

<b>MEETING:</b>	<b>CABINET</b>
<b>DATE:</b>	<b>15 NOVEMBER 2012</b>
<b>TITLE OF REPORT:</b>	<b>COUNCIL TAX SUPPORT SCHEME AND COUNCIL TAX DISCOUNTS</b>
<b>PORTFOLIO AREA:</b>	<b>CORPORATE SERVICES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

To seek agreement for a Council Tax Support Scheme in the light of the requirements set by the Government and the outcome of local consultation and determine the level of Council Tax Discount for vacant properties and second homes.

### **Key Decision**

This is a key decision because it is likely to result in the council incurring expenditure, or making savings which are significant having regard for the Council's budget for the service or function to which the decision relates;

### **AND**

This is a key decision because it is likely to be significant in terms of its effect on communities living or working in an area comprising one or more wards in the County.

It was included in the forward plan.

### **Recommendations:**

#### **THAT**

- (a) The Council Tax Transitional Grant be accepted;**
- (b) Subject to the above, Council be recommended to adopt a new Council Tax Support Scheme for 2013/14 based on the adoption of two of the principles that were consulted upon as indicated in paragraph 31 of the report, so that we meet the requirements of the grant; and**
- (c) The changes to council tax discounts outlined in the report be implemented from 1 April 2013.**

### **Key Points Summary**

- The Council must adopt a new Council Tax Support Scheme to come into effect on 1 April

2013. The scheme must be formally adopted by 31 January 2013 or a default scheme will be imposed which would have a significant financial impact on the council.

- Funding for the new scheme will be 10% less than the funding currently received for council tax benefit and there will be no additional government funding to cover any in year increases in caseload.
- The Government has prescribed a number of elements that must be included in support schemes and these include full protection for pensioners whose council tax support must remain at the same level as their current council tax benefit. They have also indicated that schemes should protect vulnerable claimants and provide incentives for work.
- Having carried out consultation on the proposed support scheme members must determine which principles from the consultation should be included in the new scheme to help meet the shortfall in funding. All residents and local organisations were invited to respond to the consultation and a summary of their responses is included in this report.
- The council will have discretion to set the level of council tax discount for some categories of empty property from 1 April 2013
- The primary legislation is the Local Government Finance Act 2012 which was approved on 31 October 2012 but the precise regulations for the new Council Tax Support Scheme and the changes to Council Tax Discounts have not to date been approved by Secretary of State.
- A recent government announcement is offering additional funding for the first year of the new Council Tax Support Scheme provided any council taxpayer who currently receives 100% council tax benefit does not have to pay more than 8.5% under the new support scheme.
- If the criteria for the transitional grant is met this will reduce the amount working age claimants have to pay in order to help meet the gap in funding resulting from the cut in subsidy.
- As this transitional grant will only be available for one year the support scheme would need to be reviewed for the 2014/15 financial year.

## **Alternative Options**

1. Up to now the design of benefit schemes in terms of rules has been a central government responsibility. Even so other options could be taken up including making up the shortfall in central government funding from elsewhere in the budget.
2. The recent announcement of transitional central government support for one year has meant that one off additional transitional financial support is now available to reduce the impact of the changes in 2013/14.
3. An alternative would be to refuse the grant on offer and see a wider impact on residents.

## **Reasons for Recommendation**

4. The Cabinet is required to recommend to Council a new Local Council Tax Support Scheme for implementation on 1 April 2013. The Government has recently made available transitional funding for new schemes that ensure people currently receiving 100% of council tax support pay no more than 8.5% of their council tax liability from 1 April 2013.

## Introduction and Background

5. The Government has decided that the current national Council Tax Benefit Scheme will be abolished at the end of March 2013. The current national scheme is fully funded by the government and must be replaced by a local scheme. This will be known as the "Council Tax Support Scheme" and must be in place from 1 April 2013.
6. The Government has also said that it will no longer fully fund the replacement scheme and the cut in funding is 10%, meaning a reduction of £1.4m for Herefordshire.

