

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 12
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REPORT FROM:	CHIEF EXECUTIVE OFFICER	OPEN
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SUBJECT:	OPTIONS FOR A COUNCIL TAX SUPPORT SCHEME	REF
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the Committee considers the analysis and issues detailed in the report and sets out in principle, subject to consultation, the criteria/parameters to formulate and fund a local council tax support scheme for South Derbyshire.
- 1.2 That the detailed financial implications of a preferred scheme(s) are analysed and an update is provided to the Committee at its meeting on 18th October 2012.
- 1.3 That the final proposal for a local scheme is approved and recommended to Full Council, at the Committee's meeting on 6th December 2012.

2.0 Purpose of Report

- 2.1 To detail the changes to the framework that supports local residents in paying Council Tax (CT). This follows the Government's proposal to abolish the national benefits scheme as it applies to CT on 31st March 2013.
- 2.2 This will be replaced by a new system of local support (or a local discount) to be determined and administered by the billing authority (i.e. South Derbyshire District Council). The report analyses the potential options available for implementing a new local scheme, including the associated issues, funding and regulatory requirements that need to be encompassed.
- 2.3 Regulations abolishing the existing national benefit scheme are contained in the Welfare Reform Act 2012. This is part of the Government's wider proposals for welfare reform which ultimately will give rise to a "Universal Credit" to replace all individual benefits such as Income Support, etc.
- 2.4 However, this council tax discount will be separate and additional to the new Universal Credit.

- 2.5 Provisions for implementing a local support scheme are contained in the Local Government Finance Bill (2011) although the detailed regulations are still to receive parliamentary approval. The Bill imposes a duty on billing authorities to make a localised scheme **by 31st January 2013**.
- 2.6 The report also assesses other proposed changes to CT such as the method of payment and the possible reduction of some existing discounts. Although these are more technical changes, they need to be considered alongside the introduction of a local scheme.
- 2.7 In particular, any changes to current discounts could affect the amount of funding available to finance a local scheme. This is considered and detailed in the report.

3.0 Background

Introduction and Report Format

- 3.1 Following a period of consultation, on which the Committee responded last year, the Government has confirmed that the national Council Tax Benefit Scheme is to end on 31st March 2013. Local authorities that collect CT such as South Derbyshire will be required to introduce their own local support scheme from April 2013.
- 3.2 This Section set outs the overall framework and describes the general issues that need to be considered. **Section 4** outlines the current situation for South Derbyshire, with **Section 5** assessing the various options for a local scheme, including the impact of indicative funding levels.

Risk and Opportunity

- 3.3 CTB is currently administered by billing authorities for the Department of Works and Pensions (DWP). For every pound of benefit correctly assessed and paid, this is reimbursed entirely by the DWP.
- 3.4 It is generally considered that the current system is complicated and difficult to administer. The design of a new local scheme is entirely at the discretion of each authority. Qualifying criteria and awards can be changed and these in principle are numerous, although an authority can choose just to implement the current national scheme as its new local scheme.
- 3.5 However, effectively localising the current benefit gives rise to new risks for authorities. In particular, demand and caseloads can change, and change is volatile. Currently, the DWP carry that risk in full; administration aside, as long as benefit is awarded and paid correctly, it is reimbursed and the number or value of individual cases is not a factor for authorities.
- 3.6 From April 2013, there will be a cash limited sum to fund the new allowance. Given the difficulty in accurately estimating benefit take-up, it is almost inevitable that once a scheme has been set and funding allocated as part of the budget process at individual authorities, it will change over time.

- 3.7 Therefore, authorities will need to manage the volatility in caseloads within their resources.

Impact on the Local Economy

- 3.8 A key driver for the Government with the localisation of council tax support is employment and the impact on local economies. The Government's aim is that local schemes will provide an opportunity for local authorities to encourage people currently on benefit into work. This principle should be considered in designing a local scheme.

