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| CABINET 12 December 2012 | REPORT |
| Subject Heading: | Localisation of Council Tax Support |
| Cabinet Member: | Cllr Ramsey |
| CMT Lead: | Andrew Blake-Herbert Group Director, Finance & Commerce |
| Report Author and contact details: | Jeff Potter Head of Customer Services Tel: 01708 434139 Jeff.potter@havering.gov.uk |
| 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? | |
| 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

Members were made aware of the Government's intention to abolish the national Council Tax Benefit Scheme and enable Local Authorities to replace it with new local schemes from April 2013.

Local Authorities were challenged to devise and implement a local council tax support scheme within a limited period that would also meet a 10% reduction in Government expenditure. For Havering Council, this is a financial pressure of £1.9 million which has been found primarily from the proposed council tax reforms and the new parameters for the local council tax support scheme.

This report and appendices summarises the proposed changes to discounts and exemptions arising from the council tax reforms and Havering's draft local council tax support scheme. Details of the formal consultation with residents, persons affected and the Greater London Authority (GLA), are contained within this report.

Ministers are now offering Councils a share of £100 million to assist the transition from council tax benefit to local council tax support which is also considered in this report.

The position with regard to funding the implementation and administration of the draft local scheme and the implications for council tax collection are also looked at in this report.

RECOMMENDATIONS

That Cabinet:

1. Approve and recommend to Council the adoption of the proposed local council tax support scheme as set out in Appendices A & E.
2. Approve and recommend to Council the proposals to vary the discounts in respect of certain classes of empty dwellings as summarised in Appendix A.
3. Note the responses to consultation on council tax support and the council tax technical reforms
4. Note the financial pressure of a £1.9 million reduction in government grant for council tax support in 2013/14.
5. Note the content of the transitional grant scheme and recommend to full Council the deferral of the band D restriction to local council tax support to April 2014.
6. Recommend to Council the delegation of responsibility to make any minor and consequential changes necessary to the detailed provision as a result of any changes to the draft regulations upon which the scheme is based to the Director of Finance and the Portfolio Lead Member.

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 Act 2012 enables the technical Council Tax Reforms allowing billing authorities to vary the level of certain discounts and exemptions.
- 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 B.
- 1.5 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.
- 1.6 These draft regulations have been used to inform the draft Local Council Tax Support Scheme attached at Appendix E which will be made available as part of the consultation.
- 1.7 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 The Local Government Finance Act 2012 also enabled the council tax technical reforms. The Act will allow billing authorities, through secondary legislation, to vary the level of discount in respect of certain classes of empty properties with effect from April 2013.
- 2.2 The 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. The extra revenue will also ease the 10% government grant reduction on transition from council tax benefit to council tax support.
- 2.3 The following proposals will have a financial impact on the Council:

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- Second homes Unoccupied and furnished properties currently qualify for a discount of between 10% and 50%. The discount can be reduced to zero from next year.
- Vacant dwellings undergoing major repair Currently, these dwellings are 100% exempt for up to twelve months. From April 2013, a billing authority can vary the level of discount to between 100% and 0%.
- Vacant dwellings Unoccupied and unfurnished properties may now be 100% exempt for up to six months. This can be replaced with a discount of between 0% and 100%.
- Mortgagees in possession Repossessed properties are currently 100% exempt; this exemption will be abolished although it may not be given effect until some time after April 2013.

2.4 Consultation has taken place on Havering's proposed changes to the level of discounts, the detail of which is set out below in section 4 and in Appendix D.

3. The Proposed Local Council Tax Support Scheme

- 3.1 Previously, Cabinet considered several options in detail before noting their preference for the proposed scheme. Those options are summarised under Reasons and Options later 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.
- 3.3 The proposed CTS scheme combines elements which will have minimal impacts on working age claimants and taxpayers with only one home. One of those elements is to increase the non-dependant deduction. It is 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, coupled with the additional transition grant are forecast to make the required savings to ease the 10% Government reduction in expenditure.
- 3.6 The figures used to forecast the impacts on customers and finances are in Appendix A along with a high level summary of the scheme. A more detailed description of the scheme will be made available at www.havering.gov.uk/ to be advised.
- 3.7 It is important to note that in any final scheme, expenditure may be higher than the figures projected. Therefore, detailed analysis and verification of the data will continue, to more accurately determine the reduction. Increased expenditure through additional council tax support claims will have the consequence of increased costs to the Council. This is discussed in more detail in the Financial implications and risks section further below in this report.

4. Consultation with the Greater London Authority (GLA) and the Public

- 4.1 In accordance with Schedule 4 of the Local Government Finance Act 1992 as amended by the Local Government Finance Act 2012, the major precepting

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authority, the GLA, were consulted in advance of the publication of the draft scheme. The GLA's substantive letter of response dated 14 November 2012 is contained within Appendix F.

