

# **Hampshire Fire and Rescue Authority**

**6 June 2012**

**Item 12**

## **Medium Term Financial Strategy Update**

### **Report by the Chief Officer and Treasurer**

Contact: Rob Carr, Deputy Treasurer Telephone:01962 847508  
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#### **1 Summary**

- 1.1 This report provides a short update on the Medium Term Financial Strategy for the Authority, taking into account a number of new pieces of information that will impact on the forecast for the years 2013/14 to 2016/17.
- 1.2 There are three key issues that need to be taken into account, namely the impact of the localisation of council tax benefits, the introduction of the business rates retention scheme, both of which come into force from the beginning of 2013/14 and the latest intelligence in respect of grant reductions from 2015/16 onwards.
- 1.3 Taking these factors into account and in considering a potential worse case scenario for the Authority, further savings of up to £3.5m could be required on top of the existing cost reduction and efficiency programme by the year 2016/17.

#### **2 Recommendations**

- 2.1 That the Authority notes the changes in respect of localising council tax benefits and business rates retention outlined in sections 4 and 5, both of which are due to come into effect in 2013/14.
- 2.2 That the Authority notes the changes to the financial forecast for 2015/16 and 2016/17 as set out in Section 6 of the report.

#### **3 Original forecast 2015/16**

- 3.1 The budget report that was approved by HFRA on 9 February 2012, included a forecast position for the financial year 2015/16 which showed a gross budget gap of £9.1 million. This was based on a number of key assumptions: –
  - Grant reductions of 12.5% in each of the years 2013/14 and 2014/15, followed by the assumed loss of the first council tax freeze grant of £983,000 in 2015/16.
  - Pay awards of 1%, 1% and 2% in the years 2013/14, 2014/15 and 2015/16 respectively
  - General inflation of 2.5% per annum

- No increase in council tax during the period.
- 3.2 The report assumed, that by fully implementing the planned efficiency savings programme, together with annual increases in the council tax of 2.5% per annum from 2013/14 onwards, that this would close the gross gap of £9.1 million highlighted in the report.

#### **4 Council Tax Benefit Localisation**

- 4.1 One key issue that has arisen since the budget was set, is the localisation of Council Tax Benefits. The Government consulted on changes to the current scheme early in the new year and initial indications were that the proposed 10% reduction in national funding for the new local schemes would fall on billing authorities as the implementers and administrators of those schemes.
- 4.2 Despite the fact that the consultation contained no proposals or questions for sharing this burden with major preceptors (County Councils, Police and Fire Authorities) the Government's response to the consultation meant that the loss of funding would in effect be shared by all authorities in proportion to the value of council tax income they receive.
- 4.3 This puts major preceptors in the position of having to pick up the financial consequences of new local schemes over which they have no control. In designing the new schemes, District and Unitary Councils must consult with major preceptors, but they have no right of veto and final scheme design is still down to the billing authorities to approve.
- 4.4 Based on current council tax benefit payments across Hampshire, the Fire Authorities share of the 10% loss of funding equates to £476,000 from 2013/14. Whilst it is likely that most schemes will incorporate some reduction in the benefits paid to some vulnerable groups (bearing in mind pensioners are protected) and there is also the option to reduce other council tax discounts currently granted, it is unlikely that software changes can be implemented in time for the 2013/14 financial year and therefore the full £476,000 loss would have to be assumed for that year.
- 4.5 From 2014/15 onwards, it has been assumed that changes will be made to schemes that will reduce the burden by £176,000, but this is clearly only a planning assumption at this stage. Other factors, such as the fact that the Government has not yet decided on how it will distribute grant funding in respect of the schemes and the concern that national coverage of the changes to the schemes will encourage greater take up by eligible individuals cast further uncertainty over the potential impact of this change.
- 4.6 Attached at Annex 1 for information is a briefing note put together for the Hampshire and Isle of Wight Chief Financial Officer Group that provides more background to the council tax benefit changes. The Authority also received a joint letter for Hampshire and Isle of Wight CFO's requesting some initial views on scheme design, which is set out in Annex 2.