Protecting "Vulnerable" Groups

- 3.9 Under the Regulations, many pensioners (i.e. those on low incomes) will be afforded protection in all local schemes. In particular, council tax support for those of state pension credit age (and entitlement to a pension credit) cannot be reduced as a result of a local scheme.
- 3.10 It is also expected that most other pensioners, i.e. non-earners subject to other support and benefits, will also be protected.
- 3.11 In addition, the Government expects that authorities will also afford protection to other vulnerable groups such as those receiving severe disablement allowance and incapacity benefit, although it should be noted that some of these groups will have some protection carried over from the current scheme.
- 3.12 Effectively, a fair proportion of current benefit claimants will be protected, with people of working age in particular, being subject to potential changes in a new local scheme. This is assessed later in the report.

Funding

- 3.13 Fundamental to the change, is the removal of central funding for Council Tax Benefit before the local scheme is introduced. Nationally, the Government will reduce overall funding by 10% and transfer the reduced amount into the annual Local Government Finance Settlement.
- 3.14 It will not be a separate grant, although for 2013/14 only, it will be highlighted as a separate figure in the settlement.
- 3.15 From April 2013, the funding will be redistributed in accordance with the new funding formula for local government based upon the "Retention of Business Rates." It is inevitable that the impact on individual authorities will differ from the average of 10%.
- 3.16 Allocations are expected in November 2012. The Government has however undertaken some initial modeling to help authorities planning their local schemes and indicative grant allocations under the new system to support local schemes have been released.

- 3.17 Funding will be reduced and unless authorities reflect the impact of this reduction in their new local schemes, then the additional cost will have to be absorbed by local councils. This will include the major preceptors of CT such as the County Council. It will also have a potential effect on the ability of Parish Council's to levy CT.

The Impact on the Council Tax Base (CTB)

- 3.18 This will become a key component under a local scheme as the award of support for CT given locally, will be reflected in the CTB under regulations governing its calculation. The CTB is the measure of the number of dwellings to which council tax is chargeable. Existing discounts and exemptions are taken into account as percentage reductions to the CTB.
- 3.19 For example, if there are four dwellings each occupied by a single person in receipt of 25% single person discount, they would be represented as one dwelling removed from the CTB ($4 * 0.25 = 1$). The billing authority will effectively receive the equivalent of full CT from three out of four dwellings.
- 3.20 Under the existing benefit system, the CTB is unaffected by changes in council tax benefit granted because the billing authority receives a separate payment for the CT levied covered by benefit.
- 3.21 However, under the new local council tax reduction scheme, the CTB will be affected by whether persons living in a dwelling are in receipt of support as the billing authority will be foregoing CT from those dwellings.

Impact on Preceptors

- 3.22 This is because CT reductions under a local scheme will be reflected in the CTB in just the same way as other discounts and exemptions. This will reduce the CTB and affect the level of precepts, i.e. there will be fewer dwellings over which to recover the precept.
- 3.23 As the County Council is the main preceptor of CT in two-tier areas, the knock-on effect of a local scheme will be more significant compared to billing authorities or other preceptors such as the Police Authority. As the grant funding will not make up the difference compared to a reduced CTB, a significant proportion of the national cut will potentially fall on the major preceptors of CT.
- 3.24 Consequently, the decision of the billing authority could have a greater impact on other authorities. The other preceptors are only afforded "consultee" status in the Regulations - they are not responsible for devising, implementing and administering a new local scheme.
- 3.25 The reduction in the CTB will also potentially affect parish councils. Although a much smaller proportion of the CT locally overall, it could have a significant impact at individual parish level depending on how the CTB in their particular area is affected.

Proposals for Sharing Financial Pressures

- 3.26 However, the risk for billing authorities is that it could suffer adverse cash flow if demand/eligibility for the local scheme increases. Under the existing system, billing authorities receive “on account” payments from the DWP which reflect current volumes which helps to protect their cash flow position.
- 3.27 Under the local scheme, the CTB and the subsequent precepts will reflect the estimated take-up at a point in time. Once set, precepts are fixed and paid over in agreed instalments during the year. Besides changes to collection rates (which are less volatile than benefit take-up) the precept is a good measure of what needs to be collected and paid over.
- 3.28 Invariably, surpluses or deficits do arise on the Collection Fund, but this is adjusted historically and paid over up to a year in arrears.
- 3.29 Therefore, the Regulations governing payments into and out of the Collection Fund are to be amended. This will allow authorities to make payments to each other during the year and agree to vary instalments to reflect demand.

