

Adoption of a scheme for Localisation Support for Council Tax

EXECUTIVE MEMBER: Cllr G Troughton
LEAD OFFICER: Darienne Law, Head of Corporate Resources
REPORT AUTHOR: Angela Brown, Finance Manager

WHAT BENEFITS WILL THESE PROPOSALS BRING TO COPELAND RESIDENTS?

They will enable the council to comply with legal requirements. The Welfare Reform Act 2012 abolishes Council Tax Benefit (CTB) from 1st April 2013. The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012 came into force on 27 November 2012. They contain provisions for billing authorities to introduce their own schemes for Localisation Support for Council Tax to replace Council Tax Benefit as from 1st April 2013. This support will be known as the Council Tax Support Scheme (CTRS). CTRS will operate as a discount under existing Council Tax regulations.

SUMMARY:

This report seeks the Council's approval to introduce a scheme of CTRS to be implemented on 1 April 2013. A summary of the results of the consultation exercise that took place in September 2012 and which was reported to the Executive on 13 November 2012 supported the intentions behind the proposed scheme. If this scheme is approved this report also requests that Members consider whether to apply for the subsequent funding from Government of a transitional grant in respect of 2013/14 only.

RECOMMENDATION:

1. It is recommended that Council:
 - (i) Approve that the current level of reductions given to existing Council Tax Benefit recipients be continued when changing from a Benefit to a Discount.
 - (ii) Note that the Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012 sets out the statutory duties on billing authorities when establishing their own local scheme.
 - (iii) Approve that Copeland Borough Council's CTRS Scheme will be, where legislation permits identical to the current Department for Work and Pension's Council Tax Benefit Scheme but written as a S13A policy document, under The Local Government Finance Act 1992 (as amended by Section 10, of the Local Government Finance Act 2012), to ensure it becomes a legal Discount rather than a Benefit.
 - (iv) Approve that given that the matter has financial implications for the Authority, the Council will wish to include the CTRS within the definition of documents included under the umbrella of 'Budget' in its Budget and Policy Framework. This would mean that the setting of the Scheme would be reserved to Council.

- (v) Approve that any detailed amendments to the scheme be delegated to the Head of Corporate Resources to take account any detailed technical guidance and that Members be notified of any alterations and their consequences at the review points.
- (vi) Approve the principles of funding the scheme, in part or full, through the application of Council Tax Technical Reforms (created under Section 11A and Section 11B of the Local Government Finance Act 1992 as amended by Section 11 and Section 12 of the Local Government Finance Act 2012) and other funding streams.
- (vii) Note that the Department for Communities and Local Government (DCLG) announced in October 2012 their plans that an additional £100million, nationally, of funding for councils is to be made available. These additional funds are aimed at supporting the development of well-designed council tax support schemes and to maintain positive incentives to work.
- (viii) Approve that the Council passes onto the Parish Councils the full grant awarded by the Government in order to protect the Parishes from the impact that CTRS has on their individual tax bases as outlined in paragraph 2.6 of this report.
- (ix) Approve that an application for the additional funding may be made by the Head of Corporate Resources at the appropriate time.
- (x) Approve that a full appraisal is completed by December 2013 to take into account the financial and other implications of the CTRS in its first operational year with a view to recommending any necessary changes in respect of 2014/15 onwards.
- (xi) Note that the changes detailed within the Report are being implemented via the Welfare Reform Act 2012, the Local Government Finance Act 1992 (as amended) and ancillary regulations and guidance.
- (xii) Approve the revision of the Council's Scheme of Delegated Authority to recognise the change in legislation and replicate the Section 151 Officer and Head of Service responsibilities in terms of the existing administration of Council Tax Benefit scheme to be continued within the new setting of CTRS. Council Tax Benefit will not be awarded for any date following 31st March however, the appropriate officers will retain residual responsibilities for that scheme for a period from 1st April 2013 during which time CTRS will be in operation.

