

## **CABINET**

<b>DATE</b>	3 <sup>rd</sup> December 2012
<b>REPORT OF</b>	Councillor Darren Billard, Portfolio Holder for Finance, Governance and Support Services
<b>RESPONSIBLE OFFICER</b>	Liz Jones, Strategic Director Resources
<b>STATUS</b>	Open
<b>FORWARD PLAN REF NO.</b>	RES

### **CONTRIBUTION TO THE COUNCIL PLAN / STRATEGIC AIMS**

This report requires members to consider the options for a local Council Tax Support Scheme. The delivery of a scheme to support vulnerable people is in line with the Council's strategic aims and also needs to be efficient and affordable.

### **EXECUTIVE SUMMARY**

The Local Government Finance Bill received Royal Assent on 1 November 2012. The Act that gives effect to council tax support schemes and introduces the technical reforms to council tax (including powers to reduce certain discounts and exemptions). The detailed Regulations and guidance have not yet been issued.

Council Tax Benefit is currently operated and funded through a national scheme set by the Government. With effect from 1 April 2013 it will become the responsibility of local councils. Each authority will agree and implement its own individual scheme. This is a tough role for councils to take on given the economy is in, or close to, recession, the significant reduction in public spending and the fact that the Government has simultaneously reduced the available funding for the scheme by 10%.

A consultation exercise on a Local Council Tax Support Scheme was undertaken between July and October 2012. The outcome of which was broadly supportive of the principles and protections for vulnerable client groups.

The availability of a one year transition grant will enable the Council to phase the implementation of the scheme by ensuring that those currently receiving relief through Council Tax benefit will not lose more than 8.5% of their current entitlement.

To meet statutory deadlines the decision to adopt the final scheme will need to be made by 31 January 2013. However, as the scheme impacts on the setting of the Council Tax Base a decision will be required in November.

The report also includes recommendations with regard to changes to council tax discounts and exemptions.

## **RECOMMENDATIONS**

That Council be recommended to approve:

- (i) the proposed scheme of localised council tax support as set out at Appendix A
- (ii) the phasing of the introduction of the scheme to be financed from Transition Grant and Council reserves
- (iii) the establishment of an annual Support Fund of £0.06m to support those with exceptional need or circumstances
- (iv) to delegate authority to the Strategic Director of Resources in consultation with the Portfolio Holder and Section 151 officer, to make any amendments to the final approved scheme required by the detailed Regulations and guidance
- (v) the amendments to council tax discounts and exemptions set out at paragraph 3.2

## **REASONS FOR DECISION**

To recommend to Council a localised council tax support scheme to replace the current Council Tax Benefit scheme which ceases at 31 March 2013.

At Spending Review 2010 the Government announced that it would localise support for council tax from 2013-14, reducing expenditure by 10 per cent. The Welfare Reform Act 2012 provides for the abolition of council tax benefit, paving the way for new localised council tax support schemes.

The Council is required to establish a scheme before 31st January 2013. If a decision is not taken the Council will be required to implement a default scheme, which effectively mirrors existing Council Tax benefit arrangements, and the Council will be expected to fund the 10% reduction.

The proposals to amend the discounts available for certain categories of unoccupied properties are broadly aimed at incentivising property owners to bring empty properties into use, and reduce the number of properties left empty for long periods.

## **RISK ASSESSMENT**

Government has stated that failure to agree a local scheme will result in the council having to adopt a default scheme. The default scheme will be the existing Council Tax benefit scheme, and the council will have to fund the 10%

funding shortfall. Failure to effectively consult could lead to challenge through Judicial Review.

### **Crime and Disorder**

No direct implications on crime and disorder.

### **Human rights**

No direct implications on human rights.

### **Equality and Diversity**

A full Equality Impact Assessment is provided at **Appendix F** as part of the approval process to ensure that due regard is given to the impact of the proposed Scheme on the Councils residents, particularly those who are vulnerable.

### **Impact on social, economic and environmental well-being of the Borough**

The significant changes now being implemented in the welfare system will have far-reaching consequences. Localisation of council tax benefit is part of a wider policy to reform welfare in a way which reduces the cost to the state and rebalances responsibility between the state and the individual.

There are potential consequences for the affordability of housing for those in need of benefit support and individuals and households will have to make adjustments if their property costs, including rent and council tax, are to be affordable.

