

Cabinet

4 December 2012

Report of the Cabinet Member for Corporate Services

Council Tax Support Scheme – Decision Paper

Summary

1. This paper provides Cabinet with details of the options for a Council Tax Support Scheme (CTS) for York to be implemented from 1st April 2013. It asks Cabinet to recommend a scheme to Full Council for approval at its meeting on 13 December 2012.

Background

2. The Government released a formal consultation document in August 2011 on their plans for abolishing Council Tax Benefit and replacing it with a new local system of Council Tax Support. This paper confirmed the announcement in the spending review (CSR 2010) that help with Council Tax will not become part of Universal Credit – the new benefit that amalgamates tax credits, out-of-work benefits and Housing Benefit – but will instead remain a local authority responsibility. They also confirmed that the funding for Council Tax Support would be reduced by 10% based upon the Governments estimate of all local authorities' financial needs for 2013/14. The changes do not affect qualifying pensioners who are excluded from these cuts. The Governments initial consultation period ended on 14 October 2011 and their response to the consultation was published on 19 December 2011 with a Statement of Intent being published in May 2012. The changes were formally enacted in the Local Government Finance Bill on 1st November 2012.
3. The Government state their key aims are to:
 - give local authorities including York a greater stake in the economic future of their local area which supports the Governments wider agenda to encourage stronger, balanced economic growth across the country;

- provide local authorities with the opportunity to reform the system of support for working age claimants;
 - reinforce local control over Council Tax (Local decisions about what support is given i.e. Council's will be free to establish whatever rules they choose for working age customers);
 - implement new schemes by April 2013 (Schemes must be in place by 31 January 2013)
 - provide local authorities with a financial stake in the provision of support for Council Tax (The fixed grant will not be ring-fenced).
4. The Council have been preparing for this change since the initial consultation document was released in August 2011. This has included liaison with neighbouring local authorities and discussions with other authorities nationally. Discussions have also taken place with the Department for Communities and Local Government (DCLG) and bodies representing local government including the Institute of Revenues Rating and Valuation (IRRV).
5. The Council has also undertaken a formal 12 week public consultation exercise between 13 August and 4 November 2012 on the proposed changes. The feedback from this exercise is covered in more detail at paragraph 16 and Annex D.

Grant Funding

6. When the new system of local support for Council Tax goes live in April 2013 the Government will reduce the amount of funding provided to York by 10% based upon their estimate of our financial requirements for the 2013/14 financial year. This will reduce the support we can provide to customers of CTS however pensioners who are already customers will not be affected by the cut (they are protected under the new scheme from losing any benefit) as are any new pensioners qualifying for support. As a result the percentage of the benefit loss to working age customers will be much higher than 10%.
7. The Government has provided an indication of York's Grant for the 2013/14 year (Funding arrangements consultation May 2012 - DCLG). This has been calculated at £7.409m for York and when the Police, Fire and Parishes element is added totals £9.214m. This compares to a required level of grant for 100% support in 2013/14 of an estimated £10.590m. This equates to a loss of some £1.3m in grant funding, assuming the same circumstances in relation to

claimants, and value of Council Tax. In reality however, there is a significant risk that claimant numbers and cost of claims may increase, and all of this additional cost will be met by the Council (and Fire/Police) if this occurs. Within the figures set out later in the report, we have made certain assumptions in terms of claimant growth to ensure the scheme is a prudent assessment.

8. The Government has retained the right to prescribe the scheme of Council Tax support for pensioners which means that they will continue to be supported at the current scheme levels from the new grant. As well as protecting pensioners entitlement to their current level of Council Tax Benefit the Government propose two additional principles to underpin local schemes:
- Local authorities should also consider ensuring support for other vulnerable groups;
 - Local schemes should support work incentives, and in particular avoid disincentives to move into work.
9. The impact of the protection provided to pensioners by the Government is that all the savings required to be delivered through the cut in funding will be passed to working age customers. The actual cut in grant based upon the estimated scheme costs (If the scheme had not been changed) for 2013/14 is nearer 13% and taking into account any increase in Council Tax, case load and after protecting pensioners will equate to approximately a 25% - 30% cut in working age customer's Council Tax support. The split between pension age and working age Council Tax benefit customers by both numbers and financial cost is set out at Table 1 below:

Table 1*

Cat	Description	No of Claims	Annual Cost (£)
A	Pensioner Income Support	3919	3,563,549
B	Pensioner non-income support	2516	1,759,515
C	Working age Income Support	3469	3,441,063
D	Working age non-income support (vulnerable status)	227	159,756

E	Working Age non-income support (all remaining customers)	2436	1,667,107
Total		12865	10,590,990

*This table shows the split of customers as at November 2012 and is based on the 2013/14 estimated full scheme costs (of gross Council Tax including Fire & Police) excluding any claims growth.

