

ASSEMBLY

14 January 2013

Title: Localising Support for Council Tax in England – Final Scheme	
Report of the Cabinet Member for Finance	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
Report Author: Jonathan Bunt	Contact Details: Tel: 0208 724 8427 E-mail: Jonathan.Bunt@lbbd.gov.uk
Accountable Divisional Director: Jonathan Bunt, Divisional Director of Finance	
Accountable Director: Graham Farrant, Chief Executive	
Summary: <p>As part of the 2010 Comprehensive Spending Review, the Government announced that it would localise support for Council Tax from April 2013 with an expectation that expenditure would be reduced by 10% from the same date. The proposals are part of a wider policy of localism which aims to give Local Authorities increased financial autonomy and part of the reform of the welfare system to improve incentives to work whilst protecting the most vulnerable in society.</p> <p>The Welfare Reform Act 2012 abolished Council Tax Benefit from April 2013 and, in its place, support will take the form of a Council Tax reduction. The Local Government Finance Act contains provisions for the setting up of local support schemes.</p> <p>Council Tax support will be funded by a fixed grant based on current expenditure but it will be reduced by 10% nationally. The grant for Barking & Dagenham from DCLG is £18.4m. Current estimated expenditure for 2013/14 is £20.7m (including £300k of growth in 2013/14), thus a shortfall of £2.3m must be found.</p> <p>Pensioners will be protected by a national scheme meaning they will receive the same amount of help as they do now and it is for local authorities to define the Local Council Tax Support Scheme for those of working age. Due to the fact that pensioners must be protected if the full cut is passed on to claimants, the actual cut to all working age benefit recipients would need to be 15%.</p> <p>Key principles must be adhered to in designing the scheme, with Local Authority duties to the vulnerable and ensuring incentives to work being taken into account. The new scheme must be in place by 31st January 2013 and, if the Council does not adopt a new scheme by this date, a default scheme, determined by Government, would apply. This would result in the Council having to fund the difference between the fixed grant and the full actual expenditure.</p> <p>The Local Government Finance Act 2012 also laid provisions for technical reforms to Council Tax on empty homes premiums and these will come into force from 1 April 2013.</p>	

This allows Local Authorities greater flexibility on the Council Tax discounts and exemptions that can be awarded on empty properties. It is proposed that the exemption and discount periods on empty homes should be reduced to 30 days and a premium applied to homes that are empty for more than 2 years. The additional debit that would be created would be approximately £890k and it is estimated that £500k could potentially be collected.

In September 2012, the Council commenced an 8 week consultation proposing a scheme that would pass a 15% cut onto all working age benefit claimants.

On 16th October the Government announced that a conditional one year only grant would be made available on application to Council Tax administering authorities to assist in funding the shortfall in expenditure from the new Support Scheme. This funding can be applied for in February 2013 and will be payable in March 2013.

The extra funding available for Barking and Dagenham, including the GLA element, is £488k and is dependent upon the Council's scheme not cutting benefit by more than 8.5%. This would still result in a shortfall in funding.

If this option was taken further consultation must be undertaken for Year 2 of the scheme to increase the cut in benefit to the 15% required as the grant is for 1 year only.

Due to these factors it is recommended that the proposed consulted scheme, with a 15% cut to all working age benefit claimants, is put in place from Year 1. It is also recommended that the changes to exemptions be approved to generate additional income.

This report details the scheme, exemption changes and funding options that are available and the results of the public consultation. Assembly is requested to recommend that the scheme to be used is the 15% cut and to provide approval to amend exemptions on empty homes as detailed.

Recommendation(s)

The Assembly is recommended to:

- (i) Approve the implementation of option 2, whereby a 15% cut is applied to all working age benefit claimants, as the London Borough of Barking and Dagenham Council Tax Support Scheme from 1 April 2013; and
- (ii) Approve the recommended changes to empty property exemptions from 1 April 2013.

Reason(s)

The Council is required to design and implement a Council Tax Support Scheme from 31st January 2013. Failure to do this will result in the default scheme being imposed and the 10% cut in grant will have to be found from other areas of the Council.

1. Introduction and Background

1.1 Council Tax Benefit is an income related means tested benefit administered by Local Authorities on behalf of the Department for Work & pensions (DWP). The

benefit is demand led, i.e. if more people apply and are eligible to claim, the overall benefit bill increases. The DWP covers the cost of Council Tax Benefit by giving the local authority subsidy based on the overall amount paid out. It also provides a grant to cover most of the cost of administering the scheme. Current arrangements are such that eligibility for Housing and Council Tax Benefit are determined at the same time on the same application forms and are generally subject to the same calculation criteria in respect of income, capital and earnings.

