

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 9
DATE OF MEETING:	6th DECEMBER 2012	CATEGORY: DELEGATED
REPORT FROM:	CHIEF EXECUTIVE OFFICER	OPEN
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SUBJECT:	LOCAL COUNCIL TAX SUPPORT SCHEME – FINAL PROPOSALS	REF
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That a Local Council Tax Support Scheme for South Derbyshire is approved in principle subject to the Local Government Financial Settlement for 2013/14.
- 1.2 That the final Scheme with the detailed parameters laid under regulations, is approved and recommended to Full Council at a Special meeting of the Committee on 10th January 2013.

2.0 Purpose of Report

- 2.1 To establish final proposals to implement a Local Council Tax Support Scheme for South Derbyshire. This follows the Government's proposal to abolish the national benefits scheme as it applies to Council Tax on 31st March 2013.
- 2.2 This will be replaced by a new system of local support on 1st April 2013 to be determined and administered by the billing authority (i.e. South Derbyshire District Council). The report provides an update and further analysis following the Committee's initial deliberations and proposals for a local scheme at its meetings on 6th September and 18th October 2012.

<http://cmis.south-derbys.gov.uk/CmisWebPublic/Binary.ashx?Document=14026>
<http://cmis.south-derbys.gov.uk/CmisWebPublic/Binary.ashx?Document=14187>
- 2.3 The report also includes feedback from the consultation on the changes, options available and the Committee's initial proposals.
- 2.4 Provisions for implementing a local support scheme are contained in the Local Government Finance Act (2012) which received Royal Assent on 31st October 2012. An Act of Parliament now imposes a duty on billing authorities to make a localised scheme **by 31st January 2013**.

2.5 As previously reported, the biggest challenge to the Council is dealing with a shortfall of approximately £1/2m in funding to support benefit claimants in the new scheme.

3.0 Detail

3.1 After considering the various options on 6th September, the Committee set out some outline proposals. The implications of these proposals were analysed in detail at the Committee's meeting on 18th October.

3.2 The proposals formed a package designed to protect certain groups from losing financial support in the new system, encouraging work, together with generating additional revenue by reducing other council tax discounts to help fund the loss of £1/2m in grant funding.

3.3 The proposals were as follows:

- To protect all Pensioners in the new scheme at their current level of support; this is a legislative requirement.
- To protect people with disabilities in the new scheme at their current level of support.
- To protect war widows and war disabled pensioners in the new scheme at their current level of support (***under the Armed Forces Covenant this will now also provide full disregard for military compensation payments in calculating benefit***)
- To extend the current tapering scheme for those moving off benefit and into employment as a means of encouraging people back into work.
- To work closer with partners to support single parent families with childcare arrangements and to access financial support in employment.
- To charge a Council Tax premium on long term empty properties (2 years) and to charge Council Tax on empty properties after 3 months.
- The net cost of the new scheme after generating additional funding would be allocated as a straight line reduction in current benefit across all unprotected working age claimants.

3.4 Effectively, this would produce a local scheme that would be based on the key features of the current national scheme.

3.5 Consequently, basic benefit entitlement would continue to be calculated on the current parameters, thresholds and allowances, etc as the national scheme. However, non-protected working age claimants would then reduce by a straight line percentage and would therefore pay a greater amount of their overall Council Tax liability.

- 3.6 Pensioners will be protected by keeping in place national rules with eligibility and rates being defined in Regulations broadly similar to those currently in place.

Funding

- 3.7 It was highlighted in paragraph 2.5 that the Council faces a shortfall in funding of £1/2m due to the reduction in national resources being allocated for council tax benefit. The funding allocation for a local scheme has provisionally been set at approximately £4.565m. The current cost of benefit awarded in South Derbyshire for council tax is £5.077m, i.e. a difference of £512,000.
- 3.8 As reported in October, each of the proposals outlined above was costed and compared against the estimated funding available. This is summarised in the following table. An analysis of current claimants is detailed in **Appendix 1**.