10. The Government have made it clear that pensioners are protected from this cut and no changes can be made to the level of support we currently provide. This leaves those customers in category C – E to share the cut in funding.
11. The Governments consultation document makes it clear that the Council should not de-incentivise those working and on low income and should encourage those on full income support to enter work. This is further referred to in the more recent response to the consultation which sets out the clear principles of the Governments welfare reform agenda:
 - People should get more overall income in work than out of work;
 - People should get more overall income from working more and earning more;
 - People should be confident that support will be provided whether they are in work or out of work, and it will be timely and correct.

A local scheme of Council Tax Support

12. In developing a local scheme, consultation has been carried with other Local Authorities at both a national and local level as well as the Police and Fire Authority. Account has also been taken of information disseminated by other key bodies including the IRRV, LGA, CIPFA and DCLG.
13. It is accepted nationally that it is not possible to develop a completely new scheme within the Governments deadline of 31st January 2013. Any future schemes will be developed overtime and may be fundamentally different to the current one given the uncertainty over the future level of funding and the demographic pressures of an aging population.
14. The approach taken at York in developing a scheme is similar to that undertaken at neighbouring local authorities in maintaining the principles and rules of the current scheme, considering any minor amendments in light of the Government guidance and to republish

this as City of York Councils scheme by 31st January 2013 to abide by the statutory deadline. A full draft scheme (Option 1 Paragraph 27) for approval that is compliant with Section 13a of the Local Government Finance Act is attached at Annex A with an easy read version at Annex B.

15. In developing a local scheme at York that delivers the required saving the methodology used was to maintain in principle the current scheme but to cap the amount of Council Tax discount awarded in each Council Tax band such that the difference between the award level and the true cost (The additional element that must be paid by the customer) equates to the saving required (Loss of subsidy).

Public Consultation

16. In moving to a new Council Tax support scheme (Annex A) as set out in the Governments 'Statement of Intent' there was a requirement that statutory public consultation was undertaken. This consultation was required to comply with Best Value Statutory Guidance (September 2011) and had to be undertaken in the order set out in the Finance Bill. The initial consultation undertaken with the major precepting authorities (Fire & Police) was to gain their agreement on the approach been taken prior to formal public consultation.
17. The Statutory Guidance on public consultation sets a minimum 12 week time period. Failure to comply with this guidance can lead to a judicial review. City of York Council provided a full 12 week public consultation period between 13 August 2012 and 4 November 2012.
18. The basis of the consultation was to communicate the Councils view that the fairest way to deliver the savings was through capping of the current scheme. To achieve the savings required as a result of the Governments reduction in funding the cap would be set at approximately 70% - 75% of the current scheme cost for working age customers. The balance of approximately 25% - 30% would be passed back to working age CTS customers in the form of a new or increased Council Tax bill. The consultation also provided customers and key stakeholders with the opportunity to consider some minor scheme amendments.
19. In summary customers were against passing back the Government cut but understood the position of the Council. Their views in relation to other scheme changes including the removal of the second adult rebate, maintaining the current Capital limits, providing continuing support when entering work and protecting War Pensioners reflected those of the Council and are included within the scheme (Annex A). The only change to the existing scheme is the removal of the second

adult rebate. In other areas such as Non dependant deduction and Child Maintenance the views of the consultation were that non dependant deductions should be increased and Child Maintenance should be taken into account. The impact of any change in the former of these options would not deliver any saving due to the ups and downs of harmonising a range of different deduction levels and in the latter would impinge on Child Poverty. The number of survey questionnaires returned by all respondents was 101 not all of these were CTS customers but even so the numbers only represent 1.55% of the current working age case load meaning that the responses are not statistically sound. The full feedback from consultation is set out in detail at Annex D.

20. The consultation programme in York was as wide and inclusive as we had resource to deliver and included:

Website

- A bespoke website including:
 - Interactive calculators;
 - FAQ's;
 - Customer Survey;
 - Information booklet;
 - Details of public consultation sessions.

