LOCAL GOVERNMENT FINANCE BILL / WELFARE REFORM ACT 2012 – IMPLICATIONS FOR THE COUNCIL

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WHAT BENEFITS WILL THESE PROPOSALS BRING TO COPELAND RESIDENTS?
The provisions of the Local Government Finance Bill (LGFB) and the Welfare Reform Act 2012 will impact on the residents of Copeland to various degrees but potentially to the greatest extent to those currently in receipt of Council Tax Benefit / other Benefits and Empty Homes discounts.

WHY HAS THIS REPORT COME TO THE EXECUTIVE?
The report has been brought to the Executive to update members on some key issues for the Council that are currently working their way through the legislative process, and to advise on potential implications and decisions that will need to be made by the Council.

RECOMMENDATIONS:

That the Executive note the main provisions of the Local Government Finance Bill and also the Welfare Reform Act 2012, and that further updates will be given as further details become known.

1. INTRODUCTION

1.1 The Local Government Finance Bill (LGFB) was published in January 2012 and is currently working its way through the legislative process.

1.2 The two main features of the Bill are in relation to the government's proposals for re-localisation of Business Rates and Council Tax Benefits. Both of these initiatives are intended to take effect from 1st April 2013, and were highlighted as a risk in the Medium Term Financial Strategy 2012/13 to 2015/16 which was approved by Council on 23d February 2012, as both will have significant impacts on the financial planning forecasts of the Council.

1.3 The exact timing of the Bill's progress through parliament are not known, however to enable some of the provisions to become enacted, timescales are critical (particularly in relation to the Council Tax Benefit proposals).

1.4 In addition to the LGFB, the Welfare Reform Act 2012 received Royal Assent on 8th March and the introduction of the new welfare system will have implications for the Council.

2. BUSINESS RATE PROPOSALS

2.1 The LGFB sets out the general principles on how the localisation of business rates will operate from April 2013. Under the proposals, from April 2013 councils will directly retain a **portion** of their business rate growth. Currently councils collect the business rates but pay over the monies to a national pool which is then redistributed to authorities through the Formula Grant system.

2.2 The Council responded to the government's consultation on the new scheme in October 2011. The comments concentrated in the main on the following areas (with the current understanding of the situation in brackets):

- The proposed system is overly complex (this remains the case in the current proposals)
- The proposed system is based entirely on growth and other than protecting the base starting position takes no account of an areas future needs (this remains the case in the current proposals)
- The proposals represent a significant risk transfer from central to local government (this remains the case in the current proposals)
- Impact of Transitional Grant is not taken into account in the baseline (this remains the case in the current proposals)
- Nuclear Industry has no preferred status (this remains the case)
- Timescale for implementation is extremely tight (this remains the case and is dependant of the passage of the Bill through parliament)

2.3 Most of the precise detail of how the scheme will work in practice will be set out in secondary legislation which will be published in due course after the Bill receives Royal Assent. Because of the current lack of detail, it is not at this time possible to predict what the new system might mean in actual income to the Council, but some of the key points are:

- Under the new proposals, central government will retain the rate setting powers and the government will decide on what share of business rates can be kept by Councils. The remainder will be retained by central government and will constitute the ‘set aside’ amount which will be used to fund other grants to local authorities. The local and central shares of business rates will be announced in ‘Spring 2012’. Central government will retain the ability to alter the rate of the central and local shares where it feels it necessary to maintain affordability.

- In two tier areas, districts will retain the greatest share; around 80% of business rate growth on the local share in the area. The government’s intention on this is to ensure that the incentive to grow business rates is placed on the right councils. Whilst this benefits Districts in growth areas, in low growth areas, the financial risk will be higher.

- Under the new system, authorities will start out with a level of funding calculated by ‘comparing their business rate income with a baseline established by applying the 2012/13 formula grant process to the 2013/14 and 2014/15 spending control totals, and using numbers after damping’. These baseline figures are awaited.

- An authority whose business rates exceeds their formula grant will pay a ‘tariff’ to central government, whilst an authority whose business rate yield falls short of its baseline would receive ‘top-up’ funding. In effect the allocation of funding between the tiers means that the majority of Upper Tier authorities become ‘top-up’ authorities, and the majority of Districts will be ‘tariff’ authorities. Tariffs and Top-ups will be paid each year and will remain fixed for a period (yet to be determined) but are proposed to increase in line with the Retail Price Index.

- A ‘safety net’ system will operate for local authorities that in any year see their income drop by more than a set percentage (yet to be determined); whilst those achieving a ‘disproportionate growth’ in their business rates (yet to be determined) will pay a levy.

2.4 There is increasing concern that councils with weaker business rates potential will not be able to benefit from these proposals, and that inequalities between ‘richer’ and ‘poorer’ areas will be exacerbated. In particular information is awaited on the ‘safety net’ limits which will be operated to protect those councils that can only raise relatively low levels of business rates.