## **1. BACKGROUND AND ISSUES**

- 1.1. The Local Government Finance Bill that gives effect to council tax support schemes and introduces the technical reforms to council tax, including powers to reduce certain discounts and exemptions, received Royal Assent on 1 November 2012. The specific Regulations are anticipated to be in place sometime during November.
- 1.2. From 1<sup>st</sup> April 2013, the Council must introduce a local scheme of Council Tax Support to replace the existing national Council Tax Benefit currently in operation. The new local scheme will be accompanied by a new cash-limited government Grant.
- 1.3. The key points arising from the Governments proposals are:
  - Funding will be provided at 90% of the forecast 2013/14 caseload (for North East Lincolnshire a 10% reduction in grant funding represents £1.6m);
  - Pensioners will be protected from any change in their benefit
  - The Council must adopt a new scheme by 31 January 2013

- New schemes should avoid disincentives for claimants to move into work and should take into consideration protections for the vulnerable
- Councils are required to hold a public consultation on their proposed scheme
- Where a council fails to adopt a local scheme by 31 January 2013, a default scheme will be implemented. The default scheme is essentially the equivalent of the existing scheme and will not meet the 10% associated shortfall in central government funding.

- 1.4. The reduced funding is expected to amount to some £1.6m.
- 1.5. Cabinet agreed a proposed scheme for consultation at a special meeting on 16<sup>th</sup> July 2012. This report highlights the outcomes of the consultation exercise and outlines the final scheme proposed for implementation.
- 1.6. The change to a local scheme affects all those bodies which raise a precept on the local council tax base. That includes the Council but also Police and Fire authorities. This is because the change from a benefit scheme to a council tax discount reduces the tax base and therefore the yield reduces if the level of tax remains unchanged.
- 1.7. The Government is currently consulting on revised arrangements for local councils. The proposed arrangements ensure that local councils are not affected by changes to the council tax benefit scheme.
- 1.8. On 16 October 2012 Government announced the availability of additional funding which has been made available to councils to implement their local scheme. The funding is only available to Councils who adopt schemes that comply with criteria set by Government (see paragraphs 2.9 – 2.11).
- 1.9. The draft Council Tax Reduction Schemes (Prescribed Requirements (England) Regulations and the draft Council Tax Reduction Schemes (Default Scheme) Regulations were published by the DCLG in July 2012. Since their publication, the draft regulations were further amended in September 2012. It is anticipated that the final legislation may differ slightly requiring amendments to the scheme. It is proposed that the authority to make such amendments is delegated to the Strategic Director Resources in consultation with the Portfolio Holder and Section 151 Officer.
- 1.10. The Local Government Act 2013 enables local authorities to amend certain council tax discounts and exemptions. These changes are discretionary and do not form part of the Local Council Tax Support Scheme. The proposed changes are set out in paragraphs 3.2.

## 2. LOCAL COUNCIL TAX SUPPORT SCHEME

- 2.1. Following the July Cabinet report, a consultation strategy was agreed **Appendix B** and a public consultation exercise undertaken which ran for a period of ten weeks from 30 July to 5 October 2012. The Council also undertook a consultation away day. The feedback from this workshop is included at **Appendix C**. This outlines some of the community and partner concerns, not only of implementing a local Council tax Support Scheme, but also the wider impact of the welfare reform agenda to the NEL community.
- 2.2. The consultation exercise engaged with as many interested stakeholders, including hard to reach groups, as possible. Overall respondents were broadly in favour of the proposed scheme with regard to:
- a) The shape of the scheme and how it treats different client groups
  - b) Qualifying criteria and the proposed level of support
  - c) The creation of a support fund
  - d) Proposed administrative arrangements
- 2.3. A full copy of the consultation responses can be found at **Appendix D**. The key messages from the consultation are summarised in the following paragraphs:

### Key Scheme Principles

- 2.4. The proposed scheme included a number of key principles:
- i. eligibility will be the same as for current Council Tax Benefit (based on specified income and savings levels)
  - ii. that the scheme will provide mandatory protection for eligible pensioners
  - iii. that the council is committed to protecting the disabled and families with children under five
  - iv. that council tax support will be limited to the reduced level of funding provided by government, and not subsidised by reducing services or increasing council tax
  - v. that the scheme provides an incentive to work for working age claimants
  - vi. that some provision is made to offer financial support on an exceptional basis for those who face unavoidable financial difficulties, through a Council Tax Support Fund

- 2.5. As part of the consultation process, respondents were asked to comment on these key principles. For those who responded there was clear support and agreement with the principles.

