

**Meeting: EXECUTIVE**

**Council Agenda Item:**

**3**

Portfolio Area: Resources

**Date: 21 JANUARY 2014**

**COUNCIL TAX SUPPORT SCHEME 2014-15**

**KEY DECISION**

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**1. PURPOSE**

- 1.1 To update Members on the local Council Tax Support (CTS) scheme implemented from April 2013.
- 1.2 To recommend to Council a local CTS scheme for 2014/15.

**2. RECOMMENDATIONS**

- 2.1 That Council be recommended to adopt the 2014/15 CTS Scheme proposed within this report (2014/15 Scheme attached at Appendix A).
- 2.2 That the Overview and Scrutiny Committee submit any comments on the scheme direct to Council.

**3. BACKGROUND**

- 3.1 The Government made provision within the Local Government Finance Act 2012 to replace the current national Council Tax Benefit (CTB) scheme from 1st April 2013 with localised schemes for CTS devised by individual local authorities (LAs).
- 3.2 Prior to the introduction of the CTS scheme the Government would fully refund the Council for the eligible Council Tax benefit paid out. The new scheme however was a Council Tax discount based scheme (like single person discounts). The impact of the new scheme was to:
  - a) Reduce the taxbase and the Council Tax collected by SBC for itself and its preceptors.

- b) The Government provides a grant within in the Revenue Support Grant (RSG) and Non Domestic Rates (NDR) baseline funding for the discount given for CTS.
- c) The grant only represents 90% of the cost of Council tax Benefit paid via the subsidy system.
- d) The shortfall in grant funding would either be met from the Council and its preceptors or the Council needed to devise a CTS scheme that delivered the 10% saving.
- e) The fixed grant from central Government representing 90% of the CTS payment means risk is transferred to the preceptors when caseloads increase.
- f) Working age residents of Stevenage in receipt of benefit would now pay a proportion of their Council Tax bill for the first time.
- g) The Council must, in the following order, consult with major precepting authorities (i.e. Hertfordshire County Council and Police and Crime Commissioner for Hertfordshire), publish a draft scheme in such manner as it thinks fit, and consult such other persons as it considers are likely to have an interest in the operation of the scheme.
- h) A local CTS scheme cannot be revised for at least one financial year. A Billing Authority (SBC) must consider whether to revise or replace its scheme with another once on an annual basis.
- i) Any revision to a scheme must be made by the Council by the 31st January, immediately preceding the financial year in which it is to take effect and will require consultation with those affected. Additionally, in future, consideration should be given to providing transitional protection where the support is to be reduced or removed.

### **3.3 CTS Scheme Attributes**

3.3.1 Councils have a duty to run a local CTS scheme within their area that must contain the following:

- a) Protection for pensioner claimants from changes to the CTS scheme. The protection for pensioner claimants means the 10% reduction in grant falls disproportionately on working-age claimants unless it can be met through other arrangements.
- b) Schemes must support work incentives. The DCLG Policy Statement of Intent does not give a recommended approach to be taken, but indicates the scheme should not contain features which create disincentives for claimants finding employment.

- c) Councils must ensure that appropriate consideration has been given to provide support for other vulnerable groups, including those which may require protection under other statutory provisions including the Child Poverty Act 2010, the Disabled Persons Act 1986 and the Equality Act 2010, amongst others.

### **3.4 Stevenage Principles adopted for CTS Scheme**

3.4.1 Last year the Council agreed that the level of funding cuts which related to the pensioner group of Council Tax Benefit claimants were not to be made at the expense of the remaining claimant population, however, any protections made to working age claimant groups would require the equivalent funding cuts to be met from the remaining unprotected working age claimants.

3.4.2 A number of options were considered:

- a) **Option one-** Replicate the current scheme, but reduce the amount of CTS paid to Working Age Claimants by 10%.
- b) **Option two -** As option one but with protection for Single parent or couple with the youngest child under five years of age.
- c) **Option three -** As option one but with protection for households with a disability premium on the benefit claim.
- d) **Option four –** As option one but with protection for Single parent or couple with the youngest child under five years of age households with a disability premium on the benefit claim.

