

RESOURCES SCRUTINY PANEL

6th December 2012

DRAFT LOCALISATION OF COUNCIL TAX SUPPORT SCHEME

Report of the Interim Strategic Director of Resources

STRATEGIC AIM:	All		
KEY DECISION	YES	DATE ITEM FIRST APPEARED ON FORWARD PLAN	

1. PURPOSE OF THE REPORT

- 1.1 To present to Resources Scrutiny Panel with the draft council tax support scheme options for consideration.

2. RECOMMENDATIONS

- 2.1 That the Resources Scrutiny Panel notes the progress to date in developing the local council tax support scheme.

3. THE NATIONAL PICTURE

- 3.1 The Local Government Finance Act gained Royal assent on 31st October 2012. It provides a legal basis for business rate retention and localising Council Tax support. The Act makes provision to:

- Replace council tax benefit with a local council tax support default scheme;
- Allow for the local retention of business rates; and
- Make technical changes to council tax including an empty homes levy.

- 3.2 The legislation will require local authorities to determine their local schemes by 31st January 2013 and implement them from 1st April 2013. The changes proposed for local support for council tax will have significant financial implications for Rutland at the same time as other changes to the local authority funding regime are introduced.

- 3.3** The Welfare Reform Act 2012 contains provisions for the abolition of council tax benefit from 1 April 2013, paving the way for new localised schemes. The Act also introduced Universal Credit and changes other benefits, such as the replacement of Disability Living Allowance with Personal Independence Payment, and provides for a tougher approach to fraud through the implementation of a Single Fraud Investigation Service.
- 3.4** In response to the Government proposals Rutland has been working jointly with the district councils in Leicestershire, (excluding Leicester City Council), together with Leicestershire County Council, the Fire and Rescue Authority and the Police Authority to devise a framework for a local council tax support scheme that will allow for local variations.
- 3.5** On the 18th October 2012 the Department for Communities and Local Government (DCLG) announced details of the Transitional grant scheme. DCLG is making available an additional £100m for one year to support local authorities in developing their schemes. The grant will be paid to those authorities who comply with the criteria set by the Government; the provisional grant allocation for Rutland is £38,957. The criteria are as follows:
- Those who would be entitled to 100% council tax benefit currently pay no more than between zero and no more than 8.5% of their net council tax liability;
 - The taper rate does not increase above 25%;
 - No sharp reduction in support for those entering work and
 - No large additional increase in non-dependant deductions.
- 3.6** The House of Lords has successfully passed an amendment in late October to review the provision for local council tax support after three years. It is not yet clear what impact this will have to the future of local schemes.

4. LOCAL CONTEXT

- 4.1** DCLG have published indicative figures showing their expected level of Local Council Tax Support Grant to be paid to each local authority in 2013/14 based on their estimate of the likely level of spend in that year. For Rutland the **indicative grant is £1,441,000, some £440,000 (24%) less** (based on 12/13 levels) than the current level of spend and is significantly higher than the Government's stated aim of reducing expenditure by 10%. The final settlement will not be known until mid December 2012; however it is unlikely that the initial figures will change significantly.

- 4.2** Information extracted from the Council's benefit system by Coactiva in October 2012 gives a snapshot of current claimants and demonstrates that the indicative grant would not cover current costs:

Category	No.	Council Tax payable	Council Tax Benefit 12/13
Pension Age	1095	£1,283,458	£1,070,767
Working Age	902	£1,029,589	£803,494

- 4.3** The scale of the task facing Rutland is made more challenging because there is a guarantee of no reduction in support provided for claimants of pension age. The demographic profile of Rutland residents shows a higher percentage of the population falling within the pension age category than regional or national averages. This means that it is the 902 working age claimants who are at risk. If the Council was to close the £440,000 gap fully by reducing benefits, the impact on existing working age claimants would be an average loss of benefits of approx £9.38 per week.
- 4.4** In Rutland, the number of work age claimants has increased year on year since 2007 on average by 6.5% per year. It is likely that the trend will not change and this analysis indicates that the current estimated gap of £440k is unlikely to decrease. Of those 902 working age claimants 356 are in work and 546 are unemployed and are claiming a range of benefits including Job Seekers Allowance, Income Support, Employments Support Allowance, Incapacity benefit etc.
- 4.5** In order to comply with the proposed regulations the Council must agree a local council tax support scheme for working age claimants by 31 January 2013 for implementation with effect from 1 April 2013. Failure to determine a scheme would result in the Government default scheme (i.e. a continuation of the existing scheme) applying to all claimants and a potential shortfall between the cost of the scheme and the grant receivable as already indicated.

