BABERGH AND MID SUFFOLK DISTRICT COUNCILS

From: Head of Corporate Resources	**Report Number: M62**
To: Executive Committee Strategy Committee	**Date of meeting: 6 August 2012 9 August 2012**

LOCAL COUNCIL TAX SUPPORT SCHEME

1. Purpose of Report

1.1 Government requires councils to consult on their draft scheme during the summer for the council tax support that they intend to operate from April 2013, so that the final scheme can be formally adopted by the two Councils by January 2013.

1.2 This report recommends that the Council consults on a variant of the current national council tax benefit scheme given the timescale available to fully develop a local scheme in this first year of change.

1.3 It is also proposed that second and empty homes discounts are reduced to lessen the impact on recipients of council tax support.

2. Recommendations

2.1 That the Committee endorses, subject to consultation, the approach outlined in sections 8.9 to 8.18 of the report and detailed further in Appendix B for the Local Council Tax Support Scheme including removing and reducing second and empty home discounts

2.2 That the Head of Corporate Resources, in consultation with the Chairmen of Executive and Strategy Committees be given delegated authority to determine the consultation arrangements, process and draft scheme based on the details set out in Appendix B.

The Committee is able to resolve these matters.

3. Financial Implications

3.1 Currently, funding is paid by the Department for Work and Pensions as a reimbursement of council tax benefit expenditure according to nationally-set criteria (subsidy). From April 2013, funding to be distributed to local authorities will be a cash-limited grant and will be paid by the Department for Communities and Local Government.

3.2 The headline amounts to be made available will be 10% less than currently received producing national savings in the region of £500m. It is important to note however, that whilst the overall national saving will be 10%, the distribution of the cash grant will be formula based and will vary at individual council level. Many councils are likely therefore to face changes of more than this headline figure. Latest indications are that the grant reduction may be as high as 14% in some cases.

3.3 The table below shows the scale of the reduction in funding across Suffolk at both the headline figure 10% and at the more likely 14%, given Government's need to reduce the fiscal deficit.

	Headline	More Likely
	10%	14%
Suffolk County Council	£4,094,100	£5,731,700
Suffolk Police Authorit	£606,000	£848,400
District/Borough Coun	£690,900	£967,300
Parishes	£124,400	£174,200
Total	**£5,515,400**	**£7,721,600**

3.4 For Babergh and Mid Suffolk the current estimate of the funding shortfall amounts are very similar at between £58,000 and £83,000 for the respective percentages.

3.5 The new arrangements reduce the size of the tax base and, as can be seen from the above, future decisions to address the funding shortfall will not only affect the council but also have material implications for the major preceptors.

3.6 There are also potential impacts of the revised arrangements on Town/Parish Councils in terms of their precepts and Band D Council Tax level, including passing on an element of the new grant funding distribution, depending on the actual scheme that is adopted.

3.7 It is important, therefore, that councils work in concert, across Suffolk, to mitigate the risks to all and balance the needs and impacts of the working age claimants.

4. Risk Management

4.1 This report is most closely linked with the Council's Corporate/ Significant Business Risk No. 2, Efficiencies and Savings and Risk No. 7, Localism and Community Engagement. Key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
Councils fail to adopt a local council tax scheme	Low	Critical	External project manager appointed. Countywide officer and Member meetings
SRP partners agree on different Local Council Tax Scheme	High	Critical	Due to different make up of caseloads, schemes will need to differ but aim should be to minimise
Legal challenge lodged against the Council Tax Scheme	Significant	Critical	A Suffolk approach may help to lessen the financial cost to each local authority
ICT supplier fails to deliver system changes to support the revised local council tax scheme	Low	Catastrophic	Regular meetings with software supplier

Risk Description	Likelihood	Impact	Mitigation Measures
Lack of capacity within SRP and the 3 partner councils to deliver the forthcoming changes	Significant	Critical	Joint meetings with customer service and housing teams and with the DWP

5. Consultations

5.1 The Communities and Local Government document “Localising Support for Council Tax – A statement of Intent” and The Local Government Finance Bill provides guidance on the level of consultation required when preparing the scheme.

5.2 The Bill specifies that, before adopting a scheme, the billing 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 a 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.

5.3 In the first instance, consultation is required with the major precepting authorities on the draft scheme proposals.

5.4 This is followed by public consultation, which will include those with second and empty homes and a written letter to all existing working age claimants and; face to face sessions with key stakeholders such as CAB, Credit Union, landlords and other interested parties. Wherever possible there will be a “joined up” Suffolk approach but there will be a need to engage separately with some of our stakeholders

6. Equality Analysis

6.1 An Equality Impact Assessment will be required following determination of the draft and final scheme and the outcomes of consultation.

7. Shared Service / Partnership Implications

7.1 It is proposed that the existing scheme across Suffolk should be adapted to provide a consistency of approach and that the new scheme should also address the Suffolk Leader’s early concerns on minimising the impact on claimants.

7.2 Such an approach retains the advantage of not limiting the discretion of each council to determine the extent to which a working age claimant’s liability to council tax continues to provide an incentive to work.

