

Report to the Finance and Performance Management Cabinet Committee



Report reference: *FPM-001-2012/13*
Date of meeting: *25 June 2012*

**Epping Forest
District Council**

Portfolio: Finance and Technology

Subject: Localisation of Council Tax Support

Responsible Officer: Janet Twinn (01992 564215).

Democratic Services Officer: Rebecca Perrin (01992 564532).

Recommendations/Decisions Required:

- (1) To note this report and the key points for decision making this year; and**
- (2) Confirm that officers should continue to work with other Essex local authorities on developing a potential county-wide scheme**

Executive Summary:

Council Tax Benefit (CTB) is a national scheme, funded by Central Government, and operated locally by billing authorities including district councils. The Government determines the rules that decide who is eligible to receive benefit. Local councils apply the rules, and the Government reimburses councils for the expenditure incurred.

From 1 April 2013, CTB is being replaced by a new system of localised Council Tax Support. Under this system, billing authorities will decide who is eligible to get the support. Government will provide a cash limited grant equivalent to 90% of current CTB funding. Councils either have to absorb the 10% cut or pass it on to benefits customers by reducing the amount of support they get. Pensioners are protected so the cut, if passed on, would fall disproportionately upon people of working age. This is part of the Government's objectives to incentivise people to work instead of claim benefit.

Because the Government grant will be cash limited, councils will bear the risk of expenditure increasing, so will have direct incentives to improve the employment prospects in the local economy. This is consistent with other changes in local government finance aimed at encouraging economic development i.e. New Homes Bonus and Business Rates Localisation.

The Council has to adopt a Council Tax Support scheme by the end of 2012. This is an immense challenge in policy, financial and service delivery terms. Essex authorities are working together in an effort to develop a framework for a county-wide scheme.

The key matters requiring policy direction from Members within the next few months are as follows:

- Whether to absorb the cut in Government funding by making adjustments to other budgets, or to pass on the cut to existing benefits claimants.

- The design of a Local Council Tax Support scheme that will achieve the required savings if the cut in Government funding is to be passed onto benefit claimants.
- The Council will need to adopt a definition of “vulnerable people”.
- Whether to future proof the scheme against possible further Government funding cuts from 2015.
- Policy on debt recovery procedures, and anti-fraud work.

Reasons for Proposed Decision:

To note the changes to support for council tax from April 2013 and progress being made in the development of the Local Council Tax Support scheme for working age claimants.

Other Options for Action:

This report is intended to be informative. The policy options outlined in the report will be determined by the Cabinet and not this Cabinet Committee.

Report:

Background

1. In Autumn 2011 the Government consulted on proposals for localisation of support for Council Tax. This followed the Spending Review announcement in 2010 for localisation of a scheme which would include a 10% reduction in expenditure. Giving local authorities a stake in providing support for Council Tax is intended to strengthen the incentive for local authorities to help residents back into employment and so reduce demand for support and lessen the effect of the funding reduction.

2. A summary of the outcome of the consultation is set out below. The Government has confirmed its commitment that localisation is the most effective means of ensuring sufficient local flexibility to secure planned reduction in expenditure. To this end it has continued to promote a “Local Scheme” for the working age group, but has changed its view about the non working age category and set out that a “National Scheme” will be introduced for the pensionable age group.

3. Since the introduction of Council Tax in 1993, local authorities have administered a Council Tax benefit scheme (along with a Housing Benefit scheme). The purpose of this was to assist those on low income to pay their Council Tax by way of a means tested benefit. The benefit has been administered by Councils in accordance with national legislation, under direction of the Department for Work and Pensions (DWP).

4. In November 2010 the Government announced a spending review, which in turn included a major overhaul of the current benefit system (Welfare Reform). This change is being hailed as the biggest since the initial introduction in the 1940’s. Part of this reform included the introduction of Universal Credit and the abolition of Council Tax benefit (CTB). The latter will be replaced by a local council tax support scheme (LCTS), which will also generate a 10% saving on support given to customers, compared to CTB awarded previously. Historically, there has been no “cap” on CTB expenditure.

