

EXETER CITY COUNCIL

**EXECUTIVE
20 NOVEMBER 2012**

**COUNCIL
11 DECEMBER 2012**

PROPOSED LOCAL COUNCIL TAX SUPPORT SCHEME

1. PURPOSE OF THE REPORT

- 1.1 To seek Members' approval of the proposed scheme for Local Council Tax Support Scheme ('the Scheme') due for implementation from April 2013.
- 1.2 To make Members aware of the components of the Scheme

2. BACKGROUND

- 2.1 The Government's aim to reduce the national welfare budget by means of a series of far-reaching welfare reforms is in the process of implementation. The changes are the subject of a separate report to this Committee. The changes that have been introduced so far have had a significant impact on some individuals but have had a relatively low impact on residents who claim benefits. However, changes that will come into effect from April 2013 are expected to have a greater impact on claimants' incomes as well as a greater impact on the Council. One of these changes is the abolition of Council Tax benefit and its replacement with a Local Council Tax Support Scheme, effective from 1 April 2013.
- 2.2 Local authorities will receive a grant for the new Scheme based on 10% less than the government's estimation of what Council Tax Benefit (CTB) expenditure would have been in 2013-14.
- 2.3 CTB is a means tested benefit, which, when awarded, reduces the applicant's Council Tax bill. It has been administered by local authorities (along with a housing benefit scheme), since the introduction of Council Tax in 1993. The purpose was to assist those on low income to pay their Council Tax, and Councils have administered the scheme in accordance with national legislation, under the direction of the Department for Works and Pensions (DWP).

3. PRINCIPLES OF THE LOCAL COUNCIL TAX SUPPORT (LCTS) SCHEME

- 3.1 Help with Council Tax will be a local authority responsibility and will not become part of Universal Credit.
- 3.2 Support for pensioners will not be affected by this reduction in funding. National rules will be used to administer a scheme for pensioners but Local authorities are free to establish, subject to any restrictions set by government, whatever rules they choose for their schemes for working aged claimants.
- 3.3 Central government will provide a grant to local authorities to operate their new Schemes. Unlike current arrangements, this grant will not be ring-fenced and will not vary according to demand. Local authorities will be able to keep any underspend, but will have to fund any overspend themselves.

- 3.4 Vulnerable residents must be protected (being mindful of the Child Poverty Act 2010, the Disabled Persons Act 1986, the Chronically Sick and Disabled Persons Act 1970 and the Housing Act 1996).
- 3.5 There is a requirement to meet Section 149 of the Equality Act 2010.

4. ESTABLISHING A LOCAL SCHEME

- 4.1 It is intended that support for council tax will become fully integrated into the council tax system, with support being offered as a reduction on council tax bills. It will no longer be a “benefit” subject to Social Security Legislation.
- 4.2 Billing authorities will be the default lead authority for council tax support schemes, but they can collaborate with other local authorities to develop schemes together.
- 4.3 The grant will be paid to the billing and major precepting authorities in proportion to their previous shares of expenditure, thereby reducing each authority’s council tax requirement.
- 4.4 Billing authorities will be required to develop a scheme which will set out the categories of claimants entitled to a council tax reduction, and the amount of reduction that applies to each category. The Secretary of State will also have the power to prescribe categories of persons who must be included in the scheme, and the reductions which must apply to them.
- 4.5 The local authority will need to set out the application process, appeals process and council tax reduction offered by the scheme.
- 4.6 The local authority is required to consult on the scheme with the major precepting authorities before a scheme is designed. They will then need to consult with the public and other agents once the scheme has been established.
- 4.7 Local authorities will be able to revise schemes between years and able to make transitional provisions as they see fit.
- 4.8 Where demand for support increases or falls below local forecasts, billing authorities will collect less or more council tax than had been estimated at the start of the financial year. This will result in a deficit or surplus in the collection fund. This deficit or surplus should be shared between the billing authority and major precepting authorities at the beginning of the following financial year, but the Government is looking at the possibility of varying the precept payments to major precepting authorities. This would protect small billing authorities from the financial pressure of funding the whole of any shortfall.
- 4.9 A Devon Benefit Officers Group (DBOG), comprising officers from all the Devon District and Unitary authorities and Devon County Council have been working collaboratively since January 2012. This has enabled sharing publicity and forms to save money and time, agreeing to use the same application process and evidence verification, agreeing a Devon- wide definition of vulnerable and considering how the scheme can build in vulnerability classifications while also making it possible to make local discretionary decisions.
- 4.10 There is a collective agreement that all Devon authorities want a single shared scheme, working from the principle of cost neutral i.e. to look to save the 10% reduction in grant by reducing the amount of council tax support for working age customers.

