
Report to: Cabinet
Council

Date of Meeting: 19 July 2012
6 September 2012

Subject: Council Tax Reduction Scheme

Report of: Head of Corporate Finance and ICT **Wards Affected:** All

Is this a Key Decision? Yes

Is it included in the Forward Plan? Yes

Exempt/Confidential No

Purpose/Summary

As part of the 2010 Spending Review, the Government announced that the current national Council Tax Benefit system would be replaced by a Local Council Tax Reduction Scheme from 2013-14, reducing expenditure by 10 per cent. This is part of a wider policy of decentralisation and welfare reform. The Local Government Finance Bill was introduced to Parliament on the 19th December 2011.

On the 18th May 2012, The Department of Communities and Local Government published Localising Support for Council Tax- Statement of Intent. It sets out the requirements for preparing a 'Local Council Tax Reduction Scheme'. The document outlines very specific procedures to be followed in preparing a scheme and the requirements placed upon Local Authorities to consult.

Whilst the Bill has not received Royal Assent the Government requires Local Authorities, before adopting a scheme, to, in the following order :

- a. consult any major Precepting Authority which has power to issue a precept to it,
- b. publish a draft scheme, and
- c. consult such other persons as it considers are likely to have an interest in the operation of the scheme.

By law the scheme will have to be formally adopted by the 31st January 2013.

Recommendation(s)

Cabinet:

1. To agree a draft Council Tax Reduction Scheme on which the Council will consult interested parties in accordance with the approach set out in this report.
2. To consult on the removal of Council Tax exemptions and discounts.
3. To require The Head of Finance and ICT to present a report to Cabinet following consultation with a recommendation for final agreement by Council, and
4. The Cabinet to recommend to Council that approval be given to the rescheduling of the Council meeting from 7 February 2013 to 24 January 2013.

Council:

1. To note the content of the report, and
2. To give approval to the rescheduling of the Council meeting from 7 February 2013 to 24 January 2013 to enable the Council Tax Reduction Scheme to be formally adopted by the statutory deadline of 31 January 2013.

How does the decision contribute to the Council's Corporate Objectives?

	<u>Corporate Objective</u>	<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		✓	
2	Jobs and Prosperity		✓	
3	Environmental Sustainability		✓	
4	Health and Well-Being			✓
5	Children and Young People			✓
6	Creating Safe Communities		✓	
7	Creating Inclusive Communities		✓	
8	Improving the Quality of Council Services and Strengthening Local Democracy		✓	

Reasons for the Recommendation:

Legislation requires the Council to formally have in place a Council Tax Reduction Scheme by the 31st January 2013. The scheme must be consulted upon with Precepting bodies and other such persons as it considers are likely to have an interest in the operation of the scheme.

What will it cost and how will it be financed?**(A) Revenue Costs**

The Government has announced provisional Council Tax support grant allocations of approximately £23.6m to fund the scheme from April 2013; this resource is to cover Sefton Council and its Precepting bodies requirements. This is a shortfall of 13.6% on the current Council Tax benefit scheme. In addition the authority will receive in the region of £84K to implement the new scheme.

(B) Capital Costs N/A

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal

Consultation must be carried out in accordance with the order set out in the Bill. When consulting, the Council must ensure that ALL interested parties are able to give their view

and influence the design of the scheme. The Council must also take into consideration any adverse effect of any changes on any particular group when making its final decision on a scheme.

Human Resources None

Equality

In relation to compliance with the Equality Act 2010, Section 149, Members need to make decisions in an open minded balanced way showing due regard to the impact of any recommendations being presented. Members need to have a full understanding of any risks in terms of people with protected characteristics and any mitigation that needs to be put in place. Equality Impact Assessments, including consultation, provide a clear process to demonstrate that Cabinet and Council have consciously shown due regard and complied with the duty. A full EIA will be published with the final recommendations to Cabinet and full Council.

