



AGENDA ITEM: 9
SUMMARY

Report for:	Cabinet
Date of meeting:	08 January 2013
PART:	1
If Part II, reason:	

Title of report:	Council Tax Support Scheme
Contact:	Councillor Nick Tiley, Portfolio Holder for Finance & Resources Sally Marshall, Corporate Director (Finance & Governance)
Purpose of report:	To consider results from consultation on proposed Council Tax Support scheme. To consider recommendations for changes to the draft scheme. To note the requirement to design a discretionary policy to meet the Council's obligation under section 13A(2)(a) Local Government Finance Act 1992 and suggested approach.
Recommendations	<p>It is recommended that Cabinet:</p> <ol style="list-style-type: none"> 1. Recommends to Council the approval of the proposed scheme for Council Tax Support as consulted upon with the following amendments: <ol style="list-style-type: none"> (a) the extension of the disability definition to include main phase Employment and Support Allowance (ESA) (b) a flat rate non-dependent deduction of £5 for all working age non dependents 2. Recommends to Council to note the Corporate Director (Finance and Governance) in consultation with the Leader of the Council and the Portfolio Holder for Finance will put in place arrangements for a discretionary policy in compliance with S13A(2)(a) of the Local Government Finance Act 1992. 3. To note that the proposed scheme will not meet the eligibility criteria for the Government's Transitional Grant as set out in paragraph 23 of this report.

<p>Corporate objectives:</p>	<p>Effective management of the Council's finances supports the Council's vision and all five of its corporate objectives.</p>
<p>Implications:</p> <p>'Value For Money Implications'</p>	<p><u>Financial</u></p> <p>Localisation of Council Tax Support</p> <p>The Council currently pays around £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 as announced in the local government financial settlement in December is £1.043 million (of which a portion is due to parishes). The draft scheme seeks to recover some of this deficit by passing on the reduction to working age claimants by reducing the amount of support payable under the local scheme.</p> <p>However, 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.</p> <p>The localisation of Council Tax Support also provides the Council with an opportunity to simplify the scheme to reduce administrative burdens. The report identifies areas where simplification could reduce administrative costs.</p>
<p>Risk Implications</p>	<p><u>Localisation of Council Tax Support</u></p> <p>A Risk Assessment was completed in May 2012 and is monitored and reviewed by the Localisation of Council Tax Support Working Group.</p> <p>The principal risks to the Council relate to:</p> <ul style="list-style-type: none"> • 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 <p>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</p>

	<p>These risks are being monitored and addressed by the Working Group as part of the overall project control arrangements.</p>
<p>Equalities Implications</p>	<p>An Equality Impact Assessment (EIA) was undertaken on the draft scheme. This has been revised as a result of the consultation taking into account responses received and suggested changes to the draft scheme. This EIA is included in this report as appendix one.</p>
<p>Health And Safety Implications</p>	<p>There are no specific health and safety implications arising from the report</p>
<p>Monitoring Officer/S.151 Officer Comments</p>	<p>Monitoring Officer:</p> <p>The Welfare Reform Act 2012 abolishes the current Council Tax Benefit provisions with effect from 1st April 2013. The Local Government Finance Act 2012 introduces a new duty on council tax billing authorities to draw up and implement local council tax reduction schemes. It does this by inserting a new section 13A into the Local Government Finance Act 1992. Section 13A(2) requires each billing authority to make a scheme specifying the reductions which are to apply to amounts of council tax in respect of dwellings by; (a) persons whom the authority considers to be in financial need, or (b) persons in classes consisting of persons whom the authority considers to be, in general, in financial need.</p> <p>The LGFA 2012 also inserts a new Schedule 1A which sets out the matters which must be included in each local council tax reduction scheme. The new schemes for local support for council tax must be in place by 31st January 2013.</p> <p>The proposed draft scheme referred to in this report will meet the Council's obligations in relation to section 13A(2) of the LGFA 1992 as amended and the new Schedule 1A.</p> <p>The Secretary of State will be making provision for an independent review of all council tax reduction schemes within three years of the introduction of these reforms. The review will consider the effectiveness, efficiency, fairness and transparency of the new local schemes and to make recommendations as to whether such schemes should be brought within universal credit.</p> <p>S.151 Officer</p> <p>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.</p>
<p>Consultees:</p>	<p>Corporate Management Team</p>

