

WAVERLEY BOROUGH COUNCIL

EXECUTIVE

4 SEPTEMBER 2012

Title:

LOCAL COUNCIL TAX REDUCTION SCHEME - CONSULTATION

[Portfolio Holder for Finance: Cllr Mike Band]

[Wards Affected: N/A]

Summary and purpose:

To provide Members with an overview of the Government's proposals to localise Council Tax Benefit, through the introduction of the Local Council Tax Reduction Scheme from 1 April 2013, and to highlight the potential implications for the Council and its residents and to seek the Executive's approval to formally consult on a proposed scheme for 2013/14.

Equality and Diversity Implications:

The benefits service provides a service to vulnerable client groups. These include some of the protected characteristics as defined by the Equality Act 2010 such as disabled people and older persons. An initial equality impact assessment has been undertaken on the draft proposals. This equality impact assessment will be developed as the consultation progresses and a final version will accompany the decision making report considered by Members in December.

Resource and legal implications:

The Government is cutting funding for council tax support by 10%. Council tax benefit costs are around £6.1m in Waverley. Major precepting authorities will receive a 90% 'un-ring fenced' grant based on 2012/13 estimated council tax benefit spend when localised schemes are introduced in April 2013. The grant will be fixed for a number of years.

Councils will be subject to greater financial risk as a result of the proposed changes. Councils will take the full risk of changes in benefit caseload in future and will need to foot the bill for the additional costs. This change in legislation could also reduce collection rates for council tax which would mean further pressures on the budget and additional administration costs.

The Government is also introducing new rules on council tax discounts and exemptions for second and empty homes which could be implemented at the same time to reduce some of the impact of the changes resulting from Local Council tax Reduction Schemes (LCTRS). A separate report will be considered by Members in the Autumn covering these issues.

The Government has paid Waverley £84,000 to fund one-off implementation costs. To date, costs have been incurred on new modelling software and supporting the Surrey-wide joint officer team. It is likely that Waverley's core revenues system will need to be

reconfigured to operate the new scheme but these costs are currently unknown. It is also likely that some staff backfilling will be necessary as key officers are diverted from the benefits service to work on the implementation of the new scheme.

Background

1. As part of the Spending Review 2010 the Government announced that the current national Council Tax Benefit (CTB) system would be replaced by localised Council Tax Reduction schemes from 2013-14. As well as the transfer of responsibility from Central to Local Government, the Government is also proposing to cut the level of grant to local authorities by 10%. The total council tax benefit awarded in Waverley in 2011/12 was £6.1m; therefore the cut in grant for Waverley is likely to be £0.6m.
2. Currently in Surrey the district councils administer a national scheme of Council Tax Benefit. Residents are eligible for Council Tax Benefit if their income and capital (savings and investments) are below a certain level. They can apply whether they rent or own their homes, or live rent-free but they must be liable to pay the Council Tax on the property. They can qualify if they are out of work, or in work and earning a wage. To work out their Council Tax Benefit, councils will look at:
 - Money coming in, including earnings, some benefits and tax credits and things like occupational pensions
 - Savings
 - Circumstances: for example their age, the size of their family and their ages, if they or any of their family are disabled, and if anyone who lives with them could help with the rent

Council Tax Benefit claimants can get a partial or full reduction on their bill. More details of the components of the current council tax benefit system are included in Annexe 1.
3. Currently councils, in awarding council tax benefit, have a loss of revenue which is reimbursed by the Department of Works and Pension, with full reimbursement for correctly awarded benefits. Councils also receive a grant towards administration costs.
4. The Government has stated it has two underlying principles underpinning its approach to the future 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 people off benefits and supporting them into work.

The New Framework for Council Tax Reduction Scheme

5. Financial support for low income council tax households will become fully integrated into the Council Tax system, with support being offered as reductions on Council Tax bills rather than a benefit awarded against their full Council Tax liability. This means that local decisions about which vulnerable groups should qualify for council tax

support, including the reduction on income grounds, will need to be taken as part of the Council tax-setting process.