1. INTRODUCTION

- 1.1 The Government has proposed changes to the system of Local Government Finance which are the biggest changes that have been seen for many years. The changes are set out in the Local Government Finance Act 2012 (which amended the 1992 Act) received

Royal Assent on 31st October 2012. The Welfare Reform Act 2012 will abolish Council Tax benefit (CTB) from 1 April 2013. The legislation creates the means by which a local scheme to replace Council Tax Benefit. A localised scheme sees the financial risk transferred from Central Government to Local Government.

- 1.2 In addition to these changes, there is continued uncertainty over the national economic position the Government's Autumn Statement on 5th December 2012 gave an indication of the overall financial situation for the economy. However those headline figures will need to be worked up into individual grant settlement figures for each Local Authority. Current indications are that due to the scale of the changes, these figures may not be known until 19th December 2012.
- 1.3 The impact of these changes is set out below with the overall impact on the Council's current budget timetable for 2013/14 set out in paragraph 5 below.

2. LOCAL SUPPORT FOR COUNCIL TAX SCHEME

- 2.1. The Local Government Finance Act 1992 (as amended) includes proposals for CTRS to replace Council Tax Benefit. As previously advised, CTRS will operate as a discount under existing Council Tax regulations and local Councils are required to design their own schemes. Members have considered a number of reports on this issue over the previous months, and the proposal is that the existing benefit scheme is replicated as far as claimants are concerned albeit acknowledging that there are significant technical and accounting changes arising from the change of the award from a 'benefit' to a 'discount'.
- 2.2. Copeland Borough Council has consulted on its proposed scheme and the Executive considered a full report into the consultation feedback at its meeting of 13th November 2012. The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012 came into force on 27 November 2012. They contain provisions for billing authorities to introduce their own schemes for CTRS to replace Council Tax Benefit. CTRS will operate as a discount under existing Council Tax regulations.
- 2.3. In summary, the main elements of the proposed scheme are as follows:
 - The current CTB scheme does not have any direct financial impact on the council. It is a demand led benefit, where the Government fully refunds the Council for the benefit it has paid out. In contrast, CTRS will be a Council Tax discount based scheme (like single person discounts). This will reduce the tax base and therefore the Council Tax collected by the Council for itself and its preceptors. To compensate them for the lost Council Tax, the Government will provide a grant, but only at 90% of the cost of current CTB.
 - Pensioners are protected through a prescribed national scheme that must form part of any CTRS Scheme. The new CTRS will continue to be demand led, but with a fixed grant from Government it transfers the risk of any growth in caseload numbers to local government. If the costs of the CTS overrun, it cannot be amended "in year". The overrun costs have to be borne by the Major Preceptors. Conversely, it reduces the cost of the scheme should the caseload fall.

- Because the Executive has previously recommended the “status quo”, this will not mean requesting payment of increased Council Tax liabilities from all working age claimants, many of whom are not accustomed to paying Council Tax, as currently **69.01%** of them are awarded 100% benefit.
 - Local councils have flexibility in how the 10% reduction in funding can be managed, and can make savings in other areas of the budget in order to maintain the existing benefit scheme. Councils must have due regard to their statutory responsibilities in the design of any local scheme e.g. Child Poverty Act 2010, Disabled Persons Act 1986, Housing Act 1996, S149 of the Equality Act 2010 etc. Any new scheme should encourage people to work and, in particular, should not act as a disincentive to working. The proposed scheme for Localised Support for Council Tax is attached as Appendix A.
- 2.4. During 2011/12, the Council spent approximately £5.5m (subject to final audit) on Council Tax Benefit. For 2012/13 this figure is forecast to remain almost the same based on our caseload remaining at very similar levels over the last twelve months and Council Tax rises being low, based on major preceptors freezing their council tax in 2012/13.
- 2.5. CTRS operates through Council Tax discount legislation, it reduces the tax base: expressed as a number of ‘Band D’ properties. Billing Authorities and major precepting authorities (County and Police) are compensated through direct grant payment (albeit at 90% of current cost). It is clearly not feasible for the DCLG to pay the 10,000 national parish and town councils in the same manner. The original funding proposals excluded consideration of the effect on Parishes. However, recently issued guidance suggests that they will be affected in the same way as Copeland Council and its preceptors.
- 2.6. CTRS will reduce the tax base in some parishes (depending on where claimants reside). This will increase the Council Tax element attributable to the parish precept. This is because the parish Council Tax is the parish precept (the total amount the parish raises each year from its Council Tax payers) divided by its tax base. The council has previously informed Parish Councils that it wished to pass onto them the full grant funding awarded by the Government, in the region of £67k. This would be allocated to each parish on a pro-rata basis determined by the amount of CTB claimants in their area.
- 2.7. There are also substantial one-off costs of implementation e.g. new software to administer the local scheme. The Government pledged to fund any new financial burdens for local authorities created by Government requirements. Therefore, new burden funding of £84,000 has been paid to all Billing Authorities for CTRS. Further new burden funding will be available during 2013 /14 and 2015 / 16 but the basis of distribution is to be finalised.
- 2.8. As CTRS reduces Council Tax liability by way of a discount, rather than benefit, this may remove some of the stigma of claiming it: thus increasing demand. Whilst this is good from an economic point of view, it pushes up the costs to the precepting councils. However, in the short term, discounts will continue to be means tested.
- 2.9. The Council receives a direct grant from the DWP for administering Housing Benefit (HB) and Council Tax Benefit (CTB) that is separate to any subsidy reclaimed. For the first year