	Localisation of Council Support Tax Working Group
Background papers:	<p><i>Localisation of Council Tax Support</i>, report to Cabinet 27 March 2012</p> <p><i>Local Government Resource Review</i>, report to Cabinet 24 July 2012</p> <p><i>Medium Term Financial Strategy</i></p>
Glossary of acronyms and any other abbreviations used in this report:	<p>CIPFA – Chartered Institute of Public Finance and Accountancy</p> <p>CTB – Council Tax Benefit</p> <p>CTS - Council Tax Support</p> <p>DCLG – Department for Communities and Local Government</p> <p>DWP - Department for Work and Pensions</p> <p>EIA – Equalities Impact Assessment</p> <p>ESA – Employment and Support Allowance</p> <p>HCFO – Herts Chief Finance Officers</p> <p>IB – Incapacity Benefits</p> <p>LGFA – Local Government Finance Act</p> <p>UC - Universal Credit</p>

BACKGROUND

1. The Welfare Reform Act 2012 contains provision for the abolition of Council Tax Benefit (CTB) by 31 March 2013. The Local Government Finance Act (LGFA) 2012 includes provisions for Council Tax Support (CTS) to replace CTB from 1 April 2013 (Sections 9-14). This report:
 - seeks Cabinet approval for the suggested changes to the draft scheme following consultation, noting the highlighted potential financial and equalities impacts;
 - notes that the Corporate Director (Finance and Governance) will put in place arrangements to meet the Council's obligation under section 13A(2)(a) LGFA 1992
2. The LGFA 2012 has now received Royal Assent. Local Authorities are therefore now required to publish a local scheme for Council Tax Support by 31 January 2013 for implementation from 1 April.

CONSULTATION

3. Cabinet delegated authority to Corporate Director (Finance and Governance) to design a draft scheme in July. This scheme was then published for consultation during the period 3 September 2012 to 26 October 2012 (Appendix 2 and supporting papers on the Council Tax page of the Website.
4. LGFA 1992 Schedule 1A paragraph 3 requires that these steps are taken in the preparation of the scheme (in the following order):

- (a) consult any major precepting authority which has power to issue a precept to it;
 - (b) publish a draft scheme in such manner as it thinks fit; and .
 - (c) consult such other persons as it considers are likely to have an interest in the operation of the scheme.
5. Prior to consulting with the general public consultation was carried out with major preceptors. This was completed via meetings with Hertfordshire Chief Finance Officers and prior to publication of the draft scheme Hertfordshire County Council and Hertfordshire Police Authority were sent details of the proposals. Both responded. They supported the design of a local scheme which embraces the principles agreed by the Hertfordshire Leaders at their meeting on 16th July 2012, in particular the objective of not passing on any increase to Council Tax payers. However, they stated that it was difficult to understand how the criteria for a hardship fund would be set and how it would interact with the proposed discount scheme in terms of fairness and transparency. Given the existing arrangements in place for write off of uncollectable debt, the requirement for a hardship fund was questioned.
 6. During the consultation period details of the draft scheme and questions for consultation were included on our website but targeted consultation was also completed by a market research company and surveys were sent to 2500 working age CTB recipients, 2500 Council Tax payers and all of the remaining CTB recipients were contacted to make them aware of the consultation and direct them to the website. Full details of the approach taken are included in Opinion Research Services report Localisation of Council Tax Support 2012. Available on the Council's Website.
 7. Visitors to Customer Services were given flyers alerting them to the consultation and where to find it on the website. These flyers were also distributed at the Listening Days held in September in Berkhamsted, Tring and Hemel Hempstead. Officers were also available at these events to answer any questions and provide information on the draft scheme.
 8. In addition, an invitation was sent to voluntary, community and faith groups asking them to attend a drop in session to discuss the scheme and potential impacts on their members. No one attended this session but arrangements were made to attend meetings with Mencap and MS Society and representatives from the service attended these meetings and gathered relevant feedback. Officers also held a telephone interview with a Domestic Violence Coordinator and attended three Neighbourhood Action Group Meetings in Hemel Hempstead.