6. Billing authorities like Waverley will lead the implementation of the local Council Tax Reduction Scheme. In finalising their local scheme Councils will need to know:
 - The scheme grant allocation – grant will be paid to billing and major precepting authorities pro-rata to their share of Council tax, thereby reducing each authority's Council Tax requirement
 - The potential caseload – prior year data will be available to initiate the process of decision making about the operation of local schemes. Waverley will need to model caseload and to analyse the effects of changing variables including the factors which could lead to an increase in demand across certain groups.

Any new Local Scheme will need to:

- Detail the Council tax reduction available / to be awarded locally;
- Include categories of claimant entitled to a Council tax reduction and the Council tax reductions which are to apply to those categories. The Secretary of State will be given powers to specify categories of persons and the reduction they will be entitled to, but the Government currently intend to only use this power to prescribe support to be provided to pensioners;
- Set out procedures for applicants to follow in making applications;
- Set out procedures for appealing decisions (it is intended that the Valuation Tribunal is the independent appeal body)

In advance of the new scheme being agreed, the Council must (in the following order):

- Consult with all major precepting authorities, Surrey County Council and Surrey police Authority, who will share the effects of any increases or reductions in demand for Council tax benefits and costs based on the local scheme offered (a copy of the consultation letter is attached at Annexe 3); and,
- Publish a draft scheme; and,
- Consult with other persons that the Council considers are likely to have an interest in the operation of the scheme

7. The Government will consider if it should prescribe in regulations how the consultation will operate as the Bill progresses.
8. The Council's scheme will have to be approved by Council by 31 January 2013. This timetable, set out in Annexe 2, is going to be very tight. Where billing authorities do not adopt a scheme by 31 January, then the Government's default scheme will need to be used which will be set out in Regulations. This default scheme will retain the criteria and allowances in the current Council tax benefit scheme. It will also contain default procedures that the local scheme must cover.
9. Government's funding of the new scheme in 2013/14 is expected to equal 90% of the Council's spend on Council Tax Benefit (CTB) in 2012/13. The Council will need to consider any contingency arrangements for unplanned increases in demand and take-up which it will have to fund from within existing resources.
10. Under the new rules, town and parish councils will not receive any grant to compensate for the loss of council tax income from local reduction schemes so will

need to consider the impact in their council tax levels when setting their budgets. However, if billing authorities implement changes to council tax exemptions for second and empty homes, this could help mitigate the impact on town and parish councils.

11. The Government will base funding levels, in the first two years of the scheme, on Office of Budget Responsibility (OBR) forecast for spending on Council Tax Benefit. The Government states that these forecasts already include assumptions about underlying demographic changes and Council tax increases.
12. Council Tax benefit currently received by pensioners must not be reduced as a result of the introduction of the new council tax support scheme. The Government also highlight that Councils need to consider protecting other vulnerable groups and, whilst they are not specific in their intentions, they point Councils to their responsibilities in relation to,
 - The Child Poverty Act 2010
 - Disabled Persons
 - The Housing Act 1996, which gives local authorities a duty to prevent homelessness with special regard to vulnerable groups.
13. In developing the local scheme the Government's expectation is that Councils should seek to protect customers who receive some form of disability income. It is also the Government's expectation that Councils should seek to support the principle of the new Universal Credit scheme which aims to incentivise people move from benefit into work. Under these arrangements, people should therefore have more overall income in work than out of work.
14. The following table provides a summary breakdown of the current Council Tax Benefit payments by client type in Waverley.

	2009/10	2010/11	2011/12
Total caseload	5,924	6,497	6,687
% of pensioners	53%	49%	47%
% of working age	47%	51%	53%
Total CTB expenditure	£5,868,169	£6,120,408	£6,147,149

15. Annexe 1 sets out the main elements of the current council tax benefit system and the potential impact of changing these elements in a new local scheme. Annexe 2 sets out the indicative timetable for the council tax reduction scheme.

Options

16. Local authorities have the following options:
 - 1) **Set a local council tax reduction scheme with the same criteria and components as the current council tax benefit scheme. This will cost the same so the councils will have to meet the 10% funding gap.**
 - 2) **Set a local scheme with some specific changes to the criteria and protection to specified vulnerable people without applying a crude % reduction in entitlement across all working age claimants. This will have a reduced overall cost but not close the 10% funding gap.**

- 3) As (2) but applying a crude % reduction in entitlement across all working age claimants to reduce the overall costs to 90% of the current scheme cost. This will close the funding gap.
- 4) Don't set a local scheme by the 31st January 2013 which will trigger the statutory default scheme. This will cost the same so the councils will have to meet the 10% funding gap.

