

By: Chief Executive  
To: Kent and Medway Fire and Rescue Authority – 18 December 2012  
Subject: COUNCIL TAX BENEFIT LOCALISATION  
Classification: Unrestricted

## **FOR INFORMATION**

### **SUMMARY**

In the Government's Spending Review 2010 it was announced that the national scheme for council tax benefit would cease and be replaced by local schemes from 1 April 2013. It was also announced that Government grant to support expenditure on such schemes would be reduced by 10% from the same date, as part of the deficit reduction programme. The decisions over scheme design rest with District Councils, but precepting authorities, like this Authority, carry most of the financial risk. It is therefore essential that both billing and precepting authorities work closely together to develop financially resilient schemes.

The purpose of this report is to advise Members of the latest position with regard to council tax benefit localisation and to outline arrangements that are being put in place to mitigate the financial impact on the Authority.

### **CONCLUSION**

Members are requested to:

1. Note the arrangements being developed to mitigate the impact of Council Tax Benefit Localisation (paras 6 and 7 refer).

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BACKGROUND PAPERS: None

## COMMENTS

### Background

- 1. Current arrangements for paying council tax benefits** – Currently Kent district councils and Medway Council, as billing authorities, administer the national scheme by making payments of council tax benefit to eligible claimants and recovering the full amount of the benefit in the form of a grant from the Government. Generally, for the individual, this takes the form of a cashless transaction whereby a claimant's council tax bill is credited with the benefit. In total the amount of benefit payments made by district councils in 2011/12 was £110.1m, and for Medway Council the amount was £19.4m. This had no financial impact on the major precepting authorities, namely, Kent County Council (KCC), Kent Police Authority (KPA) and the KMFRA, as it did not affect the council tax base or the rates of council tax collection.
- 2. New arrangements** – With new local schemes coming into effect from April 2013, if a claimant is entitled to any support it will be deducted as a discount from the council tax bill in the same way as other discounts are made, eg, the single person discount. This has the effect of reducing the council tax base which directly affects both the precepting and billing authorities. In recognition of the impact of this reduction, the Government will in future pay grant to both the billing and the precepting authorities.
- 3. Financial impact across Kent authorities** - If everything remained static there would be no financial impact on either the billing or major precepting authorities as, in theory, the Government grant would match-fund the discounts given. However, as part of the Government's deficit reduction programme, from April 2013 the grant is not only to be reduced by 10% but it will also be fixed for the remainder of the Spending Review period. As a result, the financial impact for all authorities is estimated to be £16.3m which equates to a loss of funding of £13.5m spread across the Kent Districts and precepting authorities (KCC, KPA, and KMFRA) and £2.8m for the Medway Council and major preceptors (KPA and KMFRA).
- 4. Financial impact for the Authority** – The impact on the Authority varies between the billing authorities as it is proportionate to each individual authority's share of the council tax bill. In broad terms the Authority's share of the loss for the Kent Districts is about £572k. For Medway Council the share is approximately £200k. Comparative figures for the KPA are £1,166k and £410k. For KCC the loss is potentially £9.8m.
- 5. Designing local schemes** - Since the changes were first announced, Kent local authorities have been looking at how to design local schemes that meet the requirements of the framework as set out in the proposed legislation, and which also reduce the financial impact on individual authority's budgets. The constraints due to timescales for amending benefits systems software and public consultation have

severely limited the options for designing new schemes available to authorities. The two major constraints are the Government's commitment that pensioners should be fully protected and that they should continue to receive the same level of support as they received under the existing scheme. In addition, local schemes should also consider protection for other vulnerable groups and not act as a disincentive to work.

### **Proposals to mitigate the financial impact**

6. **Medway** – It is the responsibility of billing authorities to design their own schemes to administer council tax support and, as such, Medway Council has been considering various options to mitigate the inevitable financial impact of these new proposals. Currently, Medway is proposing to introduce a different scheme from those of the Kent Districts, which will potentially mitigate the full financial loss of the reduction in the Government grant. As a result, it is likely that this Authority will not bear the impact of the previously anticipated funding loss of £200k in 2013/14.
  