3.4.3 The Executive agreed that Option one was to be the preferred option but wanted to seek views via a public consultation on the other options relating to protections as well. In addition, as part of the consultation with preceptors, officers were requested to explore the option of establishing a hardship fund to address any unintended consequences of implementing this proposal. Officers were also requested to liaise with other precepting bodies, on whose behalf the Council collects Council Tax, to make a fair contribution to the fund.

3.4.4 An equalities impact assessment was undertaken prior to the schemes inception, the main conclusion reached through the assessment being that the proposed CTS Scheme will have a negative impact on everyone receiving Council Tax Benefit, who is not of pensionable age. Everyone who is affected will have a reduction in the financial help they receive towards their Council Tax bills.

### **3.5 The Stevenage Scheme**

3.5.1 Funding the Stevenage scheme was a combination of a review of exemptions and discounts offered and an 8.5% liability charge to working age claimants. A number of discounts were reviewed and reduced for second homes and empty

properties. This was estimated to provide income of £406,627 as shown in the table below:

**Table 1- Exemptions changed 1 April 2013**

Type of discount / exemption and number of existing cases	Pre 1 April 2013	1 April 2013	Additional taxation yield
<b>Class A - uninhabitable (47 properties)</b>	Max. 12 month exemption – 100% discount	Max. 12 month exemption – 10% discount	<b>£17,741</b>
<b>Class C - Unoccupied and unfurnished (2,662 properties)</b>	Max. 6 month exemption – 100% discount	Max. 6 month exemption – 10% discount	<b>£385,313</b>
<b>Total Class A &amp; C</b>			<b>£403,054</b>
Less 2% bad debt *			(£8,062)
<b>Sub Total</b>			<b>£394,992</b>
<b>Second Homes (316 properties)</b>	10% discount	0% discount	£11,872
Less 2% bad debt			(£237)
<b>Total (3,025 properties)</b>			<b>£406,627</b>

- 3.5.2 Members agreed to reduce the liability charges and as a result of the reduction in discounts outlined above the cost borne by working age claimants was reduced from a 10% charge to 8.5%. The income now receivable was £297,570 as outlined in the table below.

**Table 2 – Scheme Design and Savings Liability Charged 1 April 2013**

	Scheme Proposals
1. Working age claimants to pay first 8.5% of Council Tax liability	<b>8.5%</b>
2. Estimated Council Tax collection rate	<b>70%</b>
<b>Net saving</b>	<b>£297,570</b>

- 3.5.3 The total shortfall on the scheme was £38,558 (SBC proportion £4,995) prior to the application of transitional funding which the Council could apply for on behalf of the three preceptors. This grant was £173,748 of which £22,509 related to SBC. The grant was given as a transition and only available for one year.

- 3.5.4. With all of the above changes taken into account a small net surplus was forecast. This surplus was to be ring fenced to mitigate any increases in caseload (number of claimants and value) and a lower than anticipated collection rate.

**Table 3 – Baseline financials 2013/14**

	<b>January 2013 Council Report</b> Baseline position based on report assumptions
CTS funding shortfall	£742,755
Increased revenue from Council Tax discount / exemption changes	(£406,627)
Recommended CTS Scheme Savings	(£297,570)
Shortfall	<b>£38,558</b>
Transitional funding grant (for an increase in caseload and average CTS spend per claimant)	(173,748)
<b>Net Surplus</b>	<b>(135,190)</b>

#### **4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS**

##### **4.1 The Review of the Current Scheme**

- 4.1.1 In determining whether any change is required to the current CTS scheme, a review has been undertaken of the financial assumptions. The projections for 2013/14 are broadly in line with those contained within the January 2013 report to Council. The net loss before transitional grant in 2013/14 is projected to be £20,987 compared to an original estimated loss of **£33,558**. When the transitional grant is applied there is a projected net surplus of £152,761 for 2013/14 which is shared between the preceptors as shown in the table below.