Financial Implications and Risks

17. Options 2 and 3 would require the identification of where the reductions in the current level of support for council tax should be made. This may require some residents to start paying a proportion of their bills for the first time and would require other residents to pay a bigger share of the bill than they are currently paying. Currently 1,600 working age claimants receive full benefit so pay no council tax. This will lead to an increased number of council tax enforcement cases where recovery action is required. Option 3 would require around 1,600 bills of relatively low value being sent to low income households for the first time. It is estimated that additional recovery resources of up to £50,000 would be needed to enforce payment. In-year collection rates for the accounts affected by the changes in option 3 could be less than 70% which could reduce Waverley's overall collection rate from 99% to 98.5%.
18. Option 1 would lead to a funding deficit of approximately £610,000 next year. Any deficit of council tax support costs compared to grant will fall upon the Collection Fund and be allocated to Councils pro-rata to council tax precepts:
 - Waverley 11%
 - Surrey Police Authority 13%
 - Surrey County Council 76%
19. Adopting a full scheme would mean Waverley needing to find approximately £67,000 to fund its shortfall however Surrey County Council would have a shortfall of £464,000 and Surrey Police Authority £79,000.
20. The following table highlights the potential costs to Waverley Borough Council of the scheme options

Estimates	Option 1&4	Option 2	Option 3
Scheme Cost			
Impact of loss of grant to WBC (11% of total)	£67,000	£12,000	£0
Staff and admin costs			
Additional recovery resources	£0	£40,000	£50,000
Benefit assessment officers*	£70,000	£70,000	£70,000
Fraud officer		£35,000	£35,000
Admin and software costs*	£28,000	£28,000	£28,000
Total	£165,000	£185,000	£183,000

*Assumes that benefit admin grant will be tapered off under local council tax reduction schemes (Waverley currently receives £500k which covers Council tax and housing benefit running costs)

Changes to Council tax – empty homes exemptions and second home discounts

21. The Government is introducing new powers to enable councils to reduce or eliminate second home discounts and empty home exemptions and to introduce empty home council tax premiums. These decisions will be subject to a separate report to Members later in the year when the regulations have been published. The Government has indicated that Councils should consider closing the funding gap from council tax benefit with additional revenue raised by these measures. The following table shows potential additional council tax income for Waverley Borough Council.

New flexibilities for council tax exemption/discounts	Potential additional income retained by WBC (11% of total)
Remove discount for second home – Waverley currently gives the statutory minimum 10% discount	£6,000
Removal of exemption for unoccupied/unfurnished property - Currently statutory 6-month exemption from council tax	£31,000
Removal of exemption for vacant property undergoing major repairs to make it habitable – currently statutory period of up to 12-months exemption	£8,000
Introduce a new empty homes premium for properties empty for more than 2-years – up to 50% additional charge	£15,000
Total	£60,000

22. The table shows that there will not be sufficient savings to fully offset the 10% cut in council tax benefit grant.
23. As the major impact of the new scheme based on the existing council tax benefit scheme falls on Surrey County Council and Surrey Police Authority, officers across Surrey have been looking to see what contribution those authorities would make to support the implementation of local schemes. To date, Surrey County Council has indicated that they would pay £1m to support the introduction of local schemes across the County.
24. In setting its scheme Waverley must be mindful of the risk of challenge. Challenge could come from an individual or an organisation and it is critical that decisions about the criteria or operation of the scheme are properly assessed, evidenced and recorded to help mitigate this risk.

Waverley’s proposed Draft Scheme for Consultation

25. Waverley is committed to a full and meaningful consultation on the options open to the Council. The Local Government Bill 2012 requires councils to produce and publish a Draft Scheme to include within their consultation exercise and, recognising that this is an inherently complex area, it is considered helpful to have a model on which to seek views and opinions. Proposing a Draft Scheme for consultation does not pre-determine the outcome and the Council will endeavour to ensure that the final scheme reflects the feedback received on all options.