Provisional Grant Funding	£4,565,000
Levy Premium on Long-term Empty Properties	£45,900
Charge Council Tax on Properties empty for longer than 3 months	£188,094
Total Estimated Funding Available	£4,798,994
Protecting Pensioners	-£2,441,530
Protecting Disability Households	-£566,975
Protecting War Widows and War Disabled	-£5,500
Extending Benefit Entitlement for People returning to Work	-£24,000
Funds Remaining	£1,760,989
Total Cost of Current Benefit to remaining Working Age Claimants	£2,061,701
Potential Shortfall	<u>£300,712</u>

Options previously considered (but not approved) to remove the remaining second home discount of 10% and to charge council tax on properties awaiting structural repair after six months would generate around £65,000 per year. This amount is not included above.

- 3.9 The above table shows the potential shortfall (after protecting certain groups) against the total cost of current benefit awarded for all remaining unprotected groups, i.e. working age claimants.

Potential Straight Line Reduction for Working Age Claimants

- 3.10 The potential shortfall of £300,000 equates to **15%** of benefit currently paid to unprotected working age claimants. On average, this equates to a reduction of £2.18p per week. This would be spread across approximately 2,600 households (6% of all households in the District) with over 80% of these households in Council Tax Bands A and B.

Contribution towards Council Tax

- 3.11 Approximately 2,000 of these households currently receive 100% benefit and would start paying Council Tax.
- 3.12 As previously reported, this potentially brings to the fore the collection of relatively small amounts of tax, together with affordability for some households. This is analysed later in the report.

Further Parameters and Transitional Grant

- 3.13 The Council does have a considerable degree of flexibility in formulating its local scheme for working age claimants. Regulations laid down under the Act afford full protection to pensioners, i.e. they can be no worse off under the new local scheme compared to the current national scheme.
- 3.14 In addition, the Government have asked councils to be mindful of other groups who may be “vulnerable” and have reiterated local authority duties towards:
- Public Sector Equality under the Equality Act 2010
 - The Armed Forces Covenant (May 2011)
 - Mitigating the effects of child poverty (The Child Poverty Act 2010)
 - Preventing homelessness (The Housing Act 1996)
- 3.15 In October, the Government announced additional support to councils in the form of a transitional grant for one year only. This is aimed at supporting the development of new schemes. £100m nationally has been made available for 2013/14. This equals approximately 20% of the original funding taken out.

Criteria

- 3.16 The grant is voluntary and to qualify, billing authorities must adopt schemes which ensure that:
- Those who would be entitled to 100% support under current council tax benefit arrangements pay between zero and no more than 8.5% of their net council tax liability.
 - The taper rate does not increase above 25% (it is currently 20%).
 - There is no sharp reduction in support for those entering work.
- 3.17 Although not included in the criteria, the Government would not expect councils to impose large additional increases in non-dependent deductions. The amount of grant attributable to South Derbyshire is approximately **£124,000**, broken down as follows:
- District Council - £14,000
 - County Council - £90,000
 - Police Authority - £14,000
 - Fire and Rescue - £6,000

3.18 This grant has been confirmed and will be available for 2013/14 if the Council wish/are able to fulfill the criteria and apply. However, applications cannot be made until February 2013 which is after the statutory deadline for approving a local scheme. A decision would be made by the Government during March 2013.

Would the Council Qualify?

3.19 Comparing the Committee's initial proposals to the criteria above, the conditions regarding the taper rate and reducing support for those entering work would be met. The proposals do not include altering the taper rate, although this was one of the options consulted on. In addition, the proposals include increasing support for those entering work by extending the current 4 week protection period.

3.20 However, the key criteria of limiting any decrease in support to a maximum of 8.5% for those currently receiving 100% benefit would not be met. This is due to the 15% decrease required across all working age claimants, including those currently receiving full (100%) support.