7. **Joint working across Kent** – As mentioned above, whilst it is the responsibility of billing authorities to design their own schemes to administer council tax support, Kent billing and precepting authorities have been exploring options for new ways of working to secure financial resilience by collaborating over scheme design and sharing administration costs and risks on an ongoing basis. This approach has been overseen by the Kent Forum and has resulted in an innovative partnership initiative that meets the requirements of the draft legislation and also significantly reduces the exposure to loss of council tax income. Key aspects of the partnership arrangement are as follows:-
  - (a) **Standard reduction in benefits** – As mentioned in paragraph 5 above, timescales and software constraints have limited the scope for radical redesign of local schemes and therefore in general terms the approach adopted has been to apply a standard reduction in benefit entitlement for all non-pensioner claimants with some flexibility around individual district variations. The original figure for the standard reduction was set at 18.5% which, based on the best available information, would offset the 10% loss of Government grant. However, this figure has now changed to 8.5% to reflect the Government's offer of a one-off transitional grant to ensure that claimants currently on 100% support would pay no more than 8.5% of their council tax liability. Revised calculations suggest that the extra grant will not cover the gap between 18.5% and 8.5%, but to maximise Government funding across Kent by encouraging district councils to apply for the grant, the major preceptors are considering a proposal to meet any shortfall, provided that the district councils revert to their original scheme proposals in future years. For the Authority, the estimated cost of meeting the shortfall is £142k, which includes a proportionate share of the impact on district councils (£28k).

- (b) **Support for administrative costs** - In addition to the recognition of increased administrative costs and to incentivise collection and recovery rates, the major precepting authorities are also considering proposals to jointly contribute £125k to each district council. Should administrative costs exceed 15% of current levels there is scope for this to be increased further. It is anticipated that this would be self-financing as the partnership proposal would require the district councils to agree to a reduction of exemptions on Class C empty properties from six months to three months (thus increasing the tax base). As with the standard reduction proposals local district variations would apply if the same financial outcome could be achieved.
- (c) **Reimbursement for additional cost of discounts** - Obviously there is a potential for the caseloads and financial impact to increase, so as a further measure of support to district councils, the precepting authorities are considering the reimbursement of any increased costs on new council tax discounts from the local scheme that are higher than their share of the Government grant. In any case, the precepting authorities would be funding the greater part of this as a direct result of the discounts reducing the tax base. The proposal to fund the district councils' share would be minimal amounting to less than £10k per £1m increase in discounts given.

### **Next steps**

8. **Setting council tax bases and agreeing local schemes** – Following the completion of the consultation exercises, the district councils have been agreeing their final scheme details through their appropriate governance structures. An important aspect for them and the precepting authorities has been the setting of the council tax base for 2013/14 as this figure will reflect the estimated levels of discounts to be given under the local scheme and is the fundamental factor in calculating income. This figure is usually set around early December to allow all authorities to start to finalise their budget options.

### **IMPACT ASSESSMENT**

9. **Impact of local schemes** – As the responsibility for approving local schemes remains with the billing authorities, assessments of the wider impact of their content will have been taken into account as part of the decision processes undertaken by those authorities.
10. **Financial impact** - Paragraphs 3 and 4 above provided an overview of the financial impact on the KMFRA and the following sets out the impact in more detail of the Kent district schemes as well as exemplifying the cost implications of the partnership arrangements:-

**Kent Districts – Impact on KMFRA**

Cost impact of losing 10% grant	£572k (para 4)
Proposal to mitigate loss:-	
Cost impact of funding gap between 18.5% and 8.5%	£142k (para 7(a))
Admin fee	<u>£ 69k</u> (para 7(b))
<b>Reduction in loss to KMFRA</b>	<b>£361k</b>

**Medway Council – Impact on KMFRA**

Cost impact of losing 10% grant	£200k (para 4)
Anticipated additional council tax from revised scheme	<u>£200k</u>
<b>Financial Impact on KMFRA</b>	<b>0</b>

**CONCLUSION**

11. Members are requested to:
  - 11.1 Note the arrangements being developed to mitigate the impact of Council Tax Benefit Localisation (paras 6 and 7 refer).