5. THE PROPOSED SCHEME

- 5.1 As indicated in 3.5 above, the Council will receive a fixed grant to be used to provide council tax support. The exact amount that we will receive is expected to be confirmed in December;

however we have been given an indicative figure for Exeter City Council of £588,000. Compared to a share of projected CTB expenditure for 2013-14 of £680,378, this is a likely reduction in funding of 14%. Devon County Council has made it clear that they cannot subsidise the shortfall in grant, and with no funds available from within Exeter City Council, the reduction in support must be passed on to working age claimants as pension age claimants are protected under national rules. Increases in Council Tax charges, proportion of pension age claims and working age caseload will all increase the savings to be made. Therefore, a 14% cut in funding for the Council means an average reduction in support for working age claimants of 24%.

In order to understand where the required savings could be made, the Council has undertaken extensive modelling of its current caseload. In determining the components of the proposed Scheme, the following have been considered:

- Other aspects of the Government's Welfare Reform changes are due to be implemented in the same timescale and will impact on the same residents as the proposed Scheme.
- Exeter City Council must have a robust scheme as all aspects could be open to legal challenge.
- The current means-test in the Council Tax Benefit scheme includes well established work incentives and protection for vulnerable groups through income disregards and premiums. For instance, a disabled customer would have a higher level of income disregarded as part of the calculation. A couple with children would have a higher level of income disregarded as part of the calculation compared to a couple without children. Keeping the means-test in its current form within our proposed Scheme preserves those protections, so satisfying our requirement to protect vulnerable people.
- Many recipients of Council Tax Support will also be receiving Housing Benefit until the move to Universal Credit is complete in 2017. Having a similar Council Tax Support scheme to the current Council Tax Benefit scheme will make it easier for the customer to understand the changes and will allow the Council to realise efficiencies in administration.

5.2 Components of the Proposed Scheme

- 5.2.1 The most significant component of the proposed Scheme is the level of support offered to working aged claimants. At present we have approximately 9,922 customers in receipt of council tax benefit at a current projected cost of £8,037,927. Of these, 58% are of working age and 42% are of pension age. The estimated savings requirement for the Exeter area £1,091,341, of which the City Council's share is £92,378.

The need to ensure equality, protect vulnerable groups, account for work incentives and make appropriate savings, creates a serious challenge for the Council.

Our modelling has assumed that there will be an overall increase in Council Tax for 2013-14 of 0.49%, based on the County Council freezing Council Tax and Exeter City Council and the other precepting authorities increasing Council Tax by 2% each.

Many options have been modelled, but the only way to realise the level of required savings is to limit support to all working age claimants. Currently, based on the indicative grant figure, this limitation needs to be in the region of 80%.

By adopting the option of restricting liability to a prescribed percentage, the Council maintains all of the core elements of the current Council Tax Benefit Scheme. That scheme has been in place since 1993 and regulations have been developed and updated since and will have been subject to many legal challenges. It can be assumed therefore that the current council tax benefit scheme is a robust and proven system.

By limiting support to all working age claimants, the burden of meeting these savings is borne by everyone and no one group is disproportionately affected.

5.2.2 The additional components of the Scheme are:

1. No Second Adult Rebate scheme for working age claimants
2. Removing entitlement where working age claimant capital exceeds £6k.
3. Having an Exceptional Hardship Fund

Additional options explained

1. A single taxpayer loses their 25% discount if there is another adult occupier in the property. The taxpayer can apply for Second Adult Rebate (2AR) if the other adult occupier is on a low income, doesn't pay rent to the liable person and isn't a partner, dependant or disregarded for council tax purposes. The 2AR scheme therefore enables a Council Tax payer with a generous income and savings who could afford to pay their bill in full to get a reduction up to the equivalent of 25% and so pay less.

2. In the current CTB scheme only claimants with more than £16,000 in savings or counted capital are prevented from receiving CTB. Currently where a customer has between £6,000 and £16,000 in capital there is a prescribed formula that is used to determine the amount of income this would generate. This is then taken into account as part of the calculation for CTB. Capital below £6,000 is completely disregarded. The proposal is to reduce the capital limit to £6000.

3. Major preceptors have indicated that they are willing to contribute to a fund for exceptional hardship cases. All the Devon group representatives felt that in order to protect the most vulnerable we should have an exceptional hardship fund to act as a safety net. As this would form part of our local scheme it would be funded through the collection fund. Cases would be considered on an individual basis and the principles are shown in the Exceptional Hardship Policy, which is appendix 5 of this report.

5.2.3 The consultation on the proposed Scheme included an additional component related to restricting support to specific Council Tax Bands which is now not being recommended for inclusion in the Scheme. 98% of current working age CTB claimants live in properties in Bands A to D. Capping the maximum Council Tax Support available at the Band D level would reduce the amount of support given to the 70 claimants who live in properties in Band E and above. Capping at Band E would reduce the amount of support given to the 25 claimants who live in Band F and above. This component is further explained in Appendix Seven to this Report.