**Table 4 – Share of scheme surplus shared by each Preceptor Original and Projected 2013/14**

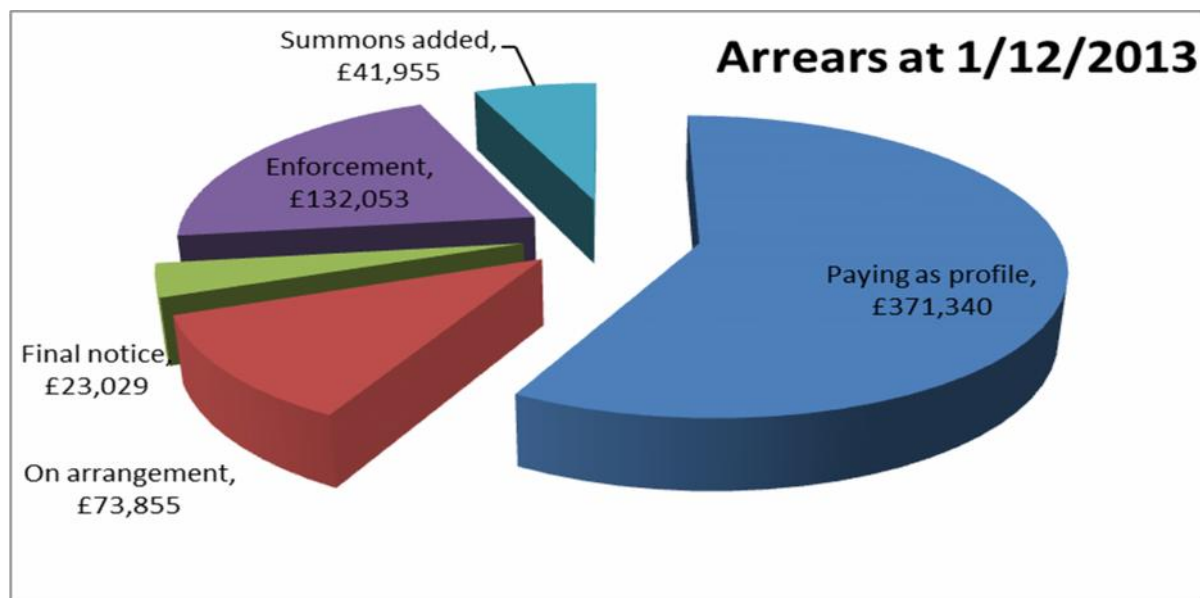
<b>Proportion of (Cost)/Surplus:</b>	<b>Assumed Yield (Report) £</b>	<b>Projected for 2013/14 £</b>	<b>Variance £</b>
Stevenage Borough Council	17,514	19,790	2,276
Hertfordshire Police Authority	13,733	15,518	1,785
Hertfordshire County Council	103,943	117,453	13,510
<b>Total</b>	<b>135,190</b>	<b>152,761</b>	<b>17,571</b>

- 4.1.2 The comparison between the original assumptions and the projection for the year are summarised in the table overleaf.

