
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	15th OCTOBER 2015	CATEGORY: DELEGATED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/revenues and benefits/council tax support scheme/2016 17 scheme/report to consider changes – Oct 15
SUBJECT:	A REVIEW OF THE LOCAL COUNCIL TAX SUPPORT SCHEME	REF
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendation

- 1.1 That the consideration is given to changing the parameters of the current Local Council Tax Support Scheme for 2016/17 to meet the overall shortfall in resources estimated in future years.
- 1.2 That subject to 1.1 above any change is subject to external consultation.
- 1.3 That a further report is considered by the Committee in January 2016 and a recommendation is made to Full Council on the parameters of the Local Scheme for 2016/17.
- 1.4 That the current Compensation Grant for the Tax Base paid to Parish Councils is reviewed and any changes are notified to Parish Councils by 31st December 2015.

2.0 Purpose of Report

- 2.1 To consider possible changes required to the current Local Council Tax Support Scheme for 2016/17. This may be required following proposed changes to certain welfare benefits at a national level.

3.0 Detail

Background

- 3.1 Following the abolition of the national benefits scheme for Council Tax on 31st March 2013, the Council implemented a local support scheme in its place which was implemented on 1st April 2013. From this date, support for Council Tax was no longer a “benefit” but a discount alongside those for single persons and empty properties, etc.

- 3.2 However, the detailed parameters of the local scheme were largely based on the out-going national benefits system in order to continue to calculate entitlement. Following consultation, the Council decided that this was the easiest and safest option to ensure that most claimants were afforded the same level of support as they would have received under the old benefits scheme.
- 3.3 Effectively, entitlement is largely based on income received from other welfare benefits, with many claimants being protected and “passported through” to Council Tax support. This scheme is known as the “default scheme” which councils are allowed to adopt in place of a scheme based on totally different set of criteria.
- 3.4 As a local discount scheme, under Council Tax Regulations, all councils have the discretion on how to calculate and award discounts to support residents in paying their Council Tax.
- 3.5 The Council’s scheme adopted and implemented in 2013/14, was also approved for 2014/15 and 2015/16, with no changes.

Parameters of the Local Scheme

- 3.6 The main parameters of the local scheme, as currently approved, are detailed below.
- i. Claimants of pensionable age receive exactly the same level of support as existed under the previous national scheme (this is a statutory requirement).
 - ii. Households who qualify for benefit through disability premiums receive exactly the same level of support as existed under the previous national scheme.
 - iii. War widow and war disabled claimants receive exactly the same level of support as existed under the previous national scheme.
 - iv. Military compensation payments are fully disregarded in calculating Council Tax support.
 - v. Working age claimants on passported benefit are deducted 8.5% from their entitlement calculated under the Local Scheme.
 - vi. All other working age claimants are deducted 10% from their entitlement calculated under the Local Scheme.
 - vii. Full Council Tax support for claimants entering work is paid for 8 weeks, an increase from 4 weeks under the previous national scheme.
- 3.7 This means that within the local scheme, pensioner and disability households are “protected.” However, the total scheme was originally defined in the context of a finite resource which was distributed to local authorities as part of

the annual funding settlement in 2013/14. This was less than previous amounts paid as Council Tax Benefit.

- 3.8 Therefore, in order to maintain protection for certain groups and to balance the Collection Fund at the outset of the local scheme, meant that working age claimants starting paying more Council Tax.
- 3.9 As previously explained, this scheme was implemented at many other authorities (the “Default Scheme”) although there were fewer councils who offered the added protection to disabled households compared to the Council.

