AGENDA ITEM: 11

SUMMARY

Report for:	**Cabinet**
Date of meeting:	**24 July 2012**
PART:	**1**
If Part II, reason:	

Title of report:	**Local Government Resource Review**
Contact:	Nick Tiley, Portfolio Holder for Finance & Resources Sally Marshall, Corporate Director (Finance & Governance)
Purpose of report:	To consider options for the localisation of Council Tax support and approve the action plan for implementation of business rate retention legislation.
Recommendations	It is recommended that Cabinet: **Localisation of Council Tax Support** 1. approves that consultation with all interested parties is undertaken on the basis that an overall scheme for Council Tax Support is developed which provides protection for the vulnerable groups listed in Table 2 of the report 2. agrees to delegate to the Leader of the Council and Portfolio Holder for Finance & Resources in consultation with the Corporate Director (Finance and Governance) the authority to agree a draft Localisation of Council Tax Support scheme for consultation which incorporates options set out in paragraph 19 and appendix A. 3. requests the Corporate Director (Finance and Governance) to examine options to simplify the existing scheme regulations to reduce costs of administering the scheme 4. notes that Government funding to pay for the Localisation of Council Tax Support will be switched from annually managed expenditure (AME) grant, recovered against the full cost of benefits awarded, to a departmental expenditure limit (DEL) grant resulting in a fixed grant, and that this will

	be reduced by 10% (compared to forecasted spend for 2013/14) with an estimated financial impact for the Council of a real terms reduction of funding of £130k **Business rates retention** 5. approves the timetable for developing the 2013/14 budget on the basis of the best estimates of business rates and other external income available at the relevant point in the budget preparation process. **Technical reforms of Council Tax** 6. agrees to delegate authority to the Leader of the Council and the Portfolio Holder for Finance and Resources in consultation with the Corporate Director (Finance and Governance) to approve draft consultation proposals for varying existing Council Tax Discounts and exemptions to provide greater incentives for landlords to bring empty properties back into use
Corporate objectives:	Effective management of the Council's finances supports the Council's vision and all five of its corporate objectives.
Implications: 'Value For Money Implications'	<u>Financial</u> <u>Localisation of Council Tax Support</u> The Council currently pays £9.0m in Council Tax Benefit payments, of which £8.8m is funded by DWP subsidy which is distributed between the Council and the major precepting bodies. From 1 April 2013 the Council will receive a specific grant including a reduction of approximately 10%. The actual amount will vary according to the data that the Department for Communities and Local Government (DCLG) uses to calculate the grant due. Latest estimates indicate that the actual reduction will be in the region of 11.5%, or £1.110m. The report sets out the options for the Council for recovering this deficit by either passing on the reduction to working age claimants by reducing the amount of support payable under the local scheme or bearing the costs from the Collection Fund. . A combination of these approaches may be needed. In addition, there is a risk that applications for Council Tax Support may exceed the expected amount to be paid and therefore the value of grant received. This will have cash flow implications and may affect the amount that the Council has available in short term funds to invest or may require short term use of overdrafts, and consequently bear interest costs. DCLG is considering options for addressing this issue which will require changes to existing regulations governing the Collection Fund.

	Business Rates retention The financial implications of the change to business rates retention as the main funding source for the Council (along with Council Tax) are difficult to quantify because the means of allocating funds to local authorities are still under development. However, indications are that the Council will expect to see a continued decline in funding over the years 2012/13 to 2016/17. This will be offset by New Homes Bonus, if new homes are provided in line with anticipated building levels. Technical reforms of Council Tax Amendments to the discounts and exemptions scheme allowed under the regulations reform could incentive landlords to bring empty properties back into use which may mitigate the impact on the council of future homelessness. This may also provide additional resources through Collection Fund and increase value for money for Council Taxpayers at large. Value for Money The Herts Chief Finance Officers group has considered the option of developing a joint scheme in partnership with the County Council and Herts Police Authority (HPA). The purpose of this was to: • develop a standardised approach across the County (with local flexibilities) to help ensure that claimants are dealt with equally and fairly whichever district they live in • reduce the administrative burden of developing schemes • reduce the costs of each billing authority developing its own scheme • share issues and concerns affecting each authority. The group has also requested modelling work for the business rates retention scheme to be undertaken on behalf of all councils. The financial benefits of this approach have not been quantified but represent approximately one eleventh of the cost of each authority undertaking its own scheme development and modelling. The localisation of Council Tax Support also provides the Council with an opportunity to simplify the scheme to reduce administrative burdens. The report identifies a number of areas where simplification could reduce administrative costs.
Risk Implications	Localisation of Council Tax Support A Risk Assessment was completed in May 2012 and is

