

# ***Report to the Council***

**Committee: Cabinet**

**Date: 17 December 2013**

**Portfolio Holder: Councillor S Stavrou (Finance and Technology)**

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## **LOCAL COUNCIL TAX SUPPORT SCHEME 2014/15**

### **Recommending:**

**That, in view of the consultation responses and experience of the 2013/14 scheme so far, no changes be made to the scheme for 2014/15 attached as Appendix 2 to this report.**

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### **Background**

1. As part of the major changes to the Welfare Benefits system, from 31 March 2013 Council Tax Benefit ended and was replaced by a new scheme called Local Council Tax Support (LCTS). A key principle of the scheme was the protection of people who are of an age where they can claim Pension Credit. The Government introduced Regulations to ensure that pensioners who previously received Council Tax Benefit have continued to receive the same level of assistance they had prior to LCTS being introduced.
2. The Pan Essex LCTS Project Group, comprising of all the billing authorities and the unitary authorities in Essex, was created in January 2012 to devise a modular approach upon which all Essex authorities could base their local schemes according to local needs. The precepting authorities of Essex County Council, Essex Fire Authority and Essex Police have been involved from the beginning of the project. The project is managed by the Benefit Managers under guidance from the Essex Finance Officers Association.
3. The development of the 2013/14 LCTS scheme for the Epping Forest District included consultation with the public and the major precepting authorities. It sought to achieve cost neutrality i.e. the cut in Government funding is 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. The scheme was approved by Council on 18 December 2012. It is too early to provide a definitive analysis of the 2013/14 scheme outturn as the collection and recovery rates are yet to be finalised. However, indications are that the scheme will achieve the required cost neutrality desired at the outset and the collection rate is higher than originally anticipated.
4. On 22 July 2013, we approved the general principle that the Local Council Tax Support scheme for 2014/15 should be cost neutral for the Council and that public consultation should be undertaken on certain elements of the scheme.

### **Proposed Local Council Tax Support Scheme 2014/15**

5. The 2013/14 Government funding to councils for LCTS was set at 90% of what would have been available as subsidy if the Council Tax Benefit Scheme had continued. In 2013/14, the

Government funded LCTS with a specific grant of £1.119M (including the town and parish council element). For 2014/15 the funding has been rolled into the Council's overall funding position made up of Revenue Support Grant and locally retained business rates. The Department for Communities and Local Government (DCLG) has stated that although it will not be identifiable within the draft settlement figures, the allocation will be similar to that for 2013/14, although the overall package will be reduced. DCLG have stated that authorities will need to decide on the value of the funding to be used for LCTS from 2014/15.

6. We are proposing that the Epping Forest LCTS scheme for people of working age continues for 2014/15 with the same scheme as for 2013/14. This will bring some stability for current recipients of LCTS as they will know approximately how much LCTS they will receive and how much Council Tax they will have to pay. We have also taken account of the fact that for 2013/14, some other authorities decided to support the cut in funding themselves but they are now having to make some major changes to their schemes for 2014/15 as they cannot continue to fund the shortfall.
7. Based on current forecasts, maintaining the current scheme in the Epping Forest District would enable a net neutral scheme to be delivered. It is anticipated that the Government will make further cuts to funding in future years and therefore the Pan Essex LCTS Project Group is currently considering how schemes can be changed for 2015/16 to both simplify the administration of the schemes and to make further cuts in expenditure on the schemes. In our view if major changes are to be made in 2015/16, it is sensible to have a stable scheme without changes for 2014/15.
8. Currently, the total expenditure on LCTS is £7,564,000, which is made up of £4,255,000 for elderly recipients and £3,309,000 for working age recipients. We anticipated that expenditure on the current scheme would total £7,684,000 for 2013/14 and therefore there is a small surplus which is primarily due to a decrease in the caseload. The total number of recipients in April 2013 was 8417 and this has reduced to 8304 in October 2013.
9. In estimating likely expenditure on LCTS for 2014/15, we have taken account of several factors which will increase expenditure on the current scheme, even if the scheme itself does not change. Essex County Council has indicated that it will increase its precept by 1.99% and Essex Police have also indicated that they will be increasing their precept. These increases, together with any other Council Tax increases, will in turn increase the total expenditure on LCTS. In addition to this, the applicable amounts used in the calculation to assess a household's needs will increase in April 2014, and thereby give greater entitlement to LCTS. However, this will be partially offset by an increase in state pensions and benefits. Taking these factors into account, together with the current underspend this year, if the scheme is kept the same in 2014/15, we anticipate that cost neutrality should still be achieved.
10. If the scheme is changed to achieve further savings, a change to the maximum percentage of 80% for working age recipients would achieve approximately £46,500 savings per 1%. The inclusion of Child Benefit in the calculation without changing the maximum percentage would achieve savings of £198,000 whilst the inclusion of child benefit and a change to the maximum percentage, would achieve savings of approximately £198,000 plus £45,000 per 1%.
11. As the major impact of any further reduction in LCTS will be on low income working age families, we are of the opinion there is a risk of a reduction in the collection rate should this group be asked to pay considerably more towards their Council Tax. With the Government Welfare Reform initiative that is currently being implemented, it is this same group who are most affected by the social sector under occupancy rule and benefit 'capping'. If there is a significant reduction in the amount of support, there will become a time where people who

were paying their Council Tax, albeit that it was difficult for them, will not pay at all because the total amount is impossible for them. The savings outlined above can only be achieved if those sums can be collected.