- 1.2 It was announced in the 2010 Comprehensive Spending Review (CSR) that support for Council Tax would be localised from April 2013 and expenditure reduced by 10%. This means that Local Authorities would determine their own schemes based on finance from and guidance by the Department for Communities and Local Government (DCLG) rather than the DWP. This announcement was followed in February 2011 by the Welfare Reform Bill which contained provisions to abolish Council Tax Benefit (CTB) paving the way for localised schemes.
- 1.3 The grant from DCLG will be fixed based on past years expenditure. Therefore the actual expenditure for the Council for 2013/14 may be more meaning that the percentage cut is greater than 10%.
- 1.4 The Local Government Finance Act 2012 also laid provisions for technical reforms to Council Tax on empty homes premiums and these will come into force from 1 April 2013, allowing Authorities greater flexibility on exemptions awarded on empty homes.

2. The proposed framework of the scheme

2.1 The following are the key components of the Council Tax Support Scheme:

- Local authorities will be responsible for devising their own local Council Tax Support Scheme to assist working age claimants with their Council Tax.
- The Council Tax Support Scheme for people receiving the state pension will be a national scheme which will protect them from any reduction in support as a result of the new scheme and the cut of 10% in grant.
- Local authorities will be paid a grant towards the cost of Council Tax Support rather than the 100% reimbursement of Council Tax benefit at present. The grant will be based on 90% of the previous year's spend on Council Tax Benefit. Local Authorities can devise a local scheme which reduces expenditure to the level of the grant or decide to fund the reduction in grant from other sources.
- The DCLG have set out in 'Statements of Intent' duties that Local Authorities must consider in designing their schemes. These include protecting vulnerable people and taking work incentives into account.
- Local Authorities must consult on their proposed Council Tax Support Scheme.
- Local Authorities must adopt a Council Tax Support Scheme before 31 January 2013 or, if it does not, a default scheme will be imposed. The default scheme is the current Council Tax benefit scheme so the Council would have to fund the 10% cut in expenditure from other areas in the Council.

- Local Authorities will be required each year to consider whether it wishes to revise or replace its scheme.

3. Scheme Design & Consultation

3.1 The guiding principles of the new scheme were to make the scheme as simple and as fair as possible. Consultation was undertaken from September 2012 with the proposed scheme based on the following:

- Apply current Council Tax Benefit rules using the 20% taper of income above Government allowances but the calculation of entitlement would be based on 85% of each claimant's individual Council Tax liability.
- This means that each claimant would have to pay about 15% of their Council Tax liability before any Council Tax Support could be offered. (the percentage is greater than 10% as pensioners must be protected) This will ensure £2.3m can be funded from the collection of this cut. If the shortfall in expenditure is greater than this the percentage cut will need to increase.
- If the full additional charge could be collected this would fund the 10% cut in expenditure.
- Using existing Council Tax Benefit criteria meant that each claim would still be assessed taking into account individual circumstances and needs and thus go some way to protecting vulnerable groups.
- Taking a uniform cut from all working age claimants means that the additional charge for each claimant is the minimum amount required to meet the 10% cut in funding. If some groups are protected the percentage cut for the remaining groups is increased.

3.2 The Government also proposed that Councils use the new legislation on technical changes to empty homes exemptions to allow additional income to be collected to fund the 10% cut in funding.

The table below illustrates the changes that could be made and the additional income, based on actual exemptions awarded in 2011/12 that would be generated if the additional charges are collected in full.

Class	Current	Proposed change	Estimated additional income
Second Homes	A discount of 10% for up to 1 year	A discount of 10% for up to 1 month only	18K
Class A – undergoing major repair	100% exemption for up to 1 year	100% exemption for up to 1 month only	82K
Class C – unoccupied and unfurnished	100% exemption for up to 6 months	100% exemption for up to 1 month only	763K
Long Term Empty Properties	Full Council Tax liability is charged	After 2 years empty a premium of 50% charged	27K
Total			890K

3.3 The full report on the potential additional income that could be collected from amending the current allowances is at Appendix 1.