Consultation

- 3.30 Under the Regulations, the Council will be required to consult on its proposed local scheme before it is implemented. A consultation programme has been drawn up and this commenced on 16 August 2012.
- 3.31 Great care has been taken to ensure that the process is inclusive and by working with partners such as the CVS, and by using web-based and paper based surveys, a very broad spectrum of individuals and groups will be consulted. Clearly, it would be extremely difficult to consult with each individual.
- 3.32 A key part of the consultation will be with preceptors of CT, including parish councils, given the knock on effects as detailed above. Although the duty to design and implement a local scheme rests with billing authorities, as highlighted, the consequences are potentially greater for other preceptors.

A Default Scheme

- 3.33 If a billing authority fails to implement a local scheme by 31st January 2013, the Government will impose a default scheme, details of which have recently been published. This will largely reflect the existing national scheme.

Timescale and Implementation Issues

- 3.34 The main issue is the ability of software suppliers, within the current timetable, to deliver changes to benefit systems to enable local schemes to be administered.
- 3.35 Systems used by many authorities reflect the existing national scheme and as such, systems are standardised to reflect this, i.e. qualifying criteria and awards are universally similar across the Country.

- 3.36 The Council's software supplier appears to be moving towards revised system functionality, based on user demand that will allow other financial assessments to be undertaken by authorities such as Discretionary Housing Payments and Social Fund Awards.
- 3.37 However, if the tools required to deliver a local scheme cannot be modified in time, this may limit the options to change significantly (if desired) from the existing system, especially in the first year.

Additional Funding for Implementation

- 3.38 The Government recognises that local schemes will place a new burden on authorities. Consequently, they are making available funding for implementation and billing authorities are each receiving £84,000.
- 3.39 This is a one-off amount which is intended to cover new software, changes to existing systems and the costs of consultation.
- 3.40 The Government is also considering the impact of any on-going costs and is working with a selection of authorities to determine its extent. Any additional funding will be notified later in the year.

Transitional Arrangements

- 3.41 The Government's proposals regarding transition only cover people who are in receipt of or who had applied for benefit before 1st April 2013. The Regulations will provide arrangements whereby these people will not have to reapply for the new discount.
- 3.42 Clearly however, depending on the nature of a local scheme, some people could pay more CT. The regulations are silent on whether people directly affected will be afforded transitional protection. Therefore, it appears that authorities have some discretion over this issue.

Other Financial Implications

- 3.43 Besides the overall funding arrangements, authorities will need to consider the extent of amounts involved where people could pay more CT. For example, where additional amounts are relatively small, the cost of collection may be greater.
- 3.44 In addition, the question of affordability for particular people may be an issue, in particular where they currently pay no or very little CT. This could lead to debts becoming bad and uncollectable.

Impact Assessment

- 3.45 This will need to be carefully considered. It is envisaged that the main affected groups will be working age council tax benefit recipients. This is on the basis that authorities will be able to choose through the design of a local scheme, whether some existing awards should be reduced.

- 3.46 Decisions to absorb the funding reduction through reduced spending in other areas or increased revenue by increasing CT (subject to national limits) could affect other groups.
- 3.47 Consultation feedback should help to identify where there may be any adverse impact on any particular group and this will need to be considered in the final decision on a local scheme.

National Risks and Assumptions

- 3.48 Given that total funding will be fixed for any given year, the Government's own assessment has highlighted that there is a risk that expenditure will increase for individual authorities or across areas. This is due to:
- **Economic Downturn** – with unemployment rising and incomes falling leading to greater eligibility for support with CT.
 - **Localised Job Shock** – with a large employer going out of business also increasing demand.
 - **Increase in take-up** – DWP research in 2009 estimated that for pensioners, only 57% to 66% of eligible council tax benefit is claimed. These figures increase to between 74% and 84% for working age claimants.
 - **Demographic Changes** – as the number of people aged 65 and over increases, then so will the eligibility for support.