26. As referred to in paragraphs 6 and 23, the views of Surrey County Council and Surrey Police Authority are critical to the decisions that the Surrey borough councils take about their local schemes. Waverley's final Local Council Tax reduction Scheme would be dependent on grant support from Surrey County Council and Surrey Police authority to help finance the costs
27. Waverley's proposed Draft Scheme for consultation is based on the following principles:
- to meet the needs of the local community; and,
 - to protect the most vulnerable and low income households in the Borough; and,
 - to incentivise people back to work; and,
 - to be easy to understand and cost effective to administer; and,
 - to be seen as fair; and,
 - for the scheme to align with future Government funding levels

and is in line with much of the current council tax benefit scheme, with full protection for pensioners in accordance with Government requirements, with the following options being considered which will impact on some working age claimants as follows:

Table 1 Proposed Council Tax Support Scheme for Consultation

1.	Remove Second Adult Rebate. Benefit is currently paid based on non-dependant household members' financial position, not the claimants.
2.	Reduce the minimum weekly benefit award to £5 thereby reducing small payments.
3.	Withdraw the provision for claimants to backdate claims for council tax support.
4.	Restrict the maximum award to Band D properties. Qualifying claimants living in Bands E, F, G, H properties would receive support equivalent to the Band D rate.
5.	Encourage extra part-time working to 24 hours per week in-line with Working Tax Credits by removing the disregard which currently starts at 16 hours.
.6.	Remove the family premium from the needs allowance because extra support is already given to families through tax credits.
7.	Treat all child benefit as income as it will be taxable income
8.	Treat all maintenance for children as income.
9.	Increase non-dependants charges at a flat rate to £10 for income up to £315 per week to simplify the scheme. Where non-dependants earn over £315 per week no council tax support would be payable
10.	Increase the income taper to 30% whilst still providing an incentive to work
11.	Use the minimum wage to assess low income self-employed claimants

28. The Council is focusing on changes based on the need of claimants whilst balancing against the pressures of other council taxpayers. The Council will continue to test the impact of these proposals by remodelling the various options, but the proposed draft scheme for consultation excludes a crude 'blanket percentage' reduction across all working age claimants.

29. Given the limited time available to produce a scheme and consult interested parties, and the need for IT suppliers to produce the necessary changes to software, Surrey Councils are using the existing Council Tax Benefit scheme as a basis for the new local scheme. This will tie in with the way the protected group, pensioners on low incomes, will be assessed and minimise the effects on the existing claimants. It is likely that each Surrey local authority will also tailor its scheme to local needs and priorities.
30. Officers will produce a detailed scheme document including administrative arrangements, and this will be placed on Waverley's website. Officers will also devise a web-based consultation questionnaire covering all aspects of the options for a local council tax reduction scheme to gather a wide range of views. The consultation will include each of the detailed points outlined in Table 1 above.
31. It is proposed that the web-based questionnaire will be open to all to access and complete but officers will invite specific organisations such as town and parish councils, Waverley's Tenants' Panel, community groups and partners to participate. Officers are proposing to hold a specific consultation workshop with Waverley Citizens Advice and the Disability Forum during the consultation period to get detailed feedback on the proposals. All Members will be invited to the November meeting of the Corporate O&S Committee to receive a detailed briefing and review the outcome of the consultation.

Recommendation

It is recommended that the Executive agrees:

1. that, for consultation purposes only, the proposed Draft Scheme is as set out in paragraph 27 and Table 1 above;
2. to consult on the options 1 to 3 in paragraph 16 above;
3. that the consultation is undertaken as set out in paragraphs 30 and 31 above;
4. to the timetable attached at Annexe 2; and
5. that Waverley's final Local Council Tax Support Scheme would be dependent on grant support from Surrey County Council and Surrey Police Authority to help finance the costs.

