



CABINET 26 September 2012	REPORT
Subject Heading:	Localisation of Council Tax Support
Cabinet Member:	Cllr Ramsey
CMT Lead:	Andrew Blake-Herbert Group Director, Finance & Commerce
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Policy context:	
Financial summary:	The proposed local scheme design seeks to address the £1.9 million reduction in government grant as a result of the localisation of council tax support.
Is this a Key Decision?	Yes
Is this a Strategic Decision?	Yes
When should this matter be reviewed?	Full Council January 2013
Reviewing OSC:	Value

The subject matter of this report deals with the following Council Objectives

Ensuring a clean, safe and green borough	<input type="checkbox"/>
Championing education and learning for all	<input type="checkbox"/>
Providing economic, social and cultural activity in thriving towns and villages	<input checked="" type="checkbox"/>
Valuing and enhancing the lives of our residents	<input checked="" type="checkbox"/>
Delivering high customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

At Cabinet on 11 July 2012, Members were made aware of The Welfare Reform Act 2012 which will abolish the national Council tax Benefit scheme from April 2013. Also, the Local Government Finance Bill currently making its way through Parliament will enable Local Authorities to design their own local council tax support schemes.

Cabinet Members considered eight options from which a local Council Tax Support Scheme could be developed and authorised consultation with the Greater London Authority (GLA) on these options with the Council's preferred option being option eight. Detailed information regarding all eight options (including the related equality impact assessments) can be found in the 11 July 2012 Cabinet Report papers.

In addition to the Cabinet meeting above, the Value Overview and Scrutiny committee on 31 July 2012 also considered the cabinet report and options for a new local scheme.

This Report seeks a commitment to make Option Eight the basis of the draft local council scheme from which consultation can commence with members of the public and affected persons.

RECOMMENDATIONS

1. That Cabinet approve the draft local council tax support scheme (set out at Appendix E) and amendments to council tax discounts as summarised in Appendix A for consultation with members of the public and other interested parties.
2. That Cabinet continue to note the financial pressure of a £1.9 million reduction in government grant for council tax support in 2013/14.

REPORT DETAIL

1. Background

- 1.1 At the 2010 Spending Review, the Government announced that it would localise support for council tax (CTS) from 2013 and that expenditure allocated to CTS would be reduced by 10% compared to council tax benefit expenditure.
- 1.2 As part of the Welfare Reform Act 2012, the national council tax benefit scheme (CTB) will be abolished from April 2013. The Department for Communities and Local Government (DCLG) under the Local Government Finance Bill have proposed local schemes to support residents with their council tax to be administered by local authorities.
- 1.3 The Local Government Finance Bill also enables the technical Council Tax Reforms allowing billing authorities to vary the level of certain discounts and exemptions.

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- 1.4 Funding and financial implications have been considered in light of papers provided by the DCLG and documented in the Financial Implications and Risks areas of this report and Appendix
- 1.5 The DCLG have published papers which set out the principles of the scheme and policy intentions and these are summarised in this report.
- 1.6 The Government have also issued two further papers in July entitled: Localised support for council tax – Draft Council Tax Reduction Schemes (Prescribed Requirements) Regulations Localised support for council tax – Draft Council Tax Reduction Schemes (Default Scheme) Regulations.
- 1.7 These draft regulations have been used to inform the draft Local Council Tax Policy attached at Appendix E which will be made available as part of the consultation.
- 1.8 Further information regarding the principles of a local scheme, customer profile and how council tax benefit is calculated can be found in the 11 July 2012 Cabinet Report papers.