- 4.6** In order to meet this timetable the following is proposed:

Key Actions	Dates
Report to Scrutiny	6 December 2012
Set Council Tax base (Cabinet)	18 December 2012
Scheme to Council for approval	7 January 2013
Set Council Tax for 2013/14	18 February 2013

4.7 It is important in considering the impact of the Council Tax Support Scheme that the Council understands the risks associated with its overall medium term financial plan (MTFP). The latest modelling information from LG Futures, which Officers are reviewing and updating, shows that the MTFP position is highly likely to deteriorate significantly from that last reported to Cabinet in the Q1 Budget Monitoring Report (Report 146/2012). Provisional headline information indicates the Council's funding could significantly reduce from 2013/14 as a result of changes to overall funding arrangements including:

- localisation of business rates;
- rolling of non ring fenced grants into RSG; and
- changes to Local Authority Central Spend Equivalent Grant (LACSEG).

4.8 The above position is still uncertain and will not be clear until the autumn settlement, both of which are expected mid December. This uncertainty will impact on the process for setting 13/14 budget and a draft budget is unlikely to be produced before January.

5. OPTIONS FOR CONSIDERATION

5.1 The Council has a number of options for responding to the introduction of local council tax support:

1. Adopt the default Government scheme, claim the additional grant funding and absorb the additional cost;
2. Increase Council Tax to meet the shortfall (capped at 2%);
3. Reduce spending on other services to meet the shortfall in resources; and
4. Devise a local scheme that reduces the level of support and provides additional hardship support for the most vulnerable.

5.2 The above options are consistent with those being considered by other authorities. The Government requires vulnerable groups to be protected, but have not defined these. Identifying specific groups is restrictive, costly and may be subject to legal challenge, if certain groups are not recognised. The proposal within option 4 is to create a discretionary support fund to provide additional support to the most vulnerable and those suffering from severe financial hardship under Section 13A of the Local Government Finance Act 1992.

5.3 As mentioned in 3.1 above the Local Government Finance Bill contains provisions that make technical changes to council tax including an empty homes levy. Although these changes are incorporated within the same piece of legislation the technical changes are not linked to the replacement of Council Tax Benefit with Local Council Tax Support. The proposed technical reforms may provide the opportunity for the Council to raise additional income from Council Tax (initial estimates range from 100k to 250K). It is suggested that these proposals will be considered as part of the

overall annual budget setting process as a possible source of revenue.

6. PUBLIC CONSULTATION, RESEARCH AND INTELLIGENCE

6.1 The Council focused its consultation on option 4 detailed at 5.1. The Council has undertaken a range of measures as part of its overall consultation and awareness campaign:

- Letter to all claimants with an explanatory leaflet;
- An 8 week consultation through an internet questionnaire;
- Mailed questionnaire to all claimants and the same number of taxpayers chosen at random;
- Staff attending at libraries over a 2 week period to hand out paper consultation surveys; and
- Additional paper consultation surveys sent to 18-25 age group following report indicating low level of responses from this demographic.

The Council received a total number of 194 responses which was higher than neighbouring Leicestershire authorities. Appendix A details the consultation results.

6.2 The responses were varied with some concerns being raised about the Governments proposals. Notwithstanding this comment; there was general support for the council's proposals to introduce a local council tax support scheme.

6.3 Consultation with local third sector and partner organisations, whilst generally in line with the key messages above has revealed concerns about the wider impact on households with low incomes being required to pay any council tax or more than they do now. Citizens Advice Bureau, Voluntary Action Rutland and Spire Homes have all advocated considering an increase in council tax to cover at least part of the shortfall in funding on the basis that this would share the burden across all local taxpayers.

