

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Corporate Director Support Services

to

Cabinet

on

6th November 2012

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Local Council Tax Support Scheme

Economic & Environmental Scrutiny Committee
Executive Councillor: Councillor Moring

A Part 1 Public Agenda Item

1. Purpose of Report

To brief Members on the background and introduction of a Local Council Tax Support Scheme (LCTSS) from April 2013.

2. Recommendations

- 2.1 To agree to implement a cost neutral Local Council Tax Support Scheme.
- 2.2 To agree a package of options to deliver a cost neutral scheme, passing the reductions onto working age claimants with only pensioners being protected.
- 2.3 To formally reject the Government's transitional funding proposal for the scheme.
- 2.4 To note the effects on the setting of the Council Tax Base and agree the funding arrangements become part of the budget setting process for 2013/14.
- 2.5 To note the key dates of;
 - December 2012 Final to be scheme to be approved by full Council.
 - January to February 2012 Scheme Implemented.
 - April 2013 Scheme goes live.
- 2.6 To note formal monitoring of the Scheme throughout 2013/14 in order to identify unpredicted trends and financial implications so that these can be appropriately addressed.

3. Background

Council Tax Support

- 3.1 In the Government's Spending Review 2010, as part of its overall package of Welfare Reform, it announced a new "localised" approach to the provision of financial help to council tax payers. Council Tax Benefit, the current means of providing such help is to be abolished from April 2013 and from that date, in its place, local authorities are required to introduce schemes of their own called Council Tax Support (CTS).
- 3.2 The Government also announced funding changes to take effect when CTS is introduced. Under the current Council Tax Benefit system, the cost of providing the benefit to those who are entitled to it is paid for by the Government, although the scheme itself is administered by local authorities. The Government will not, however, fund CTS in the same way. Instead, it has decided that it will nationally provide a grant of only 90% of the funding which it currently provides for Council Tax Benefit. In other words, there will be 10% less Government funding for CTS in April 2013 than there is for Council Tax Benefit in 2012. Historically, there has been no "cap" on CTB expenditure. Based on latest guidance from DCLG it may not be just 10% reduced off actual expenditure but rather a national 'share' calculated by statistics provided by the Office of Budget Responsibility, and therefore locally the grant received is likely to be less than 90% of current funding.
- 3.3 Additionally, this funding is fixed so the financial risk of an increasing caseload lies with the Council. This is a particular problem given that the change from a benefit to a discount is likely to encourage some people to claim who had been put off by the stigma previously and of course any worsening in the state of the economy could also see claimants increase. We will not know for certain the level of grant for Southend-on-Sea until late December 2012.

CTB Expenditure and Caseload

- 3.4 The indicative grants produced by the Government earlier in the year were based on the last audited Council Tax Benefit subsidy claims (2010/11), which for Southend-on-Sea totalled £14,903,024. The unaudited 2011/12 subsidy figure is of a similar magnitude. Council Tax Benefit is paid not only on the Southend proportion of Council Tax, but also on behalf of the Fire and Police Authorities, and indeed Leigh Town Council. Southend's proportion of benefit paid was £12,624,350.

The indicative grant for Southend was £11,102,000. This suggests a local reduction in grant of 12%, greater than the national 10%.

3.5 Current caseload can be broken down as follows;

Case load 2011/12	Annual Cost £	Pensioners	Working Age
18,903	14,700,016	7,426	11,477
		Cost = £5,925,012	Cost = £8,775,003

So roughly 40% of CTB in both case numbers and value is paid to Pensioners, and 60% to Working Age Claimants.

3.6 Under the Government's proposals, the entitlements for pensioners cannot be changed. So if the Council intends to pass the reduction in Government support onwards to CTB claimants, the potential 12% reduction in funding would impact on only 60% of claimants, equivalent to a 20% reduction in benefit payable.

3.7 However there are other considerations that need to be factored into the equation;

- Council Tax Increase – as part of the annual budget round, consideration needs to be given to an increase in Council Tax. For the past two years there has been a Council Tax freeze, compensated by government grant. The Government has recently announced a third year Council Tax Freeze Grant, equivalent to just a 1% Council tax increase, although no decision has been made as to whether to accept it. They have also announced a 2% trigger level for a Council Tax increase referendum. A 2% increase in Council Tax would add some £250,000 to the CTB bill under current arrangements. If the CTS grant does not allow for a rise of this magnitude, the increased benefit bill would flow to the Council. For the impact of CTS to be cost neutral on the Council, this increased cost would have to be recovered from the working age claimants – a further 3% cut.
- Increased take-up - Many in the field of Revenues have predicted an increase in caseload as the scheme moves from a Benefit to a Discount which could lead more pensioners in particular to claim. The grant will be fixed and therefore the additional cost this brings would fall to the Council and preceptors. The model is very sensitive to changes in take-up, with for instance a 10% increase in caseload overall converting to a £1,260,000 increased cost to Southend. Currently Southend is experiencing a small decline in the numbers of CTB claimants, so we do not have local evidence to support a forecast of additional claimants.
- Increased Cost of Collection - Of the 11,477 people that will be affected by this change approximately 7,500 will not have paid any contribution to their Council Tax for some time. It is difficult to estimate the work required to ensure prompt payment but based on Officer past experience we know we will have to expand the payment terms available and engage with this group very early in the financial year to avoid arrears building. It is likely that there will be more losses from write-offs as officers try to collect small amounts from already financially stretched claimants. As an illustration, if the combined costs and losses on collection rise by £200,000, this would equate to further 3% cut to working age claimants.