- | | | |
|----|--|-------------------------------------|
| 1. | No Equality Implication at this time | <input checked="" type="checkbox"/> |
| 2. | Equality Implications identified and mitigated | <input type="checkbox"/> |
| 3. | Equality Implication identified and risk remains | <input type="checkbox"/> |

Impact on Service Delivery:

Overall there will be a reduction in funding to help Sefton residents with Council Tax costs estimated at 13.6%. Since pensioners are required to be protected under the scheme there is an estimated reduction impact on all working age claimants at 27.7%. This is on the assumption that the benefit caseload does not increase.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance and ICT (FD 1602) and Head of Corporate Legal Services (LD 933) have been consulted and any comments have been incorporated into the report.

Are there any other options available for consideration?

If Sefton Council choose not to adopt a Local Council Tax Reduction Scheme, the Secretary of State will impose a default scheme and there will be no need to consult as the current Council Tax Benefit Scheme will become the local scheme. However, the Council would be required to meet approximately £3.2m of the funding shortfall with the remaining £0.5m falling on the police and fire authorities. In addition any additional shortfall for increase in caseload will require further cuts on general services.

Implementation Date for the Decision

Following the Council meeting.

Contact Officer: Margaret Rawding, Head of Corporate Finance and ICT

Tel: 0151 934 4096

Email: margaret.rawding@sefton.gov.uk

Contact Officer: Christine Finnigan, Customer and Transactional Service Client Manager

Tel: 0151 934 4161

Email: christine.finnigan@sefton.gov.uk

Contact Officer: Sue Holden, Service Manager, Business Intelligence

Tel: 0151 934 4722

Email: sue.holden@sefton.gov.uk

Background Papers:

The following are background papers available for inspection:

- a. Localising Support for Council Tax – A Statement of Intent from DCLG
- b. Technical reform to Council Tax – summary of responses report from DCLG
- c. Localising Support for Council Tax – Funding arrangements consultation. Published by DCLG 17th May 2012.
- d. Local Government Finance Bill – introduced to Parliament 19th December 2011.
- e. Technical Reform to Council Tax – summary of responses report from DCLG May 2012
- f. Data fact sheets covering proposals.

Introduction/Background

The Local Government Finance Bill which was introduced to Parliament on the 19th December 2011 requires Local Authorities to design their own schemes to administer Council Tax Support, working within a framework set out in legislation. The current Council Tax Benefit scheme will no longer exist from April 2013.

The Statement of Intent published on the 18th May 2012 by DCLG requires the following framework for the Local Council Tax Reduction Scheme:

- Future Council Tax Reduction to be offered in the form of a means tested discount.
- Billing Authorities must have a Council Tax Reduction Scheme formally in place by the 31st January 2013 to begin on 1st April 2013.
- Pensioners will be protected through a national framework of criteria and allowances (with no changes to current levels of award).
- Guidance from the Secretary of State states that scheme should support work incentives and in particular avoid disincentives to move into work.
- Scheme must set out the classes of person who are entitled to a reduction and the reductions that will apply.
- Local Authority must consult before making a scheme and each year must consider whether to revise or replace the scheme.
- Scheme must state the procedure by which a person may apply.
- Scheme must state the procedure by which a person can make an appeal.
- A transitional provision to allow existing Council Tax Benefit claimants to be treated as having made an application for Council Tax Reduction.

Secondary legislation is due to be published early autumn and final funding and regulations in December 2012.

Consultation and engagement

The 'Localising Support for Council Statement of Intent' was published in May 2012 by the Government. The document sets out the requirements for preparing a 'Local Council Tax Reduction Scheme'. The document outlines very specific procedures to be followed in preparing a scheme and the requirements placed upon Local Authorities to:-

- a. consult any major Precepting Authority which has power to issue a precept to it,
- b. publish a draft scheme, and
- c. consult such other persons as it considers are likely to have an interest in the operation of the scheme.

By law the scheme will have to be formally adopted by the 31st January 2013.

