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<b>PART B:</b>	<b>RECOMMENDATIONS TO COUNCIL</b>
<b>REPORT TO:</b>	<b>POLICY AND RESOURCES COMMITTEE</b>
<b>DATE:</b>	<b>21 JUNE 2012</b>
<b>REPORT OF THE:</b>	<b>CORPORATE DIRECTOR (s151) PAUL CRESSWELL</b>
<b>TITLE OF REPORT:</b>	<b>LOCALISATION OF COUNCIL TAX SUPPORT</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1 This report informs members of the proposals for the Localisation of Council Tax Support and considers policy options for taking forward the upcoming legislative requirements. It proposes a policy direction for the Council which will enable it to consult with the major precepting authorities, the County Council, Fire and Police.
- 1.2 Members will approve a final scheme for Council Tax support in January 2013 and the matter will come to Council in September prior to public consultation.

### **2.0 RECOMMENDATION**

- 2.1 That members recommend to Council:
- (i) the preparation of a scheme for 2013/2014 Council Tax Support for consultation with the major precepting authorities which incorporates:
    - 1. Maximum Eligible Council Tax Support of 80%;
    - 2. Removal of the Second Adult Rebate;
    - 3. a maximum Band D property restriction for all working age claims;
    - 4. an assumption that all preceptors contribute proportionately to any additional collection costs;
    - 5. an assumption that all preceptors contribute proportionately to the establishment of a Council Tax Support Hardship Relief fund;
  - (ii) that any shortfall in funding to meet the total cut in Government funding, having implemented the above, is met through reductions in Council tax discounts as part of the 2013/2014 budget strategy process; and
  - (iii) that a further report and scheme for public consultation is presented to Council on the 6 September 2012 taking into account the comments of the major preceptors.

### **3.0 REASON FOR RECOMMENDATION**

- 3.1 The proposals within the consultation are potentially very significant for the Council and residents of Ryedale. The timescale for implementation is extremely challenging and consultation with the other Council Tax preceptors and public, publication of a new scheme and implementation for Council Tax Support (CTS) is required in the next 7 months.
- 3.2 The financial modelling of the likely impacts indicates that attempting to pass on the cut in funding in full to working age claimants will not be possible.

### **4.0 SIGNIFICANT RISKS**

- 4.1 The significant risks to RDC of the recommendation (detail at Annex A) are:
- That the proposals do not deliver the required saving in total due to collection difficulties. This will be mitigated by the proper assessment of requirements with external support.
  - That the scheme is subject to legal challenge on equality grounds. This will be mitigated by the significant proposal being for equitable treatment and completion of detailed equality impact assessments with external support if required. Much of the scheme will be based on existing Council Tax Benefit rules and procedures which have previously been impact assessed nationally.

### **5.0 POLICY CONTEXT AND CONSULTATION**

- 5.1 The Council will need to prepare a Local Scheme for CTS.
- 5.2 Consultation with the major precepting Authorities (North Yorkshire County Council, North Yorkshire Police and North Yorkshire Fire and Rescue Service) will be required prior to consultation with the public on a scheme.

### **6.0 REPORT DETAILS**

- 6.1 Council tax benefit is currently an income related social security benefit administered by local authorities on behalf of the Department for Work and Pensions (DWP). The local authority awards benefit on a means tested basis to claimants after other council tax discounts have been applied. The benefit is demand led; as more people apply and are eligible to claim so the overall benefit bill increases. The DWP covers the cost of council tax benefit by giving the local authority subsidy based on the overall amount paid plus a separate grant towards the administration costs. Annex A provides a simplified explanation of Council Tax Benefit.
- 6.3 It was announced in the 2010 spending review that support for council tax would be localised from April 2013 and expenditure reduced by 10%. This means that local authorities would determine their own schemes based on finance from and guidance by the Department for Communities and Local Government (DCLG) rather than the DWP. The Government consulted on the proposals in 2011.
- 6.4 The government's policy objectives in localising support for council tax are that it will:
- Give local authorities a greater stake in the economic future of their local area.
  - The paper claims that the reforms will "create stronger incentives to get people back into work".
  - Give local authorities the opportunity to reform the system of support for working age claimants.

- Reinforce local control over council tax.
- Give local authorities significant control over how a 10% reduction in expenditure on council tax is achieved.
- Give local authorities a financial stake in the provision of support for council tax.