6.4 Meetings of the Resources Scrutiny Panel, a workshop to which all Council Members were invited and the Parish Council Forum have also provided a opportunities to gather views on the proposals for a local Council Tax Support Scheme. The views are as follows:

- Whilst a range of suggestions were discussed the main messages which received general support were that everyone should contribute something towards their council tax and that the scheme should be designed to retain the incentive for people to return to work.
- A further principle was that in the light of the uncertainties surrounding the impact of the scheme on individuals and the future levels of Government funding it would be prudent for the local scheme to be relatively restrictive initially, with any hardship resulting being dealt with through a discretionary assistance fund. Coactiva commented that this approach was being adopted by other Councils.

- Whatever scheme is adopted, there was consensus that it should then be reviewed during the first year of operation and any appropriate changes made in later years to alleviate difficulties that impacted unfairly on particular groups of claimants.

6.5 The Leicester, Leicestershire and Rutland Combined Fire Authority have provided feedback;

- they are supportive of the scheme being proposed and indicate that the scheme should aim to recover as much of the funding reduction as possible;
- they also approve the outlined measures for support for vulnerable people and of methods to encourage people into work and

6.6 Leicestershire Police Authority has not provided a written response yet, but they have indicated their agreement verbally and concur with the views of the Combined Fire Authority.

6.7 Because much of the consultation has been coordinated through the joint working arrangements with authorities within Leicestershire, we have been able to gather local intelligence on the proposals being considered and the feedback in neighbouring areas.

- Although each authority will be required to determine its own Local Council Tax Support scheme and will be facing different levels of resources shortfalls the indications are that there will be a high degree of commonality within the local schemes, with a cap on the level of support for working age claimants likely to be the most significant single factor in bridging any resources gap.
- Informal contact with other authorities in Lincolnshire and Peterborough City Council indicates that similar schemes are being proposed in those areas.
- All councils are considering whether to accept the Governments proposal for transitional grant funding with scheme restrictions.

7. REVIEW OF OPTIONS

7.1 Officers have considered the Government objectives outlined at item 3, the local context in item 4, and the consultation outcomes in item 5 and from these devised a set of principles on which the Local Council Tax Support scheme is proposed.

Local Council Tax Support scheme principles

These principles are:

- a. that the scheme should reduce the overall cost of benefits through a local scheme;
- b. that support should be directed to those in greatest need;
- c. that incentives to work should be provided;
- d. that the scheme should be broadly in line with those of other authorities in this area;
- e. that the scheme is affordable to the authority;

Analysis of options

In section 6, four options were set out:

- Option 1 - Adopt the default Government scheme and absorb the additional cost;
- Option 2 - Increase Council Tax to meet the shortfall;
- Option 3 - Reduce spending on other services to meet the shortfall in resources; and
- Option 4 - Devise a local scheme that reduces the level of support and provides additional hardship support for the most vulnerable.

7.2 Options 1, 2 and 3 are not considered viable in line with the principles above for the following reasons:

- absorbing the shortfall in costs in full by raising council tax or making cuts elsewhere is not affordable within the context of the MTFP which will require further reductions in expenditure in any event;
- the Council may be out of line with neighboring authorities;
- by replicating the current scheme, the Council would not be embracing the government principle of making work pay.

7.3 The Council's proposals for option 4 are analysed below with the exception of the proposal to cease extended payments (saving of £2,000) which has been rejected because of its potential to act as a work disincentive.

7.4 Further analysis has focused on variations of the Council's proposals for option 4 and five potential financial models:

- Model 1 - the scheme is self funding
- Model 2 - Members provide additional funding of c£150k to support the scheme
- Model 3 - Members provide additional funding of c£250k to support the scheme
- Model 4 - Members provide additional funding of c£350K to support the scheme
- Model 5 - Members adopt the Government default scheme with additional grant funding

7.5 All of the above models are to be supported by a discretionary support scheme which has been considered jointly by the authorities within Leicestershire and Rutland, to be used to provide short-term assistance in cases where support is either reduced or no longer provided through the Council Tax Support scheme. Each authority would set aside a sum of money, representing a percentage of the level of Council Tax Benefit expenditure in their area, with the major precepting authorities contributing a proportionate share into each billing authority fund. The discretionary discount scheme has been devised in consultation with social services representatives to identify potential vulnerable categories of person to ensure that the authority meets obligation under legislative framework. The draft scheme is included at Appendix B. The Council has made an initial commitment

of £100k for this scheme; however this could reduce depending on the model adopted.

