



CABINET REPORT

Report Title	LOCAL COUNCIL TAX SUPPORT SCHEME
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	19 th December 2012
Key Decision:	Yes
Within Policy:	Yes
Policy Document:	No
Directorate:	Finance & Resources
Accountable Cabinet Member:	Alan Bottwood
Ward(s)	All

1. Purpose

- 1.1 Local Authorities must by January 31st 2013 have a Local Council Tax Reduction Scheme (Local Scheme) in place and approved by Full Council after a period of public consultation.
- 1.2 Councillors have legal responsibility for the adoption of a localised support scheme, with the decision to introduce and revise a scheme that is in place for one financial year. The Council is therefore required to devise a local support scheme that best suits the needs of local council tax payers, whilst managing spending within lower limits and protecting the most vulnerable.
- 1.3 This report following a period of consultation and analysis provides the recommended option for a local scheme in Northampton.

2. Recommendations

- 2.1 That cabinet note the results of the consultation process undertaken.
- 2.2 That cabinet note the financial implications and analysis associated with the chosen scheme.

- 2.3 That cabinet approve the design of the local Council Tax Reduction Scheme detailed in paragraph 3.4.6 and the associated protection the scheme provides for the residents of Northampton
- 2.4 That Cabinet recommends the Local Council Tax Reduction Scheme for approval at Council on the 21st January 2013.

3. Issues and Choices

3.1 Report Background

- 3.1.1 The Government has removed from April 2013, the current Council Tax Benefit Scheme and it has been replaced with a localised council tax reduction scheme to be delivered by Local Authorities. The rationale behind this decision is to reduce the current £4.8 billion annual Council Tax Benefit bill across Great Britain. This is achieved through a reduction in the overall expenditure attributed to Council Tax Benefit by 10% and localising support for Council Tax.
- 3.1.2 Local Authorities currently administer Council Tax Benefit (CTB) in their areas based on national rules set by the Department for Work and Pensions (DWP). Under new management from Department for Communities and Local Government (DCLG), this devolved power under the Local Government Finance Act 1992 (as amended), changes the current system of awarding a means tested benefit, to a means tested local reduction scheme within Council Tax administration.
- 3.1.3 Funding arrangements from Central Government will be capped at 90% of the existing Council Tax Benefit expenditure. The expectation upon Local Authorities is to create a scheme that is suitable for its local community and promotes the Governments position on Welfare Reform, by protecting the vulnerable and encouraging work for those of working age. Whilst considering how to design a scheme, further consideration will need to be given to collection of amounts previously paid automatically through benefits.
- 3.1.4 A further review of a chosen scheme will be required for 2014/15. This could be a completely new scheme or a further refined version of the 2013/14 scheme.
- 3.1.5 Pensioners are not impacted by the introduction of a Local Scheme and are fully protected.
- 3.1.6 DCLG have acknowledged that many authorities are delivering savings using their local flexibilities and discretion on local discounts and exemptions, without unfairly increasing the burden on those who are currently on benefits. However, DCLG has expressed concerns regarding the fact that some authorities are planning to ask for very large additional contributions from those on benefits. In view of the above concerns and to further assist the transition process, DCLG has announced an additional £100 million of funding for councils to help support them in developing well-designed council tax support schemes, which maintain positive incentives to work. By applying for this grant an estimated £361k will be made available to NBC and its major precepts, these being the County and Police Authorities. However this could be subject to take up and the level of funding could therefore change on this basis.

