

POLICY, FINANCE AND ADMINISTRATION COMMITTEE

3 JULY 2012

REPORT OF HEAD OF COMMUNITIES AND NEIGHBOURHOODS

LOCALISING SUPPORT FOR COUNCIL TAX

1.0 THE PURPOSE OF THE REPORT

- 1.1 To seek approval for a draft Council Tax Support Scheme, to enable the Council undertake the required consultation for a final scheme to be adopted.

2.0 RECOMMENDATIONS

- 2.1 Members note the preferred basket of options (Option 1 Appendix A), subject to any adjustments made through a County-Wide scheme, to enable further consultation to be carried out prior to the adoption of a final scheme
- 2.2 To investigate further the possibility of reducing the impact on the reduction in Government funding through consultation with the major preceptors.
- 2.3 Members provide their views on the suggested changes to council tax discounts as set out in Option 4 in Appendix A

3.0 BACKGROUND

- 3.1 In the 2010 Spending Review the Government announced that it would be replacing Council Tax Benefit with a Localised Support for Council Tax from 2013-14 and at the same time reduce expenditure by 10 per cent.

The Welfare Reform Act 2012, contains the authority for the abolition of the national Council Tax Benefit scheme to be replaced by a local scheme, The Local Government Finance Bill currently progressing through parliament makes provision for the Localisation of Council Tax Support (LSCT) in England by imposing a duty on billing Authorities to make a localised council tax reduction scheme by 31 January 2013 and to consult with major precepting authorities (County Council, Fire and Police) and other persons it considers likely to have an interest in the scheme.

- 3.2 This reform is part of a wider decentralisation, giving Councils 'increased financial autonomy and a greater stake in the economic future of their area'. There are close links with the Business Rates Retention proposals (Separate paper on this agenda), Technical Changes to Council Tax and the introduction of Universal Credit from October 2013.

The Government states that it is committed to retaining Council Tax support for the most vulnerable in society and taking the poorest off of benefits by supporting them into work. It sees Local Authorities as having a strengthened financial stake in ensuring that local schemes support this aim and help to deliver the positive incentives to work that will reduce poverty and the reliance on long-term support for council tax assistance.

- 3.3 Currently under the Council Tax Benefit (CTB) scheme, the Council is reimbursed at a rate of 100% for correctly awarded CTB. Melton Borough Council (MBC) then claims subsidy directly from the Department for Works and Pensions through a claim form. Subsidy is paid from 'Annually Managed Expenditure' which is demand-led. Therefore

as the number of benefit cases goes up, then the Council receives more funding to meet this additional expenditure.

To secure the 10% reduction, funding for Council Tax from 2013, this will be met through an upfront allocation for all billing and major precepting authorities. This will be at 90% of the forecast subsidised Council Tax Benefit expenditure for 2013/14 and will be allocated to the billing authority. The initial indications suggest that the forecast for 2013/14 will be lower than that received in 2010/11 building in further cuts to the grant awarded. The Government expects billing and precepting authorities to work together to manage the impact. It is likely that this grant will be fixed for the first two years subject to 'floors' and ceilings' adjustments to take account of local circumstances. The aim of this is to ensure that no Local Authority, in the first year of the scheme, faces a budget pressure greater than a specified percentage as a result of the reduction in funding.

Once adopted a local scheme will be fixed for that financial year, although schemes can be amended for future years. This does create a potential risk for all Local Authorities as the grant will be fixed but entitlement to support will be demand-led and closely linked to the local economy and any significant impact within the local economy could lead to an increase in the number of claimants and increased expenditure which would have to be met by the precepting bodies.

Local Scheme

- 3.4 At present the Government is not proposing to make regulations to prescribe a local scheme or how to prepare for the scheme. If Local Authorities do not adopt a new scheme by the 31 January 2013, then a default scheme will take effect. (Essentially this will be the current Council Tax Benefit scheme with prescribed amendments).

Prescribed Classes

The Government will however, make regulations prescribing certain classes or groups who must receive reductions. This will include classes of eligible pensioners based on the same criteria that exists under CTB regulations. The Government has been clear that eligible pensioners will not be worse off under the new local scheme or any default scheme. Other prescribed classes will include: people from abroad; refugees and persons permitted to act for another person. All these categories will be treated as they are under existing legislation.

Policy

Regulations will require Billing Authorities, before adopting a local scheme to undertake certain actions in the following order:

1. Consult with major preceptors which have a power to precept to it
2. Publish a draft Scheme
3. Consult with other such persons it considers likely to have an interest in the operation of the scheme

Transitional Arrangements

The proposed regulations will allow billing authorities to use existing CTB claims to transfer over to a local scheme. Where a billing authority changes its local scheme in future years, it must put in place transitional arrangements for those affected – "as the authority sees fit".