7.6 A more detailed version of this model and a breakdown of certain groups affected is provided at Appendix C.

Scheme Changes	Presently		Model 1	Model 2	Model 3	Model 4	Model 5
Council Tax (ctax) Band	Band H	.. <i>restrict to</i>	Band E	Band E	Band H	Band H	Band H
..then maximum ctax set at	100%	.. <i>restrict to</i>	55%	75%	80%	90%	91.5%
Tariff increase for every £1	20p	.. <i>increase to</i>	25p	25p	25p	20p	25p
Capital limit set at	£16,000	.. <i>reduce to</i>	£10,000	£10,000	£10,000	£16,000	£16,000
Capital tariff	£1 per £250	.. <i>increase to</i>	£1 per £200	£1 per £200	£1 per £200	£1 per £250	£1 per £250
Child Benefit disregard	All	.. <i>reduce to</i>	£0	£0	£0	All	All
Child Maintenance disregard	All	.. <i>reduce to</i>	£0	£0	£0	£0	All
FTW* - earnings disregard	£17.10	.. <i>reduce to</i>	£0	£17.10	£17.10	£17.10	£17.10
Earnings disregard		.. <i>reduce by</i>	25%	25%	0%	0%	0%
Child Care disregard		.. <i>reduce by</i>	25%	25%	0%	0%	0%
Non-dependent deductions		.. <i>increase by</i>	10%	10%	10%	10%	0%
Second Adult Rebate			Abolished	Abolished	Abolished	Abolished	Retained
Estimated Savings			£457,000	£315,000	£211,556	£110,566	£99,696
Transitional Grant Scheme							£38,957
Total Savings			£457,000	£315,000	£211,556	£110,566	£138,653
Comparison to £440,000 saving			£17,000	-£125,000	-£228,444	-£329,434	-£301,347
Average cost per week for claimants			£10	£7	£5	£2	£2
Estimated number of claims no longer receiving any help			212	168	72	13	27

*FTW = full time work

7.7 The following table below indicates which models meet the principles set out at item 8.1. (Y = yes, N = no, P = partial)

Model/Principle	Reduces cost	Supports greatest need	Incentive to work	In line with others	Affordable
Model 1	Y	P	N	N	Y
Model 2	Y	Y	P	Y	Y
Model 3	P	Y	Y	Y	N
Model 4	P	Y	Y	Y	N
Model 5	N	Y	Y	Y	N

7.8 Against the principles used, the preferred option (Model 2) would cost the Council approx £200 - £250k assuming £100k is put in the discretionary fund. This would cause some financial hardship which may be offset by the discretionary fund. Administration would increase due to anticipated high levels of demand for discretionary support but this could be alleviated by financial management support from the third sector. Collection rates would be affected but not to the same level as for model 1.

- 7.9** One further aspect of the proposals is that those working age individuals and households who are required to pay an increased amount of Council Tax from April 2013 than previously are likely to face varying degrees of hardship and this may adversely impact on the Council, both in the level of resources needed to chase outstanding sums and in the percentage of total Council Tax collected. Currently the collection rate is set at 99% each financial year which is attained within year and any residual debt is collected in subsequent years. The collection rate for 2013/14 should be set with regard to the scheme adopted.

8. IMPACT

- 8.1** Below is a summary of the potential impact of the models on claimants and consideration of other issues.

8.2 Impact on claimants

Whilst the average weekly impact on claimants gives a rough guide as to impact, more detailed examples are given in Appendix D.

8.3 Operational Impacts

In addition to the direct impact on claimants of the change from Council Tax Benefit to Local Council Tax Support there are a number of potential indirect effects that should be recognised. Approximately 900 working age claimants will be affected and many will need additional support which may take various forms i.e. debt advice.

There may also be increased demand for support through other Council services; in particular this may affect both Children and Adult Social Care services. Further, some of the voluntary and third sector agencies and partners that work with the Council may see an increase in demand for their services, e.g. counselling, debt advisory services. The following service areas may be impacted as a result of the implementation of Local Council Tax Support, however it is worth noting that other welfare reform changes will also impact on the local authority as these progress:

Service area	Impact
Customer Services Team	<ul style="list-style-type: none">• Increased volume of enquiries, expected from mid March 2013 onwards• Increased risk of anti-social behaviour directed at Officers
Benefits Team	<ul style="list-style-type: none">• Increased volume of enquiries and changes in circumstances• Increased volume of Appeals• Applications for discretionary support expected from Mid March 2013 onwards