- 3.1.7 The voluntary grant is only available to councils (billing and major precepting authorities) who choose to design their local schemes so that:
- Those who would be on 100% support under current council tax benefit arrangements pay between zero and no more than 8.5% of their council tax liability;
 - The taper rate does not increase above 25%;
 - There is no sharp reduction in support for those entering work - for claimants currently entitled to less than 100% support, the taper will be applied to an amount at least equal to their maximum eligible award, and
 - There is no large additional increase in non-dependant deductions.
- 3.1.8 DCLG has also suggested that councils will want to avoid collecting small payments and that it may consequently be better value for money for councils to avoid designing schemes which seek to do so and therefore the local scheme for Northampton has been designed to ensure the requirements of the grant have been met. They anticipate that councils will make applications after 31 January 2013, and before the deadline of 15th February 2013, and that funding will be paid in March 2013.
- 3.1.9 As part of the design of a local scheme the continuation of voluntary income disregard for War Widows and War Disablement pensions has been considered. Under the previous CTB scheme NBC awarded a 100% disregard against income for war widows and for those who receive war disablement pensions.
- 3.1.10 In addition to protecting those in receipt of War pensions, the Council also has to decide if it will continue to afford protection to vulnerable groups within Northampton. This protection would be on the same basis as the previous CTB scheme. Details of the specific protection for disabled, vulnerable groups and those in work can be found at **Appendix A**.

3.2 Issues

- 3.2.1 DCLG has provided an estimate of the reduction in funding that each Local Authority will be capped. For Northampton Borough Council, this will be in the region of £1.723m, based upon 2010-2011 subsidy expenditure and growth/distribution of caseload over the UK for 2012-2013; however the exact amount will be published as part of the Local Government Finance Settlement. Information on the level of funding should also be made available as part of the provisional settlement on the 19th December 2012.
- 3.2.2 Central Government has suggested that following the reduction in funding arrangements, Local Authorities could meet the deficit by implementing other changes, to ensure that Local Authorities maximise their opportunities to be financially efficient with the current budgetary pressures. NBC has done so by considering;
- Reconfiguring funding for other services through, for example, efficiency savings or realising savings through shared services, in particular its proposed transfer of services to Local Government Shared Services (LGSS)
 - Using the new flexibility over Council Tax to remove the reliefs in respect of second homes and some empty properties; and other reforms of the council tax system, including the use of an electronic leaflet and removal

of expensive printing costs traditionally associated with the annual billing process. A separate report has been included as part of the draft budget in respect of the use of new flexibilities with discounts and exemptions.

- 3.2.3 Northampton Borough Council will as required by the prescribed elements of the scheme protect pensioners (any claimant aged over 62, whether in a single household or couple household) entitlement at current levels. Therefore NBC will continue to administer protection for year 2013-14 for approximately 7,576 residents.
- 3.2.4 Claimant's aged between 18 and 62 are deemed in the Age Relation Regulations as Working Age and are subject to the Local Scheme. Approximately 11,537 accounts fall into this group and will be affected for collection and financial purposes by a reduction of their existing award. The reduction is applied by a reduction in benefit after all calculations have been made.
- 3.2.5 The design of a scheme has also required consideration of the short time-scale available for implementation. This included capability around systems and the need to design and implement the new scheme in time for annual billing in March 2013.
- 3.2.6 Due to the timelines associated with the set-up of a new scheme the design of the local scheme will be based around the default regulations provided by the Local Government Finance Act 2012. Default regulations will broadly be in line with the former CTB regulations. These default regulations will be amended, where the Local Scheme differs as part of the scheme implemented at Northampton.

3.3 Choices (Options)

- 3.3.1 There were a number of options for a replacement local scheme consulted upon, which would reduce or mitigate the impact of the reduced funding for support. The options consulted upon are shown in 3.3.2.

3.3.2 Local Council Tax Reduction Options

These options were mutually exclusive and therefore, following consultation only one option could be selected.

3.3.2.1 Option 1.1: Maintain the existing Council Tax Benefit Scheme.

This option looks to continue in 2013/14 the principles and procedures of the existing Council Tax scheme and funding the reduction.

3.3.2.2 Options 2.1 – 2.3: Percentage Reduction in weekly benefit entitlement

This option proposed a reduction in existing awards across working age customers and illustrations were provided of between 10% and 25% restrictions.