- 4.2 The GLA recognise that whilst the development of the CTS scheme is a matter for the Council to determine, it shares in any risks and potential shortfall arising from the impacts of the scheme. These risks are fully considered and set out in Appendix B.
- 4.3 In general, the GLA welcome Havering's proposed scheme which meets Government's key priorities to incentivise work and protect vulnerable applicants.
- 4.3 The Council has formally consulted with residents and other groups who will be affected by the scheme as detailed in the Consultation Plan attached at Appendix C. Consultation commenced on 4 October and ended on 14 November 2012.
- 4.3 The consultation process included an online and paper questionnaire and a series of focus groups. Information about the proposed local Council Tax Support scheme and the consultation questionnaire was made available on the Council's website, on posters distributed to the main outlets throughout the borough, in Inside Havering, on payslips and internally and externally by email. Paper copies of the questionnaire were also posted to households accompanying council tax bills and benefit notification letters. . .
- 4.4 The number of responses received after four weeks totalled more than 220. Responses showed an overwhelming support (77%) for the proposed scheme with the exception of one survey question. This was with regard to removal of the major repairs/structural alteration exemption where just over 50% of respondents were in favour of removing it.
- 4.5 The results following the consultation are set out in Appendix D [this will contain all responses and will be finalised and analysed in the Report for Cabinet in December 2012]

5. The £100 Million Transitional Grant Scheme 2013/14

- 5.1 Ministers have noted as Councils draw up their local schemes, that some are asking for very large additional contributions from those on benefits to deliver their savings. Consequently, DCLG have made available funding to help councils transition to the new local schemes.
- 5.2 The new grant which relates to council tax support only and no other benefits, seeks to encourage best practice by making funding available to Councils whose schemes meet the following criteria:
 - Those who would be on 100% support under the current council tax benefit rules 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 for those entering work
- 5.3 The Government would also not expect Authorities to impose large additional increases in non-dependant deductions but has not made this a criteria of the scheme.

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- 5.4 Applications for the transitional grant can only be made after 31 January 2013 when local schemes have been adopted and no later than 15 February 2013. The application must be made by the Section 151 Officer. DCLG advise the transition grant will be available for one year only.
- 6.5 For Havering, the transitional funding made available is £366,811 and the GLA will also be funded in the sum of £94,135.
- 5.6 To comply with the criteria mentioned above and obtain all of Havering's share of transitional funding, the Council would need to amend the proposed 2013 scheme to remove the band D council tax support restriction. The saving of £89k proposed by this element of the scheme would be achieved through the transitional grant. As this amendment will mean that the changes will not be as great as originally proposed it was considered unnecessary to re-consult on these changes.

6. CTS, Housing Benefit Administration and Council Tax Cost of Collection

- 6.1 To administer the draft CTS schemes (working age applicants and pensioners), the current housing benefit scheme and collect the additional council tax arising from the draft scheme, will have major implications on Council's resources.
- 6.2 The DCLG have made available £80,000 for Havering Council to set up the CTS scheme. However, further information is still awaited from Government under its New Burdens Doctrine policy as to how much funding will be available to maintain the CTS scheme and collect the additional council tax arising from the new scheme.
- 6.3 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 until 2017. The DWP have however, continued to provide an administration grant of £1.4 million 2013/14 towards housing benefit administration which is only slightly lower than the administration grant provided last year to keep disruption to local authority finances to an absolute minimum.
- 6.4 Further information or detail of the annual financial settlement continues to be awaited from Government.
- 6.5 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.
- 6.6 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. The risks are set out in Appendix B of this report.
- 6.7 At this stage, it is not known what the full impact of these changes will have on the collection fund, however, any deficit would be required to feed into the budget setting process with any shortfalls funded through additional savings, revised Council Tax Support scheme and/or an increase in council tax.
- 6.8 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 the remaining key milestones for the local council tax support scheme.

| Milestone | Completion Date |
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| | |
| 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 |
| Full Council approve the Final Scheme | 30 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 Act 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 | 1.9 mil | All working age Council Tax Benefit |

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| 80% for benefit purposes. | | 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 |
| 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,

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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.
- 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 There 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.

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- 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 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 Act 2012 now in force has introduced 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 failing which a default scheme would be applied.

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 Local Government Finance Act 1992 as amended by the Local Government Finance Act 2012 requires Billing Authorities to consult on any proposed scheme as part of the scheme's development as follows:

Schedule 1A 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.

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- 2.3 The Council has consulted with the GLA and the public as required by Schedule 1A above.. The comments must be carefully considered by Members before making their determination.
- 2.5 Policy statements and detailed guidance must also be developed along with some minor amendments to the Constitution to reflects this new local scheme.

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 assessment is set out in Appendix F.
- 4.2 The local scheme has also taken 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. The proposed scheme has been the subject of a 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.
- 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.

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- 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) and the Armed Forces Compensation scheme and this will remain in place in the proposed scheme.
- 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
Localising Support for Council Tax – Transitional Grant Scheme

Appendices

Appendix A Proposed Option for Local Council Tax Support
Appendix B Risk Log
Appendix C Consultation Plan
Appendix D Consultation Outcome Report
Appendix E Proposed Council Tax Support Scheme Summary
Appendix F Equalities Analysis
Appendix G GLA Response