

LOCALISATION OF SUPPORT FOR COUNCIL TAX

SERVICES SELECT COMMITTEE – 19 JUNE 2012

Report of the: Deputy Chief Executive and Director of Corporate Resources

Status: Decision

Also considered by: Cabinet – 12 July 2012

Council – 24 July 2012

Key Decision: Yes

Executive Summary: The Local Government Finance Bill has introduced one of the biggest fundamental changes that will require all council tax billing authorities to devise a local Council Tax Support Scheme to replace the current national Council Tax Benefit Scheme to commence on 1 April 2013.

This reports sets out the options for a local scheme and proposes a scheme that has been recommended by the Kent Forum.

This report supports the Key Aim of Effective Management of Council Resources

Portfolio Holder Cllr. Ramsay

Head of Service Group Manager Financial Services – Adrian Rowbotham

Recommendation to Services Select Committee: It be RESOLVED that Members recommend the Proposed Localisation of Support for Council Tax Scheme as set out at Appendix A to Cabinet, for its consideration and recommendation to Full Council.

Reason for recommendation: to agree a scheme to be used to calculate Council Tax Support for three years from 1 April 2013.

Introduction

- 1 The current national scheme for council tax benefit will cease on 31 March 2013 and be replaced by local schemes from 1 April 2013.
- 2 Currently district councils, as billing authorities, make a “payment” of council tax benefit to eligible claimants and generally recover the full amount as grant from Government. The “payment” is by way of a charge to benefits and a credit to the council tax account. No cash is involved.
- 3 With new local schemes, if a claimant is eligible for any support it will be deducted as a “discount” from the council tax bill, rather than as a “payment”, in the same

way as other discounts e.g. single person discount. This has the effect of reducing the council tax base and thus affects all tiers of authorities, including parish councils.

- 4 Government grant to contribute towards council tax “discounts” given to claimants will, in future, be paid direct to both districts and upper tier authorities, but not parish councils. Grant will be a fixed amount and for 2013/14 (at least) it will be lower than the current level by about 10% although there is uncertainty as to how the 10% reduction will be calculated. Thus from 1 April 2013 all the financial risk of new local schemes of support for council tax rests with local authorities. Nationally expenditure on council tax benefit has roughly doubled in the last ten years so this is a significant financial risk in that such demographic growth will be born by councils in the future and in the case of Sevenoaks there is an increased element of risk in that it has the highest proportion of elderly in Kent who will remain a protected group.
- 5 One effect of these changes will be that some claimants who have not previously had to pay any council tax may be required to pay a proportion under a new scheme.
- 6 The fundamental questions to consider in developing local schemes are:
 - Which vulnerable groups (other than pensioners) should receive council tax support.
 - How much extra it is reasonable to ask existing beneficiaries to pay towards their council tax bill.
- 7 Sevenoaks District Council, as the billing authority, is the lead authority and is responsible for developing and approving a scheme.
- 8 A consultation process will take place to ensure that the views of the affected parties are taken into account before the new scheme is finalised.

Government Announcements

- 9 The Government included within the Spending Review 2010 a policy commitment to localise support for council tax by 2013/14, reducing expenditure by 10%. The Welfare Reform Bill, published on 17 February 2011, contained provisions for the abolition of council tax benefit, paving the way for new localised schemes.
- 10 On 2 August 2011, the Department for Communities and Local Government (CLG) published its consultation paper “Localising support for Council Tax in England”. This consultation paper considered how local schemes for council tax benefit could be established in England. In December 2011, the Government put before parliament the Local Government Finance Bill 2011 and published its response to views expressed in the consultation on its proposals for the localisation of support for council tax.
- 11 In May 2012 the Government issued a Statement of Intent which sets out policy statements of intent for the regulations to be provided under the Local Government Finance Bill. The statements are intended to inform discussion of the

Bill in Parliament and provide further detail to help billing authorities in their preparation of local schemes.

- 12 The Government has stated that it has two underlying principles behind the localisation of council tax benefits in England:
- Localised schemes should provide support for the most vulnerable, including vulnerable pensioners;
 - Localised schemes should assist with lifting the poorest off benefits and supporting them into work.
- 13 The Government's ambition to put this legislation into effect is included in the Local Government Finance Bill which is expected to receive Royal assent in July 2012.

