

Forest Heath District Council

(This report is a key decision. This report has been subject to appropriate notice of publication under the Council's Access to Information Rules).

Report of the Cabinet **Member** for Resources, Governance and Performance

CABINET

4 DECEMBER 2012

CAB12/050

LOCAL COUNCIL TAX SUPPORT 2013/2014 (Key Decision Reference: DEC12/08)

1. Summary and reasons for recommendation(s)

- 1.1 This report requests Cabinet to recommend to Council a new policy to create a Local Council Tax Support (LCTS) scheme.
- 1.2 The Welfare Reform Act abolishes Council Tax Benefit (CTB), and replaces it with a Local Council Tax Support scheme. The new Local Government Finance Act 2012 and regulations set out how the Council must create a LCTS scheme. This means the majority of LCTS awards will be based on criteria set and administered by each local billing authority (such as Forest Heath), having consulted with the major precepting authorities (including Suffolk County Council, Fire and Police authorities) and the public. The Act and regulations direct how authorities must support pensioners, with little change to the way their entitlement is presently decided.
- 1.3 Under the regulations the Council must finalise its local scheme by 31 January 2013.

2. Recommendation(s)

- 2.1 To agree and recommend to Council the Local Council Tax Support Scheme as set out within this report and detailed in the Policy document.
- 2.2 To apply for the transitional grant for one year support.
- 2.3 To agree and recommend to Council the change to the Council's Scheme of Delegation to Officers as set out under Legal and Policy implications (paragraph 10.2).
- 2.4 To recommend to Council that if the final funding decisions are not known at the date of the Council meeting on 12th December, that delegated authority be given to the Head of Resources and Performance, in consultation with the Leader and Portfolio holder for Resources, Governance and Performance to make final decisions on any additional changes to the Localised Council Tax Support Scheme arising as a result of the final funding decisions (paragraph 10.3).

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3. How will the recommendations help us meet our strategic priorities?

3.1 The adoption of a Local Council Tax Support scheme will support the strategic priority of working together for an efficient council and working together for strong, healthy and diverse communities.

4. Key issues

4.1 The Welfare Reform Act 2012 abolishes Council Tax Benefit (CTB), and replaces it with a Local Council Tax Support scheme (LCTS). The Local Government Finance Act 2012 and regulations set out how the Council must create a LCTS scheme.

4.2 The regulations require the Council to finalise its LCTS scheme by 31 January 2013.

4.3 Regulations will require that pension age people will not be affected financially when their existing claims move to the LCTS. They also direct that councils should consider steps to encourage people to find work, protect vulnerable people, and prevent child poverty.

4.4 The Cabinet on 3 July considered the proposals for the LCTS scheme. The Cabinet resolved that a draft LCTS scheme be published for consultation, in order to meet the statutory timetable to approve the final scheme before the end of January, and to model affordability as part of the Council's medium term financial planning.

4.5 There are a number of different criteria which could be used to deliver a cost neutral scheme. All Suffolk billing authorities have been working together to agree similar arrangements where possible but reflecting their own local circumstances.

4.6 It is estimated the Council will pay CTB of £3,773,000 this year (2012 / 13). The trend of annual growth in CTB because of the increasing cost of claims is 3% and the inflationary increase is expected to be 2.2%.

4.7 Council Tax Benefit is currently funded by the Department for Work and Pensions as a reimbursement of CTB expenditure according to nationally set criteria.