8. Key Information

Background

8.1 Earlier this year the Government consulted on proposals for the localisation of support for council tax in England. This followed the announcement at the 2010 Spending Review that support for council tax would be localised from April 2013 and that support to councils would be reduced by 10% nationally from the same date.

8.2 Those proposals change council tax support from a fully funded nationally prescribed benefit to a locally determined rebate or level of financial support, sometimes referred to as a discount. As a consequence councils have to locally determine and consult on schemes that support families already in work and to encourage those not currently in work into work as part of Government's wider strategy to reduce the spiralling costs of welfare.

8.3 As a consequence, councils are required to design and consult on their draft schemes for adoption by January 2013. Pensioners will be fully protected. The final scheme will be brought to Strategy and Executive Committees in the autumn.

Constraints and issues in year 1

8.4 Primarily, as a consequence of the timetable set out in Appendix A surrounding the passing and issue of all relevant legislation and regulations, there is a need to balance the desires of Government and councils with practicality in this first year of change.

8.5 The main issues and constraining factors have been identified as:

- A challenging timetable
- Software – cost and development time, with all councils potentially trying to design bespoke schemes at the same time
- Pensioners – maintain the seamless transition from working age to pension age and pensioner protection
- Vulnerable group protection – catered for within the current scheme
- Incentivise work – some limited incentives are currently provided
- A fundamentally new scheme would significantly increase training needs at a time when there is already significant change flowing from welfare reforms including the changes that will flow from the introduction of Universal Credit from October 2013
- Equality impacts – vulnerable groups should not be adversely impacted.

8.6 Given the current legislative position, and the limited capacity of software companies to respond adequately to demand; Government advice is for councils to base their initial revised schemes on the current means-tested arrangements in this first year of change.

8.7 The current scheme has the advantage of containing some incentives for those in work. Adapting the current scheme also retains the advantages of addressing Government's desire to protect vulnerable groups and has already been tested in the courts in terms of equity.

8.8 Retaining but amending the current scheme in this first year has a number of other advantages insofar as it maintains familiarity for the majority of claimants, retains access to current data transfers and allows for the full impact of Universal Credit to be assessed before committing significant resources to tailoring any longer term scheme.

Proposed Approach and Key Features

8.9 Adapting the existing scheme across Suffolk will provide a consistency of approach and the new scheme should also address the Suffolk Leader's early concerns on minimising the impact on claimants. Such an approach retains the advantage of not limiting the discretion of each council to determine the extent to which a working age claimant's liability to council tax continues to provide an incentive to work.

8.10 The difference in caseload mix between working age claimants and pensioners means that working age claimants liability will increase by between 17% and 26% if the full burden of the changes is passed on.

8.11 Care should be taken not to inadvertently create a culture of non-payment if councils decide to pass on the full burden of the grant reduction. Consideration will need to be given to increased levels of arrears, appropriate allowances for non-collection and the scope to be able to recover non-payment when Universal Credit is introduced.

8.12 Passing the full burden onto claimants would almost certainly result in an increase in non-collection and subsequent bad debts. Given the scale of the funding shortfall, it would be more prudent to pass only a proportion of the burden to claimants in order to incentivise work.

8.13 The main options to fund the balance of any shortfall are:

- Councils identifying savings in addition to those already needed;
- Increasing council tax; and
- Taking advantage of new powers within the Finance Bill to reduce the levels of discounts and exemptions currently given in respect of second homes and some classes of empty properties.

8.14 Reducing the levels of some of the current discounts and exemptions would generate sufficient revenue to meet a significant part of the savings and reinstate some of the losses to the tax base for all councils, including major precepting authorities.

8.15 Councils, therefore, have the option to achieve all of the required savings by reducing council tax support or by finding some of the savings in this way and some by reducing existing council tax exemptions/discounts. It is felt that the latter approach has a lot of merit, specifically in terms of bringing empty homes back into use.

8.16 Appendix B reflects the above and provides details of the areas where it is suggested both Councils should look to achieve the required savings/reductions. This is based on a snap shot of the current benefit caseload and council tax exemptions and over the course of the year; the actual position is likely to fluctuate slightly.

8.17 Depending on whether this is the approach that finally emerges and adopted, the potential impact could broadly be as follows (see Appendix B for further details):

	Babergh	**Mid Suffolk**
Proportion of saving/reduction falling on current benefit claimants (excluding pensioners - protected)	£412,000 (45%)	£248,000 (29%)
Second Homes/Empty properties	£500,000 (55%)	£649,000 (71%)

8.18 This approach would spread the burden although it should be noted that, even by spreading the burden, there will be a considerable challenge to collect this additional income and it should not be viewed as guaranteed income. An allowance for non-collection will, therefore, have to be made as part of the Budget setting process.

Other Key Issues

8.19 It is proposed that due to the tight timetable and detailed arrangements that need to be considered across the SRP, that that the Head of Corporate Resources, in consultation with the Chairman of the Strategy and Executive Committees, be given delegated authority to determine the detailed consultation arrangements and overall process for dealing with this in relation to the draft scheme.