3. COUNCIL TAX BENEFIT LOCALISATION

3.1 The LGFB also sets out details of the proposed system for localising Council Tax Benefit. The government will cut 10% from the funding of Council Tax Benefit in April 2013 whilst granting limited local discretion for a new local scheme. This in effect means that councils will either have to cut support to those on benefits who are not classified as the 'most vulnerable' or alternatively find the saving elsewhere or put Council Tax up to compensate (notwithstanding the new Council Tax referenda rules). The definition of 'most vulnerable' has not been defined however central government have set out specific protection for pensioners.

3.2 The Council responded to the government consultation on the proposed changes in October 2011 stating that it was vehemently opposed to the proposals which will hit the most vulnerable in the community the hardest, particularly in areas such as Copeland which have limited employment opportunities.

3.2 Currently indications are that the government intend to pay grant in future directly to the major precepting bodies in proportion to precepts on the Collection Fund. This means that the County Council and the Police Authority will share in the risk of the share of the 10% cut in proportion to their precept. The impact (if any) on Parishes is still under discussion. The billing authority is required to consult with the other tiers over the design of the new scheme but ultimately (as currently set out) have the final say on the scheme.

3.3 A 'design tool' has recently been published by the Department for Communities and Local Government, and this will be reviewed by the internal officer group shortly. Work is also continuing to identify the various benefit 'groups'. Once this information is available and further details on the precise scheme are known, important decisions will need to be made by the Council. This will include a decision as to where the impact of the 10% cut will fall, and the design of the local scheme, including its definition of vulnerable people. We will also need to consult on the introduction of the scheme and the impact on various groups.

3.4 There is significant and growing concern in the sector, now being voiced by software suppliers, in being able to design a new scheme by January 2013 in time for implementation by April 2013 without the legislation and detail being in place. There is a call to delay the implementation by twelve months to enable the schemes to be properly designed but to date the government is intent on an April 2013 start date. A detailed programme of work is currently being drawn up by the officer group.

3.5 Localising Council Tax Benefit, as well as the problems involved in designing the new scheme and defining the groups to receive benefit, also brings with it significant financial risk e.g. in a period of economic decline the number of claimants may rise but the grant will be fixed.

4. LGFB - OTHER ISSUES

4.1 The LGFB also makes more minor technical changes to elements of the Council Tax system which includes:

(i) Replacing the empty dwelling exemption with a discount, the level of which can be set at the local level (i.e. the Council can decide the level of discount granted, if any).

(ii) Setting an ‘empty homes premium’ which can be charged on properties which have been empty for more than two years (i.e. the Council can set a higher amount of council tax for a long term empty property)

(iii) Making the mortgagee (the lender) responsible for paying the council tax when a property is repossessed, and

(iv) Enabling local authorities to publish council tax information on their website rather than in paper format.

5. WELFARE REFORM ACT 2012

5.1 On 8th March 2012 the Welfare Reform Act received Royal Assent. The Act legislates for the biggest change to the welfare system for over 60 years. It introduces a wide range of reforms that intend to make the benefits and tax credit system ‘fairer and simpler’ by the government’s stated aims of:

- Creating the right incentives to get more people into work by ensuring work always pays
- Protecting the most vulnerable
- Delivering fairness to those claiming benefit and to the taxpayer

5.2 The current Housing Benefit payments administered by the Council will be wrapped up in the new benefit payment and so there will be significant transitional, administrative, customer contact and potential financial implications on the Council. It is understood the government intend to write to current claimants of Housing Benefit in April advising of the changes. A further report will be prepared once the full implications on the Council and proposed timescales are identified.

6. CONSULTATION

6.1 The consultation process will need to be determined once further details are known.

7. ALTERNATIVE OPTIONS TO BE CONSIDERED

7.1 Options cannot be determined until further details on the impact of the proposals are known and these options will be considered as and when appropriate.

5. STATUTORY OFFICER COMMENTS

5.1 The Monitoring Officer's comments are: included in the report

5.2 The Section 151 Officer's comments are: included in the report

5.3 EIA Comments: the EIA impacts will be determined once more details on the schemes proposed are known.

5.4 Other consultee comments, if any: None at this stage

6. HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

6.1 An officer project group involving the Revenues and Benefits shared service officers will co-ordinate the work. Proposals will be worked up for consideration by Members.

6.2 The risks, financial, operational and reputational are significant and will be monitored regularly through the Resource Planning Working Group.

7. WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?

7.1 The main outcome from the Local Government Finance Bill will be a completely new way of central funding of local government services from April 2013.

7.2 A new system of providing Council Tax Benefit support will be produced to be effective from April 2013.

List of Appendices
None

List of Background Documents:

Consultation on Council Tax Benefit Localisation – July 2011
Consultation of Localisation of Business Rates – July 2011
Local Government Finance Bill - January 2012
Welfare Reform Act – March 2012