Technical Changes to Council Tax

- 3.49 Following a separate consultation in October 2011 (for which this Council also responded) the Government has confirmed plans to amend council tax rules so councils have greater local flexibility to help residents through "fairer" approaches to tax billing, second homes, empty homes and solar panels.
- 3.50 Council tax legislation will be amended to:
- Make bills easier to pay by giving local residents a new legal right to choose to pay their council tax bills in **12 monthly payments**.
 - Promote the take-up of **voluntary electronic billing**, such as promoting e-billing and direct debits. However, residents will retain the right to hard copy documents
 - Give councils greater local flexibility to choose to waive special tax relief on second homes and empty homes, allowing councils to use the monies to keep the overall rate of council tax down. However, despite much lobbying throughout local government, the Single Person Discount will remain unchanged.
 - Allow councils to tackle long-term empty homes (empty for more than two years) through an empty homes premium.

- Confirm that domestic scale solar panels are to be treated as part of the home and not subject to a separate tax levy.
- Introduce steps to support family annexes to help elderly relatives and extended families.

4.0 Current Situation at South Derbyshire

- 4.1 The Council has undertaken some detailed modeling on various scenarios and these are detailed in Section 5. In order to meet the timescales, statutory consultation commenced on 16 August 2012. This will run until early November.
- 4.2 Consultation is initially being undertaken via a questionnaire on the Council's web site; paper copies will be made available to residents without access to internet facilities. This is effectively to gain feedback on the options available to the Council as analysed in Section 5.
- 4.3 Following consideration of this report, consultation will be undertaken with focus groups which will include members of voluntary and community groups. This will be supported by the CVS and in particular to ensure that hard to reach groups are consulted.
- 4.4 A separate briefing will be undertaken with Parish Councils through the Parish Liaison Group. Presentations are also planned at Area Forums and at the SDP Board meeting.
- 4.5 This consultation, will take place during September and October 2012 and the overall programme is detailed in **Appendix 4**. The Consultation material itself is detailed in **Appendix 3**. The results of the consultation will be reported to the Committee before a final decision is made in order that views and feedback can be taken into account.

Engagement with other Authorities

- 4.6 Currently, discussions between authorities are generally being contained within County borders. The Derbyshire Financial Officers Association, supported by the Derbyshire Revenues and Benefits Working Group, has been discussing developments and the implications for Derbyshire councils, including the Police, Fire and Rescue Authorities. This is being used as the consultation forum with the major preceptors.
- 4.7 The Council's neighbouring authorities, within their county boundaries, have also adopted the same approach and only limited liaison has taken place to gauge potential approaches, in principle, to a designing scheme.
- 4.8 All Derbyshire authorities have purchased a separate software tool which has been used to model various scenarios at individual authority level, together with implications for the County as a whole. Again, this has followed the approach in other county areas.

Prospects for a Derbyshire County Wide Scheme

- 4.9 However, at this stage, there has been no consensus on a complete county-wide scheme. Although all authorities are working towards a common approach and modeling broadly similar scenarios, it appears that there will be specific differences between authorities due to caseload and different approaches to resourcing the funding gap.
- 4.10 To-date, most authorities are considering a packaged approach to achieve the required saving by:
- Increasing revenue generated from changes to other CT discounts and exemptions.
 - Making a small number of “non controversial” changes to existing national parameters.
 - Applying a percentage reduction across all working age claimants to achieve the balance.

The Council’s Revenue and Benefits System

- 4.11 The Council uses the Academy software solution supplied by Capita. This system is commonly used by many authorities. The Council is currently liaising with Capita through the national user group on the implications of system changes. Capita have indicated that it will cost around £60,000 for system amendments during the first two years of the new scheme.