- 6.5 The outcome of the consultation plus recent developments, which include:
- The Statement of Intent publication which sets out the proposed policy for the key regulations to be provided under the Local Government Finance Bill.
  - The funding consultation sets out Government's proposals for the distribution and mechanism of funding for council tax support, including provisional allocations.

are detailed below:

- Schemes need to be in place by 1 April 2013.
- Pensioners retain full protection against any reduction in Council Tax Support.
- The use of single person discount has been ruled out.
- The financing of the schemes would be managed through the collection fund and therefore the financial risk would be shared between all the major preceptors (i.e. Districts, NYCC, Police and Fire). Effectively the Council Tax Base reduces. There will be further issues to consider for parish and town councils.
- The responsibility for schemes in two tier areas would rest with the lower tier (billing) Authority, who must consult with the other preceptors (as well as the public).
- It is still expected to become legislation in July 2012.
- The schemes can only be revised annually and must be approved by the Secretary of State.
- In 2012/2013 a grant to assist in the setting up of schemes has been paid to each District of £84k, the other preceptors have received a grant of £27k.
- Schemes must protect the vulnerable however no definition of vulnerable has been provided. Lobby groups are ready and waiting to challenge schemes which adversely affect their client groups.
- Schemes must provide incentives for work.
- The Government has said it will produce a default scheme (yet to be produced) which an authority that has not had a scheme approved by the 31 January 2013 will have to adopt. This scheme will deliver no saving to that authority.
- Final funding allocations will be announced in December, most probably alongside the Local Government Finance Settlement. The grant will be subsumed into wider Government financial support under the Business Rates retention scheme in future years.

- 6.6 The following table sets out the current approximate profile for RDC

<b>Claimant Type</b>	<b>Number</b>	<b>Annual Cost</b>	<b>% total spend</b>
Over Pension Age	2,163	£2,141k	61%
Working Age – Full CTB	758	£815k	23%
Working Age: Some CTB low earner	510	£403k	12%
Working Age: some CTB not in work	189	£149k	4%
	3,620	£3,508k	

- 6.7 Further detail on the claimant breakdown is provided in Annex C.
- 6.8 The protection for Pensioner claimants with the 10% cut based on overall spend including pensioners creates a significant problem for RDC due to the higher than average proportion of pensioner claimants.
- 6.9 As stated the risk around this cut is shared with the other major preceptors in proportion the respective proportions of the Council Tax bill. Clearly this financial risk is raising significant interest from the other preceptors. The final decision on a scheme is for the billing Authority, i.e. RDC. Essentially the cut reduces the Council tax base which therefore reduces each preceptors Council Tax income, a grant is then paid which equates to 90% of the loss of Council Tax income direct to each preceptor.
- 6.10 As can be seen from the above the impacts are material, and for the other preceptors are much greater across the whole County. The County Council potential impact across the whole county is well in excess of £3m.

### **Financial Projections**

- 6.11 The impact of attempting to pass on the cut to working age claimants has been modelled using the following assumptions:
- Council Tax rise of 2.5% next year.
  - 5% increase in demand overall through the change to a discount from a benefit.
  - 1% increase in working age claimants.
  - 59%/41% split in pensioner/working age claimants (top quartile).
  - Using the consultation grant figures. This it is not just a 10% cut. It is based on OBR estimates for 2013/2014 which include a predicted 4.4% reduction in spend on CTB against 2010/2011. The funding cut is therefore nearer 15%. The cut in funding equates to c£500k for the Ryedale area, of which RDC share would be c£60k.
  - Estimates of additional collection costs based on RDC current costs (which are below national average).
  - Collection rate 40% (based on the size of the cut the above figures generated)
- 6.12 These are very prudent/worst case estimates, but the conclusions of what is required to make the cut to claimants are stark:
- A 52.7% cut to benefits of all working age claimants would be required to make the saving and the Council would still face a bill of £68k for bad debts and costs of collection
- Or
- A 100% cut in benefits for working age claimants would still leave RDC with a bill of £42k for bad debts and costs of collection

- 6.13 The Council cannot therefore realistically deal with the cut in full by reductions to working age claimants benefits.

### **Options**

- 6.14 Three basic options exist to deal with this issue:
- 6.15 ***Option 1 – Absorb the cost and make savings in other service areas***
- The claimants are amongst the most vulnerable in communities and any reduction in their income is going to have a major impact on their lives. There

are other possible knock on effects which could affect Council costs (housing, debt advice etc.).

- Effectively the scheme would leave eligibility unchanged, which may deter additional claimants if the message is 'no change'.
- Consultation would still be required.
- Significant impact on other preceptors as well as the Districts absorbing the cost.
- It could be a one year option whilst councils prepare for something different in year 2 having learned the lessons from others taking into account the challenging timeframe for introduction and unknowns such as collection rates.
- Minimal IT systems changes would be required.
- The Council's target saving for 2013/2014 (Round 3) is £607k, this includes an expected cost of choosing this option, this option would not therefore increase the Council's savings requirement for 2013/2014 significantly.

#### 6.16 ***Option 2 – Pass on the Cut to Working Age Claimants***

It is not possible to pass on the entire cut to working age claimants, however some saving could be achieved this way.

- The cuts to benefits will be for people with low incomes and difficult circumstances. Collecting small sums from people with low incomes will be difficult and trying to collect additional Council Tax in an already difficult climate, with the potential for resistance leading to non-payment or avoidance measures, could lead to additional administrative burdens and costs for the districts and a higher bad debt provision. Authorities can change the scheme annually.
- Detailed modelling of options for cuts have been considered but very few delivery significant savings.
- Such a move is more likely to face challenge.