Indicative Effect

3.21 **Appendix 2** details the effect of the 8.5% cap. After factoring in the transitional grant, but assuming other proposals remain unchanged, the overall financial position would be as follows:

Provisional Grant Funding	£4,565,000
Transitional Grant (Confirmed)	£123,422
Levy Premium on Long-term Empty Properties	£45,900
Charge Council Tax on Properties empty for longer than 3 months	£188,094
Total Estimated Funding Available	£4,922,416
Protecting Pensioners	-£2,441,530
Protecting Disability Households	-£566,975
8.5% Cap for those currently in receipt of full (100%) support	-£1,306,221
Protecting War Widows and War Disabled	-£5,500
Extending Benefit Entitlement for People returning to Work	-£24,000
Funds Remaining	£578,190
Total Cost of Current Benefit to remaining Working Age Claimants	£639,637
Potential Shortfall	£61,447

3.22 The above table shows that a reduction of £61,447 would be required from the remaining unprotected groups should the Council wish to apply for the transitional grant. As Appendix 2 highlights, this would require a **10%** reduction in current benefit for all remaining working age claimants who currently pay some Council Tax.

3.23 Under this scenario, for those households currently receiving 100% support, an average reduction of £1.39p (at the 8.5% cap) per week applies, with the

average being £1.25p per week extra, for those working age claimants currently paying some Council Tax.

Additional Consultation

- 3.24 It is considered that the Council has undertaken an extensive consultation exercise regarding the options and indicative proposals. (http://www.south-derbys.gov.uk/council_and_democracy/council_tax/ctsupport_consultation/default.asp)
- 3.25 The results and feedback from the consultation are detailed later in the report.
- 3.26 Some questions have been raised on whether new or further consultation would be required if councils were to apply for the transitional grant. This would be on the basis that consultation may not have been extensive enough concerning reductions in current benefit to working age claimants.
- 3.27 It is considered that the Council's consultation is sufficient. The consultation included a range of possible reductions for working age claimants. In addition, it was indicated (Option 3 in the Consultation) that some reduction, on an average basis, would apply to unprotected groups depending on other sources of finance to meet the overall shortfall of £1/2m.

Main Grant Funding

- 3.28 Although the transitional grant has been confirmed, the main grant (provisionally £4.5m) is still subject to change as part of the Local Government Financial Settlement which is due on or around 20th December 2012.
- 3.29 Clearly, given the significance of this figure, even a 1% variation on the provisional amount could affect the final decision on the make-up of a local scheme.
- 3.30 The main data on which the council tax support grant will be based is the number of benefit claims. The most recent data which will be used for the settlement shows that the Council's caseload has slightly reduced. Overall, across all councils nationally, claims have increased.
- 3.31 Consequently, as a proportion, the Council could see a reduction in its share compared to the provisional amount. This may not necessarily correlate to the reduced cost of benefit awarded locally.
- 3.32 Therefore, it is recommended that a local scheme is approved in principle subject to the final grant figure. A final decision can then be made at a meeting of the Committee on 10th January 2013.

Risks and Issues

- 3.33 As previously reported, there are several risks and issues that will need to be managed in a local scheme. These have been highlighted nationally and will be common to many councils. They include the collection of additional low level debt and potentially, the affordability of some households to pay

additional Council Tax in addition to other benefit changes also being implemented next April.

Debt Collection and Affordability

- 3.34 If current benefit is to be reduced as proposed, then there will be a difficult balance to achieve between collection and affordability. With or without transitional grant, there are fairly low levels of additional debt to collect, which on average would amount to approximately £2 per week.
- 3.35 However, in total this generates approximately £300,000 and £185,000 excluding and including transitional grant respectively.
- 3.36 A perceived advantage of the transitional grant option, compared to a straight line reduction for all working age claimants, is that households who currently do not pay any Council Tax will lose less, and this is seen as affording greater protection to those on the lowest household incomes.
- 3.37 However, additional debt will still need to be collected and the collection rate is extremely difficult to predict. Some councils are budgeting for a collection rate as low as 40%. At some stage in the future, it is likely that additional sums may need to be set-aside in the bad debts provision if collection rates fall significantly. This would become a cost to all Preceptors and effectively offset the original income debit.
- 3.38 In addition, once a demand is issued for Council Tax, the Council will have a statutory duty to collect and pursue non-payment. Besides the potential to incur additional costs, this may prove uneconomical in any case.