3.3.2.3 Options 3.1 – 3.3: Reduction in weekly benefit entitlement by £5.00 per week.

This option looked at reducing the original entitlement level to working age benefit recipients by £5 per week. This option also provided an alternative view of a straight percentage reduction and also split out the different groups

contained within the working age caseload. Three different options were profiled as follows:

- Working Age reduction (all claims)
- Working Age excluding Vulnerable
- Working Age excluding Vulnerable and pass-ported claims

3.3.3 Work Incentive Option

A number of additional options were also proposed that would work alongside the chosen option.

3.3.3.1 Option 4: Incentivise work through offering Extended Payments (for those starting work):

Current legislation allows for a maximum four-week continuation of full entitlement when employment commences. It was proposed to consider an increase of this period to 3 months.

3.3.3.2 Option 5.1 & 5.2 - Increase non-dependent deduction:

A deduction is applied to a Claimants entitlement in respect of other adult's aged 18 or over living in the claimant's home. This option proposed to increase the deduction by 25% or 50%.

3.3.3.3 Option 6 Increase the Taper:

The taper is the rate at which Council Tax Support reduces where weekly income exceeds basic living needs. This option looked at increasing the rate to 30p in every pound rather than the 20p.

3.3.3.4 Option 7: Withdraw benefit for those holding over £6,000 in capital instead of £16,000:

Working age claimants with capital such as savings and investments above £16,000 have not previously been entitled to council tax benefit. This option looked to reduce that figure to £6,000.

3.3.3.5 Option 8 - Removal of Second Adult Rebate:

The Alternative Maximum Benefit scheme, known as second adult rebate (2AR) is applied to claims, up to a maximum of 25% reduction, on the basis that the second adult in the property was on a low income.

3.3.3.6 Option 9 - Freeze allowances and premiums in 2013/14 (at 2012/13 levels):

Premiums and personal allowances are used to determine basic living needs for a claimant and their family. This option proposed to hold the rates working age claimants in 2013/14 to the rates in 2012/13 and therefore not increase in line with increases in state benefits. This would have the effect of reducing entitlement to benefit.

3.3.3.7 Option 10 - Removal of Backdating:

In the current legislation, an application is made to a Local Authority as can be backdated. This option proposed the removal of backdating.

3.3.3.8 Option 11 – Restrict Benefit to Band D equivalent:

This option would exclude support to households of a Band D and above.

3.3.3.9 Option 12 - Restrict minimum weekly award from £0.50p per week to £1.00 per week:

Currently, legislation states the minimum entitlement to Council Tax Benefit, must be 50 pence. This option proposed increasing this to £1.00.

3.4 Choices – Northampton Local Council Tax Reduction Scheme

3.4.1 The Council has undertaken a 6 week consultation in order to obtain the views of citizens and stakeholders.

3.4.2 Following the consultation and upon further analysis of the financial implications of the options, it was decided that a straight percentage deduction would be further defined and as a result two options were fully analysed, including a full impact assessment of a 20% reduction across working age benefit recipients and an 8.5% reduction, which includes applying for the transitional grant offered by central Government. These options met the needs of the Council in providing a balanced budget, encompassed where possible the views expressed as part of the consultation exercise and minimised the impact to existing and future citizens in need of financial support.