Total Cost of the Local Scheme

- 3.10 The Council’s scheme supports approximately 6,000 households across the District, which is approximately 15% of all households. There are currently around 2,000 working age claimants.
- 3.11 The cost of the Local Council Tax Support Scheme is contained within the Collection Fund. Overall, it continues to reduce, although it has started to level off. In 2013/14, it reduced from £4.95m to £4.65m and was £4.5m in 2014/15. It is currently forecast to be approximately £4.45 in 2015/16.
- 3.12 The main risk of any local scheme is volatility as the number of claimants and individual circumstances can change regularly. Whereas under the national benefits system, the cost of supporting Council Tax was met by the Government, the cost of local support is met by the local preceptors and is a cost in the local Collection Fund.
- 3.13 There was a concern that the risk of volatility would have a material effect on the Collection Fund, especially if the cost rose and pushed the Collection Fund into deficit. Under accounting regulations, a deficit on the Collection Fund has to be charged to the General Fund of local preceptors.
- 3.14 However to-date, volatility has not been significant in the Council’s Scheme and there has been a steady reduction in the cost since 2013/14, in accordance with a steady reduction in overall claimants.

Timescale

- 3.15 Statutorily, the Council has to approve its local scheme each year even if there are no changes. This has to be approved by a meeting of the Full Council before 31st January each year. In respect of 2016/17, the local scheme will be proposed at the Council meeting on 21st January 2016, based on the recommendation of this Committee and allowing for any consultation required.
- 3.16 Therefore, consideration needs to be given to the Scheme for 2016/17, which is timely and allows for public consultation if necessary, especially if any changes are proposed. This will need to include other Council Tax Preceptors as any changes could also affect their financial position.

Impact of Changes to the National Welfare System

- 3.17 For 2014/15 and 2015/16, the Council rolled forward the original scheme approved in 2013/14 with no changes, except to uprate nationally set income figures for welfare benefits that are used to calculate the level of Council Tax support. In principle, the main parameters have not been changed.
- 3.18 As part of the Government's Budget in July 2015, some changes were announced to the national welfare system. This included a reduction in tax credits and other national welfare allowances, which will be effective from April 2016.
- 3.19 The impact on local support schemes for Council Tax is that as the income of benefit claimants is being reduced, this qualifies them, in principle, for additional support for Council Tax under the parameters of the current default scheme.
- 3.20 As the parameters are based on the "old" benefits system (the default scheme) entitlement is automatically calculated and flows through to the support scheme.
- 3.21 Clearly, a claimant's income can change at any time due to various circumstances. However, the impact of the latest Government changes is that they will affect a certain amount of working age claimants all at once.

Uncertainty

- 3.22 It is difficult to estimate the effect on the Council's Scheme. Currently, there are approximately 900 households in South Derbyshire which could be affected by changes to national benefits and in particular the reduction in tax credits. Depending on their circumstances beyond April 2016, these households could be entitled to up to £200 each of additional Council Tax support under the current parameters of the local scheme.
- 3.23 This equates in total to approximately £180,000 per year. Effectively, this would be an additional cost in the Collection Fund as it would reduce the amount of overall Council Tax collectible if these claimants are entitled to a greater level of support. Based on this amount, the Council's share (at 11.5%) is £20,700 with the biggest share of this amount relating to other preceptors and in particular the County Council.
- 3.24 The Council historically and is currently forecast to return, an overall surplus on its Collection Fund in future years. An amount of £180,000 would clearly reduce this surplus quite considerably.
- 3.25 The Council's MTFP assumes a Collection Fund surplus of approximately £200,000 (£20,000 for SDDC) per year. In recent years, the actual amount has exceeded this due to better collection rates, together with a growth in properties greater than estimated.
- 3.26 Clearly this cannot be guaranteed, but with an on-going increase in property numbers and with in-year collection rates holding up, the outlook is positive.

Options

- 3.27 Research suggests that many authorities, due to the uncertainty around the impact of the national welfare changes, are not proposing any changes where they operate default scheme and are effectively absorbing the additional cost in their Collection Fund. This is certainly the case for Derbyshire councils and the County Council and other preceptors are aware that this is likely to be the case across the County.
- 3.28 If this policy is not adopted, then the qualification criteria for unprotected claimants (i.e. those of a working age) will need to be changed to meet the additional cost on the Collection Fund. The Council could of course also reduce protection for other groups (other than pensioners who remain protected) or introduce a totally different scheme.