Council Tax Base

The new LSCT awards will be treated as discounts on the taxbase. This has the effect of reducing the taxbase for Council Tax Collection which is expected to be offset by the upfront grant allocation reducing the budget requirement. No details on the practical solutions have been forthcoming or acknowledgement of the difficulties in converting high volumes of claims from cash amounts into taxbase discounts. Changes to the taxbase also effect parish councils.

Administrative Funding

DCLG and DWP are considering the funding that should be made available for administering local schemes. From the Council's point of view, this should take into account the ongoing cost of the new scheme and the residue work on the current national scheme.

Parishes (Local Preceptors)

The consultation is not clear on how local preceptors should be treated. Although the Government expects billing authorities and local precepting authorities to work together to manage the potential impact on the local band d council tax level. The suggestion is that this could be achieved by the billing authority passing down an element of the funding to the local preceptor. This amount is estimated to be £35K for Melton Borough Council. The Council will need to decide whether to pass on the appropriate shortfall, pass on the part or all of the grant funding or exclude local preceptors altogether. We will not know the full cost until later this year.

4.0 KEY ISSUES

Process for adopting a local scheme

4.1 As highlighted in 3.4 above, 3 stages must take place before a local scheme is adopted:

1) Consult major preceptors

The major preceptors must be consulted in a robust manner due to the potential impacts on them, as good practice for partnership working and to ensure that there is no legal challenge in terms of any local scheme that is adopted.

2) Public consultation

This will take place following the views of the major preceptors into the new scheme, decisions from this committee and the production of a draft scheme to consult on. This needs to be carried out as soon as possible to ensure that feedback can be gathered and analysed, impacts understood to shape the final scheme. The normal period for consultation would be 12 weeks. This puts enormous pressure on Billing Authorities in terms of timescale and fitting in with the budget process, especially taking into account the Council's equality responsibilities. Any major departure from the current scheme which has an adverse impact on a particular group(s) leaves the Council open to a legal challenge.

Consultation has already commenced with the County Council who are also representing the Fire and Police as they sit on the Leicestershire and Rutland Welfare Practitioners Group. It is expected that the Consultation process will start mid-July

I.C.T Systems

- 4.2 All leading Revenues and Benefits software Suppliers have made clear that they will be unable to make significant changes to current systems in time to meet the implementation dates. Any local scheme will therefore need to be limited in the first year to minor amendments as opposed to a fundamental system change to enable the scheme to be delivered.

Financial Saving

- 4.3 Although the size of any reduction in LSCT has yet to be finalised, it is expected to be in the region of £261K (being approximately 10% of subsidised expenditure) to £366K (15% of subsidised expenditure depending on Government allocation). As stated above, eligible pensioners will not be affected so any reduction will fall on working age claimants only. In addition the Government is clear that in developing any local schemes vulnerable groups should be protected. The Government does not intend to prescribe the vulnerable groups, but wants Local Authorities to consider responsibilities that already exist in relation to vulnerable groups.

The table below shows the situation in relation to Council Tax Benefit as of 1 April 2012. The working age vulnerable claimants are those claimants that have a disability. Working Age passported claims are those claims currently in receipt of 100% CTB (unless there are non-dependants in the household)

	Pension Age	Working Age Passported cases	Working Age Vulnerable	Working Age Other	Totals
Number of claimants	1,583	846	120	492	3,041
Value of CTB awarded (£)	1,346,249	771,378	98,437	341,685	2,557,749

The major issues to be factors highlighted from the above table are:

- Pensioners make up 52% of the caseload
- Excluding Passported and Vulnerable claimants the 10% reduction of £261k would need to be saved from the working age other group. This represents 76% reduction to the current award or an average increase in Council Tax of £530 per year.
- 10% reduction across all of the working age claimants is an average Council Tax increase of £179 per household
- To achieve the 10% (or more) reduction will mean a significant impact on the working age claimants

Options for the new scheme

- 4.4 The options for the proposed scheme to make the savings for members to consider and then for wider public consultation are attached at Appendix 1.