2. Council Tax Technical Reforms

- 2.1 Following the Local Government Resource Review, a number of technical reforms of council tax were proposed by the Government. The Government consulted on these proposals between 31 October 2011 and 29 December 2011 and published a report in May 2012 (Technical Reform for Council Tax: Summary of Responses Report) summarising the responses received during the consultation period. In this report the Government has indicated their intention to give billing authorities the power to vary discounts in respect of certain classes of empty properties. Any extra revenue generated by setting a lower discount than currently awarded will be retained by the billing authority and will not affect the distribution of Government grant.
- 2.2 The proposals that will potentially have a financial impact on the Council are as follows:
- 2.3 Second Homes
- 2.4 This refers to properties that are unoccupied but furnished.
- 2.5 The Council already has the power to award a discount for second homes to between 10% and 50% and since April 2004 the discount for this type of property has been set at 10%. The proposal is to extend this discretion so that the Council can levy up to the full council tax on second homes (i.e. reduce the discount to 0%).
- 2.6 Empty Dwellings Undergoing Major Repair
- 2.7 Current regulations provide for these properties to be exempt under class A for a period of up to 12 months. The Government's intention is to abolish this exempt class and enable billing authorities to set a discount between 0% and 100%. There is no proposal to allow Billing Authorities to vary the 12 month period therefore the discount that is set will apply for the whole of the period for which the property is undergoing repair.

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2.8 Vacant Dwellings

2.9 This refers to properties that are unoccupied and unfurnished.

2.10 Current regulations provide for vacant dwellings to be exempt under class C for a maximum period of 6 months. The Government has confirmed that it intends to abolish this exemption and replace it with a discount that billing authorities can set between 0% and 100%. Since issuing their consultation report, the Government has clarified in the Council Tax Information Letter 2/2012 that councils will not only have the flexibility to set the level of discount but also the period for which the discount applies. This means that the Council could, for example, choose to allow a 50% discount for 3 months and 0% discount for the remaining 3 months, or 100% discount for 1 month followed by 0% discount after that. Havering Council propose a zero discount to enable savings to be made for the Council Tax Support Scheme.

2.11 Liability of Mortgagees in Possession

2.12 Mortgagees (usually a bank or building society) do not currently become liable for council tax when they repossess a property. The owner continues to be liable but is exempt under class L until the property is sold. The Government intends to change the regulations regarding liability so that the mortgagees are made liable for council tax following repossession. The exemption would no longer be needed so the intention is to abolish class L and the property would then be treated as any other vacant dwelling.

2.13 The Government in their consultation paper *Technical reforms of council tax* have indicated that they will have detailed discussions with mortgage lenders about these proposals and this may result in a delay to this rule being implemented.

2.14 Local Government Finance Bill

2.15 The above proposals are still subject to amendment. The Local Government Finance Bill is currently working its way through the House of Lords and seeks to make changes to the Local Government Finance Act 1992 with effect from 1 April 2013. The next stage in the bill's journey is the report stage which is due to take place on 10 October 2012. This will be followed by a third reading and subsequently both the House of Commons and House of Lords will have opportunity to consider any amendments before royal assent is sought.

2.16 The increased income from the above council tax reforms could mitigate the 10% Government reduction in council tax support expenditure.

3. Preferred Option for the New Local Council Tax Support Scheme

3.1 Cabinet on 11 July 2012 considered eight options in detail before noting their preference for the proposed scheme which is attached at Appendix A. All the options considered by Cabinet in July are summarised under the heading Reasons and Options further below in this report.

3.2 The proposed framework of the new local scheme will have due regard to the DCLG's policy intentions and will protect pensioners. Accordingly, a 10% reduction in expenditure shared amongst working age claimants only, increases the reduction to 18%.

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- 3.3 Each of the eight options have a number of shared and unique risks associated to them which Members have considered in detail. The risks for each option can be found in the 11 July 2012 Cabinet Report papers.
- 3.4 Officers recommended that Option 8 is made known as the preferred option for consultation with the GLA as it combines elements which propose minimal impacts on working age claimants and taxpayers with only one home. It is also reasonable to expect working adults residing with the claimant to make a contribution to the council tax through an increased non dependant deduction.
- 3.5 The design of the new local scheme and changes to the council tax reforms, referred to in Appendix A, are forecast to make the required savings to mitigate the 10% Government reduction in expenditure.
- 3.6 The figures used for the initial modelling have changed as more up to date information has been made available to forecast the impacts on customers and finances. The detail is contained in Appendix A
- 3.7 It is important to note that in any final scheme, expenditure may be higher than the figures provided here. Therefore more detailed analysis and verification of the data used will continue to be required to accurately determine the reduction.
- 3.8 Also, any increase in the level of claims beyond current numbers, either due to a further downturn in the economy or an influx of claimants, would need to be dealt with locally – there is no indication to date this cost would be met by the Government. Given the current scale of payments – around £19m as indicated above – this will need to be factored into the Council’s budget risk assessment