Demand

- 3.39 In addition, councils will need to manage the volatility in the number of overall claims. In the longer-term, demographic changes could increase the number of pensioners who, as a protected group, could put pressure on local resources.
- 3.40 The current number of claims and overall amount involved has remained fairly consistent so far in 2011/12. The latest figures show approximately 30 less claimants compared to the total in May 2012 which is the basis for the calculations in the current options appraisal.

Payments by Working Age Claimants

- 3.41 Currently, out of the 2,655 working age claimants, approximately 700 pay some Council Tax and this averages £450 per year per household. This leaves nearly an additional 2,000 households who will start paying some Council Tax under the indicative proposals.
- 3.42 Depending on the transitional grant option, the average amount involved would range from £1.39p to £2.18p per week, with much of this at the lower end (Band A properties).

3.43 Affordability aside, these are relatively modest amounts of between £70 and £100 per year which, under legislation, would be collected in monthly installments unless the household agreed differently.

3.44 Currently, there are a small number of these amounts collected, but clearly this would significantly increase the amount of lower level debt.

Calculating the Actual Reduction

3.45 The proposals assume that there is a straight line percentage reduction in the amount of support awarded, as calculated under existing methodology (say **Option 1**).

3.46 An alternative (**Option 2**) would be to reduce the amount of Council Tax that can be claimed for, i.e. all working age claimants would pay a fixed percentage of their Council Tax bill first and then be eligible for support on the remainder.

3.47 A possible drawback of Option 1 is the indiscriminate nature of a straight line percentage. Option 2 could be seen as a more transparent and easier to understand option if everyone is asked to pay a proportion of their Council Tax bill, with benefit then calculated as normal.

3.48 For households with the same Council Tax liability but with different income, Option 2 will result in everyone facing an equal reduction in cash terms. This is considered more progressive than having an equal reduction applied to the different levels of support awarded.

3.49 In addition, Option 2 would potentially lower the cut-off point for benefit entitlement at the margins for those not receiving full support. In some cases, existing claimants would fall over a “cliff edge” and may no longer be eligible for any support.

Estimated Impact of Paying Some Council Tax

3.50 For illustrative purposes and excluding transitional grant first, all working age claimants would be required to pay 15% of their Council Tax bill and then benefit entitlement would be calculated on the reduced liability. This would generate additional Council Tax of approximately £350,000 compared to £300,000 from a straight line cut in benefit. This is higher because the percentage reduction is being applied on a greater amount.

3.51 Including transitional grant, if all working age claimants paid 8.5% of their Council Tax bill, this would generate approximately £200,000. This is above £185,000 generated by reducing benefit for those on full support by 8.5% (to qualify for the transitional grant) together with those on partial benefit (10%).

3.52 Consequently, with this option, all working age claimants would be affected by the same percentage, i.e. 8.5%, whilst eligibility for the transitional grant would be possible.

3.53 It should be noted that under both options, the issues of collecting lower level debt and potentially taking people out of benefit at the margins will apply.

A Banded Support Scheme

3.54 At the last Committee, some discussion took place on the option of implementing a banded scheme whereby support would be limited to a particular Council Tax band.

3.55 Under the current national scheme all of the Council Tax a household is liable to pay is eligible for benefit. This means that any household from Bands A to H can get a full 100% rebate (depending on circumstances) regardless of the Band, i.e. it does not take account of the size or value of the property.

3.56 One of the targeted options included in the Council's consultation was to change this parameter and limit support to a Council Tax Band.

3.57 For example, if support was limited by applying it to a Band A property, this would reduce current benefit entitlement by approximately £230,000 in total and at Band B by just under £100,000.