- 3.8 Quite easily a scenario can therefore be painted that a national 10% cut in funding for CTB would equate to a 25% or more reduction in CTS for working age claimants if the full impact is to be passed onwards. It is however impossible to accurately assess at this stage either the increased cost of collection or the increase in take up but these must be factored in to avoid significant overspends in this time of tight budgetary control.
- 3.9 The forecast level of Council Tax Support payable by the Authority will be used in setting the Council Tax Base in line with other discounts and exemptions. There is a need for robust forecasting to ensure the Council Tax Base set for 13/14 is as accurate as possible.
- 3.10 The local scheme must be fully signed off by Members by 31 January 2013.
- 3.11 Within the last week The Department for Communities and Local Government is making available an additional £100m for one year to support local authorities in developing well-designed council tax support schemes and maintain positive incentives to work. The additional funding available to Southend is £301,147.
- 3.12 The grant will be payable in March 2013 to those authorities who adopt schemes that comply with criteria set by Government to ensure that low income households do not face a large increase in their council tax liability in 2013 -14.
- 3.13 In order to qualify for the funding local authorities must not increase any households liability by more than 8.5%. After applying the 8.5% reduction no further changes to the council tax benefit scheme, to increase the overall saving, could be implemented. This would not deliver a cost neutral scheme and the local authority would have to identify alternative funds to cover the shortfall of circa £1.2 million. For this reason it is not recommended that we accept this offer.

4. Proposed Local Scheme

- 4.1 The Council has been working closely with all other Essex authorities to introduce a standardised and consistent scheme. This Essex wide scheme has a number of common principles and all local authorities in Essex are intending to adopt schemes that meet the following common principles:
- That all billing authorities will adopt a support scheme based largely on the existing Council Tax Benefit Regulations 2006. This will essentially be means tested
 - As defined by Central Government, all pensioners will be protected under the national framework defined by DCLG
 - Protection for vulnerable working age groups will be in line with the existing Council Tax Benefit system with specific protection given to persons with disabilities
 - Each of the authorities' schemes will incentivise work wherever possible

- The schemes will be cost neutral, with the level of support being directly in line with the level of grant proposed by Central Government
 - The schemes will, as far as possible, allow for expected growth in demand
 - As far as possible, the new support scheme will be easy to claim and administer.
- 4.2 Essex Local Authority benefit managers and ECC finance officers have been meeting on a regular basis since January 2012 to design an Essex wide framework for LCTS, reducing duplication of effort, sharing expertise, with mutual support for possible challenge and helping with strategic engagement with suppliers.
- 4.3 The over arching principle is an Essex scheme that is cost neutral, so the impact of the reduced funding from Central Government is passed onto the claimant. However due to the different demographics of individual billing authorities, it is unlikely that there will be a scheme that is uniform across Essex, however it is intended to have a common framework with local variations.
- 4.4 All Essex billing authorities expect to adopt the following items in their schemes:
- Design a cost neutral scheme that passes the cut in funding to working age claimants
 - All pensioners will be treated as a class that is protected from the changes, so all changes will be for working age only
 - The Local Support scheme will be “means tested” for 2013/14, using a lot of the principles of the current Council Tax Benefit scheme
 - Restriction of support to a maximum liability, either by restriction to a specific council tax banding and/or a % restriction of liability with variations in different Essex authorities.
 - The current Second Adult Rebate scheme will not be treated as a class of eligible claimants for working age claims
 - To reduce the capital (cut off) limit from £16,000 to £6,000.
 - Minor changes to treatment of “changes of circumstances” after the award of support to remove the requirement to calculate and award ‘underlying entitlement’ when overpayments occur.
 - The billing authority to make available a small sum to cover ‘exceptional hardship cases’.
- 4.5 The most significant change proposed is to restrict the support to a maximum liability for working age claimants. Currently there is no restriction, and liability can be reduced to zero. It is proposed that going forward this reduction be restricted to a level that will attempt to make the whole change cost neutral on the Council.