Revenues Team	<ul style="list-style-type: none"> • Increased volume of enquiries from mid March 2013 onwards • Increased enforcement action from mid April 2013 onwards • Increased volume of complaints • Increased number of FOI requests
People's Directorate Services	<ul style="list-style-type: none"> • Increased numbers of housing option related enquiries • Increased number of applications to
	Section 17 funding <ul style="list-style-type: none"> • Increased numbers of incidents of families who are in social deprivation
Third Sector	<ul style="list-style-type: none"> • Increased demand for benefit advice • Increased demand for debt advice • Increased demand for financial literacy advice • Increased demand for advice on 'payday' loans and alternatives

8.4 Information Technology

Of particular significance is the need to ensure that the Council's software suppliers are able to adapt their systems within a relatively short timescale to ensure that the new local support scheme is fully operational before the implementation date of 1 April 2013.

8.5 Equality Impact Assessment

The nature of the proposals requires an Equality Impact Assessment (EIA) to be completed. An initial assessment has been made and as the scheme is developed and decisions made on which proposals are to be adopted this will be completed and any issues arising will be incorporated into the formal report to Cabinet and Council which recommends the approval of the final scheme.

9. NEXT STEPS

9.1 In accordance with the timetable detailed at item 5.6 above it is intended to take this the scheme to full council for approval on 7th January 2013.

9.2 The Welfare Practitioners Group (WPG) has been working with the draft Council Tax Reductions Schemes (Prescribed Requirements) (England) Regulations 2012 and developing a local scheme framework that enables variations to be made in response to any changes to the regulations. Members will therefore be asked to adopt the draft scheme with the proposed framework enabling variations. This approach allows the scheme to be modified easily in future by either approving rejecting or amending various regulations that may be made by Government. Expert legal advice will be obtained to ensure the local changes are legal and will ensure the scheme is operable.

9.3 Any comments arising from the November meetings would be incorporated into a final scheme that would need to be formally approved at Council on 7th January 2013 to allow sufficient time to process the necessary operational changes in time for the scheme to be fully implemented for 1 April 2013.

9.4 Once a scheme has been approved by Council for 2013/14 no changes are permitted in year, any subsequent amendments could only be introduced from the following 1 April.

10. COMMUNICATION STRATEGY

10.1 It is essential that the Local Council Tax Support Scheme is communicated to those affected as soon as possible. This will give advanced warning of changes and allow current benefit claimants to seek advice beforehand i.e. to resolve any existing debt issues. Early communication may also help to alleviate the expected increase in enquiries from mid March 2013 onwards. The following tasks will be undertaken:

Task	Time
Letter to those affected with leaflet about what they need to think about before April 2013, offer appointments to discuss/ signpost to CAB	By end January 2013
Actively seek to make claimants aware of the changes when they make contact with us either face to face or by telephone; offer appointments to discuss/signpost to	By end of January 2013
Seek to make telephone contact with those claimants who have not yet contacted us via natural communication methods above; offer appointments to discuss/signpost to CAB	By mid February 2013
Letter of award to claimants as part of annual billing process with guidance leaflet; offer appointments to discuss/signpost to CAB	By mid March 2013
First reminder run for missed April instalment: review leaflet and encourage early contact to discuss payment options	Mid April 2013
Subsequent recovery action, review leaflets and encourage early contact to discuss payment options potential hardship support	From May onwards 2013

11. THE FUTURE

- 11.1** There remains therefore great uncertainty about the impact that all welfare reforms will have on individuals, it is essential that a monitoring and review process is in place during the first year of the new arrangements. This will enable any unforeseen effects arising from the reforms to be considered and any appropriate changes adopted for future years, whilst dealing with any short-term financial hardship caused to claimants through the discretionary fund.

12. RISK MANAGEMENT

RISK	IMPACT	COMMENTS
Time	High	Timetable for delivery is tight
Viability	High	Shared working will increase the viability of delivering a local scheme on time
Finance	High	The government will provide a default scheme in the event of non adoption of a local scheme, this will result in a financial burden to the authority
Profile	High	The agenda for welfare reform is attracting national media attention and scrutiny from the third sector
Equality and Diversity	High	A full EIA is being undertaken

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