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COUNCIL TAX BENEFITS – VARIABLE COMPONENTS

Name	Description
Child Benefit Disregard removed – all children	Child benefit is currently not taken into account as income in the calculation of benefit. The rates paid are £20.30 for the first child and £13.40 for each other child.
Child Benefit Disregard removed – 1 st Child only	Child benefit is currently not taken into account as income in the calculation of benefit. The rates paid are £20.30 for the first child and £13.40 for each other child.
Child Benefit Disregard – more children –	Child benefit is currently not taken into account as income in the calculation of benefit. The rates paid are £20.30 for the first child and £13.40 for each other child.
Maintenance for children – disregard removed	Maintenance received for children is currently not taken into account as income in the calculation of benefit.
Remove childcare disregards	If childcare is paid, this is paid in Working Tax Credit and this is disregarded
No Second Adult Rebate	Second adult rebate is currently available to a single person liable for Council Tax who has another adult living in the property who is not a partner, lodger or boarder but is on a low income. Depending on the income of that person the liability is reduced by 7.5%, 15% or 25%.
No Backdating	Currently benefit is awarded from the Monday following date of application but can be backdated up to six months before this date if good cause is shown for not claiming earlier.
Restrict Minimum payment too £5.00 per week	The current minimum award is 1 penny. The £5 a week minimum award would mean those currently receiving up to £260 per year would no longer receive this help.
Restrict Maximum Benefit award to Band F property	This would affect anyone claiming support in a band G and H property by calculating their support based on the band F liability. (Currently £2,258.39 in Godalming)
Restrict Maximum Benefit award to Band E property	This would affect anyone claiming support in a band F, G and H property by calculating their support based on the band E liability. (Currently £1,910.94 in Godalming)
Restrict Maximum Benefit award to Band D property	This would affect anyone claiming support in a band E, F, G and H by calculating their support based on the band D liability. (Currently £1,563.50 in Godalming)
Reduce Upper Capital limit – working age to £6,000	The current capital limit for working age claimants is £16,000. Capital between £6,000 and £16,000 is taken into account as income at the rate of £1 for every £250 held.
Reduce Upper Capital limit – working age to £8,000	The current capital limit for working age claimants is £16,000. Capital between £6,000 and £16,000 is taken into account as income at the rate of £1 for every £250 held.

Reduce Upper Capital limit – working age to £12,000	The current capital limit for working age claimants is £16,000. Capital between £6,000 and £16,000 is taken into account as income at the rate of £1 for every £250 held.
Self Employed (S/E)– Minimum wage applied	Assume an income of minimum wage for S/E claimants.
Earnings disregard Increase to £10 for single person, £20 for couple and £25 for lone parent	Currently £5 single £10 couples £20 for disabled This can be decreased to make a saving or increased to allow more benefit and be an incentive to work.
Increase additional earnings disregard criteria from 16 hrs to 24 hrs	If one member of a couple with a child works more that 16 hrs a week an additional disregard is applied to their income of £17.10.
Non- dependant flat rate deduction of £10 per week	A deduction is made from claimants benefit for non dependants who live in the household depending on their income. The rates are currently: Income less than £183 - £3.30 Between £183 and £315 - £6.55 Between £316 and £393 - £8.25 Over £394 - £9.90
Increase non dependant deductions	Increase non dependant charge to £10 for an income between £0 and £315, no benefit for income over £316
Increase the income taper to 30%	We currently take 20% of income into account for CTB and 65% for HB. This could be increased to make a saving
Take into account war pensions	War pensions are currently not taken into account as income in the calculation of benefits.
Take into charitable and voluntary payments	Charitable and voluntary payments are currently not taken into account in the calculation of benefits. These include regular payment from a relative or charitable organisation.
Reduce personal allowances	Personal allowances are awarded to everyone based on age and who is in the household. This is the amount the Government says that you need to live on each week. For example a couple aged 18 or over , £111.45, a child £64.99.
Remove family premium	Premiums are added to a claimant's personal allowance under certain circumstances, such as the disability premium for someone in receipt of disability living allowance. There is a family premium of £17.40 awarded to claimants with children.
Remove disregard for boarders	The first £20 of income received from boarders is not taken onto account in the calculation for benefits.
Reduce council tax liability by 20%	The maximum liability that will be taken into account before benefit is applied will be 80%