4.6 Implications of other proposed key changes to scheme are as follows;

Limit maximum benefit to Band D

4.7 This will affect 196 Households so does not deliver a significant saving but is in line with encouraging people not to over occupy and move to more affordable accommodation.

Abolition of Second Adult Rebate

4.8 This will affect 48 households so again limited savings achieved however it will remove the anomaly of householders with high incomes receiving a 25% discount because another member of the household is on a low income.

Reducing Capital limit from £16k to £6k

4.9 Under the current scheme a claimant can have up to £16,000 and still claim Council Tax Benefit. Reducing this level to £6,000 in line with the level of liability does not affect any working age claimants at present but will allow us to refuse any future claims.

Removal of Underlying Entitlement Rule

4.10 Under the current scheme if a claimant tells us of a change which occurred months before we have to work out the overpayment as if they were no longer entitled for the past period, then use their new information to work out what they would have been entitled to. We then use the new entitlement to offset the overpayment. This rule encourages claimants to delay notifying us of a change where their benefit will go down as it has no overall impact on them, just delays the reduction. Under the new scheme the overpayment will be created and the new entitlement will only be awarded from the date of notification.

4.11 The proposed local scheme has been the subject of a consultation exercise over the summer. The full results of the Consultation are at Appendix A.

4.12 The savings generated by restricting liability at various levels is set out below;

Liability	Total Saving (£'s)
8.5% plus funding	£1,044,348
17%	£1,486,402
20%	£1,748,708
25%	£2,185,885

Details behind each scenario can be found in Appendix A.

4.13 The direct financial incentive LCTSS given to local authorities to improve their local economies is part of a multi faceted reform of local government finance. New Homes Bonus and Localisation of Business Rates are the other key aspects. A report on changes in the localisation of Business Rates is separately reported elsewhere on this agenda.

- 4.14 Introducing a LCTS scheme is a key change but there are many other welfare reforms on the horizon as set out in the Welfare Reform Report reported separately elsewhere on this agenda. It will be an extremely challenging couple of years for the Council and its residents.

5. Corporate Implications

5.1 Contribution to Council's Vision & Corporate Priorities

The introduction of a cost neutral LCTTS will assist with maintaining a robust budget. It will also provide work incentives for residents who have been long term unemployed. The scheme will protect pensioners to ensure a decent living standard and it also confirms the disregard of disability benefits.

5.2 Financial Implications

Implementation costs: The Government has provided an initial grant of £84,000 and has indicated that additional funding will be made available. It is anticipated that the implementation costs will be met from this Government funding but there may be a need to supplement this due to the cost of software changes.

Abolition of Council Tax Benefit: Around £14m of expenditure and £14m of subsidy income will be deleted from the Council's budget from 2013/14. A contingency will need to be retained in case of subsidy being clawed back by DWP, for example, if the external audit process identifies errors in the final claim for 2012/13.

Impact of new LCTS scheme: The scheme is being designed to achieve "cost neutrality" – defined as being that there will be reductions in the amount of financial support given to local people sufficient to cover the cut in Government funding. Put another way, the estimated cost of LCTS should be in line with the Government funding being made available. The provisional figures have been announced and amount to a 12% cut compared with current spending levels. It is higher than 10% because the Government has based its calculations on a notional future measure of expenditure that includes inflation. The final figures will be confirmed in late Autumn. To be truly cost neutral the savings need to be higher to cover amounts not collected.

The costs of LCTS and the Government funding for the scheme will be borne by the major precepting authorities in proportion to their precept size: currently Police 10.1%, Fire 5.03%, SBC 84.71%. (this varies slightly each year).

LCTS treated as a discount: LCTS will be treated as a discount on the Council Tax bill, much like Single Persons Discounts. This means that the taxbase will be smaller. In order to avoid significant increases in the Band D figure arising from having a smaller taxbase, the Government funding will be treated as income that reduces the Council's bottom line, and therefore, reduces the amount to be raised from Council Tax.

Demand risk: The Government grant will be a fixed sum. There is a possibility that demand and eligibility for financial support under the LCTS may be greater than current levels, particularly if economic conditions worsen. The cost of

additional discounts would be borne in proportion by the major precepting authorities (SBC, Police, Fire). Conversely if demand falls (e.g. if economic conditions improve), the additional saving would be realised by the same authorities. Thus the local authority has direct financial incentives to support their local economy.

Inflation risk: Council Tax freezes have operated in the last two years (apart from Police and Parishes) however there are no indications yet about whether freezes will continue. There is a risk therefore that if Council Tax is increased by SBC, Police or Fire, then the cost of LCTS will increase. An exercise will be needed to estimate the additional net income that would arise from a Council Tax increase; the cost of LCTS and collectability losses will need to be borne in mind.