- 4.8 From 1 April 2013 the Local Council Tax Scheme will be distributed by the Department for Communities and Local Government to local authorities through a cash limited grant. The exact amount is yet to be confirmed. The amounts available will be at least 10% and possibly up to 14% less than currently received. The distribution will be formula based.
- 4.9 Based on a reduction of 10% and taking into account the assumptions outlined in paragraph 4.6 above; the grant reduction for Forest Heath is expected to be £573,000 per annum of which it is expected that £52,000 (9.1%) will be borne by this Council with the balance borne by Suffolk County Council and the Police authority. The exact / precise figures will not be known until the late autumn, as part of the December budget announcement, which may be after this report is circulated to Council.
- 4.10 The government has stated that pensioners must not be affected by the changes. Therefore, a cost saving can only impact working age claimants. To provide some context, 75.87% of our working age claimants presently pay no Council Tax because of the type or the low level of their income. On average each claimants' Council Tax Benefit is £824.88.
- 4.11 To deliver the required saving from changes to the Council Tax scheme alone would mean a reduced level of support across all working age claims by approximately 30%.
- 4.12 The main effect of spreading the saving across all working age claims is that those who presently pay nothing would have to pay something. It is acknowledged that this creates a challenge to maintain high collection rates. It is likely that we will receive increased requests to defer or protract payments; or those affected might decide to delay or not pay, increasing the administrative time and cost of collection and potentially leading to more people going through the legal process of recovery.
- 4.13 Given the scale of the funding shortfall, the Cabinet agreed on 3 July that it is necessary to pass on only a proportion of the burden to claimants in order to incentivise work. Cabinet also noted that the funding gap could be closed by taking advantage of new powers within the Local Government Finance Act 2012 to reduce the level of discounts currently granted in respect of second homes and some classes of empty properties. Changing the discounts to some classes of empty properties would provide an incentive to re-let void properties more quickly. The Council therefore consulted on this basis (see section 7 below for further detail on the consultation process).
- 4.14 To assist the transition process the Department for Communities and Local Government announced on 16 October 2012 that they would be making available an additional £100,000,000 for one year to support local authorities in developing well-designed council tax support schemes to maintain positive incentives to work.
- 4.15 The grant will be available to councils who choose to design their scheme so that:

- Those who are on 100% support under the current council tax benefit arrangements pay between zero and no more than 8.5% of their council tax liability.
- The Taper Rate does not increase above 25%.
- There is no sharp reduction in support for those entering work.

4.16 If the Council adopts a scheme which meets the grant criteria the grant funding allocation will be as follows:

| Local Authority | Grant from government |
|------------------------|------------------------------|
| Forest Heath | £12,700 |
| Suffolk County | £65,888 |
| Suffolk Police | £ 9754 |

Recommended scheme criteria

4.17 The following table sets out recommendations to partly meet the £573,000 shortfall, with explanatory comments about each action. Modelling, using current caseload data, illustrates the potential financial effect of proposed changes to the current council tax benefit scheme. The total projected saving is the sum of each of the actions separately.

| Note | Action | Number affected | Value £'000 |
|-------------|---|------------------------|--------------------|
| | Total shortfall | | 573 |
| 1 | Maximum liability 8.5% | 4,588 | 161 |
| 2 | Abolish Second Adult Rebate | 38 | 4 |
| | Shortfall balance to be met from other options, for example changes to Council Tax exemptions | | 408 |

Note 1 - Currently Council Tax Benefit is awarded or calculated based on the claimant's full liability (100%). Instead, it is recommended to use 8.5%, meaning each working age claimant would have to pay at least £85.59 per year more than they do now. This is based on:

- a band A property, as the majority of our claimants fall within this banding; and
- at the current 2012/13 Council Tax levels.

Note 2 - Second Adult Rebate is paid when the claimant's income is more than other people in their home. In practice, it is complicated to explain and difficult to administer.

4.18 The current safeguards for vulnerable claimants will continue, these include providing higher benefits (up to the Maximum allowed) for those receiving Personal Independence Payments. Customers who are blind or have carers will not have deductions, in respect of others living in their home, taken from their support.

Policy Document

- 4.19 It is a requirement to set out the LCTS scheme in a Policy document which details the 'rules' of the scheme. This needs to be approved by Full Council. The final version of the document is currently being drawn up and will be provided as a Background Paper and a summary will be shown at Appendix A (to follow).
- 4.20 Changes as a result of the new powers within the Local Government Finance Act 2012 to reduce the level of discounts currently granted in respect of second homes and some classes of empty properties; will require a policy change by Members as part of the 2013/14 setting the Council Tax Base and budget setting process.