5.2.4 In summary

Exeter City Council's proposed Scheme would be the existing Council Tax Benefit Scheme with the following amendments:

- i) Limit support to 80% for all working age customers
- ii) No Second Adult Rebate for working age claims
- iii) Removing entitlement to support where working age claimant capital exceeds £6k
- iv) Having an Exceptional Hardship Fund

5.2.5 There is a list of essential documents which form the Scheme that members are asked to approve and these are attached as appendices to this report. The documents are:

| | |
|-----------------|---|
| Appendix One: | The full S13a Policy, which is the legal framework for the Scheme |
| Appendix Two: | Response to Consultation |
| Appendix Three: | Full Equality Impact Assessment |
| Appendix Four: | Amendments to the Constitution |
| Appendix Five: | Exceptional Hardship Policy |
| Appendix Six: | Vulnerability Statement |
| Appendix Seven: | Band Restriction Report |

6. RESPONSE FROM CONSULTATION

- 6.1 A summary report of the consultation on the Proposed Scheme is attached at Appendix Two of this Report, with the full report available on request.
- 6.2 A total of 1336 surveys were completed and returned before the consultation closed. Detailed responses were also received from Exeter CAB and Sovereign Housing Association. 1081 (81%) of the responses came from people in receipt of Council Tax Benefit and 1275 (95%) were from people aged less than 66. This represents a significant proportion of the responses from those most likely to be affected by the proposed changes.
- 6.3 51% of respondents describe themselves as having a long standing illness or disability and 25% are in full or part time employment.
- 6.4 Whether a respondent receives CTB or not has a marked impact on their feelings about the proposed scheme. For example 74% of respondents not in receipt of CTB either agree or strongly agree with the principle that all working age people should pay something towards their Council Tax. That figure falls to 39% amongst those who receive CTB.
- 6.5 Having been part of the Devon Benefit Officers Group since the beginning of the project, Devon County Council, Devon and Cornwall Police Authority and Devon and Somerset Fire and Rescue have been consulted, and are in agreement with the proposed scheme for Exeter City Council, as it fulfils the principle of cost neutral i.e. only spending the grant we're getting.

7. FINANCIAL IMPLICATIONS

- 7.1 The information below will give an overview of likely impact on the number of customers who could be affected, and the financial implication of the grant reduction of 10%.
- 7.2 Our modelling is based on a CTB caseload of 9,922 of which 4,213 are of pension age (42%) and 5,709 are of working age (58%).
- Of the total CTB expenditure of £8,037,927, £3,519,167 is spent on pension age claimants (44%) and £4,518,760 is spent on working age claimants (56%).
- The calculated grant for Exeter for 2013-14 is £6,946,586.
- By limiting support to working age claimants to 80%, with a capital limit of £6k and no SAR for working age claims, our proposed scheme will potentially cost £6,956,350 or £6,995,161 if council tax is increased overall by 0.49%. Although this is slightly more than the grant, we have seen a decrease in caseload over the last three months. If this trend continues, and the Government indicated it was likely to when allocating the grant, there is a potential reduction in expenditure of £60k which more than covers the shortfall.
- 7.3 Members are asked to note that the figures presented above take no account of any potential increase in pension age claimants, caseload, an increase in council tax above 0.49%, applicable amounts increased by DWP, or working age claimants with capital just above £6k spending the excess in order to then qualify for council tax support. These are all potential risks to the scheme.

- 7.4 As at August 2012, 71% of Working Age Council Tax Benefit (CTB) claimants were receiving 100% CTB and so had no council tax to pay. The table below shows how much they will pay if support is limited to 80% and council tax is increased by 0.49%.

| No. of Working Age 100% CTB cases in each property band | | Amount to pay if support limited to 80% | | | | | |
|---|--------------|---|---------------------|-------------|---------------------|-------------|---------------------|
| | | Annually | | Monthly | | Weekly | |
| Band | Cases | Full charge | * With 25% discount | Full charge | * With 25% discount | Full charge | * With 25% discount |
| A | 1,900 | £197.61 | £148.21 | £16.47 | £12.35 | £3.79 | £2.84 |
| B | 1,413 | £230.54 | £172.91 | £19.21 | £14.41 | £4.42 | £3.32 |
| C | 569 | £263.48 | £197.61 | £21.96 | £16.47 | £5.05 | £3.79 |
| D | 150 | £296.42 | £222.31 | £24.70 | £18.53 | £5.68 | £4.26 |
| E | 19 | £362.29 | £271.71 | £30.19 | £22.64 | £6.95 | £5.21 |
| F | 12 | £428.15 | £321.12 | £35.68 | £26.76 | £8.21 | £6.16 |
| G | 5 | £494.03 | £370.52 | £41.17 | £30.88 | £9.47 | £7.11 |
| Total | 4,068 | | | | | | |

* single occupiers get a 25% discount off their council tax and therefore pay less than a household with two or more adult occupants.