#### 6.17 ***Option 3 – Use changes to Council Tax Exemptions and Discounts to finance the cut in funding***

- The Government has consulted on allowing more freedom over Council tax discounts and exemptions (but not the single persons discount). The following are relevant:
  - Second Homes (currently 10% discount) (RDC £113k p.a.)
  - Unoccupied undergoing structural repairs/alterations (currently 100% reduction for 12 months) (RDC £110k)
  - Unoccupied Dwelling (currently 100% reduction for 6 months) (RDC £585k)
  - Unoccupied property Mortgagee in Possession (currently 100% reduction not time limited) (RDC £14k)
- The scheme would remain unchanged, minimal changes to the existing IT system would be required.
- The risks to all preceptors is minimised.
- The announcement to allow authorities the flexibility over the discounts and exemptions is imminent.
- Many authorities are considering this option.
- The principles fit with bringing homes into use quicker and may potentially benefit the council through the New Homes Bonus.
- This could be a year one option whilst work to implement the cut in year 2 is undertaken learning from the experiences of other authorities who implement the cut. However the potential down side is that making the cut in 2013/2014 can be attributed to the government, making the cut for 2014/2015 may reflect more directly on the Council.

6.18 Taking into account all of the above and following discussions at a regional and national level, a number of key issues also need to be considered:

- The cost of support for pensioners will increase in future years through demographic changes, in a period when increases in overall government support to local authorities are not expected.
- A new scheme provides an opportunity consider potential changes to current eligibility to protect the Council's finances in future years.

6.19 The following table provides options which manage the cut in full through a combination of cut to benefit and amending discounts only:

	Use Discounts and exemptions entirely	10% Working Age cut, plus use of discounts and exemptions	20% Working Age cut, plus use of discounts and exemptions	25% Working Age cut, plus use of discounts and exemptions
Cut to working Age claimant	None	10%	20%	25%
Second Homes 10% discounts	Zero	Zero	Zero	Zero
Class L - Mortgagees	Zero	Zero	Zero	Zero
12 Months Class A Structural Repairs becomes	5%	25%	45%	54%
6 Months Class C Empty and Unfurnished becomes	5%	25%	45%	54%
Additional Collection Costs	None	£17k	£34k	£43k
RDC share of additional collection costs	None	2k	4k	5k

The additional collection costs are the responsibility of the billing authority. In many areas discussions with the other preceptors have taken place to share this cost. All figures are based on current experiences and further work will be required once the legislation is passed.

6.20 The following potential changes to the current scheme which could produce financial savings that the North Yorkshire Authorities are detailed below. Annex D provides further explanation of each of these options.

- Maximum Eligible Council Tax Support
- Removal of the second adult rebate
- Introducing a Band D council tax restriction for claimants
- Treating Maintenance as income
- Taking Child Benefit into account (currently not)
- Increasing dependant deductions
- Reducing the capital restrictions (currently £16k)

6.21 All of the Districts in North Yorkshire are consulting their members on options and it is likely that the joint working which currently takes place in the benefits arena will

extend to joint consultation. Officers within the districts have indicated that, in all cases bar one, a cut to working age support will be made by introducing a maximum eligible council tax support. The maximum will be between 70% and 90%. The other proposals do save money however the significant savings come from this option.

- 6.22 The recommendation within this report seeks to deliver a solution which does not create a significant financial cost on RDC or the other preceptors. The decision on the Maximum Eligible Council Tax Support is the key issue at this time.
- 6.23 There is presently no hardship relief budget for Council Tax claimants. This issue will be considered as part of the scheme design, with a recommendation that this is funded jointly by the precepting authorities.

#### **Timetable**

- 6.24 The following is an estimated timetable to take the issue forward:

RDC approves policy decision for 2013/2014 scheme	Council 12 July 2012
Joint District Consultation with Preceptors (6 weeks)	20 July – 31 August 2012
Council approves scheme for public consultation	6 September 2012
Public consultation (6 weeks)	7 September - 19 October
Policy and Resources recommendation to Council	6 December 2012
Council approves Scheme	10 January 2013
Scheme live	1 April 2013

## **7.0 IMPLICATIONS**

- 7.1 The following implications have been identified:
- a) Financial  
There are potentially significant financial impacts in considering this report as detailed.
  - b) Legal  
The scheme will be a detailed legal document of the Council and it may be open to legal challenge.
  - c) Other  
There are significant equality issues around the protection of vulnerable which will be taken into account as part of the scheme design.

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#### **Background Papers:**

Consultation Paper "Localising support for council tax in England"

<http://www.communities.gov.uk/documents/localgovernment/pdf/19510253.pdf>

Statement of Intent:

<http://www.communities.gov.uk/publications/localgovernment/localisingsupportcounciltax>

The funding consultation:

<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/counciltax/counciltaxsupport/>