	monitored and reviewed by the Localisation of Council Tax Support Working Group. The principle risks to the Council relate to: • The capacity to develop a scheme on time • The possibility of legal challenge arising from the conditions incorporated into the local scheme • The financial impact of (1) the initial 10% reduction in Government funding for Council Tax Benefit/Support and (2) the impact of claims for support exceeding the anticipated level of payments within the financial year There are also wider risks relating to the impact of reducing support for council tax for vulnerable groups or those facing financial hardship. Together with the impact on collection rates and the Collection Fund bad debt provision These risks are being monitored and addressed by the Working Group as part of the overall project control arrangements. <u>Business Rates Retention</u> Models that have been used to develop understanding of likely changes in future external income are subject to a number of caveats. Risk analysis has been undertaken but further information is required from Central Government departments on the operation of new funding mechanisms before reliance can be placed on these estimates. <u>Technical reforms of Council Tax</u> Reducing discount rates to zero may increase the risk of non-collection of Council Tax as landlords will have no financial incentive to inform the Council that a property has become empty on a timely basis. Consequently there may be additional costs of collecting arrears.
Equalities Implications	A proforma Equality Impact Assessment is being undertaken by Hertsmere DC on behalf of the Herts Chief Finance Officers localisation working group. This will be reviewed by officers to check applicability to Dacorum when made available.
Health And Safety Implications	There are no specific health and safety implications arising from the report
Monitoring Officer/S.151	**Monitoring Officer:** The Local Government Finance Bill ("the Bill") was introduced

Officer Comments	to Parliament on 19 December 2011 and is now at an advanced stage in the House of Lords with an expected enactment date of late 2012. The Bill makes provision for the localisation of council tax support in England by imposing a duty on billing authorities to make a localised council tax reduction scheme by 31 January 2013. If the Council fails to adopt a scheme on or before the 31 January 2013 then a *default* scheme, as prescribed by the Secretary of State, will apply. The Bill requires the Council to consult all major precepting authorities and such other persons as it considers likely to have an interest in the scheme. The public consultation should be carried out as early as possible to ensure feedback can influence the scheme and allow sufficient time for the feedback to be gathered, impacts to be understood, and a scheme to be shaped. The Government's code of practice on consultation suggests that normally 12 weeks is appropriate, but a shorter period may be appropriate depending on the impact of the proposals and the ability to complete the consultation within existing budgetary timetables. Failure to properly consult in accordance with the Bill and government guidance is likely to be a key area for challenge and could leave the Council vulnerable to a judicial review of any decision to implement the scheme. A challenge could come from major precepting authorities if they have not been consulted fully, or local tax payers and therefore is a key risk area which the Council must be aware of. **S.151 Officer** This is a section 151 officer report. The financial implications and risks of the options proposed are set out in the body of the report.
Consultees:	Herts Chief Finance Officers Corporate Management Team Localisation of Council Support Tax Working Group
Background papers:	*Localisation of Council Tax Support*, report to Cabinet 27 March 2012 *Medium Term Financial Strategy*
Glossary of acronyms and any other abbreviations used in this report:	CTB – Council Tax Benefit CTS - Council Tax Support DCLG – Department for Communities and Local Government DWP - Department for Work and Pensions HCFO – Herts Chief Finance Officers UC - Universal Credit