**Table 5 – Breakdown of scheme surplus shared by each Preceptor Original and Projected 2013/14**

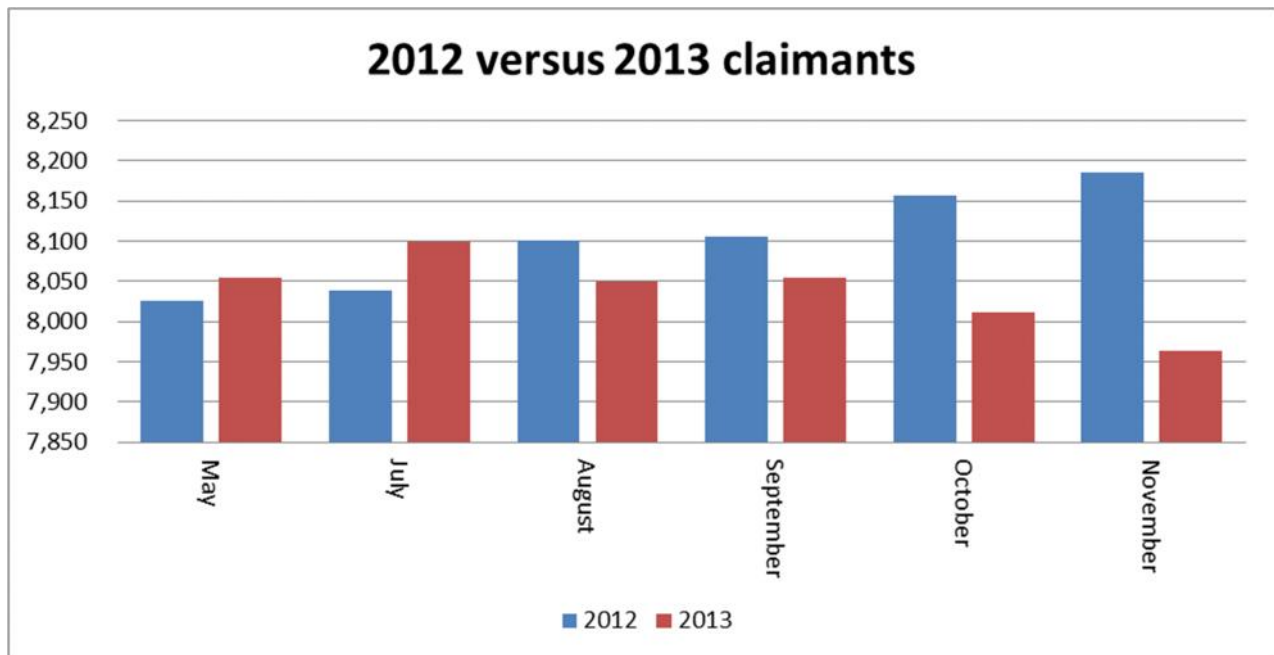
Type of discount / exemption and number of existing cases	Assumed Yield (Report) £	Projected for 2013/14 £	Variance £
<b>Empty Properties</b>	403,054	406,244	3,190
<b>Second Homes</b>	11,872	12,000	128
Total discount/Exemptions	414,926	418,244	3,318
Less 2% bad debt	(8,299)	(8,365)	(66)
<b>Total exemption/discount changes</b>	<b>406,627</b>	<b>409,879</b>	<b>3,251</b>
Non collectable CTS (28%)	(119,028)	(107,800)	11,228
CTS discount granted to all claimants	(6,903,091)	(6,900,000)	3,091
Reimbursed by the Government	6,576,934	6,576,934	0
<b>Net Cost</b>	<b>(38,557)</b>	<b>(20,987)</b>	<b>17,570</b>
Transition Grant	173,748	173,748	0
<b>Net (Cost)/Surplus Year 1</b>	<b>135,190</b>	<b>152,761</b>	<b>17,570</b>

4.1.3 The table above assumes that 30% of the 8.5% liability charged to working age claimants would not be collectable and therefore reflected in the tax base. An analysis of arrears for those in receipt of Council Tax Support shows that 74.2% of claimants are paying their council tax on profile or on arrangement, in excess of the original assumption of 70%. A 1% increase in collectability would equate to £3,850 potential income. The chart below shows all arrears for those residents in receipt of Council Tax Discount.



4.1.4 The 2013/14 original estimates assumed there would be a 1% increase in the CTS caseload. The report estimated £6.9Million of CTS discount for 2013/14 which is in line with the current projection for 2013/14. In November 2012 when the final 2013/14 tax base was calculated the case data for November

was used and the actual amount of CTS granted was slightly higher at £7Million and this amount was incorporated into the 2013/14 tax base. The chart below shows how the total caseload has fluctuated month on month.



4.1.5 An analysis of the caseload and the ratio between working age and pensioner caseload has also been undertaken. The data below shows that the working age claimants have remained at around 59% of the total case load. The risk is that if pensioner caseload was to rise disproportionately this would reduce the amount of liability collectable (8.5%) and increase the cost of the scheme.

**Table 6 – Percentage of caseload between Working Age and Pensionable 2012/13 and 2013/14**

Claimant Group	November 2012	May to March 2012/13	April to November 2013/14	November 2013
Working Age	59.41%	59.12%	59.91%	59.97%
Pensionable	40.59%	40.88%	40.09%	40.03%
Total	100.00%	100.00%	100.00%	100.00%

## 4.2 Projections for 2014/15

4.2.1 The projections for 2014/15 include two scenarios, firstly that there is a 1% increase in the CTS caseload and secondly as scenario one but with a 1.9% increase in Council Tax by all preceptors.

4.2.2 Both of the scenarios outlined above take into account the surplus projected for 2013/14 when assessing the sustainability. The projections are shown in the table below.