## Key Considerations

### Localising Support For Council Tax

7. The Council had to work within broad requirements set by the Government that indicated any local scheme should:
  - Not change the level of support for pensioners
  - Consider the needs of vulnerable people
  - Encourage people to work rather than discourage them to do so.
8. As a result of the broad framework set by the Government, the Council established its own overarching approach to guide its planning for the local scheme.
  - All council tax payers should pay something, unless they are covered by policy exemptions for example pensioners;
  - Support would have an upper limit of 90% of a council tax bill;
  - The Council Tax Scheme should incentivise work;
  - Support would be restricted to band D equivalent for those taxpayers living in properties higher than band D.
9. The Government's decision to exclude pensioners from the impact of local schemes meant that claimants of working age would be affected by changes to the current system. This covers all local Council Tax Support Schemes.
10. The broad principles outlined above were developed into a consultation document that covered a more detailed set of nine questions (principles). The questions are included in the attached consultation document but in summary the nine questions asked in the consultation process from 30 August to 26 October are as follows:
  - All taxpayers to pay something;
  - Capping council tax support to the level of a Band D property;
  - Removing second adult rebate;
  - Eligibility limit on savings;
  - Increased contributions from other adult members of the household;

- Include child benefit as an income;
  - Removing extended payments;
  - Including maintenance payments when calculating benefit entitlement;
  - Reducing disregarded earnings for lone parents.
11. The scheme must have regard to the vulnerable, but there is no national agreed definition either in government, or elsewhere, that advises what characteristics make an individual “vulnerable”. No guidance has been issued for designing local schemes. Herefordshire has approached the requirement to protect the vulnerable by including in the draft scheme the premiums from the existing council tax benefit scheme applied to a wide range of claimants who are considered as vulnerable. These include claimants receiving Disability Living Allowance, Incapacity Benefit, Employment and Support Allowance, the disability element of Working Tax Credits and Carers Allowance. These premiums currently apply to 2000 claimants

### **Council Tax Transitional Support Grant**

12. By end of August Herefordshire Council had entered into consultation on proposed local Council Tax Support Schemes. The scheme met the broad guidance that the Government indicated should form the approach to determining a local scheme.
13. However, in mid-October the Government announced a new transitional grant for local authorities that conform to the Government’s view of an “appropriate” replacement for the current Council Tax Benefit Scheme. A national budget of £100 million has been earmarked for this purpose. The amount on offer to Herefordshire is £259,451. In addition Police, Fire and Rescue will receive £52,693 as major preceptors.
14. The grant will be good news for some claimants affected by the proposed changes. However, it does mean that the Government is now providing a template for the scheme.
15. In addition the announcement was made without prior warning after Herefordshire and other authorities had already designed and consulted on individual local schemes. The key requirement for receipt of the new grant is that a scheme must ensure that the maximum effect is a variation of 8.5% for those currently in receipt of 100% council tax benefit.
16. The assessment made following the announcement is that two of our nine principles can be used to deliver a scheme that complies with the Government’s requirements so that we meet their view of a “good” scheme and receive the grant on offer.
17. The two principles from our consultation proposed to be used in the scheme that meets the grant requirement are that all working age taxpayers pay something (limited to a maximum of 8.5% for those eligible for support) and that the second adult rebate is removed. Both principles received a majority of support when adding the responses of those who either strongly agreed or disagreed.
18. The grant is one-off and transitional in nature. Unless it continues in future years it does not stop the requirement to deliver a new overall scheme in 2014/15.

### **Changes to Council Tax Discounts**

19. As previously indicated the Government is cutting current funding for council tax benefit by 10% and we have consulted on principles to help deliver within the new funding envelope of

£11.6m (a reduction of £1.4m).

20. The approach taken has been to seek mitigation from reduction to benefit payments but given the scale of the cut in funding another source has been sought.
21. The Council has discretionary power to set the level of Council Tax Discount for some categories of empty properties. The two categories concerned are Class A and C and the following outlines the definitions:

<b>Council Tax Discount Changes</b>	<b>Percentage Discount</b>	<b>Additional Income (£000's)</b>
Class A discount for a maximum of twelve months	25%	105
Class C discount for a maximum of six months	25%	600
Remove 10% discount for second homes	0%	120

22. In addition councils have the power to include second homes in this category.
23. By reducing the levels of relief to 25% for Class A for a maximum of 12 months and Class C properties to 25% for a maximum of six months; the estimated yield is £105k and £600k respectively.
24. The removal of 10% discount for second homes yields £120k. In total the Council Tax Discount changes proposed will make an estimated £825k contribution to the gap caused by the cut in government funding.

## **Community Impact**

25. On 14 June Cabinet considered "Understanding Herefordshire", the integrated evidence base and needs assessment. This was reflected in the draft corporate plan proposals reported to Cabinet on 18 October prior to consideration by Council.
26. Key elements in the draft corporate plan link to reducing inequalities in health and wellbeing outcomes. The approach taken in designing the scheme has been to continue support for the vulnerable and the wider community impact will be monitored as the scheme is implemented.

## **Equality and Human Rights**

27. An Equalities Impact Assessment (EIA) for the proposed changes arising from the local scheme was completed and placed on the council's website along with the consultation documents.
28. The EIA looked at the potential for not only protecting pensioners (as required under the legislation) but also retaining a large amount of the protections already present for working age claimants within the existing council tax benefit scheme.