The consultation should be carried out in accordance with the Best Value Guidance 2011 and must ensure that all interested parties are able to give their view and influence the design of the reduction scheme. The consultation should be carried out as early as possible to ensure feedback can influence the scheme and allow sufficient time for feedback to be gathered, impacts to be understood and a scheme to be agreed. In order to ensure the Council meets its obligations in relation to consultation and engagement in preparing a 'Local Council Tax Reduction Scheme' it is recommended that the following process is agreed:

Timeline for Consulting on a local Council Tax Reduction Scheme

Produce Options for Members for consultation	July 2012
Consult with Precepting Authorities	July 2012
Consider responses from Precepting Authorities	September 2012
Consult Interested Persons (12 weeks)	August – October 2012
Start to analyse consultation feedback	September/October 2012
Determine any disproportionate impacts	September/October 2012
Publish recommendations to Cabinet Including an equality impact assessment	December 2012
Council approval of scheme	January 2013
Publish Scheme	End of January 2013

The Consultation and engagement processes will be undertaken in accordance with the Standards for Consultation and Engagement and a plan will be submitted to the Panel for Consultation and Engagement for approval. A range of methods will be used, as appropriate to the different audiences, to ensure full participation by all interested parties and inclusion in the consultation.

Equality Impact Assessment

The Consultation, Engagement and Equalities Group will take forward the development of the impact assessment for the proposed changes to Council Tax Benefit. A first draft is in development based on impacts identified though national impact assessments on both the changes to Council Tax Benefits and the wider benefit reforms. The EIA

document will be reviewed throughout the consultation process to ensure the outcomes influence the consultation process and the feedback from the consultation is captured.

Context

Sefton MBC currently administers Council Tax and Housing Benefit on behalf of the Government and reclaims a cost of delivering this service (the Administration Grant) and the amount that has been paid out (the Subsidy). The Table below shows the caseload trend for Council Tax Benefit Claims

YEAR	CLAIMANTS THAT ARE PENSIONERS	CLAIMANTS THAT ARE OF WORKING AGE	TOTAL COUNCIL TAX BENEFIT CLAIMANTS
2009/10	15,814 (51.85%)	14,685 (48.15%)	30,499
2010/11	15,951 (49.98%)	15,964(50.02%)	31,915
2011/12	15,823 (47.74%)	17,321 (52.26%)	33,144

Table below shows number of Benefit claims in Council Tax bands

BAND	Council Tax Bill before discounts and benefits	Number of Properties	Number of Benefit Claimants
-A	£ 742.33 - £ 786.76	84	35
A	£ 989.77 - £1,049.01	39,059	18632
B	£1,154.74 - £1,223.84	26,632	7713
C	£1,319.70 - £1,398.68	29,921	4714
D	£1,484.66 - £1,573.51	14,752	1340
E	£1,814.58 - £1,923.18	8,052	458
F	£2,144.51 - £2,272.85	3,831	121
G	£2,474.43 - £2,622.52	2,691	54
H	£2,969.32 - £3,147.02	220	1

- There is a range of liability charges for each band as it takes into account the areas which attract the Parish Precepts. Properties in Band –A are those that are Band A properties that have been adapted for use by a disabled person.
- The current number of claimants who receive Housing Benefit and Council Tax Benefit is over 33,000. Most claimants will receive both Council Tax and Housing Benefit.
- Pensioner claimants appear to be reasonably stable across the years.
- There is an increasing volume of working age claimants, caused by the economic downturn.
- Most Sefton benefit claimants live in Band A and Band B properties.
- Council Tax Benefit is shown as a credit on the Council Tax account with a bill being sent out for the balance if claimants are not entitled to maximum Council Tax benefit.
- The Council Tax Reduction scheme may pay less benefit to the 17,000 working-age claimants in Sefton.

Budget Implications

Council Tax benefit expenditure totalled £27.3m in 2011/12. The Government has announced provisional Council Tax support grant allocations of approximately £23.6m to fund this expenditure from April 2013. This results in an initial funding reduction of **£3.7m** (13.6%) before allowing for any change in caseload or a potential reduction in the Council Tax collection rate as a result of the introduction of a new local scheme.