The Council’s Provisional Funding

- 4.12 As noted earlier the Government has provided an initial estimate, for planning purposes, of the level of funding towards the cost of operating a local scheme, i.e. a grant (less 10%) to meet the reduction in the CTB.
- 4.13 The provisional allocation for the District Council is **£465k**, with a further **£55k** due to Parish Councils. This parish element will be paid to the District Council who will determine how it is allocated between Parishes. The other preceptors (County, Fire and Police) will receive **£4.045m** in grant based on the initial estimates.
- 4.14 The funding is based on the most up to date published council tax benefit subsidy across the Country (i.e. 2010/11). However, the allocations do not take account of earmarking specific funding to the protected or vulnerable groups; there has been some lobbying to the Government that they should fully fund CT support for these groups within the final grant allocation.

Gearing

- 4.15 It is considered that without this separate funding, the grant allocation will produce a gearing effect. For example, authorities with a higher proportion of pensioners who are protected will need to spread, depending on their scheme, the cut in funding across a smaller claimant base.

- 4.16 Nationally, in a majority of shire district councils, 40% of current CT benefit claimants are over 65, compared with 31% in metropolitan areas and 5% in London boroughs.

Comparison to the Cost of Current Benefit Paid

- 4.17 The Council's latest estimated cost of council tax benefit for 2012/13 is **£5.077m**. Based on previous performance in processing benefits, the Council will reclaim the full amount paid. Therefore, there is a no overall cost in the Council's accounts.
- 4.18 However, the total indicative grant as detailed above, amounts to **£4.565m**, i.e. a **reduction of £512k** compared to the current cost of benefit fully reimbursed nationally. Effectively, if the Council did not recover this amount by reducing current benefit entitlement in some way, this shortfall would need to be absorbed by all the preceptors.
- 4.19 Based on the proportion (current level) of council tax, this would be split as follows.

Authority	Share of current Benefit Cost £	Indicative Grant £	Reduction £	Reduction %
District	516,820	465,000	51,820	10.0%
County	3,705,348	3,331,000	374,348	10.1%
Police	563,222	506,000	57,222	10.2%
Fire	231,047	208,000	23,047	10.0%
Parishes	61,330	55,000	6,330	10.3%
TOTAL	5,077,767	4,565,000	512,767	10.1%

- 4.20 The full calculation is detailed in **Appendix 1**. This shows how the current benefit cost is spread across the tax bands. Almost 90% of current benefit entitlement is attributable to persons in property bands A to C. Appendix 1 also shows how the application of benefit reduces the Council Tax Base, with the replacement grant being 10% lower than the loss of income in the CTB.
- 4.21 The indicative reduction in grant for South Derbyshire is very close to the national average of 10%. The final grant, which is expected to be notified in December 2012, will reflect updated benefit entitlement. Although this will change, the current caseload and cost at South Derbyshire has steadied over the last year.
- 4.22 Therefore, it is considered that the provisional grant provides a fairly good indication of what will be the final position and can be relied upon, at this stage, for planning purposes.

Alternative Income Streams

- 4.23 There appears to be a general consensus throughout local government that time constraints and the inability to make the appropriate software changes, will mean that authorities will have limited capacity to fundamentally change current benefit entitlement, particularly in the first year, if they so wished.
- 4.24 Many authorities have concerns over the impact of changing entitlement too soon and too quickly. This is exacerbated by protection for certain groups meaning the reduction falls across a narrower base.
- 4.25 Issues such as affordability, collecting low level debt and even the prospect of legal challenge, are leading to authorities looking at options either to absorb or pay for the grant reduction in other ways.
- 4.26 Referring to the table in 4.19 (above) the reduction is less significant for the District Council, with the largest reduction in grant falling on the County Council. This position will be mirrored across the County in other districts/boroughs, so the cumulative impact on the County and other preceptors is potentially, a significant financial issue.