following the abolition of CTB this grant will remain in place although it has been subject to a further, in a series of, national annual reductions of **4.4%**. This grant will also be affected (reduced) in the future by the development of the Universal Credit and Single Fraud Investigation Service (SFIS). It has recently been announced that the introduction of the SFIS will be delayed until April 2014 for those (such as CBC) not taking part in the pilot programme. It is not currently anticipated that CBC will be significantly affected by the move to Universal Credit until April 2014.

2.10. The work in administering CTRS will be just as great as administering CTB. However, the administration efficiencies currently achieved by dealing with CTB and Housing Benefits in the same system will continue in the first year of CTRS. This is because CTRS will remain as a means tested benefit. The calculation will be based on the claimant and households assessable income compared to their applicable amount. The applicable amount is based upon allowances and premiums, which reflect the day-to-day living expenses of the claimant and their family. The Copeland scheme will retain the existing applicable amounts currently used when calculating Council Tax Benefit. Current income disregards, including Child Benefit, Child Tax Credit, Disability Living Allowance and Attendance Allowance will also remain.

2.11. On the 16 October 2012, the Department for Communities and Local Government announced it was to provide £100m of transitional funding, nationally, to support the move to the localisation of CTRS. Although the Government has previously emphasised flexibility for authorities to determine the appropriateness of their local schemes, this grant presents a financial incentive to authorities to implement certain criteria within the local schemes it adopts.

2.12. The grant is available to councils who choose to design their local schemes so that:

- Those who would be on 100% support under current council tax benefit arrangements pay between zero and no more than 8.5% of their council tax liability;
- The taper rate (i.e. the rate at which support declines as people's income increases) does not increase above 25%; and
- There is no sharp reduction in support for those entering work for claimants currently entitled to less than 100%, support.
- Although not one of the scheme criteria the Government have stated they would not expect local authorities to impose large additional increases in non-dependent deductions.
- The grant will be payable in March 2013 to those authorities who adopt schemes that comply with criteria set by the Government. Copeland Borough Council should qualify for this grant and, if that is the case will, receive £17k.

2.13 There is a considerable amount of work still involved in implementing the new Scheme for Council Tax , even (as recommended) one which mirrors the existing Council Tax Benefit Scheme. The following tasks will be required:

- Software Implementation – design, delivery, testing, training and suitability for producing appropriately discounted Council Tax bills and CTRS notifications in February 2013.
- Data Protection / Information Sharing – regulations and procedures need to be in place to deal with a ‘means-tested’ Benefit turning into a Council Tax Discount.
- Implementation – staff training, administration forms, procedures, partner agreements, data-sharing, counter fraud measures, anti-poverty measures etc.
- Ensuring that officers have the appropriate delegated powers in place to administer and operate CTRS when it comes into force.
- Publicity, advice, guidance and communication.
- Putting in place robust financial and management reporting tools to ensure sound budgetary processes.