BACKGROUND

1. The Welfare Reform Act 2012 contains provision for the abolition of Council Tax Benefit on 31 March 2013. The Local Government Finance Bill includes provisions for the local retention of business rates (Sections 1-8) and for Council Tax Support (CTS) to replace Council Tax Benefit (CTB) from 1 April 2013 (Sections 9-14). In addition, the Government has announced an intention to give local authorities greater freedoms to vary Council Tax discounts and exemptions from 1 April 2013. This report:

   - seeks Cabinet approval for a draft Council Tax Support scheme for local consultation during the summer 2012

   - outlines the planned timetable for departmental proposals for the retention of business rates and seeks Cabinet approval for the Corporate Director (Finance and Governance) to prepare a draft budget on the basis of estimated income from business rates and Council Tax

   - Sets out options for varying existing Council Tax discounts and exemptions and seeks Cabinet approval for a developing a policy to optimise the use of housing stock across the borough.

LOCALISATION OF COUNCIL TAX SUPPORT

2. The Local Government Finance Bill is expected to be enacted during 2012 and will require local authorities to publish a local scheme for Council Tax Support by 31 January 2013 for implementation from 1 April. Councils are also required to consult major precepting bodies and all interested persons on the proposed scheme before it is adopted. To meet the timetable, therefore, the Council needs to approve and consult on a draft scheme prior to publication in time for the 2013/14 budgeting process.

3. As part of its commitment to reducing public expenditure, the Government has specified that the cost of schemes will be 10% less than the current cost of providing Council Tax Benefit in England. In devising their local schemes, Councils may either choose to pass some or all of this funding reduction on to recipients, or absorb it into overall budgets. Additionally, pensioners, both existing and future, are specifically protected and will continue to receive help with their Council Tax based on the current scheme.

4. This means that if Councils pass on the 10% reduction to claimants, it will be totally absorbed by working age claimants, who will face significant reductions in CTS compared with CTB.

5. In addition, DCLG guidance documents issued on 21 May 2012 make clear that authorities need to be mindful of their responsibilities in relation to the Equalities Act, and to Child Poverty and vulnerable groups in developing new arrangements as well as ensuring that incentives to work are built into the schemes.

6. This fundamental change in approach affects all billing authorities and precepting bodies and therefore all those bodies in Hertfordshire have chosen to work together to develop an overall framework providing consistent principles. This is challenging to achieve because of the different demographics in each District,

due to differing numbers of pensioners, and it is therefore recognised that there needs to be scope for local variations to be introduced. Feedback from software suppliers indicates that countywide frameworks are being actively pursued in a number of other authority areas too.

7. The current broad consensus amongst council Leaders is that there will need to be a consistent approach as to which group(s) of claimants should be protected (in addition to pensioners who must be protected at current levels) and that those groups that are protected are funded in such a way that does not lead to an increase in Council Tax.

8. In order to save time and resources, the Hertfordshire billing authorities have shared out some of the tasks involved in preparing for consultation to assist in meeting the tight timescale. This will still allow authorities to add specific factors to reflect local conditions.

Overall scheme proposals

9. Any proposals adopted to begin on 1st April 2013 are likely to be interim measures. All authorities will wish to re-assess the model when data is available to analyse the actual impacts of the changes. Because of the very aggressive timescales to implement these local schemes, it is generally acknowledged and supported by the software suppliers that any scheme, certainly for the first year or two, has to be based on the existing CTB scheme, with changes to meet the financial restrictions.

10. Herts Chief Finance Officers (HCFO) Group has considered a number of proposals which could provide a consistent approach to addressing the proposed funding reduction whilst retaining room for flexibility to allow for the varying impact on local people. These proposals are set out in the following sections..

11. The primary issue is that the scheme will only be 90% funded by Central Government when compared to the current subsidy provided by the Department for Work and Pensions (DWP) for CTB. At Dacorum, the current cost of CTB is £9.0m, of which £8.8m is funded by DWP subsidy. A 10% reduction equates to £900,000. However, DCLG will use revised data and there will be administrative costs and other factors to take into account. Latest estimates indicate that the total grant for Council Tax Support is likely to be between £7.6m and £7.8m for Dacorum. The reduction therefore will be between £1.0 and £1.2m. The reduction will be in payments into the Collection Fund and will be shared across the billing authority and major precepting bodies. Dacorum's share of the reduction will be approximately £130k. Herts County Council will lose £860k and Herts Police Authority will lose £110k.