Reviewing other Discounts and Exemptions

- 4.27 The Council already applies the maximum charge allowed for second homes and empty properties. The Government's technical reforms to council tax as detailed earlier (in Section 3) will allow authorities to effectively waive the remaining discounts for second homes and empty properties. The Council's response to the consultation on these proposals agreed with the broad proposals to:
- Remove the remaining second home discount of 10%.
 - To remove the exemption (**Class A**) to pay council tax for up to 12 months, where a dwelling is vacant due to repair works or structural alterations. With this option, the Council favored a tax free period of 6 months with full council tax payable thereafter.
 - To remove the exemption (**Class C**) to pay council tax for up to 6 months where a dwelling is vacant and substantially unfurnished and replace it with a discount.
- 4.28 Authorities will now also have discretion to charge a premium on long term empty properties, i.e. empty for more than two years. In its consultation response, the Council did not support this principle.
- 4.29 Removing the remaining second homes discount and the Class A and C exemptions, would generate additional income of:
- Second Homes - £22,200 (currently 161 dwellings)
 - Class A Exemption - £43,700 (currently 28 dwellings)
 - Class C Exemption - £508,000 (currently 434 dwellings)
 - **TOTAL INCOME - £573,900** (assuming 100% collection)

- 4.30 This additional income would cover the indicative shortfall in grant for all South Derbyshire's preceptors. Relatively, the first two options do not raise significant sums but practically, would be easy to implement. Clearly however, there would be impact on the persons concerned.
- 4.31 Following the Council's preferred option of waiving council tax for six months on Class A exemptions, this would reduce the amount down to £21,850.
- 4.32 The most significant change is clearly removing the Class C exemption. This could be more problematic administratively given the short periods between sale/purchase, letting changeovers, etc. Applying a discount in the first six months (say 50%) would reduce personal impact, and appear less "aggressive," although again administration would be greater.
- 4.33 During the consultation, there had been some lobbying to the Government to allow a phased removal of the Class C exemption. This was initially resisted but there is now a clear indication that some flexibility will be allowed.
- 4.34 However, until the issue of updated regulations it stands that there is to be no phased removal of the exemption. At present, the discounted amount must remain the same whether it is 0 or 100% (or whatever amount) throughout the discounted period.

Court Costs

- 4.35 The Council is able to charge council tax payers for the cost of court summonses. Currently, this is a standard charge of £58. Other authorities locally, charge up to £15 more and use the same court.
- 4.36 By increasing the current £58 to (say) £70, would raise an additional £35,000 per year based on current casework. The only issue is that although this would go a significant way to funding the potential shortfall in the District Council's grant, it would not benefit the other preceptors.
- 4.37 This is because the income is transferred into the General Fund of the billing authority (i.e. South Derbyshire) to offset the costs of administering and collecting CT in its area.

Growth and the Collection Fund Surplus

- 4.38 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.
- 4.39 This surplus is shared between the preceptors in arrears, each year. This can vary depending on yearly collection performance. An option would be to use this in-built surplus to soften the impact of the grant loss.

- 4.40 However, it is recommended that it is used to manage the risk of volatility in benefit entitlement during the year, i.e. it continues to be held as a contingency pending on how the local scheme develops over time.

New Burdens Analysis

- 4.41 It was highlighted earlier that the Government are assessing the on-going impact of operating a local scheme. South Derbyshire is 1 of 32 authorities selected across England who have provided information to, and informed the DCLG, about the potential impact on management and administration.

The National Picture

- 4.42 The Society of District Treasurers has undertaken a sample survey on behalf of all billing authorities to gauge the progress of, and approach to, developing a local scheme. 66 authorities responded with most authorities working with each other in county borders to design a scheme; about 50% were working towards adopting a single county wide scheme.
- 4.43 A majority of authorities were assessing a mixed approach to funding a local scheme, using a combination of reducing existing discounts/exemptions, together with changing exiting benefit parameters. About 50% of authorities were considering capping benefit at whatever level to cover the funding gap; about 20% were considering funding the gap from other service budgets.
- 4.44 Almost 50% of authorities were considering a two staged approach, with 2013/14 being a transition year and the second year being a more rigorous approach to changing the qualifying criteria. The main reasons for this strategy were timescale, the concern over legal challenge and software changes.