A reduction in the collection rate equivalent to 10% of the initial funding reduction would add a further £0.370m to the cost of the scheme, increasing the saving required to **£4.1m**.

The benefit case load for working age clients has increased by an average of 8.6% per annum over the last two years, which equates to an increase in expenditure of approximately £1.150m each year. If this trend continued in 2012/13 the saving required would increase to **£5.2m**.

However, the Government are forecasting a flattening off of demand from working age claimants and a reduction in pensioner claimants between 2011/12 and 2013/14, equivalent to approximately -£0.470 (-1.7%) at local level. If this occurred the saving required would reduce to **£3.6m**.

Sefton's share of the initial funding reduction (**£3.7m**) is £3.161m (including parish precepts), the remainder of the funding reduction falls on the Major Precepting bodies, the Merseyside Police Authority (£0.372m) and the Merseyside Fire and Rescue Service (£0.167m).

The Council has the option to vary the terms of the current Council Tax benefit scheme for working age claimants in order to reduce the costs of the scheme to mitigate the funding reduction. Alternatively the Council could choose to find the savings from efficiency measures or cuts elsewhere in its budget. However, any funding shortfall not mitigated by changes to the scheme will need to be considered in the context of the £21.7m savings gap already forecast for 2013/14 in the revenue budget report presented to Cabinet on 21st June 2012.

Impact on Households

It is inevitable that reductions in the amount of Council Tax benefit payable to households will have an impact on the amount of income they have available for other needs. This impact will be felt particularly by people who rely on income based benefits for all or part of their income.

Income based benefits are set at a rate to provide basic living expenses for each week, e.g. a single person age 25 or over will be awarded £71 per week in JSA (£56.25 for 16 to 25 year olds). Any reduction in the levels of Council Tax benefit available will mean a reduction in the amount of income available for other needs. As a result households will, at least in the short term, have to make the choice between paying the increase in Council Tax or paying for other daily living costs.

In short, if means tested benefits are paid at the minimum acceptable standards then withdrawing Council Tax benefit will put claimant's income below minimum acceptable standards by the amount of benefit withdrawn.

Creating the Sefton Local Scheme

The local Council Tax Reduction Scheme needs to

- Provide assistance to those in financial need
- Promote incentives to work
- Take into account relevant factors such as Equality duty
- Follow statutory requirements and fair procedure when making the scheme.
- Be transparent and accessible

Impact on Council Tax Collection Levels

In determining the Council Tax Reduction Scheme, the Council must fully consider the householder's ability to pay as this quickly translates into the Council's ability to collect. Many households that currently receive 100% Council Tax Benefit may receive a bill for part of their Council Tax liability that they had not previously faced. Other households may see a marked reduction in the amount of help they receive with their annual Council Tax bill.

It is expected that there will be additional administration and collection costs associated with any cuts to the amount of help people receive with their Council Tax bill. The figures below demonstrate the current difficulties people face in paying their Council Tax when not in receipt of full benefit.

Liability Orders Obtained – Council Tax Benefit Awarded 2011/12

Total Number of LO's 2011/12	Number of LO's - CTB Awarded	Number of CTB LO's - Paid in Full	Number of CTB LO's With Balances	Cash Value Of CTB LO's With Balances
10128	1798	395	1403	£455887.75

Notes to the above table

- The figure of 1798 is based on cases with Council Tax Benefit in payment as at 31.03.12.
- Some of the awards were only made after the Liability Order was obtained.
- The figures do not include cases where Council Tax Benefit was no longer in payment at 31.03.12 or has been awarded for inclusive periods within the financial year.

The above figure of 1403 can be broken down further in terms of the current enforcement stage in each individual case.

Recovery Stage	14 Day Letter	AOB	AOB Pending	AOE	AOE Pending	Bailiff	Arrangement
Number	25	381	257	14	17	514	195

Key

14 Day Letter = Letter sent warning of bailiff action
AOB = Attachment of Benefit in place (£3.40 deduction per week)
AOB Pending = Attachment pending as an earlier debt still subject to an attachment
AOE = Attachment of Earnings
AOE Pending = Attachment pending as an earlier debt still subject to an attachment
Bailiff = Case with bailiff for collection
Arrangement = Payment arrangement agreed with Sefton

Additional Information

83% of the cases with balances are HB/CTB cases – current value £378,386.83.