5. Subsequent consultation has resulted in a fine tuning of this decision. The Government has announced that pension age customers should be no worse off under the new localised scheme and has therefore confirmed that there will be a national scheme for this age group.

A local scheme will remain on the agenda for non pension age groups which is comparable to the current CTB scheme.

6. The Council may also adopt a policy of protecting 'vulnerable' groups from these changes, based upon its own definition of 'vulnerable'. Such a policy would require a robust justification due to risk of challenge from non-protected groups.

CTB Expenditure and caseload

7. The information below will give an overview of likely impact on the number of customers who could be affected and the financial implications of the cap and reduction of 10%. It shows the disproportionate effect on working age households.

Caseload split 2011/12	Number	Ratio	Annual Expenditure	Distribution of 10% cut	Average cut per claimant*	Average cut per claimant
Pensioner Claimants	4,330	49%	£4.4 million	Nil	Nil	Nil
Working Age Claimants	4,526	51%	£4.6 million	£0.9 million	19.67%	£199
Total	8,856	100%	£9.0 million	£0.9 million	10%	£101

8. Whilst the average cut for working age people is 19.67% there may be some working age sub-groups (vulnerable groups) that may receive additional protection. This would mean that the burden could be far heavier for a much smaller number of claimants.

9. The table above shows the impact of a 10% reduction in funding based upon current information and caseload. However, the scheme design will need to take into account that there is likely to be a growth in pensioner claimants and the possibility of an increased demand for Local Council Tax Support from working age claimants. As there will be no control over the amount of support paid to pensioners, the scheme is likely to be designed with a reduction in excess of 10%.

Financial Burden

10. The new scheme will present various financial challenges for the Council. Funding for the scheme will be given in the form of a grant, as opposed to the current subsidy mechanism. The risks will be shared by all of the precepting authorities. The main factors are as follows:

- An initial 10% cut in Government funding from April 2013
- Possible further Government funding cuts from 2015
- Local authorities bear the risk of increase in demand
- Increased bad debt collection risk, and collection costs will rise
- Reduction in Administration subsidy from the DWP
- Sharing financial risks with precepting authorities
- Possibility of other authorities making budget adjustments that have implications locally

Overview of the Local Council Tax Support Scheme

11. The Local Council Tax Support Scheme must be finalised by 31st January 2013 at the latest. Failure to provide a scheme by this date will trigger a default scheme, imposed by the Government. However, in practice we would need to ensure our scheme is ready by

December 2012. The default scheme is likely to replicate the National scheme for pensioners whereby there can be no control over expenditure. The principles of the “New Scheme” are set out in Appendix A.

Delivery of Scheme

12. The Government is keen to look at ways in which the implementation of new schemes in the short term can be made easier by using existing systems and processes and making use of available data. For pensioners the current criteria and allowances will continue as part of a national framework.

13. The Government will continue to work with Local authorities and the Department for Work and Pensions to understand the changes that may be needed. The Government is clear that final decisions regarding the scheme for working age claimants would be for local authorities to make.

What have Essex Authorities Agreed at Officer Level So Far?

14. There is a collective agreement from all Essex authorities that they would prefer to have a single shared scheme. All authorities are working from the principle to look to save the 10% reduction in grant by reducing the amount of CTB for working age customers.

15. An external consultant is acting as Project Lead to provide project management resources.

16. A commitment has been obtained from the software supplier, to advise in June of the changes they will be able to make to the IT system.

Project Timeline

17. The Council must adopt a scheme by December 2012 to ensure that a default scheme is NOT imposed and that annual billing is undertaken in a timely manner. A timeline schedule is set out in Appendix B and covers the major factors.