4. Consultation with the GLA and the Public

- 4.1 In accordance with Schedule 4 of the Local Government Finance Bill, consultation has commenced with the major precepting authority, the GLA, in advance of the publication of the draft scheme.
- 4.2 The GLA have responded in their letter of 29 August 2012 and have recognised the preferred option for a draft scheme was selected from a total of eight designs. The GLA have reserved the right to respond in detail as part of the Council’s wider consultation process with residents and stakeholders which is to be launched in October 2012.
- 4.3 The Council will formally consult with residents and other groups who will be affected by the scheme as detailed in the Consultation Plan attached at Appendix C.
- 4.4 The consultation plan includes awareness articles for the Web and local media, staff and representative organization focus groups, briefings for External Providers and internal staff.
- 4.5 Subject to the draft scheme receiving Cabinet approval in September, an on-line consultation questionnaire will shortly open for the public to comment on the new local scheme. The consultations questions are attached at Appendix C.

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- 4.6 A paper version of the consultation questions will be made available at various Council outlets for customers who are unable to access the Web.
- 4.7 A summary of the draft scheme will also be made available during the consultation a copy of which is attached at Appendix E.
- 4.8 The consultation period is planned for six weeks commencing in October. This timescale will ensure the outcomes can be collated, analysed and reported to Full Council in January 2013 when the draft scheme must be ratified.

5. Local Council Tax Scheme Administration

- 5.1 To administer the proposed Council Tax Support Scheme in addition to the Council Tax Benefit Scheme for people of pensionable age and the Housing Benefit Scheme, will have major implications on Council resources.
- 5.2 The Housing Benefit Scheme will phase out over the next five years as Universal Credit phases in and will therefore, still require local authority administration.
- 5.3 The DCLG have made available £80,000 to set up the local council tax support scheme.
- 5.4 Government have indicated in their paper *New burdens doctrine – Guidance for government departments*, that “all new burdens on local authorities must be properly assessed and fully funded by the relevant department”.
- 5.5 The Government is committed to keeping council tax down and to ensuring that reasonable net additional costs of all new burdens is assessed and fully funded. These will include any one-off implementation costs, set up and transition costs as well as recurring costs for the first three years.
- 5.6 Further information or detail of the annual financial settlement is still awaited from Government.
- 5.7 Currently, the DWP provide an administration grant of £1.6 million to run the Housing Benefit and Council Tax Benefit Scheme. Normally, The DWP will indicate towards the end of the year, the funding available for the Housing Benefit Scheme and provide an explanation of how it has been calculated.

6. Council Tax and Council Tax Benefit Cost of Collection

- 6.1 The draft local Council Tax Support Scheme relies heavily on the Council tax Reforms to make the savings arising from the 10% Government reduction in expenditure.
- 6.2 The administration of council tax benefit is currently funded from grant provided by the DWP for both housing and council tax benefit. There are significant changes being implemented in 2013/14 for housing benefit with the introduction of Universal Credit. The Council has not been made aware yet of how much administration grant will be provided for the remaining element of housing benefit and any localised council tax scheme. It is therefore difficult to predict what costs the Council may therefore incur in administration.

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- 6.3 There will be an increased pressure to collect the additional £1.6 million Council Tax in 2013. From the proposal, several different risks exist including the impact of collection rates, arrears, take up on other discounts. At this stage we do not know what the full impact of these changes will have on the collection fund however, any deficit would be required to be feed into budget setting process with any shortfalls funded through additional savings, revised Council Tax Support scheme and/or an increase in council tax.
- 6.4 Customer Services will monitor the above even more closely with due regard to the Council Tax collection rate and the administration grant.

7. Timetable for Implementation

- 7.1 The timetable for implementation of the scheme is very challenging. A scheme must be approved by Members before 31 January 2013.
- 7.2 The table below identifies key milestones by which Activities must be completed.