Feedback from Consultation

9. Feedback from the consultation is detailed in the above mentioned report and supplementary reports also available on the Council's Website.
10. The main findings were:
 - 85% of households agreed with the principle that everyone of working age should pay something towards their council tax bill;
 - 71% of households agreed with the principle that the maximum support a person receives should be based on the council tax charge for a property in council tax Band D;

- 81% of households agreed that the most vulnerable people should not be affected by the reduction in funding to the same extent as other working age customers;
 - 87% of households agreed that families that include a disabled adult are among the most vulnerable and should be protected;
 - 85% of households agreed that families that include a disabled child are among the most vulnerable and should be protected;
 - 38% of households agreed that families that include a child under 5 are among the most vulnerable and should be protected; and
 - 78% households agreed that families in receipt of a War Disablement/War Widow(er)'s Pension are among the most vulnerable and should be protected.
 - 75% of households agreed that the scheme will incentivise and support people moving into work;
 - 68% of households agreed that the Second Adult Rebate should be removed;
 - 62% of households agreed that deductions from Council Tax Support should be increased where working age claimants have non-dependants living with them;
 - 68% of households agreed with limiting the amount of time that a Council Tax support claim can be backdated to one month.
11. Respondents made a wide range of free text comments which are shown in full in the supplementary reports published on the Website. These have been carefully considered by officers and where appropriate these have been taken into account in the suggested changes to the draft scheme.
12. Feedback from the other events attended is not included in the formal reports attached in the appendices. However, the overall principles of the draft scheme received broad acceptance. Areas that were raised as a concern included: the detailed definition of disability; the potentially large financial impact of doubling non dependant deductions; the importance of ensuring that the scheme is publicised in a way that the whole community is aware; and possible criteria to be considered for awards of additional help under section 13A(2)(a) LGFA 1992.

OPTIONS FOR CHANGES TO THE DRAFT SCHEME

Vulnerable Groups

- **Definition of disability**

13. Protecting claimants that are disabled received strong support. But during meetings with community groups an issue was identified with our current definition of disability.
14. The definition of disability used in the draft scheme is taken directly from the current CTB Regulations for award of a disability premium. This means that it excludes anyone who receives main phase Employment and Support Allowance (ESA). This is because CTB takes account of ESA income in a different way, but this leads to a difference in treatment between a person receiving ESA and one receiving long-term Incapacity Benefit (IB) as to whether they are protected as

vulnerable within the draft scheme. The difference can be highlighted by considering a person currently receiving long-term IB who is migrated to ESA. If they satisfy the ESA medical test (and thus are awarded ESA), they will receive transitional protection to ensure that the amount of ESA they receive is no less than the IB they previously received. However, under the draft scheme they would move from being in a protected group (as long-term IB awards a disability premium) to having to pay at least 25% of their Council Tax, when none of their financial or personal circumstances had otherwise changed.

15. This can be addressed by re-defining disability for the purposes of our local scheme by instead providing a list of qualifying DWP benefits that would class them as vulnerable for our scheme, and including main phase ESA within this list.

- **Protection for families with a child under 5**

16. The consultation indicated that there is general support for the groups that had been identified as vulnerable, therefore protected, under the draft scheme. However, only 38% of respondents supported protecting families where there is a child under five and 41% disagreed with this principle. Protecting this group was proposed in order to minimise the impact on child poverty in the borough as we currently have six wards in Dacorum where child poverty is higher than the national average.

17. Cabinet is asked to consider the response to the consultation but it is recommended to continue to protect families where there is a child under 5 because of the potential impact on child poverty. Parents with children under 5 are likely to have more difficulty in taking up employment.

Non-dependant Deductions

18. The draft scheme proposed that deductions were doubled for working age claimants who have a non-dependant living with them. The consultation asked if respondents agreed that non-dependant deductions should be increased and 62% agreed with this. However, feedback raises concern about the significant financial impact that doubling the non-dependant deduction could have in some particular circumstances. For example in one of the scenarios in the consultation documentation, the liability for Council Tax increased from £341.54 to £1002.41.

19. In the light of this various scenarios have been modelled relating to non-dependant deductions to ascertain their financial impact on the overall scheme.