Impact on Parish Councils

12. The CTS scheme will operate through Council Tax discount legislation and will be managed through each authority's collection fund. As a result of the change from 'benefits' to 'discounts', those households that receive a discount will not be included within calculations of the Council Tax base. The tax base, expressed as a number of Band D properties, will therefore automatically be reduced.. Billing authorities (such as Dacorum Borough Council) and major preceptors (the County Council and the Police) will be compensated through direct grant payment to offset the impact of this change on tax payers (albeit at 90% of 2013/14 forecast CTB spend). At this stage there has been no method devised

for the Government to pay the 10,000 national parish and town councils in the same manner.

13. The CTS scheme will reduce the tax base in some parishes (subject to where customers reside) resulting in an increase in the Council Tax element attributable to the parish precept. This is because the parish Council Tax is a parish precept (the total amount the parish raises each year from its Council Tax payers) divided by its tax base.

14. The DCLG consultation paper on funding suggests that it 'expects billing and local precepting authorities to work together to manage the impact on local precepting councils'. It is likely that some degree of protection for parishes will be required in order to mitigate the immediate impact of the change from subsidy payments to discount payments on the parish tax base. Whilst the DCLG is considering options for how parish precepts are to be treated under the new scheme no decision has been made on this; Cabinet will be updated on any future announcements.

Scheme options modelled by HCFO

15. At present 45% of claimants in Dacorum are pensioners (and therefore fully protected). **Option 1** considered by HCFO is that the 10% overall funding reduction, including the cost of funding pensioner protection, should be passed on to working age claimants. This approximates to a 20% reduction in benefits currently paid to working age claimants. If additional groups also receive some level of protection, such as those with disabilities and those with children under five years old, then the percentage reduction in benefits for the remaining working age claimants could rise to around 30%.

16. Certain scaling factors could be applied to provide a degree of support for some or all of the groups who are not automatically protected in any new scheme. In these instances, groups who currently pay nothing would be required to make a contribution to Council Tax, but not at the full rate. The proportion of these groups as a percentage of current costs is shown in table one along with the impact on working age claimants of protecting these groups at different rates.

Table 1 – impact of protecting vulnerable groups on working age CTS claimants (Option 1)

Possible groups to protect	Proportion of current cost	Proportion of total reduction falling to non-protected working age claimants at		
		100% protection	90% protection	85% protection
Claimants with a disability allowance	29%	-25.3%	-21.1%	-15.3%
Claimants with at least one child under 5	23%	-23.4%	-20.2%	-18.6%
Both groups	39%	-29.2%	-22.8%	-19.5%

17. An alternative approach considered by HCFO is that councils themselves fund the costs in respect of pensioners and only the 10% reduction is passed on to

working age claimants (**Option 2**). Table 2 shows the impact of protecting vulnerable groups under this scenario. In this case only between 90% and 100% protection for those groups is applicable.

Table 2 – impact of protecting vulnerable groups on working age CTS claimants with the Council bearing the costs of protecting pensioners (Option 2)

Possible groups to protect	Proportion of current cost	Proportion of total reduction falling to non-protected working age claimants at 100% protection
Claimants with a disability allowance	29%	-14.2%
Claimants with at least one child under 5	23%	-13.1%
Both groups	39%	-16.4%

18. In order to meet the costs of protecting pensioners under Option 2 – and potentially to reduce the impact on working age claimants under both options – the Council can review the eligibility criteria for claimants by varying the Government's default scheme.

19. Variations to the existing scheme that have been modelled so far include the following:

- Support calculated on maximum of Band D Council Tax;
- Use of 25% taper;
- Increase in non-dependent deductions;
- Amendment to capital limits;
- Minimum benefit award of £5;
- Use of a liability cap
- Stop disregard of child benefit.

