

Report to Cabinet

Subject: Local Government Finance Reform – Council Tax Reduction Scheme

Date: 6th December 2012

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Wards Affected

Borough-wide

Purpose

This report details the results of the recently completed Council Tax Reduction Scheme consultation and proposes recommendations for the final scheme structure and their financial implications and asks Cabinet to recommend that the Council:-

1. Formally adopts the proposed Council Tax Reduction Scheme (CTRS) as specified in Appendix B for all claimants for the financial year 2013/14. The recommendations for inclusion in the new scheme for Working Age claimants are detailed in this report.
2. Applies for the CTRS transitional grant for 2013/14 when regulations allow.

Key Decision

This is not a key decision.

Background

1. On 17th February 2011 the Government published the Welfare Reform Bill, containing provisions for the abolition of council tax benefit paving the way for new localised council tax support schemes.
The Welfare Reform Bill was enacted on the 8th March 2012 with The Local Government Finance Bill receiving Royal Assent on 1st November 2012 becoming the Local Government Finance Act 2012 (LGFA 2012).

The LGFA 2012 requires Billing Authorities to design, consult on and implement a Council Tax Reduction Scheme to replace the current Council Tax Benefit scheme on 1st April 2013. Any such scheme must be delivered with a 10% reduction in Government funding but must protect pensioners.

Proposal

2. The LGFA 2012 Act requires Billing Authorities to establish local schemes by 31st
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January in the preceding financial year to which they apply i.e. schemes for 2013/14 will need to have been formally adopted by the Council by 31st January 2013.

In July of this year options for such a scheme and their financial implications were discussed. A significant requirement of any scheme is that all claimants who are of pensionable age should not be any worse off than under the current regulations.

Gedling's current council tax benefits claim caseload is just under 10,000 with the caseload split 50:50 between pensioners and working age claimants. With pensioners having to be protected, the 10% cut in funding, (approximately £100,000 for Gedling) would mean that working age claimants would be approximately 20% worse off.

With a view to broadly maintaining the current scheme and, wherever possible, basing the scheme on the Government's CTRS Default scheme regulations, consultation was proposed to concentrate on making small changes to generate some savings to meet the funding gap, reduce administration and also to help the Council meet its obligations regarding work incentives.

In accordance with the (at that time) proposed regulations the Council commenced a formal consultation process on 23rd July 2012 in line with the Government's code of practice on consultation over a period of 12 weeks ending on 15th October 2012.

Councils are required to consult any major precepting authority which has power to issue a precept to it and other such other persons we consider to be likely to have an interest in the operation of the scheme. The following consultation process was agreed:

- To write to Nottinghamshire County Council and the Police and Fire Authorities.
- To write to each of the parish councils within the Gedling area.
- To individually write to the two MP's within the Gedling area.
- The commissioning of an external survey specialist, Snap Surveys, for a direct mailing to all (5,000 households) of Gedling's current Working Age claimants to include a consultation booklet for completion.
- An online survey through the Council's website.
- A two-page article in the Council's "Contacts" magazine that is delivered to all 51,000 households.
- Survey booklets available for completion at the council's offices.
- Officer advice to be available at the Council's road-shows "The Gedling Conversation".
- Direct mailing to the Citizens Advice Bureau.
- Liaison with the Council's supplier of software for the Revenues and Benefits system.

The consultation questions are as detailed in Appendix A along with a summary of the survey responses.

Generally, there are few responses to the consultation that would necessitate radical changes to the proposals. With regards to the savings limit, responses indicate some support for making the savings limit higher than £6,000. Whilst the recommendation is for it to remain at £6,000, savings figures have been calculated for the savings limit at

£8,000 and £10,000 for members to consider.

For the Second Adult Rebate Scheme whilst there was equal support for its removal and for its retention there was a high "Don't know" response. Nationally and locally the SAR scheme has a very low take-up and it is generally recognised that this is because it is poorly understood and over-complicated. The high don't know response seems to further reinforce this and it is therefore recommended that it does not form part of the council's CTRS for 2013/14.