4. Additional Grant

4.1 The DCLG announced in mid October that a grant would be made available for Year 1 of the scheme but only if the scheme adheres to certain criteria. This grant can only be applied for in February 2013 after the scheme is finalised as of 31 January 2013 and will be payable in March 2013. The Council's share of the available grant is £488K. The criteria is set out below:

- Those who would be entitled to 100% support under current Council Tax Benefit arrangements pay between zero and no more than 8.5% of their net Council tax liability.
- The taper rate does not increase above 25%. (The taper rate is the amount used to calculate benefit entitlement which is applied when a claimant's income is more than the amount the Government allows for them to live on. The taper in the current scheme is 20%)
- There is no sharp reduction in support for those entering work.

5. Scheme Options

Option 1 – Do not pass on the 10% cut to claimants and fund the shortfall from another Council source

Option 2 – Pass on the full cut to all working age claimants resulting in approximately a 15% cut. This is the proposed scheme that has been subject to full consultation.

Option 3 - Use the additional grant funding for year 1 to reduce the percentage cut to 8.5%. This means that there will be a shortfall in funding.

Option 4 – Use the additional grant to reduce the percentage cut to 8.5% and change the taper to 25%. There will be a shortage in funding but less than in option 3. As the option to change the taper was not included in the original consultation, it cannot be implemented without re-opening or issuing a next consultation exercise.

6. Funding implications of each option

Please note – 100% collection has been detailed below to illustrate the differences of each option in a simple way but this will not be the collection rate. The collection rate in 2011/12 was 94.1% and is estimated to be 95.1% in 2012/13.

Please note:

- Based on current estimates for discounts the gap between the grant and the discounts awarded will be £2.3m.
- The currently predicted annual growth of 1.5% will increase this pressure by £300k each year.

- The modelling in the table below is based upon current benefit caseload and actual figures will be dependent on the caseload during 2013/14.
- The pressure and additional income are shared with the Greater London Authority (GLA), of which the share split is 24% to GLA and 76% to LBB.

	Approx expenditure cut	Minimum Ctax payable	Rate of withdrawal of Benefit	Collected from claimants	One-Year Grant	Net gain/loss to at 100% collection
Option 1 – absorb full cut	2,300,000	0	0	0	488,000	-1,812,000
Option 2 – pass on full cut	2,300,000	15%	20%	2,328,102	0	28,898
Option 3 – use grant	2,300,000	8.5%	20%	1,289,403	488,000	-522,597
Option 4 – use grant and taper change	2,300,000	8.5%	25%	1,512,704	488,000	-299,296

6.2 Currently around 35% of claimants on benefit have Rent and/or Council Tax arrears. It is very difficult to predict the collection rate of this new charge on current benefit claimants who have very low incomes. The new scheme will take them below the current means test. Approximately 13,000 that were on full benefit this year will be asked to pay some Council Tax next year. Below illustrates the shortfalls of funding based on different collection rates.

Funding Implications – Models of 75%, 50% and 25% collection from claimants

Cut totals 2,300,000	Minimum Ctax payable	Rate of withdrawal of Benefit	Collected from claimants at 100% collection	One-Year Grant	Net gain/loss at 75% collection	Net gain/loss at 50% collection	Net gain/loss at 25% collection
Option 1 – absorb full cut	0	0	0	488,000	-1,812,000	-1,812,000	-1,812,000
Option 2 – pass on full cut	15%	20%	2,328,102	0	-553,924	-1,135,949	-1,717,975
Option 3 – use grant	8.5%	20%	1,289,403	488,000	-844,948	-1,167,299	-1,489,649

Option 4 – grant and taper change	8.5%	25%	1,512,704	488,000	-677,472	-1,055,648	-1,433,824
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Advantages & Disadvantages of Options