3.58 Approximately 700 households would be affected under a Band A scheme with an average reduction in current support of £300 per year, with the minimum being over £100.

3.59 A perceived advantage is that a banded scheme affords greater protection to households in the lowest bands. However, as the above figures highlight, fewer households share the burden and it increases significantly in the higher bands. The average reduction would be 13.5% in a Band A scheme.

3.60 A banded scheme may also lead to some households who currently receive 100% support paying additional amounts. In some cases this could be higher than 8.5% which would preclude the Council from qualifying for transitional grant. This was highlighted in the Government's briefing accompanying the transitional grant scheme.

Illustrative Financial Implications of a Banded Scheme

3.61 Given the provisional shortfall in funding of £1/2m and assuming no transitional grant, a local banded scheme limited to a Band A property would achieve the following:

Reduction in Benefit from a Banded Scheme (at Band A)	£230,000
Levy Premium on Long-term Empty Properties	£45,900
Charge Council Tax on Properties empty for longer than 3 months	£188,094
Total Estimated Funding Available	£463,994
Estimated Funding Required	£512,000
Shortfall	<u>£48,006</u>

3.62 The above table shows that there would still remain a shortfall based on the provisional grant figure.

The Council's Collection Fund

- 3.63 The resultant transactions of a local scheme will be accounted for in the Collection Fund. As a growth area, the Council effectively carries an in-built surplus on its Collection Fund due to the increase in properties each year. The Council Tax Base is set at a particular time each year, but invariably this is exceeded as the next financial year progresses due to a continuing increase in new properties.
- 3.64 This surplus is shared between the preceptors in arrears, each year. This can vary depending on yearly collection performance but is effectively used to reduce Council Tax or contribute to the Council's budget in future years. The surplus is not budgeted.
- 3.65 It has been recommended that this surplus is maintained to manage the risk of volatility and demand, together with collection, during the year - i.e. it is held as a contingency for non-collection, changing circumstances, etc. pending on how the local scheme develops over time. As reported in October, the estimated surplus on the Collection Fund for 2012/13 is £196,000.
- 3.66 If a deficit is incurred due to non-collection or an increase in support for the local scheme, this would be transferred across to the General Funds of the precepting authorities (excluding Parish Councils).

Regular Review

- 3.67 As previously highlighted, the transitional grant (if applied for) will only be for 2013/14. Clearly, under this scenario, the local scheme will need to be reviewed before 2014/15 to assess the impact.
- 3.68 In any case, given other risks and issues, the scheme will be reviewed on a regular basis throughout the year with progress reports being made to this Committee.

Computer Systems

- 3.69 Based on the main options and indicative proposals, no major changes would be required to the system that is used to administer Revenues and Benefits. If software changes are required, this will be met from the Government Grant of £80,000 received earlier in the year to accommodate such changes.

Administration

- 3.70 This could increase with a new local system although if existing parameters are largely maintained, this should not be significant. There may be additional work required to implement the new system and in communication to claimants at the outset. This will be kept under review.

Consultation

- 3.71 The consultation period ran from 15th August to 7th November 2012. This took place through a general survey and questionnaire, together with various focus

and special interest groups, supported by the CVS. Presentations were also made at Area Forums, the South Derbyshire Partnership and the Parish Liaison Group.