## 5 Business Rate Retention

- 5.1 Members may be aware that as part of the local Government resource review, the Government is implementing plans for an element of business rates to be retained by local authorities and major preceptors. Fire Authorities have been included within the scheme albeit on a protected basis, whereas Police Authorities will now be funded entirely from central Government funds.
- 5.2 The new scheme will allocate a proportion of locally collected business rates to the fire authority which will represent a certain proportion of the current funding received from the Government in the form of grant. The balance between this amount and the expected amount of grant to be received will be 'topped up' from a central pool. What is not known at this stage is the level at which business rate income will be allocated to fire authorities. At the moment the only announcement has been that district councils will retain 80% of business rate income and county councils will receive the other 20%.
- 5.3 In the case of district councils in Hampshire, the retention of 80% of business rate income means that based on figures for 2011/12, £349 million of business rate income would be allocated to district councils, but of this only £62 million would be retained by them. The difference of £287 million would be paid to the central pool in the form of a tariff.
- 5.4 This 'top up' and 'tariff' mechanism will ensure that the grant reductions assumed within the current and future comprehensive spending reviews can still be imposed on local and fire authorities. The following table illustrates the way the new system will work based on the expected level of grant we have forecast for the 2013/14 financial year.

	<b>£'000</b>
Forecast formula grant for 2013/14	27,179
Retained Business Rates – Assume 3%	13,110
Top Up from central pool	14,069
Total Income	<u>27,179</u>

- 5.5 The reason that the split between the retained business rates and a top up from the central pool is important, is that there is more risk and reward associated with the retained Business rate income. In effect, since the business rate multiplier increases by RPI each year, and the new scheme guarantees that the top up from the central pool also increases by RPI, the whole of the £27 million will increase by an inflationary amount. However, the retained business rate income will also be affected by growth or decline in the business rate base in the area.
- 5.6 The reason that the Government has made both county councils and fire authorities top up authorities is to ensure that there is some element of protection in their funding rate going forward. In some respects, county councils and fire authorities are already protected since they will receive an average share of business rate income across the county, whereas individual districts may see significant swings in their business rate base from year to year.

- 5.7 The new scheme is due to be introduced from 1 April 2013, however, the Government has recently released a statement of intent on the detail of the scheme and have decided to retain 50% of all business rate income as a 'central share' for use by central Government, this will be followed by further consultation papers over the Summer. This therefore limits the opportunity to benefit from any business rate income growth and given that Fire Authorities do not know what share of local business rates to expect, it is difficult to forecast anything at this point..
- 5.8 Given this position, no assumptions have been made in the forecast around the business rate retention scheme and in reality of far greater importance is the anticipated level of grant reductions that the fire authority will receive as a result of the last two years of the current CSR and reductions arising from the next CSR.

## **6 Financial Forecast 2015/16**

- 6.1 Members will be aware that for some time now medium-term financial strategy has been based on the assumption that HFRA will receive a 25% reduction in grant funding over the last two years of the current CSR period. As part of last year's budget setting process, the forecast was extended to the 2015/16 financial year and a further assumption was made that the first council tax freeze grant equating to £983,000, would drop out in that year, since the Government had only promised this funding over the current CSR period. This gave rise to the gross deficit in funding of £9.1 million quoted in the February report.
- 6.2 Since that time, informal discussions with contacts at the DCLG have suggested that during the first two years of the next CSR, fire authorities could face further grant reductions of 7% per annum. What is not known however is whether or not this may be inclusive of the loss of council tax freeze grant or on top of it.
- 6.3 Taking these potential grant reductions, together with the impact of council tax benefit localisation into account, if we were to budget on the basis of a worst-case scenario for 2015/16, this would give a forecast gap of £11.0 million, rising to £12.6m in 2016/17.
- 6.4 This would mean putting in a further savings programme of £3.5 million to be achieved by the 2016/17 financial year, or alternatively, looking at slightly higher council tax increases over the period from 2013/14 to 2016/17 in order to help meet some of this gap
- 6.5 It is however worth reminding members at this stage, that all of these figures are highly speculative given that we do not even know what the impact of grant reductions might be in 2013/14 and 2014/15. Therefore, it is recommended that the Authority notes this potential financial scenario for the time being and then considers the matter more fully once grant figures are known for the next two financial years.

## **7 Supporting our corporate aims and objectives**

- 7.1 The budget and future grant reductions are obviously a key element in deciding corporate and service delivery aims objectives for the future.

## **8 Risk analysis**

- 8.1 This report sets out a potential financial scenario that the Authority could face in future years accepting that there are significant uncertainties around grant levels. Of key importance is to ensure that the Authority stays on the front foot in respect of the grant changes, which it has done successfully so far returning significant underspends in 2011/12 and setting a surplus budget in 2012/13. The Financial Challenge Programme Board chaired by the Chief remains the focus for ensuring that the Authority continues to respond effectively to the potential grant reductions in the future.