Action to date

- 4.5 The Leicestershire Chief Executives has set up a governance structure for the successful introduction of the Localising Support for Council Tax schemes across Leicestershire, Leicester and Rutland. The Leicestershire Treasurers Association (LTA) will oversee the introduction of the LSCT and how it links with the changes to Business Rates Retention, Technical Changes to Council Tax and the introduction of Universal Credit from October 2013. There are 3 operational groups sitting below the LTA

1. Communications Group
2. Chief Accountants s Group
3. Leicestershire and Rutland Welfare Practitioners Group (LRWPG)

The LRWPG is looking at the introduction of the scheme and includes representatives from all Leicestershire Districts, Leicester City Council, Rutland County Council and Leicestershire County Council. This will include aligning schemes where possible for local circumstances and identifying how the scheme will be operated in the first year, creating similar application forms, appeal processes and discretionary help schemes. It is proposed that the new local scheme will mirror the existing CTB scheme with some proposed amendments which are to be consulted upon. This will enable delivery of the scheme within the strict timescales.

A Programme Manager is in the process of being appointed to co-ordinate the operational groups and to provide reports to Senior Officers and Members across the County.

Next Steps

- 4.6 Consultation is currently taking place with the major preceptors and a broad range of options will be identified for public consultation. A company called Coactiva Aspiren has been commissioned to provide support to the Leicestershire Councils and Rutland County Council. They will undertake an analysis of Council Tax, Council Tax Benefit and ONS data providing an interim report on the impact on identified groups down to ward level. All Councils will be engaged in a series of discussions and a workshop to explain the potential impact and to provide insight into the options available. A final options paper, together with analysis of the public consultation, will be produced for Members to inform their decision prior to the adoption of the final scheme.

5.0 POLICY AND CORPORATE IMPLICATIONS

- 5.1 The introduction of the LSCT will have a direct impact on the following goals identified in the Corporate Plan.

- Support people and businesses through the economic downturn
- Improving the wellbeing of vulnerable people
- Meet the economic needs of Borough
- Improve life for people living in the most disadvantaged neighbourhoods

The LSCT is part of a wider Local Government Finance Review and links clearly with the Government's aim of reducing dependency on benefits and creating an incentive to work through encouraging all people to be better off through working rather than on benefits.

6.0 FINANCIAL & OTHER RESOURCE IMPLICATIONS

6.1 The final grant allocations to run the scheme will not be known until late in the year. Early indications are that Melton Borough Council will receive an allocation of £261K with £35K allocated for distribution to Parish Councils. The County Council, Police and Fire Authorities have also received their provisional estimates but we do not know at this time what this means in terms of overall grant to Melton Borough Council and therefore the size of the reduction that will need to be met.

6.2 CIPFA has undertaken some work on the grant allocations and from their analysis deduced that DCLG has assumed subsidised CTB will be 4.4% lower in 2013-14 than in 2010-11. Their view is that this is implausible as it assumes beneficial growth in the economy for 2012-13 and 2013-14 – a tentative assumption. Since April 2010, Melton has seen a 7% increase in the CTB caseload and the introduction of the new discount could in itself lead to an increase in the number of claimants.

As a result many Local Authorities will be looking at lower grant funding levels than expected and will have to deal with a 10% cut in funding plus an additional 4.4% reduction.

Local Authorities across the Country are considering whether to absorb the cost of the reduce funding allocation in the first year or to pass all or some of the reduction on to claimants. The expected reduction affecting Melton is the region of £261K to £336K. The actual cost of this to Melton Borough Council would be approximately £29K, with the remainder being met by the major preceptors.

6.3 DCLG and DWP are considering what funding should be made available for administering the local scheme. This needs to take into account the new scheme and also administering the remainder of the current scheme. £84K has already been granted to the Council but it is expected that a significant portion of this will be taken up in ICT costs, £12K has been committed to date on financial modelling tool, training and employment of consultants. The major preceptors have received £27K and discussions are taking place at a senior level for pooling of some of the monies to achieve economies of scale to deliver the scheme

6.4 The Council should consider a 'Discretionary Fund' to help support those claimants that experience severe financial hardship as a result of any changes. Discussions should take place with the major preceptors for financial support for any Discretionary Fund. This would need to be incorporated into the 2012/13 budget.

7.0 LEGAL IMPLICATIONS/POWERS

7.1 The Local Government Finance Bill was introduced into parliament on 19 December 2011. It imposes a duty on billing authorities to make a localised council tax reduction scheme by 31 January 2013 and to consult with major precepting authorities and such other persons as it considers likely to have an interest in the scheme. If a Council does not make a new scheme the Government will impose a default scheme, which is broadly based on the current Council Tax Benefit system.

7.2 A billing authority that does not consult in accordance with the requirements of the Bill prior to adopting a local scheme may be vulnerable to a judicial review of any decision to implement their local scheme. A challenge could come from major precepting authorities or local tax payers and welfare rights groups.