20. Details of the options being considered are shown in Appendix A along with analysis of the estimated outcomes of each proposal in terms of the potential cost reductions that could be achieved.

21. Other potential revisions that could be considered, and would also therefore assist in easing pressure on overall Council budgets to a degree, include removal of the second adult rebate. A range of such options are available but, with the exception of an overall cap on liabilities and the withdrawal of support for working age claimants who are owner occupiers, none of these will have sufficient impact in themselves to recover the 10% reduction required. These are shown in Appendix A along with the options identified in paragraph 19.

22. In addition, consideration can be given to simplifying administration of the current scheme. Whilst software constraints are likely to prevent significant change in year one, some simplification can be written in to the new scheme thus reducing administration and the burden of implementation. Areas currently being considered in year one include:

- process for appealing decisions and dealing with disputes
- simplifying decision notices
- standardising claim dates and dates that changes take effect
- treatment of income from capital
- non dependant deductions
- changes to the rules around backdating.

23. This report recommends that, subject to the issues set out below, Cabinet agrees to:

- delegate to the Leader of the Council and Portfolio Holder for Finance & Resources in consultation with the Corporate Director (Finance and Governance) the authority to agree a draft Localisation of Council Tax Support scheme for consultation which incorporates options set out in paragraph 19 and appendix A

- requests the Corporate Director (Finance and Governance) to examine options to simplify the existing scheme regulations to reduce costs of administering the scheme.

- note that Government funding to pay for the Localisation of Council Tax Support will be switched from annually managed expenditure (AME) grant, recovered against the full cost of benefits awarded, to a departmental expenditure limit (DEL) grant resulting in a fixed grant, and that this will be reduced by 10% (compared to forecasted spend for 2013/14) with an estimated financial impact for the Council of a real terms reduction of funding of £130k

Financial and risk implications of the change from CTB to CTS

24. In considering proposals for a CTS scheme there are a number of issues that Cabinet should take into account.

25. In developing proposals for addressing the funding shortfall brought about by the change from CTB to CTS, wider alternatives, such as calling on reserves and increasing Council Tax liabilities can be considered. A reserve (the Local Government Resource Review and Localisation of Council Tax Support Transitional Reserve) was established at outturn 2011/12 to provide support, if necessary, during the transition to the new regime. This has a balance of £250,000 as at 1 April 2012 to help smooth the impact of the introduction of the new scheme to provide non-recurring transitional financial support. However, this could only be used to support the Council element of the reduction and could not be used to offset the impact for the precepting bodies. Therefore some degree of cost reduction within the new financing arrangements will be needed.

26. It should be noted that currently not all those who are entitled to Council Tax Benefit actually claim it. If a change from a "benefit" to a "discount support" scheme encourages some of this group to begin claiming then the overall costs to local authorities will rise and will cause further budgetary pressures as this would not be offset by any funding from Central Government.

27. It is expected that authorities will wish to re-assess the implemented model when data is available in 2013/14 to analyse the actual impacts of the changes introduced and to identify any unintended consequences. Software suppliers are also projecting that most authorities will wish to implement schemes that are as

similar as possible to existing arrangements in the short-term. The introduction of some desired changes may not therefore be possible because of technical constraints.

28. Under the new scheme the Government will provide fixed grants to local authorities instead of refunding actual costs incurred, therefore each authority will incur a shortfall or gain a surplus depending on how actual costs vary. The Government has not yet confirmed how grants will be set in future years to address this. In fact the final details of the scheme in general are not likely to come forward until December. However, it is anticipated that powers will be provided for billing authorities to vary the schedule of payments to precepting bodies with each financial year to mitigate the cashflow impact of under- or over-projection of CTS claims.

29. It falls to the Council, as billing authority, to administer the new scheme and therefore incur all the costs of administering the changes, although it will only retain around 13% of the revenue. Herts CFOs have discussed options for apportioning some of these costs across the precepting bodies.