8.20 Part of the Government's wider reforms relate to housing and the desire to both create more homes and to bring empty properties back into use. Changing the discounts to some classes of empty properties would provide an incentive to re-let void properties more quickly. Consultation on the draft scheme should also incorporate any proposed changes to discounts/exemptions.

8.21 It should be noted, of course, that changes to those discounts would impact on individual homeowners and landlords, including registered housing providers.

Other Options Considered

8.22 To do nothing. This would have the effect of invoking Government's default statutory scheme and as a result, councils bearing the full cost of the grant reduction. This option would result in a significant financial burden for the major preceptors.

8.23 Develop a more radical scheme. This option is not recommended for year 1 given constraints identified earlier.

9. Appendices

Title	Location
A - Timetable	Attached
B - Financial Impact Assessment	Attached

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Appendix A

Timetable

Local authorities need to establish their own local schemes by April 2013. The proposed timetable for implementation is:

Spring 2012

- Primary legislation in passage through Parliament.
- Government preparing and publishing draft secondary legislation.
- Technical consultation on grant distribution.

Summer 2012

- Primary legislation passed.
- Secondary legislation prepared.
- Local authorities designing and consulting on local schemes.

Autumn/winter 2012-13

- Local authorities establish local schemes consultation with major precepting authorities and the public – putting in place systems, notifying claimants of changes.
- Secondary legislation passed.
- Final grant allocations published.
- Local authorities adopt schemes and set budgets.

Spring 2013

- Local schemes in operation.

Appendix B

Financial impact assessment - Council Tax Localisation Draft Proposal

Based on a reduction in CTB grant:

of 10%: Babergh £610k + hardship fund = total saving required of £700,000
Mid Suffolk £535k + hardship fund = total saving required of £615,000

of 14%: Babergh £854k + hardship fund = total saving required of £950,000
Mid Suffolk £749k + hardship fund = total saving required of £850,000

NB: Shaded items are the draft proposals:

Change	Babergh £000	No. of affected households	Mid Suffolk £000	No. of affected households	Financial impact on recipient
Limitation of maximum amount of support to Band D level	83	58	90	65	£4 - £17 per week
Limitation of all working age cases to 97.5%	68	2,780	60	2,153	50p per week
Limitation of all working age cases to 95%	130	2,780	100	2,153	£1 per week
Limitation of all working age cases to 90%	250	2,780	195	2,153	£2 per week
Limitation of all working age cases to 80%	499	2,780	382	2,153	£4 per week
Setting minimum threshold for loss to £5 per week	24	142	16	100	£5 per week
Standard deduction for non dependants to £5/week	69	495	50	387	£5 per week
Reduction of capital levels to £6000	58	74	45	55	Up to £19 per week
Complete withdrawal of Second adult rebate	10	43	8	33	Between £200 to £250 p.a.
Sub-total -reduction in council tax support	**£412k (=45%)**		**£248k (=29%)**		

Discounts / Exemptions					
Withdraw completely 10% second home discount	83	409	69	475	£150 p.a. (Band D)
Reduce class A and C discount to 10%	417	447	580	424	£1,350/£675 (Band D)
2nd homes @ 5%; reduce class A and C to 20%	412	856	550	899	2nd homes £75 p.a. A and C £1,200/£600 (Band D)
2nd homes @ 5%; reduce class A and C to 40%	319	856	421	899	2nd homes £75 p.a. A and C £900/£675 (Band D)
2nd homes @ 5%; reduce class A and C to 50%	273	856	357	899	2nd homes £75 p.a. A and C £750/£475 (Band D)
Sub-total	**£500k (=55%)**		**£649k (=71%)**		
Overall Total	**£912k**		**£897k**		

Based on this approach, the savings and additional income for Babergh of £912k is equivalent to around a 13% reduction. For Mid Suffolk, the £897k savings and additional income would slightly exceed a 14% reduction.

<u>Supporting notes</u>

1. Reduction in maximum amount of support to Band D - when assessing entitlement to the local scheme for properties in bands E to H council tax charged for Band will be used, not the actual charged.
2. Limitation of all working age cases to x% - currently 100% council tax charge is taken into account reducing this to a % will mean that all benefit recipients will have to pay a proportion – no longer will a recipient receive financial help to cover the full charge.
3. Non dependants - someone who normally resides with the claimant on a non commercial basis e.g. adult daughters, sons, other relatives and friends. Currently non dependant deduction e.g. amount that the other adult is expected to contribute to the council tax is based on their individual

circumstances and can vary from 0 if on an income based DWP benefit to £9.90 per week if has gross weekly income of £394 or more per week.

4. Second adult rebate - this is awarded in respect of a second adult sharing the household who would normally be expected to contribute towards the council tax bill but cannot afford to do so, based on their low income as indicated by prescribed low wages or prescribed working-age benefit indicators.
5. Second home discount - currently 10% i.e. 90% is charged.
6. Class A exemption - empty and substantially unfurnished and undergoing major repair or structural alterations to render the property habitable (up to 12 months only).
7. Class C exemption - empty and unfurnished (exemption up to 6 months only).