

Report to the Council

Committee: Cabinet **Date:** 18 December 2012

Portfolio Holder: Councillor S-A Stavrou
(Finance and Technology)

LOCALISATION OF COUNCIL TAX SUPPORT

Recommendations:

(1) That the Local Council Tax Support Scheme attached as Appendix 3 to this report and the associated Exceptional Hardship Policy attached as Appendix 4 be adopted; and

(2) That delegations in the Constitution be updated to include reference to Local Council Tax Support as well as Council Tax Benefit.

Background

1. Members will be aware of the Government's decision to replace Council Tax Benefit (CTB) with a new system of Local Council Tax Support.

2. On 23 July 2012, we approved the proposed scheme for the Epping Forest District for consultation. Following the consultation period we have given further consideration to the matter and are now recommending adoption of the attached scheme. The full scheme is attached as Appendix 3 and the associated Exceptional Hardship Policy is attached as Appendix 4. For ease of reference and interpretation the summary version of the scheme is attached as Appendix 2.

3. People of pension age have been protected from any cuts in Local Council Tax Support and their Support must be calculated in the same way as the present Council Tax Benefit scheme. The Local Council Tax Support scheme has therefore had to be devised for people of working age.

4. The Scheme has been prepared within the framework of an Essex-wide scheme that seeks to achieve cost neutrality, i.e. the cut in Government funding is to be offset by making reductions in the amount of support that working age households can receive. A scheme that is not cost neutral is likely to result in cuts to services by the Council and other precepting authorities.

5. Local Council Tax Support (LCTS) is being introduced by the Local Government Finance Act 2012. In anticipation of the Local Government Finance Bill being enacted we considered the Council's proposed scheme at our meeting on 22 October 2012. On 31 October 2012 the Bill was enacted and we can now seek approval to the scheme by full Council. If the scheme is not approved by 31 January 2013, the Council will have to award Local Council Tax Support in accordance with the Government's default scheme which would have a total cost in excess of £1 million.

Proposed Local Council Tax Support Scheme

6. We have been advised that Essex Benefit Managers and Essex County Council (ECC) finance officers have been meeting on a regular basis since January 2012 to design an Essex-wide framework for LCTS, reducing duplication of effort, sharing expertise, with mutual support for possible challenge and helping with strategic engagement with ICT suppliers.

7. The over arching principle is an Essex scheme that is cost neutral, so the impact of the reduced funding from Central Government is passed onto claimants. This is in line with Government policy to provide an incentive to work. However, due to the different demographics of individual billing authorities, it has not been possible to design a scheme that is uniform across Essex, but, other than Brentwood Borough Council, there is a common core framework with local variations.

8. All Essex authorities are expected to adopt the following items in their schemes:

- (a) design a cost neutral scheme that passes the cut in funding to working age claimants;
- (b) pensioners will be treated as a category protected from the changes, so all changes will be for working age only;
- (c) the local support scheme will be means tested for 2013/14, using a lot of principles of the current Council Tax Benefit scheme;
- (d) restriction of support to a maximum liability, either by restriction to a specific Council Tax banding and/or a % restriction of liability with variations in different Essex authorities;
- (e) minor changes to the treatment of 'changes in circumstances' to remove the requirement to calculate and award 'underlying entitlement' when overpayments occur, either due to a failure to report a change in circumstance or fraud; and
- (f) the billing authority to make available a small sum to cover exceptional hardship cases.

9. Other benefits of a county-wide approach include potential support from ECC in particular (and possibly the Police and Fire Authorities) with managing the risk from legal challenge, and contribution of funding for an Exceptional Hardship Fund and additional Council Tax recovery work.

10. Detailed analysis of methods of reducing support has been undertaken, based upon fairness, ease of understanding and ease of administration, taking into account the demographic profile of current CTB claimants. Another consideration has been the ability to pay as the scheme can only be cost neutral if the additional Council Tax that will need to be paid can be collected.

11. The following are the aspects of this Council's proposed scheme, which are consistent with the Essex- wide principles noted above.

(a) pension age claimants will be protected which means that the amount of Council Tax Support under the new scheme will be no less than the amount of Council Tax Benefit currently being paid; this does not mean that they will not have to pay more Council Tax e.g. if the precepts are increased.

(b) the amount of support to working age households will be reduced by the following proposed methods:-

- The calculation of support will be based on 80% of the Council Tax bill, rather than 100% at present; this will give the majority of the savings required, but as the savings do not generate sufficient to give a cost neutral scheme, additional changes will be required.