8. POTENTIAL IMPACT ON WORKING AGE CUSTOMERS AND COLLECTION

- 8.1 Working age customers who may up to now have received 100% CTB will have to pay Council Tax for the first time. The majority of customers currently getting CTB are in properties in Band A or B. As the table above shows, those in Band A properties face having to pay £16.47 per month or £3.79 per week. This equates to having to pay £19.21 per month in Council Tax for Band B or £4.42 per week.
- 8.2 These are substantial sums to residents on low incomes and Members are reminded that these figures assume no other groups except pensioners being protected, no increase in Council Tax above 0.49%, no caseload increase and no increase in pension age claimants.
- 8.2 The major preceptors have recognised that collection and recovery will be difficult, and in principle have agreed to support two business cases that the Devon Benefit Officers Group has put before them. These being the provision of an exceptional hardship fund, and funding resources to improve collection. The aim is to protect the collection fund and assist the exceptionally vulnerable. By including the exceptional hardship fund in our scheme, it can be funded by the preceptors as well, rather than solely by Exeter City Council.
- 8.3 Members should note that payment transaction costs fall on the billing authority only, therefore there may be an increase in that expenditure due to more customers needing to pay council tax.

9. OTHER RELEVANT INFORMATION

- 9.1 On 18 October 2012, Communities and Local Government (CLG) published a Transitional Grant Scheme ("the Grant"). This Grant consists of a fund of £100m and authorities are required to bid for a predetermined share. Exeter City Council is able to apply for £187, 900.

- 9.2 To apply for the grant, Exeter City Council would have to adopt a scheme which ensures that:
1. Those who would be entitled to 100% support under current council tax benefit arrangements pay between zero and no more than 8.5% of their net council tax liability
 2. The taper rate does not increase above 25%. (The taper rate in our proposed scheme is 20%. This is the rate that is applied when income earned is above the amount that it is determined that an individual needs to meet their living costs. This applicable amount is based on household circumstances. A taper of 25% would mean that for every additional £1 earned over the applicable amount, 25p would be paid by the individual towards their Council Tax.)
 3. There is no sharp reduction in support for those entering work
 4. There are no large additional increases in non-dependant deductions.
- 9.3 The Government has made clear that this funding is for 2013-2014 only. Therefore, Councils who opt to apply for this funding will need to meet the full cost of the Scheme in future years if they choose to continue to operate a Scheme that meets the Government's criteria. If they choose to vary the Scheme after the initial year, a new Scheme would have to be developed, consulted on and agreed by Council, all in time for implementation on 1 April 2014.
- 9.4 Councils are not allowed to apply for this funding until after 31 January 2013, which is the date by which the new Scheme has to be agreed. There is a possibility that the Council may set a Scheme which it feels meets the Government's criteria; but subsequently is unsuccessful in securing the funding, meaning that the extra costs would need to be met by the City Council and major preceptors.
- 9.5 By increasing the level of support from 80% to 91.5%, even taking into consideration the extra grant for Exeter of £187,900, there is still a shortfall to be met of £417,105, of which Exeter City Council's share would be approximately £36k (not allowing for any increase in council tax).
- 9.6 Devon County Council would be required to meet most of the shortfall, which for the 8 District Authorities amounts to more than £2m. At the DBOG meeting of 29 October, County advised that this was unaffordable and that they favoured the cost neutral solution which is the local Scheme that the City Council consulted on. If the City Council was to attempt to meet the shortfall, for example, by reducing our taper rate to 20%, this would effectively change the Scheme that we consulted on and we would need to amend the draft Scheme, consult with local preceptors and the public.
- 9.7 A cap of 8.5% means that the majority of claimants who currently do not have to pay council tax because they get 100% CTB, would be required to pay amounts in the region of between £5 and £8 per month. Whilst this may be more beneficial to those on low incomes, because the funding is only for a year they could face steep increases in required payments from year two. Small amounts of Council Tax are challenging to collect, and the cost of collection activity compared to the income likely to be generated needs to be considered.
- 9.9 It is for the reasons above that, in consultation with the Leader and Portfolio Holder, the City Council has not applied for the transitional grant.

10. RECOMMENDATION

- 10.1 That Council notes the documents attached as Appendices to this Report; and
- 10.2 That Council agreed the amendments to the Constitution; and

10.3 That Executive recommends to Council the approval of the proposed scheme for Local Support for Council Tax, to be introduced on 1 April 2013.

BINDU ARJOON

ASSISTANT DIRECTOR BUSINESS TRANSFORMATION

CHIEF EXECUTIVE'S DEPARTMENT

**Local Government (Access to Information) Act 1985 (as amended)
Background papers used in compiling the report:**

None