In respect of the non-dependant deductions, it would appear that most people favour a flat-rate deduction higher than £5.00 per week and it is therefore proposed to recommend a flat-rate deduction of £7.50 per non-dependant per week, however, alternative rates could be considered by members at £5.00 and £10.00 per week.

Current deductions are zero, £3.30, £6.55, £8.25 and £9.90 depending on the financial circumstances of the non-dependant. Under current Council Tax Benefit regulations no non-dependant deduction is made where claimants or their partner are in receipt of any element or any rate of Disability Living Allowance Care. This provision will continue under the proposed CTRS for 2013/14.

A flat-rate is thought to be easier to understand for claimants but will also contribute to less administration costs in terms of training staff, advising customers and in the processing of the claim. It should be noted here that some households will be better off under this proposal and that current deduction rates are scheduled to increase on 1st April 2013 in accordance with the government's annual uprating.

The proposed changes to the backdating of claims are mainly to bring the process into line with the current regulations for pensioners but will also serve to reduce administration costs as the process is somewhat lengthy. Currently, there is no requirement to show "good cause" for pensioners when requesting a back-date but there is for working age claimants. Further, pensioners can request a back-date for three months but this is six months for working age claimants. It is proposed to make the process for working age claimants to be the same as for pensioners. The three month period for back-dating is a maximum and the claimant would have to show that their financial circumstances were the same for the backdate period as they were at the date of claim. There is clear support for this alignment and it is therefore recommended that working age claimants be able to make a backdated claim for three months without having to show "good cause" and that this forms part of the Council's CTRS.

With regards to the extended payments there is clear support for making this longer than the current 4 weeks. Such payments have always been intended to act as a buffer for those people coming off the benefits system and returning to work. As most employers pay monthly in arrears there would seem to be some sense in extending this period so that the financial effect of returning to work is further cushioned. This would be in line with the Government's aim of creating work incentives within such schemes. It is recommended that the period be extended to 12 weeks but alternatives for members to consider are for 6 and 8 weeks. This would be a cost for Gedling's scheme and the estimated costs are summarised below.

There is clear support for a Hardship fund. There are many other changes to the

benefits system commencing on 1st April 2013 and there are already a number of options open to the Council to help claimants financially e.g. Discretionary Housing Payments, and there is likely to be further help under the pending Local Welfare Assistance Scheme. Some households may suffer greater financial strain than anticipated as they may fall into a number of the different planned benefit reductions. Consequently, a hardship fund would help in these cases but would also act as a contingency for matters that may arise that we can not, at this stage, foresee. It is recommended that a hardship fund of £25,000 be created.

If the Council does not agree a local scheme then the Government's default scheme will be imposed and this is almost identical to the current council tax benefit regulations. In such a scenario, the default scheme will not achieve the 10% savings and this will have to be met from other council taxpayers through the council tax, by savings from other expenditure, or other income sources.

Councils are able to amend their own local scheme but can not do so within any financial year. If amendments are desired for future years there is the possibility that further consultation would be required.

Following discussions with the Portfolio holder after consultation the preferred recommendations are included in the proposed draft scheme attached at Appendix B.

Impact of localised council tax support schemes

The council tax reduction scheme will operate as a discount so that less council tax income is receivable by all authorities. To compensate for this loss of income all authorities, including major precepting bodies, will receive a grant. Currently, Council Tax Benefit is administered locally but is funded centrally and any changes in demand are simply accounted for at the end of the financial year through the subsidy arrangements.

However, the new funding arrangements will no longer be demand led, there will be a fixed grant allocated for the year and this will mean that any increase in demand will represent a significant risk to all authorities.

The Government is currently consulting local authorities on the proposed distribution mechanism which, for Gedling Borough Council, will appear to result in the shortfall being in excess of 10%.