## **9 People Impact Assessment**

- 9.1 The contents of this report are considered compatible with the provisions of the equality and human rights legislation.

## **13 Consultation**

- 13.1 Public consultation on future Corporate Plans and the 2013-14 budget will take place in accordance with the current annual cycle that has been in place for some time.

## **14 Background papers**

- 14.1 The following documents disclose the facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of the report:

None

Note: The list excludes: (1) published works; and (2) documents that disclose exempt or confidential information defined in the Act.

## Localising Support For Council Tax

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The HIOW Chief Finance Officers Group will collaborate from a technical perspective in order to identify opportunities for consistency across Hampshire and the Isle of Wight in designing a Council Tax Support scheme.

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### INTRODUCTION

1. During 2011, the Government consulted on proposals for the localisation of support for council tax in England, and in doing so, the Spending Review identified that the cost of such support would be reduced by 10%, compared to the current cost of benefits. A Government response to the consultation was published on 16<sup>th</sup> December 2011, which confirmed these plans coming into effect on 1<sup>st</sup> April 2013.
2. This paper sets out some of the key facts surrounding council tax support and the implications for a localised approach. It also identifies opportunities for Councils in Hampshire to work together through the implementation of the local schemes.

### KEY FACTS

3. Currently lower income households pay a reduced (or in some cases zero) amount of council tax. This system of Council Tax Benefit (CTB) is administered by Councils on behalf of the Department for Work and Pensions (DWP). It is this system that will be abolished, and replaced with a new system of local support for council tax.
  - Current CTB expenditure in the UK is around £4.8 billion
  - Over 5.8 million people claim CTB, more than any other means-tested benefit
  - Almost half of CTB claimants (2.7 million) are pensioners
  - A quarter of CTB claimants (1.6 million) have dependent children
  - A tenth of CTB claimants (0.7 million) are low earners
  - On average CTB is worth £820 a year (£15.80 per week)
  - It is estimated that 2.5 million people are not claiming the CTB they are entitled to

### GOVERNMENT PROPOSALS

4. The proposals for localising council tax support are set out below.
  - Each billing authority will determine a local scheme for providing council tax support, before 31<sup>st</sup> January 2013, which becomes effective on 1<sup>st</sup> April 2013

- The scheme will define who is entitled to support, what reduction will apply for those categories of claimant and the process for applying for a reduction
- Pensioners will not be affected by this reduction in spending, as their existing levels of support will be retained through a nationally determined framework
- Councils will be free to establish whatever rules they choose for their scheme to support working age people, however the scheme must respect Councils existing responsibilities in relation to vulnerable groups
- The lead billing authority must consult with the major precepting authorities on the scheme design, and carry out public consultation on the proposals
- Once adopted, a scheme cannot be changed in the year
- If a local scheme is not adopted, then a default scheme (reflecting current criteria and allowances) will apply, which will result in the need to identify additional local resources in order to close the 10% reduction gap

### FUNDING AND RISK SHARING

5. Councils currently receive 100% subsidy for the benefit they pay out. However, in future, a grant will be paid to enable them to offer support for council tax. This will be a fixed grant, allocated in advance of the scheme design and the grant will be paid to both billing and major precepting authorities. Consequently, the financial risks associated with the scheme fall on those authorities.
6. The funding is expected to be 10% lower than the cost of existing CTB payments. The impact of this reduction on each Council is shown in Appendix 1, and equates to over £11m across Hampshire and the Isle of Wight.
7. The legislation will not determine funding as a constraint on the scheme design. Councils may, therefore, design a scheme which will cost less than the grant funding, or conversely, may provide discretionary funding to enhance the support available. However, in the early years, it is clear that any major improvements made to the default scheme carries increased financial risks from, for example, increased take-up and eligibility. Similar risks will also exist regarding any proposed reductions to the default scheme, for example, reduced collection rates, which would impact upon any anticipation of having closed the funding gap.

### SCHEME DESIGN ISSUES

8. In determining the scope of their schemes, Councils will need to determine whether their principle objective is to maintain (or extend) the existing support thereby minimising the impact on claimants; or whether it is to match costs against the funding transferred from Government. If it is the former, then the Councils will need to identify sufficient resources to meet the funding shortfall.
9. However, if it is the latter, then a detailed assessment of the implications on those claiming support will need to be made. With the scheme offering effective

protection to pensioner groups, the consequent impact on those of working age would be proportionately higher, estimated to be on average 17%-25% reduction in spending (see Appendix 1). This would be higher still if certain vulnerable groups were also to be protected within local schemes.