Council Tax Reduction Scheme – Key Dates in Decision Making

- August - Draft Regulations and consultation guidance expected
- September - Local Government Finance Bill should achieve Royal Assent
- **4 September – Executive meeting agree draft scheme for consultation**
- 11 September – Launch consultation on scheme (8 weeks to 6th Nov)
- September – Confirmation of Waverley’s grant?
- 6 November – Consultation period ends
- 6 Nov to 9 Nov – Analyse results of consultation
- **26 November – Corporate O&S consider report on draft scheme and outcome of consultation (All Councillors invited)**
- 22 November – Executive briefing
- **4 December – Executive consider report and recommend scheme to Council**
- 4 December – Reflect impact of changes in council tax base – Executive to approve
- **11 December – Council approves scheme for 2013/14**
- December/January – Publicity and write to claimants
- January/February – Software and billing work
- 1 April 2013 New scheme starts

Mr David McNulty
Chief Executive
Surrey County Council

Dear David

CONSULTATION ON LOCALISING SUPPORT FOR COUNCIL TAX

As you know, as part of the Government's 'Localising Agenda' council tax benefit will be abolished from 31st March 2012 and council tax billing authorities are required instead to establish a local scheme to support council tax.

Before deciding on a local scheme, Waverley is required to consult with its major precepting authorities and this letter formally seeks your views on this Council's proposed scheme.

Council tax benefit paid to Waverley's residents is currently £6.1 million per year and with the Government's stated cut of 10% in funding to local authorities, a potential shortfall in Waverley of £610,000 has to be funded by local authorities; through reduced support to claimants, from council taxpayers, from budget efficiencies, or from additional flexibilities arising from changes to council tax regulations, contributions from major preceptors, or a combination of the above (Surrey County Council's share of this shortfall is estimated to be around £458,000).

In the light of these options Waverley is minded to agree a local scheme, and not rely on the Government's default scheme which leaves council tax relief unchanged for claimants.

The Council is currently considering a scheme based on much of the current council tax benefit scheme, with full protection for pensioners in line with Government requirements and is considering the following options, which will impact on working age claimants:

1. Remove Second Adult Rebate. Benefit is currently paid based on non-dependant household members' financial position, not the claimants.
2. Reduce the minimum weekly benefit award to £5 thereby reducing small payments.
3. Withdraw the provision for claimants to backdate claims for council tax support.
4. Restrict the maximum award to Band D properties. Qualifying claimants living in Bands E, F, G, H properties would receive support equivalent to the Band D rate.
5. Encourage extra part-time working to 24 hours per week in-line with Working Tax Credits by removing the disregard which currently starts at 16 hours.

6. Remove the family premium from the needs allowance because extra support is already given to families through tax credits.
7. Treat all child benefit as income as it will be taxable income.
8. Treat all maintenance for children as income.
9. Increase non-dependants charges at a flat rate to £10 for income up to £315 per week to simplify the scheme. Where non-dependants earn over £316 per week no council tax support would be payable.
10. Increase the income taper to 30% whilst still providing an incentive to work.
11. Use the minimum wage to assess low income self-employed claimants.

The Council is focusing on changes based on the need of claimants whilst balancing against the pressures of other council taxpayers. The Council will continue to test the impact of these proposals as we continue to remodel the various options, but the Council can confirm that a 'blanket percentage' reduction across all working age claimants is not considered acceptable.

The Council recognises that before finalising any scheme, a full and detailed Equalities Impact Assessment will need to be carried out to ensure the range of impacts on different categories of claimants is understood and that the overall scheme is robust and resilient to challenge. This work is on-going.

The Council is basing its proposals on the assumption that both Surrey County Council and Surrey Police Authority will be contributing to the costs of implementing a local scheme or helping to fund any shortfalls.

As part of the Council's attempts to manage the additional costs arising from the introduction of a localised Council Tax support scheme, the Council will be reviewing the discounts for second homes and empty properties and considering a premium for long term empty properties. Any changes to discounts and the introduction of a premium will of course benefit Surrey County Council and Surrey Police Authority in proportion to council tax precepts.

I am conscious that we are in the holiday period, but would welcome a response, even an interim one, before 4th September 2012, when the Council's Executive considers a localised scheme.

Should you have any queries about the detail of this letter please call Graeme Clark, Head of Finance, on 01483 523099 or myself on the above number.

Yours sincerely

Paul Wenham
Deputy Chief Executive