20. We have also considered non-dependant deductions with regard to the simplification of the administration of the scheme. It is recommended that in order to simplify the scheme as much as possible and to reduce administration costs we align our local scheme to some of the principles that will exist in Universal Credit (UC) regulations. The treatment of non-dependants will differ from their treatment under Housing Benefit and Council Tax Benefit regulations. It is proposed that there will be a flat rate deduction of £15.00 per week for each non-dependant that is living with the claimant. This will be the case regardless of the claimant's circumstances and so will reduce the need for benefit to be reassessed as non-dependants' circumstances change. The high rate of non-dependant deduction under the current scheme, and as proposed in the draft scheme, can discourage claimants from declaring changes in household or in the

non-dependants' income. This has an impact on levels of Council Tax Benefit and single person discount fraud.

21. For this reason it is suggested that a change is made to the current draft scheme to introduce a flat rate deduction of £5.00 per week for each non-dependant. Whilst there is a potential cost, it is anticipated that the savings in administration are likely to meet those costs. For ease of administration, simplicity and consistency it is suggested that this flat rate deduction is applied across the whole scheme including protected groups. The potential costs reflect this.

Transitional Grant

22. In October, the Department for Communities and Local Government announced that it is making available an additional £100m for one year to support local authorities in developing well-designed council tax support schemes and maintain positive incentives to work. The grant will be payable in March 2013 to those authorities who adopt schemes that comply with criteria set by Government to ensure that low income households do not face an extensive increase in their Council Tax liability in 2013-14.

23. To apply for a grant, billing authorities must adopt schemes which ensure that:

- Those who would be entitled to 100% support under CTB pay between zero and 8.5% of their net Council Tax liability;
- The taper rate does not increase above 25%;
- There is no sharp reduction in support for those entering work.

24. The draft scheme does not currently comply with these requirements. If it were redesigned to comply, transitional funding would be £225,953 – compared to the additional cost of approximately £600, 000 as modelled. Dacorum's share of the grant would be £28,259, and Dacorum's proportion of the increased scheme cost would be about £71,000.

25. This would reduce the negative impact on all low income households of working age. It could reduce the particular impact in deprived communities where high numbers of Council Tax Benefit claimants live and reduce the potential impact on the local economy in deprived areas. This needs to be balanced against the budget pressures that this would generate and the subsequent impact on services provided to those communities.

Financial Impact of Options for Change

26. The overall financial impact of these changes has been modelled. This modelling is based on a number of assumptions. They are:

- No change to caseload;
- Modelled on a 2% increase to Council Tax for Dacorum Borough Council and 0% for Hertfordshire County Council.
- No uprating of income or applicable amounts; and
- 30% of current passported cases (currently in receipt of a benefit that automatically qualifies them for full CTB) will fall into a vulnerable category.

Table 1 Financial Impact of Suggested Changes

	Total cost	Difference from default scheme	Difference from draft scheme	Impact on Dacorum BC
Default scheme (i.e. no change)	£9,173,878			
Draft scheme (as consulted)	£8,336,256	-£837,622		
Option 1 - extend disability definition to include main phase ESA	Error! Not a valid link.	-£679,569	£158,053	£18,808
Option 2 – protection for lone parent with child under 5	Error! Not a valid link.	-£986,036	-£148,414	-£17,661
Option 3 - no protection for child under 5	Error! Not a valid link.	-£1,228,399	-£390,777	-£46,502
Option 4 - flat rate non-dependant deduction of £5 for all working age	Error! Not a valid link.	-£761,563	£76,059	£9,051
Option 5 - transition grant scheme	£8,921,501	-£252,377	£585,245	£69,644
Combined effect of multiple options				
Options 1, 2 and 4	Error! Not a valid link.	-£758,210	£79,412	£9,450
Options 1, 3 and 4	Error! Not a valid link.	-£994,781	-£157,159	-£18,701
Options 1 and 4	£8,553,117	-£620,761	£216,861	£25,806

Funding

27. The local Council Tax Scheme will be partially funded from government grant with the balance being funded from the main preceptors. Government has announced combined funding £1.043m for Dacorum Borough Council and Parishes. Hertfordshire County Council will receive a total of £49.4m for the whole of Hertfordshire, the County Council has estimated an apportionment of

£6.4m grant to meet the cost of the County's share of the Dacorum local CTS Scheme. (It is apportionment based on the taxbase allocation for Dacorum).