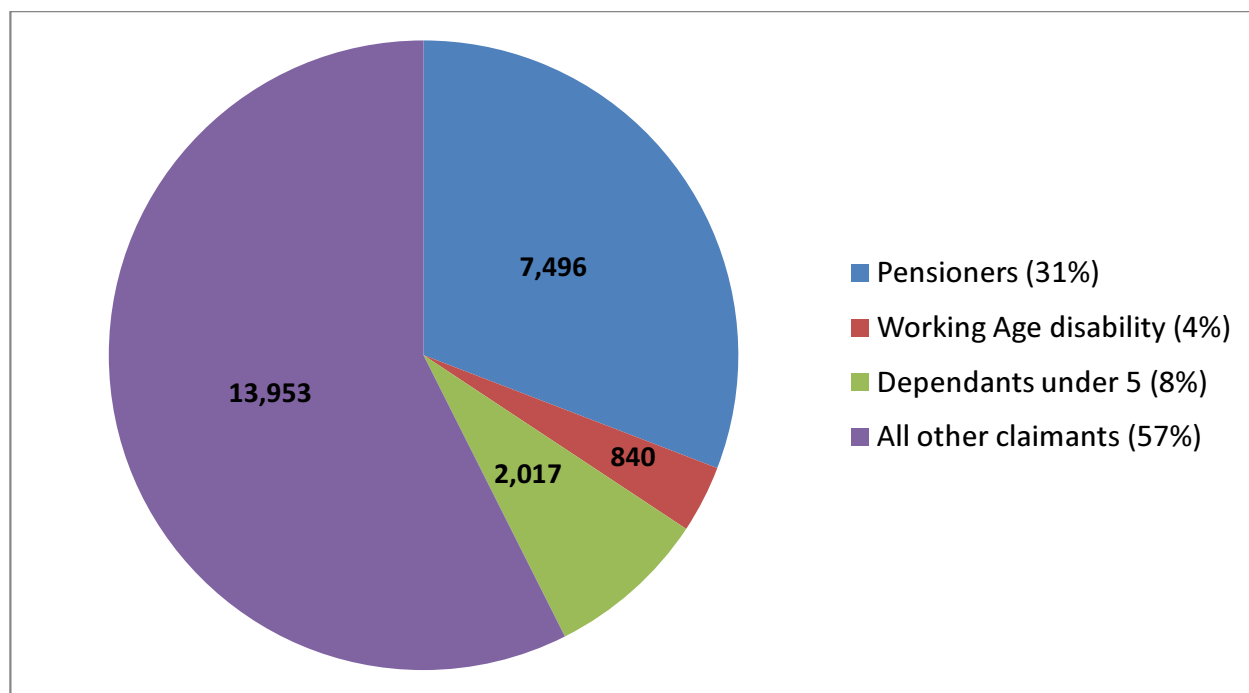
Options	Advantages	Disadvantages
1	Vulnerable are protected	Cut in expenditure must be funded from elsewhere in the Council
2	Simple scheme and fully consulted upon No further consultation is required from year 2 – the same scheme can continue	100% of the cut in funding must be collected from benefit claimants and changes to empty property exemptions All working age claimants must now pay at least 15% of their Council Tax. Open to challenge for not taking the grant to assist vulnerable claimants
3	Grant will provide £488k guaranteed income Claimants more protected as now only pay 8.5% of their Council Tax This option can be chosen without need for further consultation	There will be larger shortfall which can only be funded by changes to empty property exemptions The grant is only for Year 1, further consultation must be undertaken next year to revert back to a 15% reduction
4	Grant will provide £488k guaranteed income Claimants more protected as now only pay 8.5% of their Council Tax	There will be a shortfall which can only be funded by changes to empty property exemptions Claimants are less protected than option 3 as the entitlement taper is changed from 20% to 25% This option cannot be chosen without need for further consultation The grant is only for Year 1, further consultation must be undertaken next year to revert back to a 15% reduction

6.4 It is recommended that option 2 is approved as the final scheme. This has been fully consulted upon and further consultation will not be required for Year 2 of the

scheme. The other options would result in larger shortfalls of funding that could only be met by changes to exemptions on empty properties.

7. Breakdown of caseload

- 7.1 The breakdown of the Council Tax Benefit caseload is as below. All current benefit claimants except pensioners, approximately 16,800 will be required to pay Council Tax. Of these about 13,000 will pay for the first time as they are currently entitled to full benefit. Some claimants who currently receive a small amount of benefit will no longer qualify for any support.



- 7.2 The additional amount each claimant will be required to pay will depend on their personal circumstances and the scheme option. Appendix 2 shows the minimum additional amounts that would need to be paid in each banding for claimants on full benefit based on the 15% cut and the 8.5% cut and include those entitled to a single person discount.
- 7.3 If the additional grant is claimed by the Council, the additional Council Tax required will be less for all claimants.

8. Consultation

An 8 week period of consultation was commenced in September and ended on 18th November 2012.

The results of the consultation are summarised below. The full analysis is at Appendix 3.

- A majority of respondents (64.1%) agreed that the new Council Tax Support Scheme should be 'mainly the same as the current Council Tax Benefit Scheme.'

- 39% of respondents who expressed an opinion agreed that 'every working age adult who receives Council Tax support should pay at least something towards their Council Tax bill.' 45% disagreed and the rest were unsure.
- 33% of respondents who expressed an opinion did not agree 'that the 15% reduction required to cover the Government's cut in our grant should be applied equally to all working age adults.' 43% agreed it should and the rest were unsure.
- When asked to name which groups they thought would be most affected people with a disability (35%) and lone parents (29%) were identified. However there is a strong correlation between the numbers identifying themselves as having a disability or lone parents and those numbers stating that these would be the most affected groups.