Identify initial options	Completion Date
Review financial implications of scheme using council tax support module.	1 July 2012– 1 August 2012
Cabinet Agree principal options.	11 July 2012
Brief Senior Management and Officers regarding agreed options.	12 July 2012
Consult with GLA on options and scheme design.	16 July 2012 – 1 November 2012
Set framework and document policy for New Scheme administration.	16 July 2012 – 1 October 2012
Cabinet approve draft final scheme.	26 September 2012
Publish Draft Final scheme	1 October 2012
Prepare final scheme publicity including detailed article and press statements.	1 October 2012 – 31 January 2013
Consultation period on Draft Final scheme with residents, including meeting with external providers/partners	4 October 2012 - 14 November 2012

Convert software and data, engaging with software supplier, Capita and in house ICT department.	29 October 2012 – 6 January 2013
Prepare guidance, policy and procedure	5 November 2012 - 6 January 2013
Consultation analysis of responses received. Outcomes to be published separately to wider public.	14 November 2012 - 1 December 2012
Full Council approve the Final Scheme	23 January 2013
Publish Final Scheme	1 February 2013
New Localised Council Tax Support Scheme comes into force.	1 April 2013

REASONS AND OPTIONS

1. Reasons for the decision:

- 1.1 This report arises as a result of the Local Government Finance Bill 2012 which requires the Council to design a Local Council Tax Support Scheme to support people who are liable to pay Council Tax and are in financial need.

2. Other options considered:

The options available are summarised in the detail of the report above and a more detailed explanation is provided in Appendix A . The related equality impact assessments for each option can be found in the 11 July 2012 Cabinet Report papers.

Option	Projected Saving £	Impacts
1. Absorb 10% reduction into council financial reserves.	1.9 mil	No impact on Council Tax Benefit claimants or wider Council Tax
2. Restrict Council Tax liability to 80% for benefit purposes.	1.9 mil	All working age Council Tax Benefit claimants
3. Reduce Council Tax Benefit by 18%	1.8 mil	All working age Council Tax Benefit claimants
4. Restrict benefit to average band D award, increase taper & non dependant deductions	1.8 mil	All working age Council Tax Benefit claimants, particularly those with non dependants in household.
5. Restrict benefit to average band D award, increase taper & non dependant deductions, reduce premiums	1.8 mil	All working age Council Tax Benefit claimants

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6. Increase Council Tax in line with technical reforms.	1.8 mil	Direct impact on the wider Council Tax collection for residents with certain discounts and exemptions
7. Increase Council Tax for all tax payers by £22 per year.	1.85 mil	All residents in borough not claiming maximum CTS (approx 87,000)
8. Restrict benefit to band D, increase non dependant deductions, increase council tax for second homes in line with technical reforms.	1.8mil	Working age claimants who have non dependants or who reside in properties banded E to H. Also affects people who have second homes or homes that are not inhabited

IMPLICATIONS AND RISKS

1. Financial implications and risks:

- 1.1 The DCLG in their paper, Localising Support for Council – Funding arrangements consultation was issued in May 2012. This document sets out how the Government intends to distribute funding to support local schemes and that expenditure is reduced by 10% from 2013-14.
- 1.2 The funding for council tax support will be set at 90 per cent of the forecast subsidised council tax benefit expenditure for 2013-14. The Greater London Authority (GLA) element of the grant will be allocated directly to them by DCLG. An illustrative figure of £13,564k has been used which does not include the funding attributable to local precepting authorities, the GLA. DCLG advise final allocations will likely differ both in amount and also in the relative distribution between authorities.
- 1.3 The GLA council tax portion is estimated 20.42% and they share the 10% reduction with local authorities and will be funded directly from the DCLG.
- 1.4 The GLA have assumed that their allocation will be £3.48 million and have based this figure on the actual benefit subsidy expenditure for 2010-11. These figures are also illustrative to assist the Council forecast demand for the council tax support in 2013-14. The assumed funding for council tax support inclusive of the 10% Government reduction is therefore £13,564k plus £3.48 million which equals £17.04 million.
- 1.5 The funding for localised Council Tax support will be transferred to local authorities through the “new” formula grant. This will affect the overall level of base grant funding for 2013/14. Thereafter, formula grant will be driven by a number of factors, but there will be no direct link back to the level of council tax support claims, unless this is included as part of any future needs assessment.
- 1.6 The DCLG will make funding available to billing and precepting authorities based on 90% of the forecast council tax benefit expenditure for 2013-14. Currently, subsidised benefit expenditure is forecast at £19.1m therefore the 10% would equal £1.9m.