3.72 The other preceptors of Council Tax have been consulted through the Derbyshire Financial Officers Association.

3.73 The consultation analysis is detailed at **Appendix 3**. The main themes that arose were as follows:

- The most popular option from the surveys returned was Option 4, i.e. a targeted reduction by changing the way in which current entitlement is calculated. This was followed by Options 1, 3 and 2 based on 77 responses.
- Option 4 was also favored by the Citizen's Advice Bureau although this would depend on which specific parameters were chosen.
- There was positive support for charging council tax on empty homes and residents felt that the Council should tackle the issue of empty homes.
- Generally, residents also felt that everyone should contribute something towards the new scheme with the shortfall in funding being shared as much as possible, i.e. "everyone should pay something."
- General concern was expressed about the implications, although there has been an appreciation of the Council's position and that it needs to resolve the issue.
- Discussions took place in the focus groups on other changes to the welfare system also being implemented next April and their affect on certain groups such as single parent families.
- There was a general endorsement for a scheme that is designed to recover shortfalls directly associated with the reduction in government funding, after taking reasonable account of any increases in claims and prudent recovery assumptions. However, reluctance to support a scheme which could be seen to 'over recover' any shortfall
- The Council should consider some enhanced role in helping households affected to access specialist advice and support. Along with other authorities in Derbyshire the Council has been approached by the Derbyshire Financial Inclusion Partnership for a relatively small grant of £5,000 to provide additional services.
- Using its powers, the Council should set up a Discretionary Hardship Fund, which could operate on similar lines to that which provides assistance to households to pay their rent in exceptional circumstances.

Equality Impact Assessment

3.74 The main options and indicative proposals have also been subject to an Equality Impact Assessment (EIA) in accordance with Council Policy and in particular to ensure “due regard” under the Equalities Act 2010.

3.75 Alongside the consultation, the results of the EIA are summarised in **Section 4 of Appendix 3**. The main points are shown in the following table.

Group	Positive impact	Negative impact
Socio/Economic	<p>The local Council Tax Support scheme would be based on the key features of the current national scheme. Basic benefit entitlement would continue to be calculated on the current parameters, thresholds and allowances as the national scheme.</p> <p>This means people can still apply for both housing benefit and local council tax support at the same time based on similar rules of entitlement until such time as other changes under the Welfare Reform agenda come into force e.g. Universal Credit.</p>	The local Council Tax Support scheme means the ‘non-protected’ working age claimants of the local scheme would have their benefit entitlement reduced on a straight line percentage or alternatively have to pay a fixed percentage of the headline bill.
Age	All pensioners to be afforded full protection under legislation in all local schemes.	N/a
Disability	The homeowner or dependent within the household who is registered disabled is protected by the local scheme.	N/a
Gender /Transgender		No disproportionate impact.
Marital status		No disproportionate impact.
Pregnancy / maternity	Explore ways of supporting single parent mothers (and fathers) through childcare arrangements or in accessing employment. Signposting to the County Council who offer advice and support associated with childcare arrangements and accessing the financial support that is in place.	Not to protect the current benefit entitlement for single parent families.
Sexual orientation		No disproportionate impact.
Ethnicity		Customers whose first language is not English may not be able to easily understand the changes in the scheme. This will be reviewed to establish if any problems for other members of the community become evident.
Religion / Beliefs		No disproportionate impact.

Next Steps

- 3.76 As previously highlighted, the final grant settlement for a local council tax support scheme is still awaited. Therefore, it is recommended that a scheme is approved in principle and that this is adjusted depending on the final amount awarded. This will be reported at a special meeting of the Committee on 10th January 2013.
- 3.77 At this meeting, the Committee will need to recommend full details of all changes to the Full Council meeting on 24th January 2013. As the national scheme is being abolished, detailed regulations will need to be laid down and adopted by the Council.
- 3.78 These will include recognition of all protected groups including full protection for war widows and the war disabled.

4.0 Financial and Corporate Implications

- 4.1 These are detailed in the report.

5.0 Community Implications

- 5.1 As detailed in the report, the proposals will have an impact upon residents of the District who currently claim benefit or in the future may become eligible for support under a local scheme.

6.0 Background Papers

- 6.1 *Localising Support for Council Tax in England*, DCLG Statement of Intent and Implementation papers (May 2011).

<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgfinancebill/>

- 6.2 *The Welfare Reform Act*, Department for Works and Pensions, details and further reading.

<http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/welfare-reform-bill-2011/>

- 6.3 *The Local Government Finance Bill (2011) – a brief Guide*

<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/lgfinancebill/>