### **Consultation**

12. Before final approval of the scheme, councils are required to consult with the major precepting authorities (County Council, Police & Fire Authorities) and the public. Essex County Council finance officers have attended the majority of the Pan Essex LCTS Project group meetings and the Police and the Fire Authority are invited and receive minutes of all the meetings. All the precepting authorities have indicated that provided the schemes remain cost neutral, they will not object to the schemes.
13. The only legal challenges that have been made to other authorities' LCTS schemes have been on the basis that consultation was not properly undertaken. Although none of the challenges were successful, our officers have been mindful that consultation needs to be properly undertaken on any changes to the scheme. In view of the uncertainty of the amount of funding available for 2014/15, consultation with the public was carried out from 16 August 2013 to 30 September 2013. The consultation was asking for views specifically on retaining the current scheme for 2014/15 and whether the percentage should be changed and/or child benefit included. Child Benefit always used to be included in the calculation of Council Tax Benefit until the previous Government decided that it should be disregarded. It is however an income into a household which may not be available to other households who have to pay the same amount of Council Tax.
14. In addition to information on the website, leaflets explaining the current scheme, the consultation and how to respond were sent with 4,000 Council Tax bills during this period. This ensured that both taxpayers receiving no help to pay their Council Tax, as well as current recipients of LCTS were made aware of the consultation. As the cost of the scheme impacts on Council finances, all EFDC staff were notified that the consultation was being undertaken.
15. Only 41 responses to the consultation were received which, although disappointing, is in keeping with the response levels of the other Essex Authorities (and is similar to the level of response to last year's consultation). The results of the consultation are shown in Appendix 1. Respondents were also able to give any additional comments which varied from comments that the scheme needs to be the same for everyone and therefore fair to everyone, that there should not be a band D restriction, support should be reduced for the unemployed to give the incentive to work, and that people of pension age should not be protected. Overall the responses to the consultation that were received did not highlight any issues that would give cause to make major changes to the scheme.
16. In total, there were approximately 4,500 people affected who have had to pay some or more Council Tax in 2013/14. The response from claimants to the 2013/14 scheme has obviously brought complaints, but the majority have been accepting that they do have to pay some Council Tax this year. The area of change that brought the most vociferous complaints has been the band D restriction. Even then, the majority of complaints about this have been from the claimants living in Band G properties, of which there were only 48 claims affected out of 4,500.
17. After the consultation closed on 30 September, Gingerbread, the charity for single parent families, made representations that the Council's scheme should be changed to disregard child maintenance. It appears that they had written to every local authority that adopted a scheme to include child maintenance. No previous representations or complaints have been received about this particular aspect of the scheme. To give protection to specific groups of

people has been considered by us but discounted as this would put a greater financial burden on non-protected groups of people, some of whom have an income of just £71.70 per week. Consultation was undertaken in 2012 on the proposals for our scheme, and the specific proposal to include child maintenance received support from respondents. Gingerbread have stated that the median amount of child maintenance is £12.00 per week, but £15 per week of any maintenance income is disregarded anyway, and, if a claimant is receiving a passported benefit, any child maintenance that they receive is still fully disregarded. Therefore the single parents with the more modest income are still protected by the Council's scheme.

18. In considering this aspect we have also been advised that in 2008 the Institute of Fiscal Studies provided written evidence to Parliament that confirmed fully disregarding child maintenance would benefit those who are better off. They said -

*“Disregarding child benefit in HB/CTB does not affect families who are receiving the full entitlement of HB/CTB, as it is impossible for them to be entitled to any more HB/CTB; it only affects those families who are on the taper of HB/CTB, and those families who, without the disregard, have incomes sufficiently high to not be entitled to HB/CTB and who will become entitled with the disregard.”*

19. If maintenance is disregarded as income in future years, the impact on other claimants would need to be considered. In order to make up the shortfall in overall scheme savings that such a measure would necessitate, it would probably be necessary to look at reducing the maximum amount that can be awarded to people of working age. Currently this is 80% for the EFDC scheme but, if further savings were required because child maintenance is disregarded, that percentage may need to decrease. This would increase the amount that all claimants have to pay, including single parents that do not have the benefit of additional income from child maintenance. Therefore, by helping single parents with a higher income, it will in fact place a greater financial burden on those single parents with a lower income.
20. Due to the fact that in over a year, no-one had raised any concern over the inclusion of child maintenance as income, this is not an aspect of the EFDC scheme that we were looking to change and therefore it was not included again in the consultation for the 2014/15 scheme. As we have not consulted on such a change and there is no time to do so now, if this aspect of our scheme was changed for 2014/15 it would be vulnerable to challenge.

### **Exceptional Hardship Fund**

21. In 2013/14 there has been a small hardship fund to assist households which have been experiencing exceptional hardship. It is anticipated that the current year's budget for this fund will be adequate. The County, Fire and Police are all contributing towards this fund and they have agreed that they will continue with those contributions for 2014/15.

### **Conclusions**

22. The LCTS scheme needs to be designed to ensure, as far as possible, stability and sustainability in the Council's finances. LCTS is not a benefit and it is treated as a discount within the Council Tax calculations. This means that the Council's taxbase will reduce (as will the taxbase for all other preceptors). The anticipated funding from the Government should cover the lost Council Tax income although the DCLG will not be confirming the actual grant to each Authority until Christmas.
23. We recommend as set out at the commencement of this report.