3. Considerations

- 3.1 The fixed grant for 2013/14 will be based on DWP forecasts of future spend. Unfortunately, this assumes that expenditure on CTRS will be less in future years than it is now based on Government predictions of an anticipated fall in caseloads. This assumption is currently the subject of challenge by the Local Government Association on behalf of all Local Authorities but as final grant allocations are not expected until the end of January 2013 when these forecasts of future spend will be updated; the indicative amount of **£623,000** loss of grant on which the July report was based and consultation was undertaken remains unchanged.
- 3.2 As stated in July the impact of this cut in grant means that the Council faces an estimated financial pressure, currently around **£140,000**. Growth in claimant numbers and changes in government projections could increase this pressure further. The pressure on Cumbria CC and the Police would be **£483,000** in Copeland alone ignoring any other decisions across the County as the Council and its preceptors have sought to make up the shortfall and protect current CTB award levels.
- 3.3 To enable the Council’s policy intention and address the shortfall in funding, the Council indicated that it would also be implementing a number of changes to certain council tax exemptions and discounts from April 2013.
- 3.4 It is anticipated that these will raise the estimated savings by changing charging policies in respect of these properties. As the final grant settlement remains unclear, a separate report outlining the detail of these changes will be prepared.
- 3.5 The cost of helping those on low incomes to meet their Council Tax liability becomes a local decision and falls on the Council Tax precepting authorities (County Council, District Council and Police Authority).
- 3.6 The timescale for implementation is very challenging. Software suppliers of existing Revenues and Benefits proprietary systems face a severe challenge to design, test and release a new system that will, initially, be a hybrid of the current systems to allow the flexibility required by the different Local Authorities yet avoid duplication of work with

existing Housing Benefit claimants. The system must be capable of producing Council Tax Bills, inclusive of CTRS discount and separate notification letters, during early March 2013. In order for this to take place the software must be available for testing by early February 2013.

- 3.7 In line with the Government's statement of intent, customers already receiving council tax benefit will not be required to reapply for CTRS. However, a review process may be introduced to ensure all requests for CTRS are updated.
- 3.8 The current Council Tax Benefit scheme includes adequate work incentives e.g. lone parent and extended payment 'run-ons' to allow claimants returning to work to continue to claim Benefit for a period of up to 4 weeks by continuing these provisions into the CTRS Copeland will in part be addressing the Government's requirement to include work incentives in local schemes.
- 3.9 The Council is required to have due regard to its statutory responsibilities in the design of any local scheme e.g. the Child Poverty Act 2010, the Disabled Persons (Services, Consultation and Representation) Act 1986, the Chronically Sick and Disabled Persons Act 1970, the Housing Act 1996, S149 of the Equality Act 2010 etc. Again, it is thought the current scheme includes adequate protection for vulnerable persons e.g. a range of premiums and disregards as part of the assessment process, statutory disregard for war widows/widowers in receipt of war pensions, local war widows/widowers funding supplement etc. The current scheme has also been through DWP Equality Impact Assessments.
- 3.10 Counter-fraud work is likely to be problematic in the longer term as DWP create/develop their Single Fraud Investigation Service (SFIS) that will not cover CTRS or discount fraud. Local Councils will be responsible for ensuring counter fraud responsibilities are met. The postponement of the introduction of SFIS until April 2014 allows the opportunity to continue to utilise the skills and experience of the Copeland's counter-fraud staff in the first operational year of CTRS.

4. COUNCIL TAX - CHANGES TO DISCOUNTS

- 4.1 The Executive will consider a report into the changes that the Government has proposed to localise to Local Authorities, such as removing discounts on Empty Properties and Second Homes, and has made recommendations which are currently out to Consultation.
- 4.2 On Friday 30th November 2012 the Council Tax (Exempt Dwellings) (England) (Amendment) Order 2012 and the Council Tax (Prescribed Classes of Dwellings) (England) (Amendment) Regulations 2012 came into force.
- 4.3 The Council Tax (Exempt Dwellings) (England) Order 2012 abolishes Classes A and C relating to empty homes in the Council Tax (Exempt Dwellings) Order 1992 so that homes in these classes are no longer exempt from council tax and billing authorities can now charge council tax.
- 4.4 The Council Tax (Prescribed Classes of Dwellings) (England) (Amendment) Regulations 2012 prescribe certain classes of empty properties which would normally benefit from a

50% discount under section 11(2)(a) of the Local Government Finance Act 1992 in relation to which billing authorities can choose what level of discount to set.