- The calculation of support will be based on a maximum of a band D property. This means that anyone of working age that lives in a property with a Council Tax Band of E, F, G, or H, will have their support calculated as if their property was a band D.
- Inclusion of child maintenance in the calculation with a disregard of £15 per week (per family). This is currently disregarded in full in the CTB calculation but is income that is received into a household that may not be available to other households that pay the same amount of Council Tax.
- The capital limit will be reduced from the current level of £16,000 to £6,000, so those with capital exceeding £6,000 will be required to make full payment of their Council Tax liability.
- Second Adult Rebate will not be included in the scheme for people of working age. This is a form of benefit that is not based on the council taxpayer's income and circumstances as is normal for Council Tax Benefit, but is based upon the income of other adults living in the property.
- A minimum award of £0.50 per week. This is in line with the minimum award in Housing Benefit.
- Reduce the period of backdating (with good cause) from the current six months to three months. This brings the time limit into line with the current rules for pensioners, although pensioners do not have to show good cause.
- The introduction of an exceptional hardship scheme for LCTS which will support people whose individual circumstances mean that the increased Council Tax liability is causing them exceptional hardship. (see Resource section)

12. We considered changing the present non-dependant deductions, including Child Benefit in the calculation and whether certain groups of people should be protected from any cut in support. These issues were included in the consultation exercise but we have decided not to progress these issues further at this time. For many years Child Benefit was included as income in the CTB scheme but the previous Government decided that this income should be disregarded. Although significant savings would be made by including Child Benefit as income, the methods set out above will achieve the required level of savings at this time. However, the scheme will need to be reviewed for 2014/15 and it may be necessary to revisit the inclusion of Child Benefit as income at that time. If protection from the cuts in benefit was given to certain groups of people such as the disabled and families with children under 5 years, it would result in the maximum support for the non protected groups being lower than the proposed 80%.

13. The proposed scheme has taken into account the ability to pay and the collectability of the resultant Council Tax liability. Although we have had regard to the impact on disabled claimants, families with children and not removing incentives to work, if full protection is provided to these large groups of people, it will mean that childless job seekers, some of whom receive just £71.00 per week (or £56.25 per week for people under 25 years old), will bear the cost of the cut in funding in full. This is likely to lead to an increase in recovery activity and in write offs as the debts would not be recoverable.

14. The final scheme has been partly dependent upon the provision of IT software that can calculate LCTS in accordance with the proposals. The Council's software supplier has indicated that it will be supplying software that can calculate LCTS in accordance with the proposals in this report.

15. We show in Appendix 1 attached, examples of the financial impact the scheme will have on individual households. Although the examples do not take any annual increase in state benefits, or any increase in precepts, they are intended to be a general guide.

Consultation

16. Before final approval can be given to the scheme, account has to be taken of the results of consultation with (a) major precepting authorities (County Council, Police & Fire Authorities); (b) the public; and (c) relevant stakeholder groups e.g. CAB, voluntary bodies.

17. Essex County Council finance officers have attended all the pan-Essex benefit managers meetings and the Fire Authority has agreed that ECC should represent them at the meetings. The Police Authority has only recently started to attend the meetings but it has received all the minutes and documents from the meetings. All the precepting authorities have indicated that provided the schemes are cost neutral, they will not object to the schemes.

18. Consultation with the public on the proposed scheme was carried out from 1 August 2012 to 12 September 2012. The other Essex Authorities undertook their own consultation during the same period except for Brentwood who extended their consultation until 30 September. Although a longer consultation period may have been desirable, the tight timescales for the Authority adopting a scheme meant that a longer consultation period was not possible. The Consultation Institute has issued a document 'Consultation aspects of Council Tax Benefits Localisation'. In that document they recognise that a shorter timescale than normal may be necessary, particularly where more rapid decision-making is required.

19. Following discussions with the other Essex authorities and ECC, it was determined that each authority would publish its draft scheme on its individual website with a link for responses to ECC which had the necessary consultation software. People who did not have access to the internet or who wished to give a more detailed response were able to do so directly to the Council. In addition to information on the website, letters explaining the consultation and how to respond were sent to 8912 current claimants of CTB (4521 claimants of working age and 4391 claimants of pension age), posters and leaflets were displayed and leaflets were sent with any Council Tax bill sent during the consultation period. Benefit Officers also met with the local Citizens Advice Bureaux.