Helping people to understand the new system of Council Tax Support

- 4.21 The replacement of the national Council Tax Benefit system with a localised scheme will have a major impact on claimants as well as others who will be expected to help make up the 10% shortfall in Government funding.
- 4.22 While the premise behind the idea – encouraging benefits claimants into work – is relatively simple to explain, the process of putting local schemes into practice, and explaining how people will be affected, is more complicated. A communications plan will be put together to support the work of Anglia Revenues Partnership (ARP) members.
- 4.23 The communications plan will identify:
- stakeholders – these are the people who need to know what's going on, including claimants and advice organisations as well as staff, councillors and the public;
 - key messages which need to go to each group of stakeholders – the public will not need to know as much detail, for example, as claimants;
 - communications routes – such as individual letters, print, broadcast and social media;
 - timescales – any campaign is unlikely to start before mid January 2013, with the focus being around the time Council Tax bills are sent out.
- 4.24 The West Suffolk Communications Team will work with the other Anglia ARP partners to ensure consistency of messages and timescales. Delivering the actions in the communications plan will be the responsibility of each individual council in the partnership.

5. Other options considered;

- 5.1 The Council must agree a LCTS scheme. If the Council does not set a scheme based on agreed local criteria then the Government's 'default scheme' in its entirety will need to be used, the cost of which would almost certainly be higher than the level of grant funding, resulting in a budget pressure.
- 5.2 It is understood that the majority of the Suffolk councils are aiming to adopt the maximum 8.5% reduction to working age support and thus qualify for the one-off Government grant. An update on this will be available at the Cabinet meeting.

6. Community impact

6.1 Crime and disorder impact *(including Section 17 of the Crime and Disorder Act 1998).*

6.1.1 The proposals contain provisions for dealing with welfare concerns of residents; particularly vulnerable people and to avoid child poverty.

6.2 Diversity and equality impact *(including the findings of the Equality Impact Assessment).*

6.2.1 An equality impact assessment has been carried out on the draft scheme and is currently being finalised alongside the final scheme design.

6.3 Sustainability impact *(including completing a Sustainability Impact Assessment).*

6.3.1 No impact.

6.4 Other impact *(any other impacts affecting this report).*

6.4.1 None.

7. Consultation *(what consultation has been undertaken, and what were the outcomes?)*

7.1 The Local Government Finance Bill requires Billing Authorities to hold a public consultation on their LCTS proposals. To comply with this a 12 week consultation started on 3 August 2012 and finished on 16 October 2012, coordinated with St Edmundsbury, other Suffolk districts and Suffolk County Council.

7.2 A range of initiatives were undertaken to promote the consultation across Forest Heath. This included writing to 7836 residents, inviting stakeholders to participate, and, advising Council Tax payers throughout the district of the consultation.

7.3 As a legal requirement, the major precepting authorities have been consulted and agreed the framework.

7.4 A total of 909 returns were received; 61 online (6.7%) and 848 by post (93.3%).

7.5 The majority of respondents (55%) ranked option 2 (owners of second homes pay more) as the option they agreed with most. This was followed by Option 3 (Owners of empty homes pay more). Option 1 (working age people who receive Council Tax (CT) support pay more) and Option 4 (remove second adult rebate) were considered the least favoured options. However, 25% of respondents still ranked both of these as their top two preferred options.

7.6 Other issues respondents felt that the Council should consider included:

- Reduce waste/costs / spending/services
- Higher bands / wealthier to pay more
- Pensioners - reduce Council Tax (CT)
- Disabled - reduce CT /protect those unable to work/ improve support
- Increase CT recovery/ reduce fraud /increased benefit checks
- Reduce CT for / protect low income families

7.7 In addition to the questionnaire,, workshops were undertaken with stakeholders in order to complement the quantitative research and explore the potential impact upon different groups in more depth. Three workshops were delivered across Suffolk with private landlords; social landlords and the voluntary and community sector. This enabled us to minimise the resources required to deliver the consultation and maximise attendance as many organisations work across the whole of Suffolk. In addition, this was supplemented with local workshops, targeting West Suffolk organisations, in Mildenhall and Bury St Edmunds.

7.8 Key concerns included:

- Some residents being affected by more than one benefit reform
- The need for residents to be supported through budgeting advice
- Some residents being required to pay Council Tax for the first time
- Literacy issues of some residents – organisations to work together to provide support
- Need for reasonable time for landlords to undertake maintenance of properties between lets
- Concern over how changes will affect disabled residents
- Reliance on voluntary groups to support those affected
- Concern over organisations chasing different debts at the same time

8. Financial and resource implications (*including asset management implications*).

8.1 The effect of the local funding gap of around £573,000 will be borne by the major precepting authorities in proportion to their current precept size. Currently this equates to 9.1% for Forest Heath. This is significant as the extra amount payable by working age claimants will be a risk for payments to the Collection Fund.