- 4.5 This would be a suitable means of helping to offset the cost of a local scheme as the additional income, would be shared between the precepting authorities (including parish councils) in the same proportions they are funding the local scheme. A separate report is prepared to put forward recommendations to the Executive for raising additional council tax income.

5 Remaining Milestones

Three key target dates remain to be reached in the process to introduce CTRS. They are as follows;

EVENT:	DATE:	SCHEME:
Full Council	22 nd January 2013	*CTRS Scheme Approval
Full Council (special)	21st February 2013	Tax Setting
Copeland CTRS Effective Date	1 st April 2013	'Go Live'

*Must be before 31st January 2013

6 Risks

6.1 The Key risks are:

- The challenging timetable and lack of significant additional resource leading to a poorly designed and implemented local scheme. This strengthens the case for proposing to adopt the existing scheme;
- Risk of the software not being available in time or not being able to deliver the CTRS design. Further strengthens the case for proposing to adopt the existing scheme and the Partnership's Services Performance Manager sits on the Capita Design Group.
- If the deficit reduction position worsens, the next Government Comprehensive Spending Review (CSR) may well reduce the CTRS grant from 2015-16 onwards.

7 CONCLUSIONS

7.1 These figures are based on current Council Tax Benefit expenditure, indicative funding proposals (subject to consultation) and discount trends over the financial year 2011/12.

7.2 CTRS will have a high political profile. Full Council Approval will be required, to adopt the Local Scheme, before the deadline of 31st January 2013 otherwise the Government will impose a 'default scheme' which, whilst similar to the existing scheme, will grant reduced discounts to working age applicants as compared to the "status quo" scheme envisaged by Copeland Borough Council. As well as presenting hardship to those disadvantaged within the community this would also present considerable additional council tax collection problems.

- 7.3 The wider welfare reform changes currently being implemented (e.g.) the changes to Local Housing Allowances have already left a number of claimants reliant on Housing Benefit with shortfalls towards paying their rent and the planned changes around under-occupation in the social rented sector as well as the introduction of the Benefit Cap in April 2013 will leave many more claimants with further shortfalls in rent to pay. Imposing further reductions under the CTRS scheme, particularly where claimants have no option to move to more affordable accommodation, may lead to worse outcomes for claimants and for the Council in dealing with the consequences of these changes. Retaining a “status quo” scheme, even if only for one year can only assist customers in these difficult times.
- 7.4 Consideration will need to be given to the financial implications of the local scheme based on entitlement determined during the first year 2013/14 and the position will need to be reviewed for future years.

8. STATUTORY OFFICER COMMENTS:

The Monitoring Officer’s comments are: Incorporated in the report

The Section 151 Officer’s comments are: incorporated in the report

9. HOW WILL THE PROPOSALS BE PROJECT MANAGED AND HOW ARE THE RISKS GOING TO BE MANAGED?

A full risk log is retained separately for the CTRS scheme. There is a risk that Government announcements will not be made in a timely manner or will contain errors due to the significant amount of change being proposed. This in turn increases the risk on CBC to get the budget projections correct. Project and risk management will be carried out and will be on-going throughout the budget process.

10. WHAT MEASURABLE OUTCOMES OR OUTPUTS WILL ARISE FROM THIS REPORT?

A formal budget and Council Tax proposal can be made to Council by the deadline of ¹ 12th February 2013.

11. BACKGROUND DOCUMENTS:

Background documents: Various reports into CTRS have been considered by Members including reports to the Executive on 10th July 2012 and 13th November 2012.

Appendix A – Proposed Scheme

An outline of Council Tax Benefit and Localised Support for Council Tax

Council Tax Benefit (CTB)

Council Tax Benefit (CTB) was introduced with effect from 1st April 1993 and is one of two benefits currently administered by Billing Authorities (district councils in two tier areas).