#### Support for Vulnerable Groups

- 2.6. There was agreement from respondents on the need to protect vulnerable groups, in particular those who are disabled, and those with a child under 5 in the household.
- 2.7. Additional questions were asked on whether support should be provided to those who were either at risk of/or who were homeless and also those in low paid work. There was a clear desire to support these groups, and when asked how this support should be provided, respondents indicated backing for the Support Fund.

#### Support Fund

- 2.8. The purpose of the support fund is to give extra support to those who are experiencing hardship as a direct result of the reduction of Council Tax Benefit. The proposed support fund is set out at **Appendix E**. Taking into account the feedback from the consultation process, and the Government's intention to make work pay, the use of the support fund is to be targeted to those who are in work, but still entitled to benefits through being on low pay.

#### **Council Tax Support Transition Grant**

- 2.9. On 16 October Government announced additional transitional funding to support the implementation of local Council Tax Support Schemes. Whilst the grant is welcomed, the timing of the announcement was not helpful, coming after consultation had been completed.
- 2.10. The grant will be available to councils (billing and major precepting authorities) whose schemes meet certain criteria, in particular, that those who would be on 100% support under current council tax benefit arrangements do not pay more than 8.5% of their council tax liability.
- 2.11. The level of funding available to North East Lincolnshire (including major preceptors), if they choose to implement this option, is £0.4m. The grant is for one-year only and is worth only a quarter of the funding shortfall of £1.6m.

#### **Proposed Local Council Tax Support Scheme from 1 April 2013**

- 2.12. The recommended scheme is attached at **Appendix A**. This has been amended from the scheme consulted on to provide additional support to those client groups most affected by the proposed changes. This is consistent with the views expressed in the consultation exercise. No client group is worse off by the revisions. The proposed changes also

ensure that the Council complies with the conditions for receipt of the Transition Grant.

- 2.13. The Grant enables the Council to phase the implementation of the proposed scheme by ensuring for 2013/14 that those currently enjoying 100% relief will not pay more than 8.5% of their council tax liability. However, there remains a need to implement the scheme as consulted on in full from 2014/15. Accordingly it is recommended that funding for the Support Fund is initially set at £0.06m.
- 2.14. The cost to the Council of the transition arrangements for 2013/14 is estimated to be £0.4m and will be funded from the Council's reserves.

### **3. TECHNICAL REFORMS – COUNCIL TAX DISCOUNTS AND EXEMPTIONS**

- 3.1. The Local Government Finance Act provides for changes to other elements of the council tax system, which if adopted would increase the council tax base and therefore the tax take for any particular level of council tax.
- 3.2. These include:
  - a) Giving billing authorities the power to levy up to full council tax on second homes
  - b) Replacing certain empty dwelling exemptions with a discount, the level of which can be set by the billing authority
  - c) Setting an empty homes premium, which can be charged on properties which have been empty for more than two years
- 3.3. The following changes to exemptions and discounts are proposed:

<b>Classification &amp; Description</b>	<b>No of properties</b>	<b>Current Discount</b>	<b>Proposed change</b>
Class A – undergoing major repairs/structural alteration	135	100% 12 months	50% 12 months
Class C – empty unfurnished	563	100% 6 months	100% 1 month Nil thereafter
Second home	390	10%	Nil
Empty Homes	NA	0%	+ 50%

- 3.4. The aim of the empty homes premium is to provide a strong incentive to get homes back into productive use. The Government is currently consulting on circumstances in which dwellings should not be liable for the empty homes premium, for example when a dwelling is genuinely on the market for resale. The consultation will close on 9 November

2012. It is the Government's intention that the Premium will be able to be levied from 1 April 2013 and properties which will not be liable for the Premium will be finalised by this date. Accordingly approval is sought to introduce the premium from 1 April 2013 at 150% of the council tax due, subject to compliance with the Regulations and Guidance when issued.

- 3.5. It is estimated that the technical changes above will generate additional income of £0.7m. This has been taken into account in the Medium Term Financial Forecast.