Last year the amount of council tax benefit administered and awarded by Gedling Borough Council was approximately £7.8m. Some early modelling based on the Government's proposed distribution mechanism suggests that the shortfall between the notional grant and the amount of council tax benefit/support awarded could be up to £1m, £100,000 for Gedling.

This would equate to a 12.7% cut in expenditure rather than a 10% cut. For Nottinghamshire as a whole the shortfall is estimated to be in excess of £13m.

The Government does not intend to pay grant directly to parishes, instead a notional amount will be incorporated within the billing authorities grant and it will be up to the billing authority, with discussions with the parish councils, to decide how this portion of the grant will be administered.

Alternative Options

3. The alternative options are discussed in the proposal above and their financial implications set out below. However, the scheme to be recommended is highlighted.

Financial Implications

4. Estimations of the savings that the Council is able to make with the proposed amendments to the scheme are summarised below:

	Capital limit	Non-dep deduction	2 nd Adult Rebate removed	Total savings
1	£6,000	£5.00	Yes	£116,801
2	£6,000	£7.50	Yes	£165,691
3	£6,000	£10.00	Yes	£210,541
4	£8,000	£5.00	Yes	£100,416
5	£8,000	£7.50	Yes	£149,360
6	£8,000	£10.00	Yes	£195,560
7	£10,000	£5.00	Yes	£91,187
8	£10,000	£7.50	Yes	£136,773
9	£10,000	£10.00	Yes	£187,012

The current cost of extended payments for a four week period is £20,000 per year. Therefore the estimated costs of extending such payments to six weeks is £30,000, 8 weeks £40,000 and to 12 weeks £60,000.

The recommended option is highlighted in bold above and would therefore generate savings of £165,691 less £60,000 for the extended payments, a total saving of £105,691.

On 16th October 2012 the Department of Communities and Local Government announced an additional £100 million of funding for councils “to help support them in developing well-designed council tax support schemes and maintain positive incentives to work...and to encourage best practice” The voluntary grant will be available to councils (billing and major precepting authorities) who choose to design their local schemes so that:

- those who would be on 100 per cent support under current council tax benefit arrangements pay between zero and no more than 8.5 per cent of their council tax liability;
- the taper rate does not increase above 25 per cent;

- there is no sharp reduction in support for those entering work - for claimants currently entitled to less than 100 per cent support, the taper will be applied to an amount at least equal to their maximum eligible award;
- There is also an expectation that non-dependant deduction increases would not be excessive.

The above will apply to claims in payment at 1st April 2013 or for new claims after that date. For claimants who would have qualified for 100% support under the Government's default scheme their increase in council tax payment will be limited to no more than 8.5 per cent.

The amount of funding for which councils will be eligible to apply and the timescales and process for making an application will be published shortly. It is expected that the Council will be able to make an application after 31st January 2013 (the date by which a scheme must have been formally adopted by the Council) and that funding will be paid in March 2013.

In the DCLG October 2012 paper the distribution amounts of the grant for Gedling is shown as:

Gedling	£18,864
NCC	£139,619
Police	£19,472
Fire	£8,155
Total	£186,110

The only part of the recommendations of Gedling's own proposed scheme that may prevent an application for the grant being successful is in respect of those who would be on 100 per cent support under the pending default scheme but would pay more than 8.5 per cent of their council tax liability.

The best estimate calculation of cost to the Council where Working Age claimants currently getting 100% Council Tax Benefit would be restricted to no more than an 8.5% increase next year is £74,742. (where the recommended scheme is used). Clearly, if the Council decides to adopt one of the variants of the scheme the cost of restriction would be different but in most cases less.

There is an unknown element here. Commonly called "pass-ported" cases (e.g. claimants on JSA) are simply notified to the Council by the Department of Works and Pensions and CTB is currently automatically granted at the 100% rate. However, the Council does not have any details of the capital held by these claimants and can not therefore estimate how many cases would be more than 8.5% worse off. There are currently over 3,000 such cases and it is considered a reasonable assumption that there would be few pass-ported cases with capital held being in excess of £6,000.