Consultation sessions:

City Centre

28 th August 2012	Mansion House State room	14:30 - 16:30
29 th August 2012	Guildhall Committee room 2	17:30 - 19:30
30 th August 2012	Guildhall Committee room 2	13:30 - 15:30
08 th October 2012	Mansion House State room	13:30 - 15:30
09 th October 2012	Mansion house State room	14:00 - 16:00
10 th October 2012	Guildhall Committee room 2	18:30 - 19:30

Community

10 th September 2012	Bell Farm Community Centre	15:00 - 17:00
11 th September 2012	St Josephs Church (Clifton)	15:00 - 17:00
12 th September 2012	Gateway Community Centre	15:00 - 17:00
24 th September 2012	Tanghall Community Centre	14:00 - 16:00
26 th September 2012	Huntington Community Centre	15:30 - 17:30
27 th September 2012	Haxby Memorial Hall	15:00 - 17:00

Communication

- Invitations sent to all working age CTS customers explaining the changes and inviting them to consultation sessions;
- Invitations to key partners and stakeholders inviting them to consultation sessions. The full distribution list is attached at Annex E;
- A Press release to publicise the 12 week consultation period;
- A poster campaign distributed to Doctors, Libraries, Public Receptions and Job Centre Plus;
- A direct dial phone number for customers to contact the Council with any queries and support with the completion of questionnaires;
- Access for customers to complete the survey through the dedicated phone line including 'typetalk' facility.
- Radio both BBC Radio York and Minster FM

21. The detailed analysis of the public consultation feedback is set out at Annex D. There were a number of minor changes considered within the existing scheme but taking into account the adverse affects for various groups of implementing any of these changes and the outcome of the consultation it is recommended that for the first year of the scheme War Pension is excluded in calculating CTS entitlement and the Second Adult Rebate is removed. The scheme will be under constant review during 2013/14 and further recommendations may come forward during the year which may require further Public Consultation.

Governments Transitional Funding Grant

22. The Government announced in late October 2012 that they were making available an additional £100m of 'one off' funding to support local authorities in developing 'well-designed' Council Tax support schemes. To qualify for this grant billing authorities are required to ensure that:
- those who currently pay no Council Tax should pay no more than 8.5% of their liability;

- the taper rate does not rise above 25% - This is the amount taken into account due to additional income currently 20% at York.
 - there is no sharp reduction in support for those entering work
23. The Council already meets the second two criteria set out above however would be required to have a reduced cap of 91.5% to meet the first. In making this change the level of the transitional grant paid in March 2013 would be £201,933 (£249K Including Fire and Police).
24. Taking the transitional grant and capping the scheme at 91.5% as opposed to 70% (which would be cost neutral) will only be a change in the level of charge passed back to the customer and not a change to the fundamental scheme that assesses a customer's entitlement to benefit. On this basis it is not considered that accepting any of the options set out at Paragraphs 27 - 32 will require going back out to Public Consultation.

Financial Assessment

25. In simple terms the cost of paying the current level of benefit in 2013/14 is estimated to be £10.5m (Table 1 above) and we will receive along with the Fire & Police Authorities a grant of £9.2m leaving a shortfall of approximately £1.3m. The cost to the City of York Council is an initial £1m loss, but as outlined earlier there are issues to consider in relation to potential increases in claimant costs and numbers, cost of collection and non payment. Each option to be considered needs to make an assessment of these, to arrive at the "true cost" of the scheme. In addition, different options also need to consider the impact of the transitional grant, but it clearly needs to be noted that the transitional grant is significantly lower than the costs of implementing a scheme that will secure the payment of the grant.
26. There are three main Options to consider and these are set out below with a summary table at the end of this section.

Option 1 – Cost Neutral Scheme

27. After considering the potential issues around non collection and prudently estimating claims inflation of 3%, to set a broadly cost neutral scheme will require the upper figure of 30%. The affect of this on each Council Tax band for CTS customers is set out at Annex C. There were options to make changes to some elements of the new scheme and these were consulted on during the public consultation period that ended on the 4th November 2012. The Scheme set out at

Annex A & B and the figures in Table 1 above take into account the recommended changes made in this report.

28. Approving this option and the scheme (Annex A) that was publically consulted on will cap Council Tax support at 30% less than currently provided and deliver a cost neutral solution. As part of this, there is also an option to consider providing a hardship fund to target customers who experience significant hardship as a result of changes in benefits (see financial implications section)
29. In terms of vulnerable customers (Category E in table 1) they will also lose 30% of their benefit but continue to retain the higher applicable amounts within the scheme and so retain greater levels of support than non-vulnerable customers.
30. The application of a cap on the amount of support that will be paid to customers is the approach been taken by most if not all local authorities (Prior to the Governments announcement of Transitional Funding Paragraph 30). The districts in North Yorkshire, East Riding Council, Hull, Bradford, Kirklees and Wakefield were all taking this approach although the level of the cap will vary from authority to authority depending on the cost of their schemes and the split between Pension age and working age customers.