7.3 Billing Authorities will be required each financial year to consider whether it wants to revise or replace its scheme. Under such circumstances it will be for each Billing Authority to consider what transitional arrangements may be required to move from an existing scheme to a new scheme.

7.4 Any adverse impact of a local scheme on a particular group of people, may be subject to a legal challenge by that group or their representatives

8.0 **COMMUNITY SAFETY**

8.1 There are no direct community issues arising from this report.

9.0 **EQUALITIES**

9.1 An Equalities Impact Assessment is currently being prepared by across the County, enabling each Local Authority to have regard to its own local circumstances. Leicester City Council will be holding a workshop on behalf of all Local Authorities, for the major welfare rights and representatives of vulnerable groups and EIAs will be sent to all major interested groups for comment.

Work undertaken by Coactiva Aspiren will identify the impact of any proposed changes on particular groups and assist to identify what groups, if any, should be protected, considering the size of the reductions to be made.

10.0 **RISKS**

ICT Systems

10.1 IT software providers have already stated that there is insufficient time to make radical changes to current systems if adopted local schemes are significantly different from the suppliers only have to produce one product with minor variations. Potentially there could be over 400 different products across the Country. Changes will need to be minor to accommodate current systems but ICT suppliers will need to know and understand these as soon as possible. Currently the CTB system is linked to the Housing Benefit System through a number of parameters that will need to be 'unlinked'.

Collection Rates

10.2 Unless the full reduction is absorbed by Local Authorities, for a number of people their Council Tax bills will increase considerably or they will be paying Council Tax for the first time. This is likely to have an adverse impact on collection rates, additional costs in recovery and a reduction in cash flow. The Government has suggested that Billing Authorities may have the opportunity to revise their payments to the major precepting authorities within the financial year rather after the end of the financial year.

Financial

10.3 The grant allocation will be a fixed sum while demand may increase. Changes to demographics and/or economic climate could lead to more LSCT being awarded than anticipated, which will fall to Local Authorities. In addition any increases in council tax will not be covered by increases in grant.

The Council may need to consider new roles on the establishment to deal with the impact of the proposed changes in terms of collection and recovery of Council Tax, financial inclusion support and assistance in getting people back into work.

Social

- 10.4 The changes together with our Welfare Reform changes could have an adverse impact on the financial situation of claimants and their quality of life. Work is ongoing with partners to improve access to training, developing skills and enabling people to become work ready. A hardship fund could be provided working under similar circumstances to the current Discretionary Housing payments scheme to alleviate the impact on vulnerable people.

Legal Challenges

- 10.5 Proper consultation with major preceptors and the wider public need to take place to protect the Council from legal challenges. This will include the impact on particular groups especially in line with the Council's existing responsibilities under the Equality Duty (relevant protected characteristics), duty to mitigate the effects of child poverty, duty around homelessness and the Armed Forces Covenant. It is also considered that having a countywide scheme and working in partnership with other authorities should help reduce this risk by pooling expertise.

Increased Workload

- 10.6 The proposed changes are expected to lead to an increase workload in terms of the administration of the new Council Tax Support scheme, from the processing of claims, billing and collection with an increase in the number of customer contacts for both the front and back offices.

11.0 CLIMATE CHANGE

- 11.1 There are no climate change issues arising from this report.

12.0 CONSULTATION

- 12.1 Consultation has already commenced with the County Council, Police and fire authority who are members of the LTA group and sit on the operational groups that will deliver the new scheme. The County are keen for a consistent scheme (where possible) to be introduced across Leicestershire. This consultation needs to widen out to Members.

Leicester City Council has agreed to produce an online survey on behalf of all Authorities for public consultation. Press releases will be produced and a major workshop will be held to enable welfare rights groups and representatives of vulnerable groups across the County to have an opportunity to make their comments.

Discussions with local representative groups such as the Tenants Forum will also take place.

13.0 WARDS AFFECTED

- 13.1 All wards are affected.

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Date: 13 June 2012

Appendices: Appendix A – Options Analysis

Background Papers: 1- DCLG Localising Support for Council Tax – A statement of Intent
2- DCLG LSCT – Vulnerable People – Key Local Authority Duties
3- DCLG LSCT – Funding Arrangements Consultation

Reference: X: C'tees, Council & Sub-C'tees/PFA/2012-13/3-07-12/HR – Localising Support for Council Tax

OPTIONS APPRAISAL

The savings needed to be made are not known yet but will be at least £261K and possibly reaching £336K. As at 1 April 2012, the amount of CTB awarded to all working age claimants was £1,211,500. £261,000 saving represents 21% reduction across ALL working age claimants and does not allow protection for vulnerable groups or those passported claims

Option 1

This option uses a combination of measures designed to exceed the required saving of £261K to allow removal of removal of some elements considered undesirable or unacceptable following consultation, a contingency for increased caseload, increased recovery costs/.arrears and funding for discretionary schemes.