30. The risks associated with the localisation of CTS are accentuated by the fact that this is occurring at the same time as the localisation of Business Rates. Therefore a reduction in employment in the district would lead to a reduction in business rates receipts and a possible increase in claimants from those who became unemployed. Both changes place additional responsibilities on local authorities to manage within their own resources.

31. There will be a requirement to integrate the CTS scheme with Universal Credit (UC), which is another Government initiative that is currently underway and is due to start from October 2013 with a phased introduction across England. UC will replace six of the seven main means-tested benefits for those of working age, Council Tax Benefit being the seventh. There is nothing proposed in the UC system that will make it straightforward to identify those who should be passported onto a full Council Tax rebate. Eligibility for other benefits currently used to “passport” people to maximum CTB entitlement will cease to exist as they are subsumed into UC.

32. Other issues to consider include the adverse impact on overall collection rates caused by bringing low-income groups within the requirement to pay Council Tax (or a proportion of it) and the administrative overhead to collect small value debts. Overall collection rates are likely to reduce and this will result in deficits on the collection fund. Deficits will have to be taken into account in the Medium term Financial Strategy once the impact of these changes has been assessed.

Consultation arrangements

33. Consultation with the County Council and other major preceptors has been undertaken through joint meetings with the ten Hertfordshire Billing Authorities. A number of further consultation activities can be undertaken jointly to conserve time and resources. These include consultation questions, who to consult with, an overall framework for a new support scheme and the basis of a common Equalities Impact Assessment.

34. Colleagues at Stevenage Borough Council have undertaken to develop a consultation approach on behalf of the Herts Chief Finance Officers localisation

working group in discussion with ORS, a research company that Dacorum and other councils uses for undertaking public consultations.

RETENTION OF LOCAL BUSINESS RATES

35. The Local Government Finance Bill includes provisions for the local retention of business rates (Sections 1-8) from 1 April 2013. Under the provisions each authority will:

    - receive a baseline assessment of its funding entitlement
    - receive a top-up if it has less business rates than its baseline funding level
    - pay a tariff if it has more business rates than its baseline funding
    - in future, receive a proportion of the local increase in business rates, but this will be reduced by a levy if it is disproportionately high compared to other authorities
    - in future, bear the impact of a reduction in business rates, but receive a safety net payment (paid for from the levy) if this has a significant impact on its income levels.

36. The details of the scheme and the impact on future budgets will not be known until the autumn/early winter 2012. However, the scheme will be required to work within existing Government control totals. The national total for Formula Grant in 2012-13 and the Spending Review 2010 proposed reductions in the national control totals of around £200m in 2013-14 and £1,300m in 2014-15

37. In his Autumn Statement 2011 the Chancellor announced further cuts in "total managed expenditure" of 1.8% and 1.0% respectively for 2015-16 and 2016-17. The adverse impact on local government is likely to be much greater, however, because of the high likelihood of continued protection for schools, hospitals and overseas development and the strong possibility that recent planned savings on benefits cannot be repeated in the future.

38. In addition, In June 2012 the Treasury stated that 50% of the total business rates paid from April 2013 will be retained for national funding. Therefore the level of business rates to be distributed locally (the 'local share') will be 50% of the total growth. Billing authorities will be required to pay over to the Treasury the 'Government share' of business rates by estimate in advance, subsequently adjusted to actual sums after the end of the financial year.

39. Modelling work undertaken by Local Government Futures across Hertfordshire on behalf of Herts Chief Finance Officers has indicated that the system will provide considerably less incentive for local councils to promote business growth than was previously envisaged.

40. Dacorum has taken a number of actions in recent years to encourage business growth and is therefore anticipating an increase in income from business rates. However, the indications are that levies to dampen disproportionate growth will be in the region of 81% - 89%, and may be as high as 92% in some districts in England.

41. On the other hand, should business rates income fall as a result of business closures or other factors, DCLG has indicated that the safety net will be set at between 7.5% and 10% (to be decided). A 7.5% reduction in the local share of business rates income equates to £191k for Dacorum.

