of Strategic Finance
23 October 2012	Finance Digest Period 6	Head of Strategic Finance
	Property Up date	Head of Legal and Property Services
	CPZ/ Permit Charges	Head of Strategic Finance
27 November 2012	Draft Revenue and Capital Estimates for 2013/2014	Head of Strategic Finance
	Finance Digest	Head of Strategic Finance

Date of Meeting	Item for agenda	Officer
16 January 2013	Draft Revenue and Capital Estimates	Head of Strategic Finance
	Finance Digest	Head of Strategic Finance
	Work Programme and Annual Report	Committee and Scrutiny Officer
12 February 2013		

Following topics to be added to the work programme

- Income generation including from the Council's property portfolio
- How the current economic situation might impact Business Rates in Watford (25 October 2011 action)
- Local Council Tax Benefits scheme (Cabinet 20 March 2012 referral)