The other is Housing Benefit.

Council Tax Benefit (CTB) is an income-related benefit, introduced in April 2003 and administered by Local Authorities (district councils in two tier areas), to help people on low incomes pay their council tax.

Generally, it mirrors the Housing Benefit scheme in the calculation of claimants' applicable amount, resources and deductions in respect of any non-dependants.

There are two types of Council Tax Benefit:

- Main Council Tax Benefit; and
- Second Adult Rebate.

Main Council Tax Benefit can help people who are liable to pay the council tax whether in or out of work. It is paid by crediting a person's council tax bill.

Those in receipt of passported Department for Work and Pensions (DWP) ¹benefit can get up to 100% help: subject to any non-dependant deductions that may be appropriate. People not in receipt of passported DWP benefit have their benefit assessed in a similar way to Housing Benefit, but the maximum Council Tax Benefit is reduced by 20% of any net income above their applicable amount. People who are liable for the council tax but who have capital in excess of £16,000 are not entitled to Council Tax Benefit.

Help is also available to people who are solely liable for the tax and who have a second adult in their households who would normally be expected to contribute to the council tax bill but cannot afford to do so. These are called Second Adult Rebates and they are assessed on the basis of the financial circumstances of the second adult, not of those of the liable taxpayer. Rebates of up to 25% may be awarded.

Where a person is entitled to both main Council Tax Benefit and second adult rebate, the Local Authority is required to make a "better buy" calculation and award the liable person whichever amount of benefit is the greater.

Full time students are not generally liable for council tax because most live in accommodation that is exempt. Where liability does arise, Council Tax Benefit is not payable on the same grounds as for Housing Benefit (except to the same prescribed vulnerable groups). If a person lives in a property valued in bands F, G or H the Council Tax Benefit may be restricted to that for a Band E property.

¹ Passported DWP working age benefits are Income Support, job Seekers' Allowance (Income Based) and Employment Support Allowance (Income Related).

APPENDIX 1

CTB is means-tested benefit. Those in receipt of CTB get their Council Tax liability reduced in full, or in part. No cash payments are made by the Council. Council Tax income is foregone by the Billing Authority which is then reimbursed in full (with some minor exceptions) as benefit subsidy from the Government. Neither the County Council nor the Police Authority finances are impacted by CTB.

The existing Council Tax Benefit Scheme includes a set of premiums and disregards designed to help protect the most vulnerable claimants.

A plain English guide to CTB is available on the Citizens' Advice Bureau web site:

http://www.adviceguide.org.uk/england/benefits_e/benefits_help_if_on_a_low_income_e w/help_with_your_council_tax_council_tax_benefit.htm

Localised Support for Council Tax (LSCT)

Localised Support for Council Tax (LSCT) will mean, from April 2013, claimants getting a Council Tax discount rather than Council Tax Benefit. For the claimant this may well amount to the same thing: dependent on the Billing Authorities decisions in designing their local scheme. However, LSCT has some very significant differences from CTB. The main ones are:

- Due to the reduction in the liability being achieved through the Council Tax system (by way of a discount) rather than a benefit, the cost of the discount is a cost to those councils funded by the Council Tax i.e. the County Council, the Police Authority, the District Council and local Parish Councils. The County Council and the Police Authority will be key bodies to consult on the draft local LSCT scheme. The impact on parish is considered within the main body of this report;
- Council Tax discounts are set by the Billing Authority (the Billing Authority is the council that sends out the Council Tax bill: in a two tier area like Cumbria, this is the District Council i.e. Copeland Borough Council). This means, as Billing Authority, Copeland sets LSCT scheme that covers the district. Whilst the County Council and Police Authority will be financially affected by the scheme that Copeland adopts and will be statutory consultees, the decision on the scheme is Copeland's alone;
- Affected councils will each receive a direct cash grant. However, this will only be for about 90% of the previous Council Tax benefit income;
- CTB is a national scheme with no local discretion. LSCT will be a locally determined scheme for each local authority except the Government will require that all existing pensioner claimants are fully protected;
- In designing a scheme councils are expected to have due regard to their statutory duties with regard to vulnerable groups.