## Financial Implications

29. The current Council Tax Benefit subsidy is £13m. The Government announced in the 2010 Spending Review that their funding of council tax benefit would be reduced by 10%. The Government will replace the current council tax benefit with grant funding. The estimated grant is £11.6m leaving a potential gap of £1.4m if the scheme continues without change.
30. Until the Council receives confirmed regulations, estimates continue to be used for income levels.
31. The terms of the Council Tax Transitional Support Grant can be met if only two of the nine principles are implemented in 2013/14. These are limiting council tax reduction to 91.5% of liability (£530k) and removing the second adult rebate (£21k). The acceptance of the transitional grant and changes to council tax discounts will provide the balance of the sums required to close the estimated £1.4m funding gap as follows:

<b>Proposed Changes or Funding Streams</b>	<b>£'000</b>
Limit council tax reduction to 91.5% of liability (Principle 1)	530
Remove second adult rebate (Principle 3)	21
Empty Property Class A discount for maximum of 12 months at 25%	105
Empty Property Class C discount for maximum of 6 months at 25%	600
Remove 10% discount for second homes	120
Transitional Grant	312
<b>TOTAL</b>	<b>1,688</b>

The above is an estimate and a cautious approach has been taken given that a number of changes are not yet known. The numbers in receipt of support under the scheme may increase and it is prudent to allow for this change. The council also has to meet any additional costs relating to pensioners' costs including an increase in numbers. . This is now a matter for the Council to fund including the impact of any potential council tax increase.

## Legal Implications

32. As the new support scheme will be a localised scheme, if the Council fail to take into account views from the consultation in deciding the shape of the final scheme, there is potential for a legal challenge if the Council choose to adopt the transitional grant scheme. As this will change the draft scheme used in the consultation a decision will need to be made on whether any further consultation is necessary

## Risk Management

33. The scale of the changes is likely to have a significant impact on workloads and ICT systems not least because of the short timescales for implementation. We are working with our software provider to maximise the time available for testing changes to include local elements of the scheme as any delays could have an impact on the annual billing cycle for 2013/14.

34. This situation could be further complicated by the potential for further changes to the draft regulations to reflect the outcomes from central government consultations which have not yet been completed.
35. With an increase in the number of claimants, who will either be paying council tax for the first time or paying more and in many cases small amounts, there is likely to be an increase in collection costs through greater debt recovery workloads plus the potential for a higher level of uncollectible debt. Plans are being developed to respond to this.
36. Because the new scheme is no longer a national scheme which is applicable to all billing authorities there is also potential for local challenges to schemes and it is not clear what impact this could have on both the scheme and on implementation timescales.
37. A copy of the draft support scheme has been passed for approval by Legal Services.
38. The potential for fraud may arise as the new scheme will not be covered by current Department for Work and Pensions rules. Further information and draft regulations have been promised to provide powers that will ensure Councils can pursue fraudulent claims for support. The Council has a very good track record dealing with benefit fraud.

## Consultees

39. The major preceptors (Police, Fire and Rescue) were consulted on the scheme. They were in favour of the proposed approach.
40. Consultation ran from 30 August to 26 October 2012. The consultation questionnaire was published on line using Herefordshire Council's website together with a consultation document. In addition around 1,000 paper copies were issued, of these 500 copies were sent to a sample of working age residents who are currently receiving council tax benefits. Questionnaires were provided to social landlords and voluntary organisations to distribute to their tenants and contacts, and at the "Your Community Your Say" events.
41. Workshops were held for local organisations, voluntary groups and social landlords. Social landlord newsletters made reference to the consultation.
42. All parish clerks were notified of the consultation.
43. In total 231 responses were received by the end of the consultation period. The following table summarises the response to the nine principles (questions):

Principle	Agree/ Strongly Agree	Disagree/ Strongly Disagree	Neither agree or Disagree
1. All taxpayers should pay Something	138	76	15
2. Support should be capped at Band D level	114	72	42
3. To remove second adult rebate	135	70	25
4. To limit the level of savings	144	68	18
5. To increase contributions for	129	50	49

non-dependants			
6. To include child benefit as income	91	128	9
7. To remove extended payments	92	111	28
8. To include maintenance as income	126	76	29
9. To reduce the earnings disregard for lone parents	110	82	37

45. The outcome sees support for the majority of the nine principles (if those who neither disagree or agree are removed from the calculation). The two principles not supported in the consultation are the inclusion of child benefit as income and the removal of extended payments. Neither option is included in the scheme that meets the announced guidelines for the transitional grant.

## Appendices

- Appendix A: consultation documents
- Appendix B: council tax support scheme consultation report

## Background Papers

- Equality Impact Assessment