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- 1.7 The Government is providing funding via the retained business rates system to strengthen the incentives for authorities to grow their local economy and help residents back into employment.
- 1.8 The GLA council tax portion is 20.42% and they share the 10% reduction with local authorities and will be funded directly from the DCLG.
- 1.9 The GLA also now share the risk in uncollected council tax and unexpected increases in caseload. An increase in the GLA precept is not anticipated in the first year of CTS.
- 1.10 There are a significant number of risks to the successful implementation and operation of a localised Council Tax Support Scheme. These are separated into scheme options, which are reflected in Appendix A, and those relating to policy, performance and project management, which are attached to Appendix D.
- 1.11 The increase in localism brings with it additional funding risks. Under the existing arrangements Council Tax Benefit income is guaranteed, however any variations in take-up under the new scheme will require local authorities to fund the shortfall. In contrast, any decrease in demand will result in a reduction in surplus although this is unlikely in the current economic climate
- 1.12 Whichever options are selected for further scrutiny, there is a core risk that these changes could result in an increase in council tax arrears thus affecting the council's collection fund. Any adverse impact of these changes would result in a deficit position on the fund which would be required by statute to be funded between the London Borough of Havering and the Greater London Authority during the budget setting process 2014/15 onwards. This is a risk that will be added to the Risk Analysis for mitigation.
- 1.13 Here is a significant financial risk that the options under consideration do not deliver the level of savings required. The actual savings achieved will depend upon the extent to which outcomes match our assumptions (which are based upon historic data). Financial outcomes may depend upon a complex range of inter-related factors including customer resistance and benefit eligibility.
- 1.14 In view of the financial risks involved it would be sensible to build in a level of contingency. This may require some changes to the preferred options to deliver increased savings or an increase in the central contingency (or a combination of both). Changes to the central contingency will of course have wider implications for the development of the MTFs and Council Tax setting.
- 1.15 It is also recognised that a new local scheme may be manipulated to avoid or reduce council tax thereby increasing the risk of potential for Fraud. This is highlighted in the Risk Analysis and a review of the robustness of monitoring arrangements and controls will be required.
- 1.16 Due to the nature of the local council tax support scheme and funding allocation passing to local authorities, there is a risk of increases in either numbers of claims or value of claims (or both). That being the case, the financial risk associated with the local scheme now falls on the local authority.
- 1.17 Due account will need to be taken of this as part of the Council's budget strategy and reflected in the budget setting cycle for 2013/14. In addition, monitoring of the

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financial risk will need to be undertaken routinely and in the event of any significant variation, this would need to feed into the budget monitoring reporting arrangements.

- 1.18 The number of people reaching pensionable age and the pensionable population in Havering is high. The protected pensioner caseload is very likely to increase as a result of this and add further financial risk to the Council. This risk will be recorded in the Risk Register.
- 1.19 Any increase in the level of claims beyond current numbers, either due to a further downturn in the economy or an influx of claimants, would need to be dealt with locally – there is no indication to date this cost would be met by the Government. Given the current scale of payments – around £19m as indicated above – this will need to be factored into the Council's budget risk assessment.
- 1.20 A Risk Appendix B is attached which outlines the policy, project and scheme implementation risks along with comments on mitigation.

2. Legal implications and risks:

- 2.1 The Local Government Finance Bill introduces a requirement for Billing Authorities to create a new local scheme for Council Tax Support by 31 January 2013 and be effective from 1 April 2013. Whilst this has not been through all relevant stages in Parliament, given the short timescales involved it is advisable that the Council act as if it is to be passed in its current form. However, there is a risk that the final version differs in a material respect and if that does occur then a further report may be necessary. Officers will keep the passage of the Bill under close review.

The local Council Tax Support Scheme will replace the national Council Tax Benefit Scheme which will be abolished by the Welfare Reform Act 2012 from April 2013.

The Bill will require Billing Authorities to consult on any proposed scheme as part of the scheme's development as follows:

Schedule 4 paragraph 3 (1) Before making a scheme, the authority must (in the following order)—

- (a) consult any major precepting authority which has power to issue a precept to it,
- (b) publish a draft scheme in such manner as it thinks fit, and
- (c) consult such other persons as it considers are likely to have an interest in the operation of the scheme.