9. Financial Implications

Completed by Jonathan Bunt, Divisional Director – Finance

- 9.1 Local Authorities currently receive reimbursement of their expenditure on Council Tax Benefit from the DWP. Local Authorities will now receive a fixed grant and if demand increases the additional expenditure must be found by the Authority in order to continue awarding support.
- 9.2 The grant allocation means the Council will experience a reduction in funding of 11%, as opposed to the 10% headline figure published by Government. This effectively increases the amount of reduction that will be passed onto our CTB claimants.
- 9.3 The requirement to keep pensioners on the same levels of support and design a new scheme for working age will mean that two schemes will need to be run whereas at the moment the Council Tax Benefit is administered as part of Housing benefits and is funded by the DWP. This will increase the cost of administering CTB for the Council.
- 9.4 The Council currently receives an administration grant of £1.965m in respect of running these schemes. There has already been a reduction of £105k on the 2013/14 allocation. It is likely that this grant will be further reduced in the future which will need to be managed as part of the Council's Medium Term Financial Strategy (MTFS).
- 9.5 The expected growth in the benefits caseload of 1.5% per year equates to an annual pressure of £300k. The change to the funding by fixed grant means that the Council has to meet this pressure from its budget each year or implement a scheme to pass that cost on.
- 9.6 In addition to managing increases in demand and pressures locally, the Government is proposing possible decreases to the Council Tax support grant in future years due to estimated decreases in demand nationally. This potentially could increase the funding gap if the Council experiences an increase in demand but are is also expected to manage a reduction in funding at the same time.
- 9.7 It is considered likely that Council Tax will be increasingly difficult to collect from affected groups especially if a scheme is viewed as unfair or hits those that have

the least disposable income. For Barking and Dagenham, as an area of significant deprivation, this will have a greater effect on already lower than average collection rates. The Council's draft budget includes a revision to the bad debt provision for Council Tax that is not collected.

10. Legal Implications

Implications completed by Paul Field, Corporate Governance Lawyer

- 10.1 Historically Council Tax Benefit was administered by Councils on behalf of central Government and legislation. The scheme had run for a number of years and its fairness had been tested in law on many occasions. Following the Welfare Reform Act 2012 and further changes by the Local Government Finance Bill the responsibility for establishing support schemes will be at the local level that is to say by the Council. The Council has a legal duty to act as a fiduciary that is to ensure that the budget balances and there is the best prudent management of finances. Furthermore there is a duty under the Equality Act 2010 to ensure in establishing a scheme there is due regard to anyone or groups who may be detrimentally affected by change together coupled a general public law obligation to consult. Even taking these steps there is always a risk of Judicial Review of a local scheme however the risk is minimised by evidence of consultation and due regard of the response.
- 10.2 It is possible that if the Assembly chose not to take advantage of the additional grant for Year 1 of the scheme, it could lead to a challenge that the Council has not taken advantage of all grants available to assist vulnerable claimants however the risk of this being successful is mitigated by the response that for LBBDD the grant's conditions create an additional financial burden on the overall Council Budget that outweigh the value of the grant.

11. Equalities Impact Assessment

- 11.1 Prior to consultation an equalities impact assessment was undertaken. This found that some groups such as claimants' with a disability and lone parents, predominantly women with younger children, may experience a greater impact from these changes than will other groups.
- 11.2 Following consultation the impact assessment was updated and it was found that the above 2 groups formed a higher percentage of those replying to the consultation. The results showed that a higher percentage of respondents felt that these 2 groups should have greater protection from the cuts. It may be seen that there is a correlation between the higher numbers of replies from these 2 groups and the fact that these were the groups that a higher percentage felt should be protected.
- 11.3 In using, as the basis of the scheme, the same rules as applied to Council Tax Benefit, the above 2 groups are protected to a greater degree than others as their 'applicable amounts' are higher – this is the amount the Government allows to live on.
- 11.4 Joint working with the CAB, voluntary groups and the Credit Union will continue to signpost claimants to help in managing the transition to this scheme. The impact of the scheme must be measured after implementation and impacts taken into account

in the implementation of year 2 of the scheme. The equalities impact assessment can be found at Appendix 4.

List of appendices:

- Appendix 1 – Technical changes report
- Appendix 2 - Additional Council Tax required by Band
- Appendix 3 - Consultation Responses
- Appendix 4 – Equalities Impact Assessment