5.0 Options Appraisal

- 5.1 Initially, a decision has to be made to what extent of the cut in funding, is passed onto the claimants of current benefit. Secondly, vulnerable/protected groups need to be identified, then a decision is required on how much the qualifying criteria is changed or whether a percentage reduction is applied to unprotected groups to meet the funding gap.
- 5.2 There are potentially an infinite number of options available. The main ones that have been considered to-date are detailed in **Appendix 2**. These options are detailed further in **Appendix 3** as part of the consultation material.
- 5.3 Clearly, a solution could be a combination of several options. The options considered are generally those being considered within other authorities.
- 5.4 In assessing the options, further detail is provided below of the current benefit caseload and cost at the Council.

Pensioners	No.	%	£
Passported	1,727	27%	1,566,350
Non passported	1,277	20%	875,182
	3,004	47%	2,441,532

Working Age Claimants			
Passported	2,055	32%	1,777,281
Non passported	1,277	20%	856,897
	3,332	53%	2,634,178

Total Claimants	6,336	100%	5,075,710
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Working Age Claimants			
Single Parent Families	454	7%	338,640
People with Disabilities	677	11%	566,976
War Widows	4	0%	5,561

- 5.5 All claimants receive some support towards their council tax, but this varies depending on their overall income and capital (savings) amount, together with the amount of council tax they are due to pay. The average council tax benefit currently paid is £15.40p per week across all claimant groups.

Pensioners

- 5.6 Generally, pensioners in receipt of the Pension Credit are “passported” through from the DWP and automatically receive support for their council tax. This claimant group will be afforded protection under any local scheme and it is expected that all pensioner groups will also continue to receive the current level of support.

- 5.7 The total proportion of pensioners at 47% is above average for a district council of 40%. If all pensioners are protected, then any changes to current entitlement will fall on the 53% of working age claimants.

Working Age Claimants

- 5.8 Working age claimants in receipt of DWP means tested benefit (Income Support, Job Seekers Allowance, Employment Support Allowance, etc) are also passported for council tax benefit.
- 5.9 Authorities will have greater discretion on how working age claimants are protected in a local scheme, although the Government expects that “vulnerable” groups such as single parent families and people with disabilities are also afforded protection. As the previous table highlights, these groups account for a further 18% of all claimants but, as stated earlier, limited protection inherent in the current scheme will be carried over.

War Widows and War Disabled

- 5.10 The Council also currently runs a local scheme which affords protection to this group. The Council will also need to decide if this group will continue to receive support as now. However, most of the cases are pensioners who will be protected in any case with only 4 cases of working age.

Summary of Options

- 5.11 Appendix 2 currently assesses 13 separate options, ranging from no change to straight line reductions in entitlement and through to targeted changes in various parameters. None of the options include any significant changes to qualifying criteria, but focus on how much more council tax some groups will pay (or receive less support). However, by changing parameters, this could mean that some people are consequently taken out of council tax support altogether.
- 5.12 The options generally assume that the following groups will be protected and receive the same level of support as now.
- All Pensioners
 - War Widows and War Disabled
- 5.13 Lone parents and households with disabled people currently receive additional help under the existing arrangements and this is carried over into the new scheme. However, it must be reiterated that a decision needs to be made whether or not to protect these groups fully , in the same way as pensioners will be treated
- 5.14 The first options of no change and straight line reductions are easier to administer and understand, with the targeted options being more complex and perhaps more controversial, with the risk that some “protected groups” may be affected. Administration also becomes more of a problem.

- 5.15 Across all the options, issues of affordability, collection of more and lower level debt, together with the potential to discriminate against certain groups, all exist to a greater or lesser extent. The collection of more low level debt from groups who currently do not pay may cause issues and could lead to greater costs in the longer-term.