**Table 7 – Breakdown of scheme surplus shared by each Preceptor with 1% caseload growth and 1.9% Council Tax Increase 2014/15**

Type of discount / exemption and number of existing cases	Projected for 2014/15 (1% growth in CTS case load) £	Projected for 2014/15 (1% growth in CTS case load & 1.9% Council Tax Increase) £
<b>Empty Properties</b>	406,568	407,192
<b>Second Homes</b>	12,162	12,474
Total discount/Exemptions	418,731	419,666
Less 2% bad debt	(8,375)	(8,393)
<b>Total exemption/discount changes</b>	<b>410,356</b>	<b>411,273</b>
Non collectable CTS (28%)	(108,878)	(110,947)
CTS discount granted to all claimants	(6,969,000)	(7,101,411)
Reimbursed by the Government	6,576,934	6,576,934
<b>Net Cost</b>	<b>(90,588)</b>	<b>(224,151)</b>
Surplus from year 1	152,761	152,761
<b>Net (Cost)/Surplus Year 1 and 2</b>	<b>62,173</b>	<b>(71,390)</b>

4.2.3 The first scenario (1% increase in CTS caseload) is still projected to produce an overall surplus when both 2013/14 and 2014/15 financial years are taken into account. While the transitional grant is not a ring-fenced grant it has been included in the calculation to ascertain the overall cost of the scheme.

4.2.4 The second scenario (1% increase in CTS caseload and 1.9% increase in Council Tax) projects an overall loss of £71,390, which would be shared between all three preceptors as shown in the table below. If the County Council did not increase their precept the overall position would be a surplus of £31,302 if the 2013/14 surplus is taken into account.

**Table 8 – Share of scheme surplus shared by each Preceptor 2014/15**

Proportion of (Cost)/Surplus:	1% increase in caseload	1% increase in caseload & 1% increase in Council Tax
Stevenage Borough Council	8,055	(9,249)
Hertfordshire Police Authority	6,316	(7,252)
Hertfordshire County Council	47,803	(54,889)
<b>Total</b>	<b>62,173</b>	<b>(71,390)</b>



### **4.3 Financial Implications**

- 4.3.1 The financial implications of the scheme are shown in paragraph 4.1-4.2 above. Based on a 1% increase in the caseload the scheme still breaks even over the two financial years based on the calculations shown in paragraph 4.2.2. If there were to be an overall increase in the Council tax there would be a marginal small overall loss of £71,390 in the context of the scheme, of which £9,249 would relate to Stevenage. There is a Collection Fund surplus of £124,616 projected for Stevenage in 2013/14 which will be included in the 2014/15 General Fund budget.
- 4.3.2 One of the major issues with the on-going viability of the scheme is the static nature of the government grant. The grant is included within each Preceptors Local Government Support settlement and for 2013/14 totalled £6,576,934. It is not clear in the 2014/15 provisional settlement what the amount for CTS as this is not detailed separately, however based on current understanding the grant will remain at its 2013/14 level. This means for every 1% increase in the caseload £65,769 is not refunded via grant and must be found from the Preceptors or by amending the scheme.

### **4.4 On-going Operational Issues and Customer Service**

- 4.4.1 Potential resource requirements arising from increased workloads and actions to mitigate customer demand arising from welfare changes were raised as an issue in the Council tax report to Council in January 2013. Subsequently there has been an increase in front line and back office support to provide additional resources to customers to assist with the welfare reform changes. The Revenues & Benefits Partnership have worked with both Housing and CSC staff in an attempt to overcome any issues or challenges that have arisen operationally or from the customer experience during this time. On-going resource needs are currently being reviewed. This was also outlined in the Welfare Reform report to the November Executive.
- 4.4.2 In readiness for the introduction of the scheme a variety of promotional material was made available in respect of both CTS and other welfare reform changes. Leaflets detailing the major changes were issued to all potential affected customers, and followed up by reminders to CTS customers who were adapting to making Council Tax Payments. An easy guide to the CTS scheme was also made available on the website. The 2014/15 scheme is detailed in Appendix A and the easy read guide will be updated for the 2014/15 scheme. Additional payment time and slower recovery stages have also been applied to CTS cases in the first year, to smooth the introduction of collection from those newly affected during 2013/14. SBC also made additional funding available to the CAB to support this work also.
- 4.4.3 The Council will continue to offer payment of Council Tax by 10 monthly instalments. However, customer requests to move to 12 monthly instalments will be implemented in accordance with new provisions outlined by the Government. At the 11 November 2013 there were 818 accounts paying by 12 monthly instalments.