Proposed Change	Impact	Potential saving (£)	Reason for inclusion
85% maximum award for ALL working age households	This will have an effect on all including lone parents, couples, and disabled people	204,000	A significant amount of savings can be made and will affect all equally
Limit the amount of Child Benefit Disregard to the first child payment of £20.30	This will affect all families with more than one child	27,500 (Disregard all Child Benefit would yield £82K)	This change would reflect the situation in respect of child benefit prior to 2008.
Band D restriction	Restricts payment of LSCT to those in Band D properties or lower	20,000	Those living in larger properties are expected to pay more to their Council Tax
Increased taper to 25%	For every £1 over the needs allowance, the benefit is reduced by 25p (Currently 20p)	34,000	This is an increase in the existing taper and brings into line with the taper proposed for Universal Credit
Remove second adult rebate	On those households who reside with a second adult on a low income	5,000	Simplifies the current system ,
Reduced earnings disregards	Those working full-time	30,000	Removes the complex additional earnings disregard but compensates with a £5 per week increase in the standard amounts
Limit the amount of disregarded capital to £10K	This will affect those with of savings of more than £10K	8,500	Those with more savings can afford more Council Tax
Approximate benefit reduction of		£329,000	

There are a number of options within the above scheme. For example to simplify the scheme the following measures could be taken:

1. 80% maximum award across all working age cases
2. Increase the taper to 30%
3. No second adult rebate scheme

This would realise reductions of approximately £320K. The obvious advantage of this scheme is its simplicity but all of the current CTB complexities remain. Again it does not take account of vulnerable groups that might be identified

In addition there could be a number of other categories of claimants that could be taken into account further investigation by Coactiva Aspiren will analyse these and identify the impacts on various groups.

Other areas that could be considered and will be subject of the Coactiva report include:

- Removal of Child Benefit disregard altogether
- Disregard of child maintenance/charitable income
- Disregard of DLA
- Child Care disregard
- Earnings disregards
- Non-dependants
- Applicable Amounts
- War Pensions

Option 2

Do nothing – Default Scheme

If Billing Authorities fail to adopt a local scheme the legislation will result in the adoption of a default scheme. This scheme will be the existing national scheme. In this situation, the claimants would receive the current entitlement and the 10% reduction would be met by

- Melton Borough Council funding the £261K saving and reimbursing the major preceptors
- All preceptors having to absorb the loss of income –the impact to Melton would be approximately £29K
- All major preceptors increasing their Council Tax Rate to raise additional funding

Option 3

Adopt the current national scheme

The Council with agreement of all major preceptors could agree to keep benefit entitlement at the current levels and absorb the cost of the scheme. This is similar to 2 above, but would be a conscious decision of the Council and all major preceptors, This would require their agreement to this and failure to obtain this agreement may lead to a judicial review of the scheme. The approximate cost to Melton Borough Council would be approximately £29K.

Option 4

Adopt a scheme that reduces the reduction to Council Tax Payers

Potentially this could be a mid-way solution where, for example, instead of trying to make a £260K reduction in the amount of reduction awarded this figure is reduced to £130K. This could be achieved through

- Financial commitments made by the Council and major preceptors – potentially this could mean Council Tax payers are subsidising the scheme through their Council Tax or a reduction in other services
- The Government has made the link with proposals for changes to Business Rates Retention which gives the opportunity to increase income from increases in business rates. They suggest that the increase in funding is available for local services or help to reduce council tax for some or all tax payers – i.e. to reduce the impact of the reduction in grant allocation on current CTB claimants
- The Government is currently enacting Technical Changes to Council Tax. There are potential changes this Council could make to how it applies discounts to empty properties and second homes which could raise additional monies. However, the impacts of these changes would be administered by Melton Borough Council – including any complaints/ queries – who would keep approximately 11% of the additional monies raised. Therefore of the potential of £133K additional Council Tax raised, Melton would receive £13K. It would not be in the Council's interest to proceed with these changes without agreement from the major preceptors that funding would be available for administration of the scheme, funding for a 'hardship' pot and potentially money to reduce the council tax reduction to claimants.