20. Ninety nine responses to the consultation were received. It appears that the low number of responses is common to the other Essex authorities. 65% of responses were from current recipients of CTB. Generally, there was agreement to the main principles in the scheme, although there were some more detailed responses which strongly disagreed with the proposals and felt that there should be no cuts in support and savings should be made from elsewhere. However, overall the response to the consultation did not highlight any issues that would give cause to change the proposed scheme.

21. It is intended to send a further letter in January to working age people to explain the final scheme and to give an indication of the effect on each household. It is hoped that this will give fair notice to people of working age of the amount that they will be required to pay in Council Tax from April 2013 and that they will budget accordingly. We also intend to work with Council Tax Officers and encourage people to set up payment arrangements prior to April 2013.

Resource Implications

22. The Government has provided an initial grant of £84,000 for implementation costs and has indicated that additional funding will be made available. It is anticipated that the implementation costs will be met from the Government funding but there may be a need to supplement the costs, particularly as our software supplier has notified us that the cost of the software to the Council will be £59,000 over a two year period.

23. In relation to Council Tax Benefit around £9m of expenditure and £9m of subsidy income will be deleted from the Council's budget from 2013/14. A contingency will need to be retained in case of subsidy being clawed back by DWP. For example when excess payments of Council

Tax Benefit relating to periods prior to April 2014 are identified after 1 April 2014. The DCLG has indicated that it is likely that this contingency will need to be retained for at least five years as there will be adjustments to Council Tax Benefit, either in cases where fraud is proven or there is an adjustment to the Council Tax band which could be backdated to 1993.

24. The new LCTS scheme is being designed to achieve 'cost neutrality' – defined as being that there will be reductions in the amount of financial support given to local people sufficient to cover the cut in Government funding. The estimated cost of LCTS should therefore be in line with the Government funding being made available. Provisional funding figures have been announced and amount to around a 12% cut compared with current funding levels. It is higher than 10% because the Government has based its calculations on a notional future measure of expenditure that includes inflation. In addition, because people of pension age are protected from any cut in LCTS, the increase in Council Tax liability for people of working age will be in excess of 20%. However, although the scheme is being designed to be cost neutral, this is dependent upon the increases in liability for Council Tax for working age people on low income being collected. Recovery costs may therefore increase and the Council Tax collection rate may reduce.

25. The costs of LCTS and the Government funding for the scheme will be borne by the major precepting authorities in proportion to their precept size: currently ECC 75.5%, Police 9.5%, Fire 4.6% and this Council 10.4%.

26. The scheme needs to be designed to ensure, as far as possible, stability and sustainability in the Council's finances. Although the DCLG have not yet confirmed the actual grant to each Authority, the level of savings required has been calculated based on the early indication of the grant of £8,280,000 plus allowing for increases in precepts and caseload. It is therefore anticipated that a saving in the region of 14% of current expenditure will be required in order to ensure that the scheme is cost neutral. All the other Essex Authorities are designing their schemes to meet this level of savings. When the proposed scheme has been modelled on the current caseload, the current expenditure is £9,001,809 with the revised expenditure after implementing the changes of £7,751,235. The proposed scheme should therefore achieve savings of £1,250,574, which is 13.89% of expenditure. If Child Benefit was included as income, the savings achieved would amount to 15.72%.

27. LCTS will be treated as a discount on the Council Tax bill, much like Single Persons Discounts. This means that the taxbase will be smaller. In order to avoid significant increases in the Band D figure arising from a smaller taxbase, the Government funding will be treated as income that reduces the Council's bottom line, and therefore, reduces the amount to be raised from Council Tax.

28. It is inevitable that there will be a small number of households with unforeseeable exceptional circumstances. We want to retain discretion to provide additional support to such people and an Exceptional Hardship Fund will operate in the same way as the current Discretionary Housing Payment scheme. The Essex Authorities are presenting a business case to Essex County Council, the Police Authority and the Fire Authority to ask them to contribute to a fund in each authority. In order to present a uniform scheme across Essex, it has been agreed that the fund in each authority should be calculated on 0.2% of gross Council Tax Benefit expenditure for the current year. In this District, this equates to a fund of £20,670 for 2013/14. The fund will be used only in the most exceptional circumstances and will be used only when all other attempts to recover the outstanding Council Tax have been exhausted.

Recommendation

29. We recommend as set out at the commencement of this report.