3.4.3 The financial case and impact of these two options are shown below:

8.5% Reduction across all working age claims	Value	NBC	NCC	Police
Net Budget deficit after reduction to benefit/transitional grant	£903,058	£139,974	£642,345	£120,738
Cost of chosen option to incentivise work	£52,639	£8,159	£37,442	£7,038
Cost of protecting War Widows Pension Disregard	£23,304	£3,612	£16,576	£3,116
Net impact (Cost)	£979,001	£151,745	£696,363	£130,892

20% Reduction across all working age claims	Value	NBC	NCC	Police
Net Budget deficit after reduction to benefit	£537,303	£83,282	£382,184	£71,837
Cost of chosen option to incentivise work	£52,639	£8,159	£37,442	£7,038
Cost of protecting War Widows Pension Disregard	£23,304	£3,612	£16,576	£3,116
Net impact (Cost)	£613,246	£95,053	£436,202	£81,991

3.4.4 As provided in paragraph 3.2.2 and in order to mitigate the cost of these schemes on local taxpayers the draft budget also makes proposals to change the level of discounts and exemptions currently provided in Northampton, alongside wider savings proposals.

3.4.5 Alongside wider budget proposals and the receipt of a transitional grant, it was decided that an 8.5% option could be taken forward. This was opposed to making a greater deduction of 20% from existing working age benefit recipients, which would likely have posed a significant increase in the financial pressures on this group in 2013/14. By taking a transitional grant the impact in 2013/14 on this group could therefore be reduced.

3.4.6 Recommended Option (Chosen Local Scheme)

3.4.6.1 The recommended option proposes to make an application for transitional funding in 2013/14 in order to minimise the impact of any reduction on the lowest income levels in Northampton.

3.4.6.2 A reduction of 8.5% will be reduced from the benefit of existing recipients, alongside benefit levels being reduced by the same amount for future working age recipients of support.

- 3.4.6.3 Protection as set out In **Appendix A** will be afforded to ensure the Council protects disabled and vulnerable citizens, whilst ensuring there remains an incentive to work.
- 3.4.5.4 A four – week period of extended payments will be provided for those re – entering work. This period will mean that benefit rates are retained for 4 – weeks before any reduction is made.
- 3.4.5.5 Alongside this protection of existing income and capital disregards for War Widows and war disablement will also be retained.
- 3.4.5.6 The recommended local scheme includes measures to provide mitigation against potential reductions in collection and growth within the existing benefit caseload. This is to safeguard against the risk of under collection in 2013-14 which could lead to budget deficits across Northampton.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 The report outlines options for a Local Council Tax scheme, which if chosen, will set policy.

4.2 Resources and Risk

- 4.2.1 There are significant financial implications on this Council and the two other major precepting authorities as a result of the requirement to design a local council tax scheme with a 10% reduction in funding, whilst protecting Pensioners.
- 4.2.2 If the Council maintains the existing scheme there would be a funding gap of up to £1.723m across the Borough, County and Police Authority.
- 4.2.3 The level of recovery and costs associated with a deduction from existing benefit recipients could see increased costs in terms of recovery. Taken in addition to wider welfare reforms the Council could see reduced collection on Council Tax and wider corporate debts. The Council has taken full account of this in calculating the impact of the recommended Local Scheme in Northampton.
- 4.2.4 If the Council fails to agree and implement a scheme locally a default scheme will apply. This scheme would have a financial implication, as it would replicate the existing benefit system, which does not apply a reduction.
- 4.2.5 The timeline for applying for the transitional grant falls after the local scheme is agreed at full Council. Therefore there is a risk that an application for funding is unsuccessful, leading to a shortfall in funding. However NBC are confident that the local scheme design meets the standards required for receiving a grant.

4.3 Legal

- 4.3.1 As part of the process of setting up a local scheme, legal advice will be obtained in order to ensure that processes and procedures that underpin the local scheme are compliant in terms of the default and prescribed regulations used as part of the local scheme in Northampton.

4.4 Equality

- 4.4.1 Northampton Borough Council must demonstrate to DCLG, that in order to devise a local scheme, a full stakeholder review has taken place and these people have been consulted on the local scheme, to ensure that the scheme reflect the needs of the community as a whole.
- 4.4.2 A full equality impact assessment has been completed, which includes the results of the consultation exercise. This can be found at **Appendix D**.
- 4.4.3 The equality impact assessment recognises that the chosen scheme will place an additional financial burden on working age customers in 2013/14. Included within this group will be individuals and families with vulnerable characteristics.
- 4.4.4 In order to mitigate against the impact on this group and in particular those vulnerable citizens the Council has continued to afford protection akin to that contained within the existing Council Tax Benefits scheme. Alongside this the Council will continue to work on fair debt collection principles and providing or referring those under financial pressure for debt advice.