Constraints when Devising a Local Scheme

- 14 The timescale for implementation is extremely tight and it is almost impossible to devise a new scheme from scratch by 1 April 2013. Lead authorities have to devise a scheme, consult on it, put all administrative processes in place, procure and test software enhancements and notify claimants. All of this has to be done without detailed knowledge of the legislative requirements and without knowing how much grant will be received.
- 15 The risk of producing a poor scheme with unintended consequences for claimants for 2013/14 is high.
- 16 Benefit and council tax administration are complex processes and authorities rely on specialist software. The benefits database includes core information that calculates entitlement for both housing benefit and council tax benefit. This means that if the data requirements for the local scheme of support for council tax are different from the data requirements for housing benefit, then data may need to be input twice, incurring additional cost.
- 17 There are only a few suppliers of this specialist software so it would be impossible for them to provide the resources to construct unique systems for potentially over 300 local schemes within the required timescale. The suppliers have informed Government of this issue.
- 18 It is not yet clear what functionality will be available, or if all suppliers will offer the same functionality. The risk of system failure is the biggest single risk to successful implementation.

Options Considered

- 19 An operational group of officers at this Council has been considering the possible options whilst taking into account the stream of information provided by the Government during this year. There has also been a Kent-wide group consisting of lead authorities and precepting authorities looking at alternative options. The Leader, Chief Executive and Director of Corporate Resources have all been heavily

involved in negotiating a Kent-wide deal that minimises the risk to this council and limits the impact on affected groups.

Option 1 – A scheme which delivers reductions in cost to fully mitigate estimated grant loss

- 20 It is not possible to devise a completely new scheme by 1 April 2013 and suppliers have indicated that only limited changes to the current software will be possible.
- 21 The simplest solution under this option is to calculate entitlement under existing rules, estimate the amount likely to be payable to pensioners and then apply a “standard percentage reduction” to all other claimants (mainly working poor).
- 22 The higher the percentage of pensioners as a proportion of all claimants then the higher the percentage reduction that is required from all other cases. Based on expenditure in 2011/12, the Kent average is 18.65% with Sevenoaks being the highest at 20.8% due to it having the highest percentage of pensioners. Demand for council tax benefit is currently rising so the actual percentages could be significantly higher.
- 23 The main advantages of this option are that it is relatively simple to implement, it minimises the risks of error and reduces financial risk for all tiers of authority. Financial risks would be shared based between each authority based on their share of the total council tax .
- 24 The main disadvantages are that it is an arbitrary reduction on all non-pensioner claimants and makes no allowance for individual circumstances or other changes affecting the income of claimants. It would lead to an increase in complaints and appeals. It is likely that authorities will be faced with collecting small amounts of council tax from many new households.
- 25 A further refinement of this option could be protection for other vulnerable groups e.g. households with children, or those with disability premium. This would require the remaining groups to bear a greater reduction in council tax benefit.

Option 2 – A scheme which maintains current levels of eligibility where the grant loss is absorbed by authorities

- 26 This is the easiest option to implement but has significant financial implications. Each claimant would receive the same level of “discount” that they currently receive as a “benefit”, therefore the 10% grant loss would have to be funded by the local authorities.
- 27 This is expected to be the default scheme the Government will impose if local authorities do not agree a local scheme.
- 28 This option would cost this council in excess of £200,000 per annum and if all Kent local authorities chose this option, the cost to Kent County Council would be in the region of £10m.

- 29 Absorbing the cost of this option is likely to have an impact on other council tax payers through increased council tax or lead to reductions elsewhere in the budget.
- 30 The main advantages of this option are that it would be easy to implement; there would be no additional ongoing administration costs and no increase in customer complaints and it would give authorities time to consider a longer term scheme.
- 31 The main disadvantage is the increased cost to be absorbed.