#### **4. OTHER OPTIONS CONSIDERED**

- 4.1. That the Council does not implement a local scheme and either adopts the default scheme or seeks a further consultation on alternative proposals. Failing to agree a local scheme will result in an additional financial burden of £1.6m. A full consultation could not be completed within timescale to enable a different scheme to be approved by 31 January 2013.
- 4.2. The Council could have rejected the Transition Grant and adopted the scheme as consulted on without any transition relief. The Grant enables the Council to provide additional support to vulnerable people most affected by the scheme changes and the one off cost is affordable.
- 4.3. The Council could have changed the scheme to require all claimants (including disabled and those households with children under 5) to pay 8.5% of their council tax. These benefit recipients would have been more adversely impacted than the original consultation which is contrary to the consultation responses received.

#### **5. CONSULTATION WITH SCRUTINY**

- 5.1. Cabinet in July approved delegation to lead the consultation process to Scrutiny Panel – Policy, Performance and Resources. Scrutiny Panel considered the responses to the consultation at their meeting of 24 October 2012.

#### **6. FINANCIAL IMPLICATIONS**

- 6.1. The financial implications are set out within the report.
- 6.2. There are also a number of financial risks to the council presented by the localisation of council tax support which will have to be managed as set out below:
  - a) From 2013/14, future grant is not demand-led, but cash-limited at 90% of the estimated expenditure. This introduces new risks because future demand for Council Tax Support will now have to be funded by



the Councils as demand rises and falls within the financial year. The funding gap will therefore be larger than 10% if demand for support is greater than forecast.

- b) Government funding allocations for 2012/13 are less than 90% of actual subsidised benefit expenditure. The funding will be based upon the projected council tax benefit bill for 2013/14 and the Office for Budget Responsibility is estimating a reduction of -2.3% in the volume of claimants in 2013/14. This could mean that funding is reduced not only by 10% but also for the assumed decrease in the claimant count.
- c) Collection of council tax from households that experience a reduction in council tax support is likely to be difficult. The new scheme will result in a greater number of residents liable to pay council tax, with collection required from a range of taxpayers on low incomes. This is a particular risk for households currently receiving the full amount of council tax benefit that may now be asked to pay an amount of council tax under the new scheme. Other authorities are making an assumption of a non-collection rate of 35% for this group of claimants. This compares with a current overall collection rate of around 97%. The validity of this assumption is difficult to test as local council tax support schemes have not been tried before. However difficulties experienced with the community charge in the early 1990s suggests it would be dangerous to ignore the potential scale of the problem. Any such losses from non-collection are charged against the Collection Fund balance, and are a cost to billing and major precepting authorities. A 35% loss on collection on the reduced funding equates to around £0.2m in North East Lincolnshire.

- 6.3. The council will take steps to minimise the financial risks and/or the impact on unprotected claimants. This will include reviewing the scheme each year to ensure it remains affordable and providing a support fund for those experiencing financial hardship because their level of council tax support has reduced (which should partly mitigate the risk associated with collection rates)

## **7. LEGAL IMPLICATIONS**

- 7.1. The legal implications are set out in the report. Any reduction in council tax support would, as is indicated, impact on the collection rate and it can be anticipated there would be likely to be greater need for recovery action.

## **8. HUMAN RESOURCES IMPLICATIONS**

- 8.1. The administration of the local council tax support scheme is the responsibility of the billing authority. It is expected that there will be a reduction in the administration grant currently paid by government under the national scheme. At this stage the figure cannot be quantified, but may have implications for staffing levels. Any changes in establishment will be considered in accordance with the council's organisation change and review procedure. The Trades Unions and employees are aware of

the changes in council tax support and any impact on staffing arising from this will be considered in accordance with the council's organisation change and review procedure including consultation.

## **9. ENVIRONMENTAL SUSTAINABILITY ISSUES**

9.1. None.

## **10. BACKGROUND PAPERS**

10.1. Cabinet Report 16 July 2012

10.2. Further information relating to localising council tax support can be found on the Communities and Local Government website:  
<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/counciltax/counciltaxsupport/>

10.3. Further information relating to the technical reforms of Council Tax can be found at:-  
<http://www.communities.gov.uk/publications/localgovernment/technicalreformcounciltaxsors>

## **11. CONTACT OFFICER(S)**

Robert Woollatt, Interim Head of Finance & Assets (01472) 323886  
Jo Robinson, Local Taxation & Benefits Shared Service Manager (01472) 323761  
Cindy Laherty, Strategic Lead (Benefits) (01472) 323879  
Richard Catlyn, Strategic Lead (Revenues) (01472) 323876

**Councillor Darren Billard**  
**Portfolio Holder for Finance, Governance and Support Services**