Gearing

- 5.16 The issue of gearing was highlighted earlier in the report. **Options 3 and 4** illustrate the potential effect on South Derbyshire. Depending on which groups are ultimately identified as vulnerable and protected, the impact on other claimant groups becomes more significant with potential reductions of up to 30% in support to fund the 10% grant reduction.

A Possible Way Forward

- 5.17 Based on analysis to-date, together with the issues and limitations ahead of 1st April 2013, a solution (in particular for the first year) could be to:

- Offset some of the required saving by an increase in revenue generated from changes to other CT exemptions.
- Review options 5 to 13 with a view to making a small number of changes to generate further savings overall.
- Make up the remainder of the amount required by applying a percentage reduction from current entitlement from all unprotected groups or working age claimants (effectively options 3 and 4).

- 5.18 The advantages of this are considered to be:

- It shares the burden across as many affected groups as possible
- All current claimants should still receive some support
- For existing claimants, qualifying criteria remains unchanged and by following the current national criteria, it could will help to lessen confusion
- Vulnerable groups will still be protected (although clearly some may pay more CT)
- Complexity and administration are reduced

- 5.19 The disadvantages are considered to be:

- It doesn't eliminate the gearing effect
- Potentially, some "vulnerable" groups may not be afforded 100% protection, although they would retain the same level of disregarded income for calculation purposes as now.
- Potentially, a large proportion of current claimants will pay more council tax giving rise to affordability issues and the collection of low level debts.

Effect on Parish Councils

- 5.20 As highlighted in Section 4, the District Council will receive a grant (currently estimated at £55,000) to offset the effect of the new local scheme for its parishes. The issue will be how to distribute this grant amongst the parishes.
- 5.21 Unless the District was to absorb the extra cost and not adjust the Council Tax Base (CTB) for parishes so that they were not directly affected, the grant will need to be distributed pro-rata to the reduction in the CTB.

Risk Analysis

- 5.22 The localisation of council tax support provides an opportunity for authorities to control additional resources, decide how much local people pay towards the local council tax, together with how to incentivise work. Some authorities are, within the new scheme, taking the opportunity to extend the protection of the transitional benefit that is paid when a person moves from unemployment to work from four weeks to a longer period.
- 5.23 However, risks are also transferred to a local level. The main risk centres on the need to manage the effects of a change in demand or entitlement for council tax support in the future. In particular the affect on the CTB and other preceptors will be more difficult to monitor as entitlement will change over the year.
- 5.24 Equality and the protection of vulnerable groups in accordance with national and local policy will also need to be carefully considered. A draft equalities impact assessment process has been agreed by Derbyshire Councils and this is being currently being used to assess the options set out in this report.
- 5.25 Funding is being reduced from the outset and may not keep track with future demand. In addition, funding will be part of the general grant settlement from the national exchequer. As more people have to pay for their council tax direct, this may also lead to a reduction in collection rates, which will also need to be carefully monitored.

Next Steps

- 5.26 It is recommended that the Committee consider the analysis, points and issues detailed in this report and set out the criteria/parameters to formulate and fund a local council tax support scheme for South Derbyshire.
- 5.27 It is then recommended that more detailed financial analysis is then undertaken on the preferred solution(s) and an update provided to the Committee at its meeting on 18th October 2012. This will also include progress on issues and feedback arising out of the current consultation process.
- 5.28 A report to consider the final proposal will be then be provided to the Committee at its meeting on 6th December 2012. This can then be included in the budget round for 2013/14.

- 5.29 Any refinements can be made during the round of budget meetings in January 2013. The final scheme will need to be adopted at the Full Council meeting on 24th January 2013.

6.0 Financial and Corporate Implications

- 6.1 These are detailed in the report and the options appraisal in Section 5.

7.0 Community Implications

- 7.1 Clearly, 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. The local scheme will need to be subject to an Equality Impact Assessment in accordance with Council Policy and in particular to ensure “due regard” under the equalities legislation. This is currently being undertaken for the various options detailed in the report.

8.0 Background Papers

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

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

- 8.2 *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/>

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

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