## 4.5 Risks and assumptions considered

### 4.5.1 The following risks and assumptions have been identified:

- a) **Exemptions and Discounts Forecasts** - The 2013/14 projections are in line with the original estimates, however in the second year of operation it is not known if Landlords and owners will sustain the charge or look for ways to mitigate the additional cost. There is also an impact on the HRA which is estimated to be £75,000 In 2013/14.
- b) **Caseload Forecasts** - Actual future caseload and expenditure growth cannot be determined with accuracy although estimates based on the profiles of current expenditure and caseload has been applied to the financial modelling.
- c) **Collection Rate Forecasts** - The current estimate for collection of Council Tax for those in receipt of CTS is currently 71.4% (paragraph 4.1.3), this is higher than the estimate of 70%. The collection rate of 70% has been assumed for 2014/15 , however actual Council Tax collection rate for the claimants affected by the changes may worsen as other welfare reforms are introduced which impact on low income families.
- d) **Impacts of Universal Credit** - The impact and effects of Universal Credit (UC) are unclear, especially for Year 2 and beyond. The scheme proposes that claimants in receipt of Universal Credit will be liable to pay the first 8.5% of their Council Tax liability.
- e) **Collection Fund** - Diminution of anticipated Council Tax receipts could result in a Collection Fund deficit position at the end of a financial year, particularly as precept payments at present have to be paid to the County Council and Police Authority at an agreed monthly rate, irrespective of Council Tax sums collected.
- f) **Bad Debt Provision** - A potential risk arising from the recommended changes is a drop in Council Tax collection rates and hence an increase in bad debt provision. Reductions to budgeted collection rates also affect the level at which the Council Tax base set, this in turn is used to determine the Band D Council Tax level.
- g) **Failure to Agree Scheme** If an authority fails to make a revision to or replace their scheme by 31st January 2014 then their existing scheme remains in force for the financial year 2014/15. No change is being proposed to the scheme for 2014/15, other than uprating the scheme elements in line with the DWP up rating notice. The easy read guide will be published on the Council's website as soon as it is ready and the 2014/15 scheme is appended to this report (Appendix A).
- h) **Discretionary Discounts** - The use of Section 13A discounts under the Local Government Finance Act 1992 may increase as a consequence of the recommended changes and the wider welfare

reforms and will need to be met by the General Fund. As at the 31 October 2012 £212 had been granted on the grounds of exceptional hardship.

#### **4.6 Legal Implications**

**4.6.1** The Local Government Finance (LGF) Act came into force on 31<sup>st</sup> October 2012.

**4.6.2** Details as to what is set out in the LGF Act in relation to local authorities setting up Council Tax Support / Reduction schemes are set out below.

**4.6.3 Requirements of Council Tax Support scheme** - The Local Government Finance Act 2012 prescribes the content of a CTS scheme. Under the Act a CTS scheme must state the following:

- (1) A scheme must state the classes of persons who are to be entitled to a reduction under the scheme;
- (2) A scheme must set out the reduction to which persons in each class are to be entitled, and different reductions may be set out for different classes;
- (3) A scheme must state the procedure by which a person may apply for a reduction under a scheme;
- (4) A scheme must state the procedure by which a person can make an appeal against any decision of the authority which affects (a) the person's entitled to a reduction under the scheme, or (b) the amount of any reduction to which the person is entitled;
- (5) A scheme must state the procedure by which a person can apply to the authority for a reduction.

As for stating the classes of people who are to be entitled to a reduction under a scheme, classes may be determined by reference to the following:

- (1) The income of any person liable to pay council tax on the authority in respect of a dwelling;
- (2) The capital of any such person;
- (3) The income and capital of any other person who is a resident of the dwelling;
- (4) The number of dependants of any person within paragraph (2) or (3) above;
- (5) Whether the person has made an application for the reduction.

As for stating the reduction to which persons in each class are to be entitled and if different reductions are set out for different classes, a reduction may include the following detail:

- (a) A discount calculated as a percentage of the amount which would be payable apart from the scheme;

- (b) A discount of an amount set out in the scheme or to be calculated in accordance with the scheme;
- (c) Expressed as an amount of council tax to be paid (lower than the amount which would be payable apart from the scheme) which is set out in the scheme or is to be calculated in accordance with it; or
- (d) The whole amount of Council Tax (so that the amount payable is nil).