28. A separate report on the agenda makes proposals for Technical Council Tax reforms. These reforms will result in additional income being generated through the taxbase. Taking account of the Government grant allocation the revised cost of the local CTS Scheme, and additional income generated from the Council Tax reforms the proposed scheme will have a broadly cost neutral impact on Dacorum Council Taxpayers with an estimated net financial impact of £8k credit.
29. The government announcement on funding for the localisation of Council Tax support stated that "the Government expects billing and local precepting authorities work together to manage the impact on local precepting authorities Band D levels".
30. Three options for the distribution of the local precepting authority allocation of £60,635 Council Tax support grant have been modelled:-
 - Option 1. grant distribution on the basis of projected financial impact of localisation of CTS Scheme
 - Option 2. total grant allocation distributed on the basis of parish taxbase
 - Option 3. total grant allocation distributed on the basis of proportion of financial impact on parishes.

Appendix three illustrates the financial implications of these three options.

It is proposed that option three be adopted as the fairest option, as this option distributes the total allocation to parishes as a proportion of the projected financial impact of the local CTS Scheme, whilst ensuring that each parish is protected from the impact of the local CTS Scheme for 2013/14.

Equalities Impact of Options for Change

31. A draft equalities impact assessment (EIA) has been completed in respect of the draft Council Tax Support scheme and can be found at appendix 1. Any changes to the draft scheme will result in a revised impact on equalities and the amended scheme will be reassessed. In order to enable Cabinet to give full consideration to the options, this report highlights the potential impact for each option.

Definition of Disability

32. The proposed change to this definition will remove the negative impacts identified in the EIA with regard to customers in receipt of main phase ESA and also Personal Independence Payments (PIP) as these can be included in the list of qualifying benefits.

Protection for Families with a Child Under 5

33. If the protection is removed entirely there will be a negative impact on all families with children as opposed to the current identified impact on families with children over 5. This could then have a potential impact on child poverty. The mitigation

for this could be to state that allowances within this scheme and welfare benefits generally provide more financial assistance for those with children.

34. If the protection is removed for all families with children under 5, apart from those with a lone parent, there could be a negative impact on married couples or couples in a partnership. However this could be mitigated as it could be reasonable to expect one member of a couple to seek work.

Non-dependant Deductions

35. Moving to a flat rate deduction would reduce the negative impact on under 35 year olds as highlighted by the EIA.
36. This would also remove the negative impact identified in the EIA to multigenerational households which are characteristics of some ethnic groups.

DISCRETIONARY SCHEME

37. The LGFA 1992, Schedule 1A details matters that must be included in Council Tax Support schemes. This prescribes that a scheme must state the procedure by which a person can apply to the authority for a reduction under section 13A(2)(a). This legislation gives the billing authority the power to reduce the amount of Council Tax that the liable person is required to pay to such extent as it sees fit.
38. As previously mentioned consultation with the major preceptors highlighted the development of a hardship fund as a potential concern and particular mention was given to fairness and transparency. As the legislation prescribes that the scheme must include a procedure for applying for the discretionary reductions it is essential that a policy and process are developed to address the concerns of the major precepting authorities.
39. Other consultation highlighted additional groups who are not classified as protected but whom respondents felt should be treated as vulnerable. These included people with learning disabilities but not in receipt of qualifying benefits, people with a dependency on alcohol or drugs and those fleeing domestic violence. Officers have considered whether protection is appropriate in these cases and decided that each case will be decided on its individual merit. Such cases will be considered for either an award under the discretionary scheme or whether it is appropriate for the debt to be written off as it is unlikely to be recovered.
40. Cabinet and Council are recommended to note that the Corporate Director (Finance and Governance) in consultation with the Leader of the Council and the Portfolio Holder for Finance will put in place arrangements for a discretionary policy in compliance with the Council's obligations under S.13A(2)(a) Local Government Finance Act 1992 . Funding of £30,000 has been included in the draft budget proposal to finance this policy in 2013/14.