Recovery costs: as a result of people on low incomes having to pay more Council Tax (in many cases, such people currently pay no Council Tax), the Council is likely to need additional staffing resources in its revenues team; work is being undertaken to estimate additional costs. This will be an issue for, and dealt with in the 2013/14 budget process.

Recovery risk: Notwithstanding the additional recovery resources, it is anticipated that a proportion of newly collectible Council Tax will prove to be irrecoverable because of inability to pay.

Exceptional circumstances fund: It is inevitable that there will be a small number of households with unforeseeable exceptional circumstances and that the Council may wish to retain discretion to provide additional support to such people, analogous to Discretionary Housing Payments. Details of how such a fund would operate need further work but the principle that an exceptional circumstances fund should exist is something that it would be useful to gain support for at this stage.

5.3 Legal Implications

A detailed hardship discount policy will need to be written under section 13a of the Council Tax legislation.

During the transitional period moving from housing benefit to universal credit (2013 to 2017) we will be running 2 completely separate schemes with differing Appeal routes. Housing Benefit cases will continue to be heard by the Appeals Tribunal while Council Tax Support Appeals will be heard by the Valuation Tribunal. As they are different schemes findings from the Tribunals could differ for the same case.

The scheme of delegation will need to be amended to cover the new Local Council Tax Support Scheme.

5.4 People Implications

Some residents who have not paid Council Tax before will now have to contribute. Those potentially affected by this change have been written to and further details will be sent to them as the scheme is agreed.

5.5 Property Implications

There are no specific property implications associated with this report.

5.6 Consultation

Before final approval of local schemes, Councils are required to consult:

Major precepting authorities (Police & Fire) – complete.

The public – complete.

Relevant stakeholder groups e.g. Citizens Advice Bureau, voluntary bodies – complete.

The public consultation process was completed in September; a six week response period was adopted to ensure responses could be considered before the final recommendations were presented as part of this Cabinet report and for Council in December 2012.

The Essex group is producing a bi-monthly newsletter distributed to members; staff; stakeholders; welfare organisations etc. The SBC website will be updated with a summary of the draft scheme once consultation commences.

Results of the consultation exercise are set out at Appendix B.

Pre cabinet scrutiny feedback was supportive of both a cost neutral scheme and the details proposed to deliver the scheme.

5.7 Equalities and Diversity Implications

Full Equality impact assessments are being developed for all adopted changes.

5.8 Risk Assessment

Risk	Likelihood	Impact	Mitigating actions
Failure to adopt a local scheme in time, which would lead to the Government imposing a default scheme	1 Active project management in place	4 An imposed default scheme would not be cost neutral and failure would be damage to the Council's reputation	Continue with active project management Proactive resource planning Ensure Member awareness of key issues and timely decisions made
The Southend scheme is not supported by the Police and Fire Authorities	2 Positive engagement with Fire and Police has taken place and they are supportive of the work done to date	3 SBC is the decision making body but if the scheme is not supported then there could be consequences e.g. challenge, lack of support and budget cuts affecting Southend	Design a cost neutral scheme. Consultation and engagement

Challenge on equality grounds	2 The proposals adversely affect certain groups i.e. non-vulnerable working age people in receipt of CTB	3 Defending a challenge could be costly and jeopardise timely adoption of the scheme	Equalities Impact Assessment Stakeholder engagement Set aside funding for a discretionary hardship fund to cover exceptional circumstances
LCTS costs increase because of additional demand or increases in council tax precepts	3 Publicity could increase demand; economic difficulties could increase demand; precepts likely to increase in the future	2 Adverse financial implications for SBC, Police, Fire	Close monitoring Annual review of the scheme
Loss of revenue due to irrecoverability of debt from low-income households	4 Bad debts are inevitable	2 Adverse financial implications for SBC, Police, Fire	Proactive communications with affected households Invest in recovery resources; review procedures Seek funding contributions from, Police, Fire Increase reductions to cover non collection. Set aside funding for a discretionary scheme

5.9 Value for Money

The recommendations in this report will pass the Government funding reductions onto benefit claimants and not contribute to an increase in Council Tax generally.

5.10 Community Safety Implications

There are no specific community safety issues identified.

5.11 Environmental Impact

The scheme described in this report is part of a package of welfare reforms designed to contribute to an overall incentive to work and contribute to the economic environment.

6. Background Papers

Central Government Consultation Papers

www.communities.gov.uk/publications/localgovernment/localisingcounciltaxconsult

www.communities.gov.uk/documents/localgovernment/pdf/2053712.pdf

www.communities.gov.uk/documents/localgovernment/pdf/2158675.pdf

www.communities.gov.uk/documents/localgovernment/pdf/2146648.pdf

7. Appendices

Appendix A – LCTSS - Costed Scenarios

Appendix B – LCTSS - Consultation Results