Strategic Issues

- Scheme Design
 - i. Must be simple, include work incentives and fit with Universal Credit principles
- Finance
 - ii. Reduction in payment subsidy/grant
 - iii. Effect on low-income households on fixed incomes, including problems with indebtedness
 - iv. Reduction in benefit administration subsidy – yet to be determined
 - v. Effect on Council Tax collection
 - vi. Financial controls/modelling
- Administration
 - vii. Complex initially HB/CTB/CTS
 - viii. Software changes

- ix. Fraud – Not part of SFIS – requirement to resource locally
- x. Appeals to Valuation Tribunal

- Consultation with the public
- Default Scheme
- Dovetailing with other legislative changes

Major Considerations Throughout 2012

18. Throughout 2012 decisions will need to be made about a number of issues in relation to this scheme.

19. The current CTB scheme is very complex, and provides the opportunity to change and/or streamline many factors when setting up a local scheme. There are a large number of options and permutations to be considered to deliver the savings. Working with 14 Essex authorities, we already have more than 40 potential changes to the current scheme to model, and carry out an impact assessment on, to get an Essex wide scheme. There is a lot of work in a very short timescale.

Conclusions

20. The timescale for establishing a new scheme, consulting and implementing is very tight. There are a huge number of matters to consider and the impact of the reduced level of support will be a factor that will directly affect our customers. We still need much more information from the Government and as and when we get this, we will feed into the project plan and report accordingly. Members will be involved in making decisions in relation to this scheme and officers will endeavour to keep them up-to-date. Speed is of the essence and it is imperative that reporting lines are clear and robust to ensure effective and timely decision making.

21. A report will go to Cabinet in July which will seek agreement to some broad principles which will allow consultation to commence on an outline scheme.

Resource Implications:

The new localised scheme will see Central Government funding reduced by 10%, around £900,000 per year, from April 2013. This is an approximate figure because the exact grant payable will not be known until later in the year.

The Government expects councils to pass on this cut to working age households, to incentivise people to work. Councils have discretion over this; the option of absorbing part or all of the funding cut exists.

If the Government cut is not passed on to benefits customers, this will cause £900,000 of budget pressure which will be borne, in proportion, by the major precepting authorities (EFDC, ECC, Police, and Fire). This in turn could have repercussions, for example, reductions in ECC funding of other activities, or reductions in service delivery.

If the cuts are passed onto benefits customers, this will fall disproportionately upon low-income working age households. One of the effects is that the Council will be attempting to collect Council Tax from such households. This will require additional staffing resource, and inevitably, collection rates will not be as high – assuming a 50% collection rate, this would amount to a loss of £452,000 per year, again borne by the major precepting authorities in proportion. Tenants renting their homes from the Council are also represented in this household group. This, in conjunction with housing benefit reforms, will have further income collection implications.

Further cuts in Government funding are expected. The DCLG have indicated that there will be a further 10% cut in April 2015. The Council will need to take a view on whether it will wish to absorb any further cut or pass it onto benefits customers.

The Government has made an initial £84,000 per authority available to meet implementation costs. Further funding is likely to be provided later this year. Monies will be needed for project management, IT development, staff training and temporary increases in staff to cope with volumes of customer enquiries.

Legal and Governance Implications:

The National Council Tax Support scheme for Pensioners will be determined by Central Government whilst the Local Council Tax Support scheme for people of working age will be determined by each local authority. Consultation must be undertaken for the working age scheme and it must be agreed by the full Council. The scheme may be altered each year thereby giving the Authority the opportunity to take into consideration any local factors or budget constraints. Subsequent amendments will require further consultation and agreement by the full Council.

Safer, Cleaner and Greener Implications:

None

Consultation Undertaken:

Consultation on the proposed scheme design has already been taking place with the major precepting authorities. Officers from Essex County Council attend all the LCTS meetings with the Essex authorities. Public consultation will be undertaken in August/September.

Consultation has also been undertaken through the Essex Strategic Leaders Finance Group and the Essex Chief Executives Association.

Background Papers:

Various documents relating to Localising Council Tax Support published by the DCLG. Documents can be found on the DCLG website.