8.2 The recommended policy covered by this report is intended to deliver a 'cost neutral scheme' or scheme which partially covers the funding gap.

There are a number of potential financial risks involved. These include:

- **Recovery of Council Tax.** There is a risk of a lower level of collection of Council Tax, given that more people will have to pay Council Tax and many will be paying for the first time.
- **Recovery of administration costs.** The number of people paying Council Tax will increase and we will need to consider the impact on resources needed to collect this money.
- **Demand.** Under the existing benefit scheme there is no direct financial impact on the council of changes in the amount of benefit paid. Under

the LCTS scheme the Government grant will be a fixed sum and therefore any increase in claimant numbers will be borne by all of the major preceptors including Forest Heath. The modelling has also been based on 2011/12 data, which in itself may not entirely reflect the claimant profile when the scheme goes live in April 2013.

- **Grant reduction.** As previously stated the total funding is being reduced by 10%, but depending on the December budget announcement the reduction may be as high as 14%.

- 8.3 The major precepting authorities will share the financial risks associated with LCTS. Representatives from Forest Heath and other Suffolk billing authorities and Suffolk County Council have been working together to jointly develop a county-wide framework, reflected in the proposals in this report.
- 8.4 A range of measures will be offered to affected people to help them pay, such as Direct Debit.
- 8.4 The LCTS scheme is based on a Council Tax discount, in other words a reduction in the amount of Council Tax due. The proposed methodology for reflecting the cost of this is therefore to show it as a reduction in the Council Tax base (the number of equivalent Band D properties). In simple terms this will mean that the amount of Council Tax due will be less by the amount of Council Tax Support provided. On the basis of a cost neutral scheme this reduction in Council Tax should equal the level of Government grant provided.
- 8.5 The Government is currently consulting on the methodology for dealing with Parish Councils in respect of the LCTS. The most recent proposal is that the tax base agreed by parish councils should not include any adjustment in respect of the LCTS and that therefore the grant from Government should be retained by the billing authority. This protects parish councils from the impact of changes to LCTS costs in year and leaves the burden of cuts to be borne by the billing and major precepting authorities. It is expected that we will know the outcome of the consultation before the scheme is approved by Full Council.

9. Risk /opportunity assessment (*potential hazards or opportunities affecting corporate, service or project objectives*).

- 9.1 As highlighted earlier in the report there are a number of financial risks associated with the proposed introduction of the LCTS scheme. Once the Council has set its policy, it cannot be changed until the following financial year (2014 / 15). This therefore makes it essential to monitor the new scheme and the impact on collection rates very closely.

10. Legal and policy implications

- 10.1 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 is determined by each local authority. The scheme may be altered each year, giving the Council the opportunity to take into consideration any local factors or budget constraints. Subsequent amendments may require further consultation and agreement.

- 10.2 The Council's Constitution gives the Head of Resources and Performance delegated power 'to manage the Revenues and Benefits function' including appointing officers of ARP to carry out debt recovery and criminal prosecutions. It is recommended that the list of functions which the ARP may authorise ARP staff to undertake be augmented by the inclusion of a specific reference to the administration of the Localised Council Tax Support Scheme.
- 10.3 As the autumn budget announcement is not until 5 December 2012, the actual figures for the reduction in grant will not be known until a couple of weeks later. This means that, assuming the funding announcements are received in time for the Council meeting on the 12th December, further consideration needs to be given to any other changes that may be required to adequately cover the funding gap at that meeting. In the event of final funding decisions not being known at that time, Cabinet is asked to delegate final decisions on any additional changes to the Localised Council Tax Support Scheme to the Head of Resources and Performance, in consultation with the Leader and Portfolio Holder for Resources, Governance and Performance.

11. Ward(s) affected;

- 11.1 All wards.

12. Background papers

- 12.1 Council Tax Support Localisation Report No. CAB12/012 - 3 July 2012

13. Documents attached;

Appendix A – Council Tax draft policy guide, summary of the scheme
(not attached to the agenda – will be circulated to follow)