42. Modelling work involving analysis of anticipated business rates growth and decline in Revenue Support Grant indicates a 25% reduction in funding for Dacorum over the period 2012/13 to 2016/17. This decline will be offset by predicted growth in new homes, which will attract New Homes Bonus over the same period, before beginning to decline from 2017/18 onwards. Taken together the model suggests the following annual change in funding based on worst case, middle position and best case scenarios:

Table 4 – potential annual change in external funding 2013/14 to 2016/17

	Worst realistic	Central case	Best realistic
Dacorum BC	-0.2%	4.8%	9.2%

43. As further information is received from DCLG during the autumn and winter, the financial models will be developed to provide a clearer indication of the likely change in external funding over the medium term. The timetable for preparation for the 2013/14 budget is as follows:

2012 July - September	 Consultation on Council Tax Support scheme and impact analysis of options for discounts, exemptions and other potential changes within the local scheme
24 July	Medium term Financial Strategy revised and reported to Cabinet
July onwards	Budget review Group identify potential efficiencies
October	Calculation of Council Tax base and potential NHB 2014/15 through CTB1 process
November	Draft budget based on estimated Council Tax, estimated NHB and indicative allocation of Council Tax Support grant
November	Consultation on budget; assessment of impact on parishes of new funding arrangements; Finalise CTB1
11 December	Cabinet approves tax base, taking into account required changes to discounts and exemptions and surplus/deficit on collection fund
13 December	Joint OSC to consider budget proposals
2013 5 February	 Joint OSC to consider draft budget
12 February	Budget approved by Cabinet
27 February	Budget approved by Council

44. Cabinet is asked to approve the above timetable for development of the 2013/14 budget based on estimates of external funding available at the relevant dates.

TECHNICAL REFORMS OF COUNCIL TAX

45. In addition to the Localisation of Council Tax Support and the retention of business rates, the Government is also introducing greater powers for local authorities to vary the existing exemptions and discounts available to Council Tax payers. The Council has a shortage of affordable homes and has put in place a number of strategies to encourage new home building and bringing empty properties back into use. By removing exemptions for empty homes the Council can incentivise landlords to speed up refurbishments and re-lettings so that liability for Council Tax is transferred to the tenant or new home owner more quickly.

46. From 1 April 2013 the Council will be able to vary the amount applicable to each of the exemptions and discounts available to Council Tax payers, including a zero discount or exemption value. These include:

    - reducing short term empty property relief
    - charging additional Council Tax on long-term vacant properties (vacant for over two years).
    - Increasing Council Tax charges for second homes.

47. The potential impact, measured in terms of the total potential annual savings that could arise from each of these proposals is set out in table 3. Removing all of these discounts and exemptions would potentially increase income from Council Tax into the Collection Fund by £1.148m. However, the actual amount that could be raised will be lower because of the impact that the changes would have on collection.

    Table 3 – Potential increased income for charging full council tax for current discounts and exemptions (estimated

	£
Discounts for second homes	28,674
Unoccupied empty and furnished properties	78,694
Class A: Empty properties undergoing major repairs (12 months exemption)	108,319
Class C: Empty and unfurnished (6 months exemption)	932,209
Total available	**£1,147,896**

Financial and risk implications of chaning discounts and exemptions

48. Applying 100% Council Tax to properties that are currently exempt or which would have become exempt in future presents a number of difficulties that need to be addressed

49. Applying a 0% discount would remove the incentive for taxpayers to notify us if a property is empty and undergoing repairs. Such properties are currently exempt from paying Council Tax. This will have an impact on work we do to reduce voids and the potential related New Homes Bonus receivable for bringing empty properties back into use. There may be a significant increase in recovery costs and reductions in collection rates.

50. A 0% discount from day 1 will mean properties that fall vacant for short periods and have a high turnover (e.g. short let tenancies) will require a high level of administration to ensure that Council Tax is charged to the relevant tax payer. The costs may outweigh the benefits of applying the 0% discount.

51. The Council would have to pay Council Tax in respect of its own properties for periods when those properties are empty. The costs to the Council would have to be taken into account and the impact offset against the income receivable.