### ANTICIPATED TIMETABLE

10. With an implementation date of 1<sup>st</sup> April 2013, the timetable for implementing the scheme is ambitious, as shown below:

	Jan-Mar 12	Apr-Jun 12	Jul – Sep 12	Oct – Dec 12	Jan – Mar 13	April 2013
Legislation	Introduce Finance Bill; Primary legislation passage through Parliament		Consult/draft secondary legislation	Secondary legislation passed		
Modelling	DWP prepare model schemes and guidance for LA's		Local consideration of scheme requirements	Local schemes consulted upon	Local schemes adopted	
Funding	Technical consultation on grant distribution			Grant allocations published	LA Budget /C Tax setting	
Implementation				IT system changes, information for claimants, process changes, etc		Scheme implemented

### OPPORTUNITIES FOR CLOSE WORKING

11. It is clear that the implementation of the scheme will be very challenging against the timetable above. Each local authority has limited resources for a project of this scale, and the consequences of accepting the default scheme may not be affordable or desirable for all local authorities. There is also a significant amount of work concerning communications and information for claimants, IT systems changes, internal processes and claims handling.
12. Initial discussions amongst the HIOW Chief Finance Officers Group have concluded that it would be beneficial to work together on the preparation of a scheme through to implementation. As a minimum, this will allow a pooling of collective expertise in scheme design, so that legislation, guidance, etc. is interpreted consistently across the area.
13. There could, however, be greater benefits if, through this approach, a consistent scheme could be adopted across neighbouring areas. This would serve to assist the consultation process, claimants understanding of proposals and monitoring of the scheme impact going forward.

14. To this end, the HIOW Chief Finance Officers convened a special meeting early in March 2012 to consider the opportunities for collaboration in greater detail and are continuing to work closely to develop the schemes across the County.

### CONCLUSION

15. The Government's proposals to localise support for council tax present all local authorities with a significant challenge. The details surrounding the scheme are limited and the passage of legislation through Parliament will undoubtedly result in amendments prior to enactment. Nevertheless, it is clear that there are opportunities for local authorities to work together through the implementation process to make best use of the collective expertise and limited capacity for such a change. Collaborative opportunities may also exist in the scheme design for the greater benefit of claimants and participating Councils.

## Localised Council Tax Support/Benefit Funding Implications

Local Authority area	Total number of CTB claimants	% of working age claimants	Spending on working age claimants (£m)	% reduction spending on working age claimants	Current/ "Default" Scheme Cost	Total Funding Reduction	Estimated Borough/ District/ Unitary share (incl PP's)	Estimated HCC share	Estimated HFRA share	Estimated HPA share
Basingstoke & Deane	9,430	58%	£4.43m	17%	£7.7m	£770,000	68,000	586,000	34,000	82,000
East Hampshire	5,500	43%	£2.19m	23%	£5.1m	£510,000	67,000	369,000	22,000	52,000
Eastleigh	6,790	49%	£2.73m	20%	£5.6m	£560,000	73,000	406,000	24,000	57,000
Fareham	5,300	40%	£1.75m	25%	£4.4m	£440,000	44,000	331,000	19,000	46,000
Gosport	6,810	57%	£3.04m	18%	£5.3m	£530,000	74,000	381,000	22,000	53,000
Hart	3,040	50%	£1.41m	20%	£2.8m	£280,000	40,000	200,000	12,000	28,000
Havant	11,230	51%	£4.93m	19%	£9.6m	£960,000	129,000	693,000	41,000	97,000
New Forest	10,860	40%	£4.03m	25%	£10.0m	£1,000,000	150,000	708,000	42,000	100,000
Rushmoor	5,780	56%	£2.68m	18%	£4.8m	£480,000	62,000	349,000	20,000	49,000
Test Valley	6,380	45%	£2.41m	22%	£5.4m	£540,000	59,000	401,000	24,000	56,000
Winchester	5,920	46%	£2.30m	22%	£5.1m	£510,000	68,000	368,000	22,000	52,000
IOW	15,210	48%	£6.21m	21%	£13.1m	£1,310,000	1,133,000	-	52,000	125,000
Portsmouth	19,770	58%	£8.51m	17%	£14.6m	£1,460,000	1,237,000	-	66,000	157,000
Southampton	23,820	60%	£10.84m	17%	£18.1m	£1,810,000	1,551,000	-	76,000	183,000
<b>Total</b>	<b>135,840</b>				<b>£111.6m</b>	<b>£11.16m</b>		<b>4,792,000</b>	<b>476,000</b>	<b>1,137,000</b>

## Notes:

% reduction in spending on working age claimants assumes a consistent reduction across all categories. It is possible to vary the impact on each category of working age claimant through the scheme design.