Option 2

31. Approve accepting the Governments 'one off' Transitional Grant (Paragraph 22) and amend the Scheme set out at Annex A to limit any increase to customers on full benefit to no more than 8.5% capping at 91.5% and reinstating the second adult rebate to comply with the Governments rules. This is the Government's proposed scheme and the 8.5% cap must be applied to all on full benefits. Clearly, for some claimants who would be entitled to partial support, changes to the cap within the parameters of the scheme, for example, could result in an increase in liability greater than 8.5%. As this would require a further consultation the only realistic scheme in line with the Governments is to apply 8.5% to all customers. This option will cost the Council an estimated £772K and this is shown in table 2 below. It should be noted that as the grant is only for one year, the costs for the Council are likely to then increase to £1m from 2014/15. The risks associated with increased claim numbers and costs are also increased as a greater share of the additional costs will have to be met by the Council.

Option 3

32. Passing on none of the reduction in grant to customers, with the Council meeting the entire shortfall in Government grant (£1.155m).

In taking this option the Council would receive the transitional grant (Paragraph 22) but as with option 2 it needs to be borne in mind that the transitional grant is only a 'one off' the cost of both options (2&3) will rise by nearly £250K in 14/15 before any further increase in Council Tax. Table 2 below shows the financial impact of the different options.

Table 2

	Option		
	1	2	3
Benefit Cost 13/14	£10,590,990	£10,590,990	£10,590,990
Grant	-£9,214,812	-£9,214,812	-£9,214,812
Transitional Grant 'one off'	£0	-£249,590	-£249,590
Net Loss in grant	£1,376,178	£1,126,588	£1,126,588
Estimated costs of claims inflation	£317,730	£317,730	£317,730
Charge to Customer	-£1,693,908	-£478,701	£0
Total Scheme Cost	£0	£965,617	£1,444,318
CYC Share	£0	£772,494	£1,155,454

Community Impact Assessment (CIA)

33. The Council's vision is to promote equal life outcomes for everyone living, working and visiting York through inclusive design in everything the Council does. The reduction in Council Tax support for customers living in York has been considered carefully in light of this vision and a detailed CIA is attached to this paper at Annex F.
34. The CIA was initially drafted at the outset of York's CTS scheme and has been continually developed through each stage of the process including public consultation. The key outcome is that some communities of interest are more directly affected by the Government's reduction in support while others are not directly impacted by the changes. Those communities directly affected are:
 - Gender
 - Age
 - Carers of older people
 - Disabled
 And those not affected:
 - Race
 - Religion/Spirituality/Belief
 - Sexual orientation
 - Pregnancy/Maternity
 - Gender Reassignment

- Marriage and Civil Partnerships

35. The CTS scheme considers the outcome of the CIA and endeavours to treat each of the Communities fairly. This is achieved through maintaining the current level of 'applicable amounts' (The sum of money that the Government sets as a minimum requirement for each category of customer). The applicable amounts will be linked to those issued by the DWP for Housing Benefit on an annual basis and will migrate to the Universal Credit amounts when these are brought in. This approach is embedded in the scheme at Annex A and will remain under constant review. Where the impact is directly related to the Government's principle of incentivising customers to find employment no increase has been made to the amount of income taken into account in the revised scheme and protection remains for the first four weeks of employment. Additional incentives and opportunities for employment must be dealt with outside of the CTS scheme and as part of the Council's broader financial and economic inclusion strategy.

Technical Changes to Council Tax

36. The 6th November Cabinet report (Technical Changes to Council Tax) recommended that that Class A & C Exemptions were reduced from 100% to 50% and that the Empty Home Premium of 150% was applied along with a 100% charge for second homes from 1st April 2013. These changes were approved and will provide the opportunity to increase the Council Tax liability during the 2013/14 financial year. It is not possible to estimate accurately how much of the additional liability may be collected as a result of these changes. This is because some customers may be eligible for alternative Exemptions that still provide a 100% exemption to Council Tax. A good example of this is where a Registered Social Landlord (RSL) has charitable status instead of paying 50% of Council liability under the revised Class C Exemption from April 2013 they could apply for a 100% unlimited exemption under a Class B Exemption due to their charitable status.
37. The value of accounts raised as with CTS will be small with the average value of an account with a Class C Exemption in the region of 44 days. As with CTS collecting small amounts of money is very difficult, can be expensive and has a negative impact on collection rates. It is for these reasons that the technical changes are been treated as largely cost neutral.