The LGF Act states that for each financial year, Councils must consider whether to revise its CTS scheme or replace it with another scheme and that such decisions need to be made by 31st January in the financial year preceding that for which the revision or replacement scheme is to take effect. If the Council does not make a CTS scheme by 31st January 2014, the current scheme will be implemented for the year.

**4.6.4 Consultation** - The LGF Act states that the Council must consult with the County Council and Police Authority, which are precepting bodies, when preparing a CTS scheme and that thereafter, the Council must publish a draft CTS scheme and then consult with other such persons who are likely to have an interest in the operation of such a scheme. Thereafter, the Council (i.e. Full Council) has to adopt a CTS scheme by 31 January 2014 and publish that scheme, failing which a default scheme will be imposed on the Council. The Strategic Director (Resources) has written to the preceptors to advise them that the Council was intending to retain its current CTS scheme. Both HCC and the Police and Crime Commissioner have responded to the consultation and are in agreement with continuing the current scheme. The 2014/15 scheme and easy guide will be published on the Council's website as soon as the scheme has been updated for the new eligible allowances.

**4.6.5 Council and Scrutiny** - The LGF Act 2012 prescribes that the decision to make a CTS Scheme must be made by Council by 31 January 2014. At the Overview and Scrutiny Committee on the 12 November 2013 a review was given of the current scheme as outlined in paragraph 4.1 and the recommendation that the current scheme remains in operation for 2014/15. The Members of the Committee agreed with this approach.

## **4.7 Equalities Impact**

**4.7.1 Public Sector Equality Duty** - The public sector equality duty, as set out in section 149 of the 2010 Equality Act, requires the Council, when exercising its functions, to have "due regard" to the need to eliminate discrimination, harassment and victimisation and other conduct prohibited under the Act, and to advance equality of opportunity and foster good relations between those who have a "protected characteristic" and those who do not share that protected characteristic.

**4.7.2** An Equality Impact Assessment (EqIA) was developed as part of setting up the CTS scheme in November 2012. This identified that the CTS scheme has an on-going adverse impact on certain groups of people who receive CTS, most notably people with disabilities and those with children under five years of age. Officers do not believe that the equalities related impact of the current scheme

has materially changed since the 2012 assessment. As the recommendation is that the current scheme should continue unaltered, a further EqIA is considered unnecessary as the 2012 assessment is still valid for the purposes of this report. However, in setting the scheme the council must have due regard to the Public Sector Equality Duty informed by that assessment and related information in this report.

- 4.7.3 A significant consideration in reaching that recommendation is the affordability of the scheme. Officers have explored alternative funding sources within the Council's General Fund budget, but have failed to identify any acceptable alternative budgets that could be diverted to support the scheme.
- 4.7.4 In an attempt to collect information which would help the Council better understand the specific types of people impacted by CTS and the degree to which they are impacted, people claiming CTS have been invited to complete and return survey forms. Disappointingly the number of completed forms has been so low that a meaningful analysis has not been possible.
- 4.7.5 Steps have been put in place to help mitigate the impact on residents claiming CTS. These include the provision of additional funding to the Citizens Advice Bureau, the provision of additional resources in the Customer Service Centre and additional resources in the Revenues and Benefits Shared Service. All of which are specifically targeted at addressing the issues facing customers who are experiencing the impact of welfare reforms, including the CTS scheme.
- 4.7.6 The Strategic Director (Resources) and the Council's Welfare Reform Corporate Steering Group are monitoring the impact CTS on Stevenage residents and will develop further mitigation should changing circumstances require it.
- 4.7.7 Additionally, all residents affected by the introduction of the scheme have been sent a letter, advising them of the change from Council Tax Benefit to CTS telling them where to find additional advice.
- 4.7.8 At an operational level, the Revenues and Benefits Shared Service has allowed additional time for payment of Council Tax and delayed recovery action on Council Tax arrears for some customers who receive CTS.

## **BACKGROUND PAPERS**

- BD1 - Adoption of a Council Tax Support Scheme (Council 23 January 2013)
- BD2 – Equalities Impact Assessment 2013/2014 Scheme

## **APPENDICES**

- Appendix A - 2014/15 Council Tax Support Scheme