Estimated funding implications for billing and major precepting authorities are estimates, based on relative proportions of council tax. For Districts with parishes, these have been included, as the implications of the proposals for parishes are yet to be determined.

Ms C Williamson  
Director of Corporate Resources  
Hampshire County Council  
The Castle  
WINCHESTER  
Hampshire  
SO23 8UB

25 May 2012

Dear Carolyn

### **CHANGES TO COUNCIL TAX BENEFIT**

As we have recently discussed, the DWP are proposing changes to the Council Tax Benefit Scheme, with replacement by a Council Tax Support Scheme. This requires local authorities to design and introduce a Council Tax support scheme from 1<sup>st</sup> April 2013.

On behalf of Hampshire District and Borough Councils this initial letter sets out the current issues, as envisaged at present:-

- District Councils in Hampshire have been a very effective and efficient administrator of the Council Tax Benefit Scheme, with high performance to meet the customer needs.
- The requirement to design a scheme is a fundamentally different task which Council's have not undertaken before.
- The DWP has set limitations on the design of the scheme, in particular protection for people of pensionable age and a requirement to incentivise work.
- The timescale for implementation is very tight and the chance of a smooth implementation by the 1<sup>st</sup> April 2013 is very risky.
- Universal Credit implementation commences in October 2013. The full implementation will be staged between 2014 and 2017. During this transition period authorities will be processing joint claims for Council Tax Support and Housing Benefit.
- The proposals include a reduction in the grant for this function (initial indications are for a cut of 10%).
- The changes in the approach to this mean that in the case of two-tier areas, the majority impact of grant loss will fall on the County Council, but will also be shared by the Police and Fire & Rescue authorities as preceptors.

I think it might be useful if I set out Hampshire District and Borough Council's thinking on the changes as an initial step in the consultation process.

- It is unlikely that we will be in a position to develop a totally new scheme for implementation by April 2013, and may consider designing over a longer period with implementation to coincide with the introduction of the Universal Credit, although we understand that the dates for implementation of Universal Credit may vary for local authorities according to their size, to spread the workload etc.
- In looking at the options for the interim period prior to a complete redesign, District Council's will be considering options and their impact on both billing and precepting authorities. These options include:
  - a) Absorbing the loss of grant and maintaining the benefit/support received by residents.
  - b) Passing on all or part of the reduction in grant by adjustments to the factors in the existing Council Tax Benefit Scheme, in particular we would consider using a maximum Council Tax liability of 90% or 80% therefore requiring a minimum contribution to the Council Tax from residents currently paying little or no Council Tax.
  - c) Restricting the upper Council Tax band at which the Council Tax support is calculated.
  - d) Amending elements of the scheme to use income types previously disregarded from the calculation.
  - e) Adjusting the savings and capital levels at which someone may or may not qualify for support.

The proposals for the Council Tax Support scheme require consultation between billing authorities and the precepting authorities.

At this initial stage, billing authorities would be interested in the comments and views from the County Council, the Fire & Rescue and Police authorities on the following issues:

1. Acceptance that a complete redesign will not be possible for 2013.
2. Delaying complete redesign to coincide with the implementation of the Universal Credit.
3. The views of precepting authorities on the loss of grant and the impact on precept levels.
4. Protection to any particular groups within the community from changes to the Council Tax Benefit Scheme during an interim period.
5. Protection for any groups within the community once the scheme redesign has been carried out.

6. Any principles the preceptors would like to see considered in the scheme redesign.
7. Any merit in discussing potential for risk sharing models in the event of unexpected changes in benefit caseload.
8. Any other issues of concern to precepting authorities.

Our outline timetables identify that our plans are to consult further with precepting authorities on a draft scheme in August of this year.

We look forward to any comments the precepting authorities may have at this initial stage.

Yours sincerely

A handwritten signature in black ink, appearing to be 'RJ' with a stylized flourish underneath.

Bob Jackson  
New Forest District Council

On behalf of:

Peter Gardner - Rushmoor Borough Council  
Jane Eaton - Havant Borough Council & East Hampshire District Council  
Andrew Wannell - Fareham Borough Council  
Peter Wilson – Gosport Borough Council  
William Fullbrook – Test Valley District Council  
Nick Tustian – Eastleigh Borough Council  
Alexis Garlick – Winchester City Council  
Kevin Jaquest – Basingstoke & Deane Borough Council