Methodology used for options design:

The Operational workgroup and relevant officers within the Council developed a range of potential options within the required Government framework for the Local Council Tax Reduction Scheme. The Group identified and examined the potential effects on benefit claimants, developed information sharing channels and attended various meetings to discuss potential implications of the impending changes.

Background information was gathered from a number of sources prior to and during the process as follows:

- Professional organisations i.e. CIPFA and IRRV
- Government seminars and workgroups
- Merseyside Practitioners working group
- Working with other Local Authorities
- Software providers – to ensure any proposals can be delivered.

Draft Scheme Design

The draft Scheme addresses the funding shortfall for Council Tax Benefit claimants through three principle areas:-

- a) To reduce the Council Tax discounts and exemptions on certain unoccupied properties. This will provide the Council with additional funding to minimise the impact for working age claimants and will support other Council objectives such as bringing empty properties back into use. The proposed changes to Council Tax discounts and exemptions will not affect the majority of Council Tax Benefit claimants.
- b) To consider a level of Council Tax payable by all claimants of the Council Tax Reduction Scheme.
- c) To adjust the specific rules for some claimants.

Technical Reforms to Council Tax discounts & exemptions

The Government is proposing changes to Council Tax Discounts & Exemptions to certain classes of unoccupied properties. The Government intends to make the change in legislation to take effect for the year 2013/14.

The proposed Council Tax Technical Reforms have been included to achieve the required financial savings for the Council Tax Reduction Scheme in Sefton to relieve the impact for working age claimants.

The changes to Council Tax discounts and exemptions will require a Council resolution later in the year once enabling legislation is in place.

**a) Increase Council Tax Base (Council Tax Technical reforms)-
Revenues Fact Sheets 1, 2 ,3 & 4**

Proposed Measures	Current Regulation	Government Proposal	Council Proposal	No of properties affected	Estimated Cash value
a) Removing the Council Tax discount for properties not occupied as a main home	10% discount	Allow Councils to reduce the discount to nil	To reduce the discount to 0%	530	£72,000
b) Removing the Council Tax six month exemption for unoccupied & unfurnished properties	Class C exemption- 6 months exemption	Abolish the exemption and allow Councils to give a discount between 0% and 100%. The period of the discount must be 6 months.	To reduce the discount to 50% for the 6 month period	1570	£456,000
c) Removing the discount on long term empty properties and charging an 'empty homes premium' of 50% on properties left empty for more than 2 years	0% discount after 6 months	Allow Councils to levy an 'empty homes premium' on properties left empty for longer than 2 years.	To charge a premium of 50% making the total liability 150% after 2 years	896	£523,000
d) Removing the Council Tax exemption on empty properties undergoing major repair or structural alteration	Class A exemption –up to 12 months exemption	Abolish the exemption and allow Councils to grant a discount between 0% and 100% for 12 months	To reduce the discount to 50%	364	£237,000
Total					£1,200,000

Pros	Cons
<ul style="list-style-type: none"> Minimises the financial impact for working age claimants. Potential additional income to LA Would encourage owners/landlords to sell/let properties quicker. Interaction with Empty Homes & other initiatives 	<ul style="list-style-type: none"> Increased costs for homeowners trying to sell. Changes in housing market may impact on number of properties affected and will therefore reduce potential income. Avoidance tactics Collection impact

It is proposed that the draft Council Tax Reduction Scheme be calculated as a means tested discount, defined by the terms of the existing Council Tax Benefit Scheme except as identified below:-

b) Limit liability- working age claimants will pay a percentage of their bill – Liability 5, 7, 8