Unprotected Groups – Working Age Claimants

- 3.29 Under the current Scheme the entitlement to support, as calculated under the parameters of the Scheme, for working age claimants is reduced by up to 10%. For example, if a claimant is entitled (as calculated) to a discount of £500 towards their Council Tax, this is reduced by £50, which they pay and consequently receive a reduced discount of £450.
- 3.30 The principle of this was built into the local scheme because the Council was unable to afford protection to all groups following a reduction in national funding.
- 3.31 If this principle was extended to meet the potential increase in support to unprotected groups (i.e. £180,000 over 900 claimants highlighted earlier) then the entitlement would need to be reduced by up to **40%** to ensure that the overall cost of the Scheme remained at the current level.
- 3.32 It is important to note that an individual claimant, would not pay anymore or any less Council Tax, although their potential entitlement, as calculated under the current parameters, would not be paid. Effectively, the 40% would be a further parameter within the local scheme to ensure that the Council Tax paid by the claimant group affected, would stay the same.
- 3.33 However, there is a risk that if affected claimants were not granted their full entitlement under the local scheme, and have seen a reduction in other benefits such as tax credits, then the Collection Rate for their current level of Council Tax could reduce.

Discretionary Powers

- 3.34 As highlighted earlier, the Council has the discretion to decide whatever support/discount it chooses to award to working age claimants under the relevant Council Tax Regulations.
- 3.35 It should be noted that support for Council Tax cannot be paid from the DHP Fund; this is solely for benefits. Although the Council has a separate discretionary award scheme for Council Tax it deals with each application

under the local powers in accordance with Council's policy approved under Section 13A of the Local Government Finance Act 1992 (as amended).

Future Schemes

- 3.36 Although in principle there is nothing to prevent the Council from calculating and awarding entitlement on any basis proposed, due to on-going changes in welfare reform, it may be timely in the future to undertake a more fundamental review of the Council's Scheme and move away from the Default Scheme.
- 3.37 Other options would involve targeting support in a different way. Various options were put forward as part of the initial consultation on the new scheme prior to April 2013.
- 3.38 These included the removal of the second adult rebate, disregarding certain other benefits for the purposes of calculating support, together with a "banded" scheme, whereby support is limited to a lower Council Tax band.
- 3.39 Apart from a banded scheme, other options would only have a minimal impact financially overall. Feedback from the initial consultation, didn't favour any changes to these parameters
- 3.40 Any proposed changes would need to be subject to public consultation as this would move the Council's scheme away from the current framework which was based on the previous national benefits scheme.

Compensation Grant paid to Parish Councils

- 3.41 When the local scheme was introduced in April 2013, there was a knock-on effect to parish councils as local preceptors. In recognition of this, the Government provided funding to compensate parish and town councils. This funding, calculated at a point in time, was paid to district and borough councils in their Revenue Support Grant (RSG).
- 3.42 The Government expects that this funding is passported directly to parish councils, although it is no longer specified in the general grant. There is no requirement for this funding to be passed directly on, it can be reduced or even kept by a district/borough council in its entirety.
- 3.43 The Council's Policy has been to pass this funding on at the base amount set in 2013/14. The amount calculated in total for all parish councils in South Derbyshire for 2013/14 was £43,627. This amount was paid in 2013/14, 2014/15 and 2015/16.
- 3.44 Any changes to this amount for 2016/17 will need to be notified to parish councils by 31st December 2015. The General Fund Budget and MTFP is based on the funding being earmarked in the Council's RSG and passed onto parish councils.

4.0 Financial Implications

4.1 As detailed in the report.

5.0 Corporate Implications

5.1 No additional implications.

6.0 Community Implications

6.1 If the Committee decides to change the current parameters and introduce a further parameter (of 40%) to those affected by the welfare benefit changes, then a consultation exercise will need to be undertaken.

6.2 To align with the Committee timetable, this would need to take place between 26th October and 4th December 2015. This would include consultation with representative groups such as the CVS, CAB and the Tenant's Forum.

6.3 If the Committee decides to maintain the current scheme unchanged, then only other local preceptors would need to be informed. In any case, the Committee will be required to recommend a scheme to Full Council for 2016/17 at its meeting on 14th January 2016.

6.4 This could be completed earlier if no public consultation was required.

7.0 Background Papers

7.1 None