4.5 Consultees (Internal and External)

- 4.5.1 Local Authorities were advised to carry out as thorough a consultation in order to reduce the opportunity for the scheme not to reflect the needs of the local population. The Cabinet Office Code of Practice for Consultation in 2004, defined consultation in five principles, which Northampton Borough Council will adopt;
- Proportional
 - Inclusive
 - Genuine
 - Consistent
 - Transparent
- 4.5.2 Consideration required that any consultation that occurred be proportional to the needs of the community and time barred in line with good practice.
- 4.5.3 Care must be given to ensure that all members of the community have access to this consultation to ensure that everyone is given a right to be heard on the local scheme. This was identified through a stakeholder mapping exercise, included in the Councils consultation methodology.
- 4.5.4 A six week consultation was undertaken and included:
- Members
 - Forums including:
 - 3rd Party Sector Meeting
 - Northampton Pensioner
 - Northampton LGBT and Q
 - Northampton Diverse Community Forum
 - Northampton Disabled People Forum
 - Members of the Public via web
- 4.5.5 A total of 23 responses were received by 22nd October 2012 (21 electronically, 1 via paper questionnaire and 1 letter by email). There has been 1 further response outside of the closing date.

- 4.5.6 Nationally, the response to Local Authority engagement on local Council Tax schemes has been low. Benchmarking with other Local Authorities has established that this is the case.
- 4.5.7 Responses in respect of the main proposals to either reduce the award by a percentage (8.5% - 25%) or by a set weekly amount (£5.00) had the majority of respondents supporting the option to reduce the award by a percentage of the award. 13 out of 18 responses to this question either strongly agreed or agreed with this proposal, whereas only 10 out of 20 respondents either strongly agreed or agreed with the proposal for a set weekly deduction (£5 per week)
- 4.5.8 14 out of 20 respondents believed that any new scheme should incentivise work and as a result the new scheme aims to provide a run on period to assist in the transition.
- 4.5.9 10 out of 19 respondents agreed that as part of the scheme everybody in the household should contribute. The new scheme in respect of non – dependents will retain the existing rules in respect of adults in the household and does not propose any additional increase in deductions.
- 4.5.10 10 out of 19 respondents agreed or strongly agreed with increasing the taper from 20% in the pound to 30% (see paragraph 3.3.4.2). Additional options to freeze allowances, remove back-dating, restrict awards above Band D and restrict the minimum weekly award were also not accepted. As part of the Councils application for the additional transitional grant these options cannot be taken forward due to the qualifying criteria for accepting the grant excluding these options.
- 4.5.11 11 out of 20 respondents agreed or strongly agreed in reducing the capital limit for qualifying for support from £16,000 to £6,000. After reviewing this option in terms of impact and the complexity of implementing the change in year 1 this will not form part of the scheme in 2013/14.
- 4.5.12 8 out of 18 respondents, with 2 responses indicating they did not know, indicated they disagreed with the removal of second adult rebate (see para 3.3.4.4). As a result the new scheme would not seek to remove this benefit in 2013/14.
- 4.5.13 The Consultation Methodology is attached at **Appendix B**.
- 4.5.14 The results of the Councils 6 – week consultation can be found at **Appendix C**.

4.6 How the Proposals deliver Priority Outcomes

- 4.6.1 This change is a statutory requirement as a result of national austerity measures and wider reforms of the benefit system.

4.7 Other Implications

None

5. Background Papers

- 5.1 Northampton Borough Council Consultation
- 5.2 Website Information Local Scheme

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