Impact Assessments:

Risk Management

Key risks have been set out in a risk register, which is attached as Appendix C.

Equality and Diversity:

Equality Impact Assessments will be undertaken as part of the scheme design

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties; reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?

N/A

PRINCIPLES OF A NEW SCHEME

1. NON WORKING AGE - PENSIONERS

- The Government has concluded that support for vulnerable pensioners should be delivered through a national framework of criteria and allowances.
- Pensioners' Council Tax support will not be reduced as a result of the introduction of this reform.
- Delivery of pension assistance will be through a national "rule-based" approach, similar to the current CTB scheme.
- Protection will be achieved by keeping in place national rules, with eligibility defined in Regulations broadly similar to those that exist today, e.g. Council Tax Benefit Regulations. Therefore pensioners will not gain or lose because of the new scheme.
- The Government will look for ways to simplify the scheme for pensioners and will continue to work with the Department for Works and Pensions and others to seek viable simplifications within the existing system where possible.

2. WORKING AGE GROUP – NON PENSIONERS

Vulnerable Groups

- The Government has expressed a commitment to vulnerable groups and has suggested that Councils need to take this into account when setting up their Local Scheme.
- Vulnerable groups include those affected by Child Poverty Act, (children) Disability Act (Disabled) and Housing Act (Homeless) as well as Equality legislation.
- The Government will continue to work closely with local authorities to ensure LA's understand their responsibilities towards the "Vulnerable".

Work Incentives

- Local Schemes must also support the improved work incentives to be delivered through Universal Credit.
- The Government intends that the general principles of supporting work incentives will be set out in guidance which will assist local authorities in designing their scheme.

3. ESTABLISHING A LOCAL SCHEME

Support for Council Tax will become fully integrated into the Council Tax system, with support being offered as a reduction on Council Tax bills. It will no longer be a "Benefit" and subject to Social Security Legislation.

3.1 Lead Local Authority

Billing authorities will be the default lead authority for Council Tax support schemes. But, they will also be able to collaborate with other local authorities to develop schemes together.

3.2 Developing a Scheme

The billing authority will need to know about the scheme grant allocation – The grant will be paid to the billing and major precepting authorities in proportion to their previous shares of expenditure and so reducing each authority's Council Tax requirement.

The billing authority (to some degree) should be able to use the preceding year's data to start to make decisions about the level of award to be offered.

3.3 Factors to be covered by the Schemes

Billing authorities will be required to develop a scheme which will set out the categories of claimants entitled to a Council Tax reduction and the amount of reduction that applies to each category.

The Secretary of State will also have the power to prescribe categories of persons who must be included in the scheme and the reductions which must apply to them (centralised – and only for pensioners). Local authorities will be free to design schemes for working age claimants as they wish (localised and everyone else). Local authorities may choose to develop schemes based on underlying systems that support CTB currently.

The local authority will need to set out the application process.

4. CONSULTATION

The Lead local authority will be required to consult on the scheme with the major precepting authorities before a scheme is designed. Councils will need to consult with the public and other agents once the scheme has been established.

The Lead local authority will be required to consult on the scheme with the public. The Government will advise as to whether they will prescribe in regulations how the public consultation will operate.

5. ADOPTION OF SCHEME

The scheme must legally be adopted by the 31st January of the preceding financial year. However, from a practicable point of view, the scheme must be ready by December 2012.

6. REVISIONS TO THE SCHEMES

Local authorities will be able to revise schemes each year and able to make transitional provisions as they see fit. (schemes cannot be altered during year – although it may revise scheme for next year and precepts can be adjusted in years)

7. DEFAULT SCHEMES

Where a billing authority fails to adopt a scheme before the 31st Jan a default scheme, to be provided for in regulations, will take effect.

8. RISK SHARING

Local schemes will be fully integrated with the Council Tax system. A grant will be paid to the billing and major precepting authorities, reducing each authority's Council Tax requirement.