Option 3 – A scheme which delivers reductions in cost that partially mitigates estimated grant loss, or full reductions phased

- 32 It is possible to have a variation that is someway between the extremes of the first two options.
- 33 The simplest option would be a standard reduction, as in the first option above, but at a lower standard percentage. It is not clear at this stage what other variations the software will allow.
- 34 The main advantage of Option 3 over Option 1 is that it would reduce the impact on households.
- 35 The main disadvantages are that there will potentially be an increase in costs of collecting more small council tax amounts and the reduction in costs will not offset the reduction in grant.

Other ways to bridge any funding gap

- 36 As part of the wider localism reforms the Government is proposing to give authorities discretion to vary some of the statutory exemptions from council tax. Details of the exemptions that could be localised, and the amount of council tax exemption granted in 2011/12 are set out in the following table.

	Total Amount in 2011/12 £000	Sevenoaks DC Proportion (12%) £000
Class A - Vacant dwellings where major repair works or structural alterations are required, under way or recently completed (up to 12 months)	174	21
Class C - A vacant dwelling, i.e. empty and substantially unfurnished (up to 6 months)	866	104
Class L - An unoccupied dwelling which has been taken into possession by a mortgage lender	25	3
Discount on Second Homes	43	5
Discount on Long Term Empties	0	0
TOTAL	1,108	133

- 37 The only category likely to have any significant effect on the amount of council tax raised is Class C where exemption of up to six months is granted for vacant properties.

Proposed Scheme

- 38 Members of the Kent Forum have agreed to recommend a scheme that is shown in Appendix A.
- 39 This scheme will be consistent across Kent with the three major precepting authorities (Kent County Council, Kent Police Authority and Kent & Medway Fire & Rescue Authority) agreeing to fund the scheme for three years.
- 40 This scheme is based on Option 1 above with an adjustment to the Class C discount, most likely by reducing the discount from six months to three months.
- 41 This approach has significant advantages including only requiring one scheme for consulting across Kent, one scheme for equality assessment, opportunities to standardise forms and processes, no confusion for claimants moving between authorities. Also, lead authorities should not be adversely affected financially for three years as the precepting authorities have agreed to fund additional collection costs and any increased costs above this council's grant level.
- 42 The disadvantage of common criteria is that it limits local flexibility.

- 43 Each authority may want to revise their schemes after the initial three years so that they better suit local circumstances
- 44 From October 2013 housing benefits will be closed to new claimants, who will move to Universal Credit. Over the following four years all existing housing benefit claimants will move to Universal Credit. This will have a major impact on claimants, systems and staffing due to the changing role of local authorities. A separate report is being presented to this committee by the In-depth Scrutiny Group looking at the effects of Universal Credit.

Key Implications

Financial

By adopting the proposed scheme, the financial impact for the first three years will be borne by the three major precepting authorities instead of this council. If a different option is chosen, the financial impact for this council could be significant.

Community Impact and Outcomes

A consultation will be undertaken on the content of the proposed scheme with the public and other affected parties.

Legal, Human Rights etc.

The final scheme approved by the council must meet the requirements to be provided under the Local Government Finance Bill.

Resource (non-financial)

The proposed scheme should not result in additional staffing requirements. If a different option is chosen, there may be additional staffing requirements due to the changes required and the duplication of benefits and council tax data.

Equality Impacts

An Equalities Impact Assessment will be carried out for the proposed scheme in conjunction with all Kent authorities.

Conclusions

Localisation of council tax benefit is seen by many as one of the biggest changes to local government since the community charge. In an economic climate that shows no real signs of recovery, the cost of benefits will continue to increase and the impact on district councils both financially and from a social wellbeing perspective is likely to be significant and unsustainable.

By adopting the proposed scheme, the three major precepting authorities will bear the additional costs for the first three years instead of this council.

It therefore seems sensible for this council to accept the proposal as set out in Appendix A as it provides an element of stability during what are likely to be difficult times.

Risk Assessment Statement

Failure to agree a local scheme would result in the forced adoption of the Government's default scheme which would result in a significant cost to this council.

Appendices Appendix A – Proposed agreement between districts and major precepting authorities on Local Schemes of Support for Council Tax.

Background Papers: Department for Communities and Local Government – Localising Council Tax Support documents:
<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/counciltax/counciltaxsupport/>

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