It is therefore recommended that the Council includes the 8.5% restriction for current CTB claims in its Council Tax Reduction Scheme for the 2013/14 financial year only, irrespective of whether a transitional grant claim is made.

Further, it is recommended that a claim for the DCLG transitional grant be made after 31st January 2013 or as soon as regulations allow. If a grant claim is made but it is deemed that the proposed CTRS scheme does not meet the criteria and a grant is not awarded it will be too late for the Council to amend the CTRS scheme for 2013/14. In this scenario there will be a cost to the Council of £74,742.

In summary, in 2011/12 the total amount of Council Tax Benefits administered by the Council was £7.9m and estimates so far received indicate the funding for 2013/14 will be £6.9m, a short fall of £1m.

It is also considered that there is likely to be increased Council Tax collection costs due to the changes proposed. Consequently, it is anticipated that an additional member of staff would be required and on cost estimates would be approximately £20,000 per year.

There is also the hardship fund cost of £25,000 to consider.

The proposed CTRS will save £165,691 less £60,000 for extended payments at current benefit support levels and this can be accommodated within the savings made by the Council Tax technical reforms.

If the Council chooses to include the restriction to no more than an 8.5% increase in its CTRS this will cost £74,742 but could be offset by a successful transitional grant claim of £186,110.

Appendices

- 5 Appendix A Council Tax Reduction Scheme Survey Results Summary
- Appendix B Gedling Borough Council's Council Tax Reduction Scheme – to follow.
- Appendix C Equalities Impact Assessment

Background Papers

- 6 None.

Recommendations

That Cabinet endorses the proposals set out in the report and:

- a) Recommends that the Council formally adopts the proposed Council Tax Reduction Scheme (CTRS) as specified in Appendix B for all potential claimants for the financial year 2013/14. The main points for inclusion in the new scheme for Working Age claimants should be:
- No entitlement to CTRS where claimants have in excess of £6,000 in capital.

- A flat rate deduction from a claimants CTRS entitlement of £7.50 per week be made for each non-dependant in the claimants household irrespective of the non-dependants financial circumstances or status.
 - That a Second Adult Rebate Scheme does not form part of the proposed CTRS.
 - Where a claimant applies for their CTRS entitlement to be back-dated there is no requirement to show “good cause” (provided their financial circumstances remain the same) and the maximum period for back-dating is three months.
 - That entitlement to extended payments is increased from the current four week limit to 12 weeks.
 - The Council creates a hardship fund of £25,000 for the CTRS.
 - That those claimants who would be on 100 per cent support under current council tax benefit arrangements at 31st March 2013 pay between zero and no more than 8.5 per cent of their council tax liability.
- b) Recommends that the Council approves the application for the CTRS transitional grant for 2013/14 when regulations allow.
- c) Authorises the Corporate Director and Section 151 Officer, in consultation with the Leader of the Council, to make any drafting or other minor editing changes to the scheme to aid administration.

Reasons for Recommendations

- 7 The Local Government Finance Act 2012 requires the Council to formally adopt a Council Tax Reduction Scheme by 31st January 2013 to be administered from 1st April 2013 onwards. Funding for such a scheme must be delivered with a 10% cut but pensioners must not be any worse off under a new scheme. This means that Working Age Claimants could suffer approximately a 20% cut in their Council Tax support requiring many to pay where they have not been previously required to pay.

Council Tax Benefit claimants are recognised as vulnerable members of the community and it is proposed that the scheme recommended above would help protect working age claimants. The recommended scheme has amendments to the current scheme that allow for some savings to offset against the funding cut but also allow some administrative savings where it is recognised that these are needed.

The proposed scheme will therefore allow some savings to be made, more if the application for a transitional grant is made, with the remainder of the funding cut being accommodated by changes to Council Tax discounts and exemptions, the technical reforms. This will help the Council in achieving the requirements of the new Act without having to find the savings in front-line services or in other areas of the Council.