Description	Estimated value	Summary
Limit to a percentage of liability when calculating entitlement to Council Tax Reduction. (after discounts& reliefs)	a) 70% = £4,500,000 b) 80% = £3,020,000 c) 85%= £2,270,000 -	This means that everybody will pay a percentage of their Council Tax bill
Key Pros		Key Cons
<ul style="list-style-type: none"> Creates incentive to work Affects all working age claim types irrespective of income Spreads burden across all working age claimants Easy to understand and administer 		<ul style="list-style-type: none"> Creating new CT liabilities for around 11,000 households who previously did not have to pay anything on the lowest incomes and subsequently have the least disposable income from which to pay. Collection rates are likely to be low for this group. Increased administration for Council Tax collection Increased demand for front line services Forecasting future savings is difficult

c) Specific Rules

Capital limit – do not grant a Council Tax Reduction to any working age claimant who has capital savings above £6,000 – Capital 1

Description	Estimated Value	Summary
Do not grant a Council Tax Reduction to a working age claimant who has capital savings above £6,000.	£80,000	Current Council Tax benefit scheme calculates tariff income of £1 per week for every £250 capital or part thereof in excess of £6,000. Any capital over £16,000 would automatically disqualify a person from entitlement to claiming Council Tax benefit. Generally, for the purposes of calculating entitlement, capital takes the form of savings (e.g. in cash, building society accounts, bank accounts, stocks & shares, ISA's etc.) but excludes the value of the property where the claimant lives.
Key Pros		Key Cons
<ul style="list-style-type: none"> Capital can be used to pay for Council Tax liability Affects all working age claim types that have not been transferred from DWP to Council Tax Benefit Scheme 		<ul style="list-style-type: none"> Use of capital may limit long term savings for the scheme Claimants may reduce capital in order to qualify for a reduction

Remove the second adult rebate for working age claimants–Liability 11

Description	Estimated Value £k	Summary
Remove entitlement for working age claimants to Council Tax Second Adult rebate	£48,000	Second adult rebate is based on the income & circumstances of other adults living in the household with the claimant & partner.
Key Pros		Key Cons
<ul style="list-style-type: none"> • Simplifies scheme • Creates incentive to work 		<ul style="list-style-type: none"> • Increased administration for Council Tax collection • Does not interact with other Council Tax discounts (sole occupier, students) • Will continue to operate for pensioner claims

Withdraw facility to backdate the Council Tax Reduction award – Parameters 2.

Description	Estimated Value	Summary
Withdraw facility to backdate award for working age claimants.	£25,000	Currently working age claimants can have their benefit backdated for up to 6 months in cases where they can provide “good cause” why they did not apply earlier (e.g. hospitalisation, bereavement etc.)
Key Pros		Key Cons
<ul style="list-style-type: none"> • Simplifies the benefit scheme • Reduces administration costs • Encourage claimants to claim on time 		<ul style="list-style-type: none"> • Could disadvantage vulnerable claimants

Reduce or Remove deduction for “non-dependants” for working age claimants Household 3 and 4

Description	Estimated Value	Summary
1. Remove deduction for non-dependant(s) for working age claimants or, 2. Introduce flat rate deductions for non-dependants for working age claimants:- <ul style="list-style-type: none"> • £2.00 per week for non-working non dependants • £5.00 per week to apply to all working age working no dependants. 	1. £178,000 (minus) 2. £72,000 (minus)	Current deductions range from £0.00 to £9.90 per week depending on the income of the non-dependant. Note: There are no non-dependant deductions for Council Tax Benefit if the claimant or partner - <ul style="list-style-type: none"> • Is blind or has recently regained their sight or, • Receives the care component of disability living allowance payable at any rate or receives attendance allowance payable at any rate.
Key Pros		Key Cons
<ul style="list-style-type: none"> • Will help to mitigate impact of welfare reform on households. • Creates incentive to work for Non dependents who can contribute to the Council Tax bill 		<ul style="list-style-type: none"> • Claimants who currently do not qualify could now qualify – forecasting implications unknown.

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| <ul style="list-style-type: none">• May encourage renting householders to take in lodgers where they under occupy homes, make better use of housing stock and reduce chance of landlords pursuing repossession. | |
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