52. Taking these factors into account, Cabinet is asked to agree to delegate authority to the Leader of the Council and the Portfolio Holder for Finance and Resources in consultation with the Corporate Director (Finance and Governance) to approve a draft consultation proposal for varying existing Council Tax Discounts and exemptions to provide greater incentives for landlords to bring empty properties back into use.

APPENDIX A

Options for amending the default Council Tax scheme

The model set out in the table shows the current weekly cost of providing benefits to local residents where the conditions shown in column 1 apply. It therefore shows the weekly amount that could be saved if those elements of the scheme were deleted or amended and the amount to which the saving is reduced if the vulnerable groups were excluded from the change (i.e. 100% protected). In order to recover £1m saving in total, the weekly amount needed is £19,233.77.

This model includes families with at least one child under 5, claimants with a disability (including claimants who are carers of those with disabilities) and those who receive Employment and Support Allowance (i.e. low income earners).

Explanations of each of the proposed changes are provided below the table.

		PROTECTED GROUPS				
		SAVINGS PER WEEK				
		Pensioners ONLY £	Pen's and children under 5 £	Pen's and Disability £	Pen's and ESA £	Pen's & all other groups £
1	Capital limit £2000	3,146	2,649	2,350	3,004	1,915
2	Capital limit £4000	1,770	1,585	1,391	1,674	1,225
3	Capital limit £6000	773	739	532	710	498
4	Capital limit £8000	539	505	388	476	354
5	Capital limit £10000	356	322	271	307	237
6	Capital limit £12000	222	222	171	205	171
7	Capital limit £14000	106	106	105	105	105
8	Minimum award £5	662	538	623	647	502
9	Max CT Band D	1,745	1,638	1,564	1,745	1,476
10	Max CT Band E	425	413	374	425	368
11	Taper 25%	2,401	1,742	2,076	2,299	1,425
12	Non dependant deductions doubled	1,574	1,541	1,502	1,546	1,485
13	Liability cap 75%	27,644	21,043	25,527	27,021	18,817

14	Liability cap 80%	22,203	16,899	20,503	21,700	15,111
15	Liability cap 85%	16,709	12,718	15,429	16,329	11,372
16	no working age backdating	302	not modelled			
17	no support for single under 35	5,354	not modelled			
18	no support unless have rent costs	33,877	not modelled			
19	stop disregard of Child Benefit	5,068	3,114	4,552	4,897	2,722

Explanations

1-7	Maximum capital funds that claimant can hold before benefit is withdrawn
8	Council Tax Support awards below £5 would not be paid
9	Claimants in properties at Band E-H would have a maximum award at Band D level
10	Claimants in properties at Band F-H would have a maximum award at Band E level
11	For every £4 of excess income, benefit would reduce by £1. Current taper is 20% (£1 for every £5 excess income)
12	Currently, benefit is reduced if there is a non-dependent person in the household (e.g. a child over 18)
13-15	All claimants would have to pay 25%, 20% or 15%, respectively, of the council tax liability for their property
16	Claims are currently backdated to the point when the criteria for award were met. No backdating means award only payable from date of claim
17	Single persons under 35 years old would not be eligible for CTS (on grounds that this group is highest capability for earnings
18	The value of the property of owner-occupiers is currently disregarded in assessing the capital funds of claimants. This change would, in effect, mean that properties are included in the calculation and only non owner-occupiers would be eligible
19	The value of child benefits payments would be included in income assessment

Notes

i. Claimants of certain benefits provided by the DWP are automatically eligible for 100% relief of Couctil Tax. These are known as 'passported' claimants. Information provided by DWP in respect of these claimants does not specify whether they fall into the categories of the vulnerable groups listed. Therefore, assumptions have been made about the numbers of passported claimants in each group.

ii. The values represent a snapshot at a point in time and will change according to caseload at any one point. Different modelling assumptions have been required by HCFO at different stages and the assumptions will change with further iterations of the model.

iii. The values represent the reduction in financial support only – there may be increased administrative costs associated with some of the conditions, but the model does not attempt to quantify these.