Local Welfare Assistance

38. The Social Fund that provides payments for crises loans and grants to vulnerable customers will be localised from April 2013 and be renamed as Local Welfare Assistance. The DWP will provide £315K (2013/14) of funding to assist customers who are in financial difficulty arising from a range of benefit reductions along with a further £66K to administer the applications and payments.
39. The Discretionary Hardship Fund (DHP) which provides funding from the DWP for assisting customers with their rents will also rise significantly above the 2012/13 funding level of £116K in 2013/14. The current national funding will rise from £60m to £165m in 2013/14. The distribution formulae does not allow us to estimate how much York's allocation will be in 2013/14 but it is likely to more than double the current level received.
40. Option 1 at paragraph 27 provides for an opportunity to create a hardship fund for CTS customers. This will require additional funding to be provided to increase funding for the hardship fund. This is covered in a separate report on this agenda. Should the new fund be created the three funds together will provide a broad safety net for assisting Council customers who encounter financial difficulties through the current changes to Housing Benefit and the localisation of Council Tax support.

Council Plan 2011 - 2015

41. The implementation of a new CTS scheme from April 2013 will have an impact on several of the Council's priorities that create the Council plan 2011-2015. The proposed scheme (Option 1 Annex A) continues to provide an incentive to get people into work by maintaining the current level of earning disregards and support for the first four weeks of employment. The Council through not having to meet the cost of grant (10% cut) can utilise its resources more effectively on creating more employment and job opportunities through economic growth. If the Council opts to fund the loss of grant, then further savings would be needed which could impact on the ability of the Council to target support towards job creation. The priorities impacted include:
 - a) Protecting vulnerable people
 - b) Building strong communities
 - c) Creating jobs and growing the economy

Implications

- (a) **Financial** – The financial implications are set out in the report and summarised at Table 2.

It should be noted that both option 1 and 2 have non collection risks associated with them, and these will need to be considered carefully, alongside other factors in setting the Council taxbase for the Council which is approved by the Director of CBSS.

The financial strategy makes no provision for any additional costs to the Council arising from the Council Tax Benefit changes; therefore if Options 2 or 3 were approved there would be a need to find compensating savings from other services to the value of the additional costs of any approved option. This would clearly be in addition to already very significant savings that the Council is required to achieve in 2013/14.

The financial strategy currently makes no specific provision for providing any support to offset the reduction in benefits including any proposed hardship fund. If members wished to provide financial support, this is only possible if additional savings are identified in 2013/14, or potentially one off funding (e.g. New Home Bonus Grant) could be directed towards the fund to provide funding for a time limited period.

- (b) **Human Resources (HR)** - There are no implications
- (c) **Equalities** – The loss of Council Tax benefit can give rise to equality issues and these are considered in the Community Impact Assessment at Annex E.
- (d) **Legal** – Advice around the requirement for further public consultation may be required if Cabinet were to approve Option 2 or 3.
- (e) **Crime and Disorder** - There are no direct implications
- (f) **Information Technology (IT)** - There are no implications
- (g) **Property** - There are no implications

Risk Management

42. There are a number of risks arising from localisation of CTS. A key risk will be failure to collect the new Council Tax from former Council Tax benefit customers. In addition there are risks in relation to increasing caseloads, disproportionate increases in applicable amounts for pensioners and increasing costs to the Council as a whole through homelessness, debt support, and increased social care costs (voluntary family carers having to find work). There are also potential administrative cost issues in relation to managing any hardship fund that adds to the necessity to deliver a localised Social Fund from April 2013 and the ongoing administration of Discretionary Housing Payments (DHP). There is also a high reputational risk however this is central Government policy and is a decision been taken by all local authorities.

Recommendations

43. Cabinet are asked to:

- a. consider the paper and the options set out at paragraphs 27 - 32;

Reason

To make Members aware of the financial impact on customers and the Council of the Governments changes to the Council Tax Benefit scheme

- b. approve either option 1, 2 or 3 and recommend the decision for approval at Full Council;

Reason

To ensure that a Council scheme is in place before the Governments statutory deadline of 31st January 2013.

Contact Details

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	Report Approved	√	Date 22 November 2012
Wards Affected: All			
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Background Papers

Localising Support for Council Tax in England –DCLG

Funding arrangements consultation – DCLG

A statement of intent - DCLG

Localising Support for Council Tax in England: Government's response to the outcome of consultation – DCLG

Council Tax Support Briefing Paper 6th March 2012

Technical Changes to Council Tax – Cabinet 6th November 2012

Annexes

Annex A – Draft Council Tax Support Scheme (viewable online only)

Annex B – Draft Council Tax Support Scheme (Easy read version)

Annex C – Affect of the scheme on each Council tax band

Annex D – Feedback from consultation

Annex E – List of Partners and Stakeholders contacted

Annex F - Communities of Interest Assessment (CIA)