Where demand for support increases or falls below local forecasts, billing authorities will collect less or more Council Tax than had been estimated at the start of the financial year. This will result in a deficit or surplus in the collection fund.

This deficit or surplus should be shared between the billing authority and major precepting authorities at the beginning of the following financial year but the government is looking at the possibility of varying the precept payments to major precepting authorities. This would protect small billing authorities from the financial pressure of funding the whole of any shortfall.

9. FUNDING

Local authorities will be paid a grant for the support, set in advance of the final scheme design.

The Government proposes that the grant will be paid to billing and major precepting local authority.

There is no proposal to pay grants to parish and town councils as the government has no powers to do so. The arrangements may be subject to further review. There could be a material impact on the parish and town council element of the Council Tax.

The Government is still considering the options for distributing grants for the first two years of the scheme. Initially these will be set on annual basis but may move to a multi year allocation in the next Comprehensive Spending Review period.

10. ADMINISTERING LOCAL SCHEMES

Local schemes will need to set out the application process/appeals process and Council Tax reduction offered by the scheme.

11. APPEALS

The Government wants a single appeals process and Department for Communities and Local Government will work with the Valuation Tribunal to establish if this could be an option.

12. DATA SHARING

The Government will seek sufficient powers to facilitate the sharing of data between Department for Works and Pensions and local authorities.

In future, support for Council Tax will be delivered as a discount in the Council Tax system. This will mark a change in purpose of the sharing of data and the Government will need to ensure the implications of this are fully understood in developing proposals for how data sharing will operate.

13. STAFFING AND STRUCTURE

We will need to review Job descriptions and review staff structure as part of this process – Timing will be dependant upon the overall timeline of the Welfare Reform.

14. FRAUD

There has been strong support for the extension of powers which local authorities currently have for investigating CTB to cover the new local Council Tax support schemes. The Government will continue to consider how best to respond to the clear demand for increased local authority powers.

The Council will have to decide whether to fund a resource for fraud work.

15. ADMINISTRATIVE COSTS

The Government does not intend for the administration of the Local Schemes to put pressure on local authority finances. The Government will continue to work with local authorities to assess net impact of housing benefit centralisation and introduction of local Council Tax schemes. These will not be known until late 2012

APPENDIX B

Time line for implementation of major tasks in relation to Localised Council Tax Support (LCTS)

<u>Task</u>	<u>Start</u>	<u>Complete</u>
Designing a local scheme	March 2012	September 2012
Consultation - County, Police, Fire	March 2012	September 2012
Consultation - Public	August 2012	October 2012
Financial Impacts	February 2012	June 2012
Policy development	May 2012	October 2012
IT	March 2012	February 2013
Software supplier to provide details of what changes they propose to make to software in order to achieve 10% saving and with the facility to protect pensioners and other vulnerable groups		June 2012
Scheme decision	April 2012	December 2012
Primary legislation in passage through Parliament Government preparing and consulting on draft secondary legislation Technical consultation on grant distribution	Spring 2012	
Primary legislation passed, Secondary legislation prepared	Summer 2012	
Legislation analysis	Summer 2012	
Staffing arrangements to deliver support scheme	April 2012	June 2013
Development of monitoring & payment protocols	July 2012	Ongoing
Fraud	July 2012	Ongoing
Secondary legislation passed (early autumn) Grant allocations published	Autumn/winter 2012/13	
Draft Budget produced	September 2012	December 2012
Appeals (awaiting DCLG guidance)	September 2012	February 2013
Documentation	September 2012	December 2012
Testing	September 2012	February 2013
CTB Legacy	September 2012	Ongoing
Finalise local scheme		October 2012
Policies and procedures	October 2012	February 2013
Training of staff	November 2012	February 2013
Software changes to be provided by suppliers		December 2012
EFDC adopt scheme		December 2012
Issue Council Tax bills	February 2013	Mid March 2013
Local scheme in operation	01 April 2013	