- 2.2 There are therefore two stages to the consultation requirements. Firstly with the major precepting authority, then once the final draft scheme has been determined with the public. A consultation must be meaningful in that it must be undertaken at a stage when consultees can influence the final decision and enough time and information must be given to enable them to respond properly.
- 2.3 The Bill further determines for Council Tax Support expenditure to be reduced by 10% although Pensioners are fully protected. The Council also has an obligation to consider other vulnerable groups in any scheme it puts forward.

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- 2.4 Policy statements and detailed guidance must also be developed along with an amendment to the Constitution that reflects this new local scheme policy.

3. Human Resources implications and risks:

- 3.1 The introduction of a new local scheme will require a detailed training plan and strategy to develop staff awareness and support them through the transition from Council Tax Benefit to Council Tax Support. Staff will also require briefings throughout implementation as the options develop into a local scheme. This is contained within the appended Project Plan.
- 3.2 Customer Services will consider the implications on the administration and commit in their Business Plan for 2013 to develop a strategy in partnership with staff and Human Resources.
- 3.3 There is a short to medium term risk of significant queries arising from council tax support claimants at the start of April 2013. This is highlighted in the Risks Analysis and mitigation should be considered.
- 3.4 There are no human resource implications arising directly from this report.

4. Equalities implications and risks:

- 4.1 The proposed Local Council Tax Support Scheme will be a new policy that has been the subject of an equalities impact assessment. The equality impact assessments for the other options can be found in the 11 July 2012 Cabinet Report papers.
- 4.2 The local scheme should also take note of the DCLG guidance note: Localising Support for Council Tax - Vulnerable people – key local authority duties which was published on 21 May 2012. This is intended to address the requirement to take into account the following duties.
- 4.3 The Public Sector Equality Duty (and *The Equality Act 2010*) requires local authorities to have clearly defined responsibilities in relation to, and awareness of, those in the most vulnerable situations. This means that a local authority must pay due regard and consider how a scheme might affect people who share a relevant protected characteristic and people who do not share it. Each of the eight options to be considered are the subject of detailed Equality Analysis.
- 4.4 The duty to mitigate effects of child poverty (*The Child Poverty Act 2010*): understanding the characteristics of low income and disadvantaged families. The omission of child benefit income in the calculation of local Council Tax support goes some way to protecting children and again additional money from a discretionary fund could also help with this.
- 4.5 The duty to prevent homelessness (The Housing Act 1996) Those households who find themselves homeless through no fault of their own and who are eligible and in priority need are owed the main homelessness duty.
- 4.6 Armed Forces covenant: The DCLG also highlight the need to comply with the Armed Forces covenant. The current provision is to fully disregard income received from the War Pension Scheme (£35,165 based on 2011/12 Subsidy expenditure)

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and Armed Forces Compensation scheme will remain in place in all of our proposed schemes.

- 4.7 The guidance note does not tell local authorities what they must do in their schemes to be compliant with their duties. It is important to note the need to demonstrate that the local Council Tax support scheme is compliant with the above acts and to document all work undertaken in this area.
- 4.8 In developing a local Council Tax Support Scheme, the Equality analysis is considered an integral part of the process. The Equality analysis will be reviewed on a regular basis as the policy for the local scheme develops to ensure negative impacts are identified and minimised if not eliminated.

BACKGROUND PAPERS

Reference Documents

Localising Support for Council Tax – Funding arrangements consultation
Localising Support for Council Tax – A statement of intent
Localising Support for Council Tax in England - Government's response to consultation
Localising Support for Council Tax in England – Consultation
New Burdens Doctrine – Guidance for government departments
Localised support for council tax – Draft Council Tax Reduction Schemes (Prescribed Requirements) Regulations
Localised support for council tax – Draft Council Tax Reduction Schemes (Default Scheme) Regulations
Council Tax Information Letter 2/2012
Technical reforms of council tax - Consultation

Appendices

Appendix A Preferred Option
Appendix B Risks
Appendix C Consultation Plan
Appendix D Draft Consultation Questions
Appendix E Draft CTS Scheme