

 <b>Executive 11 July 2012</b>		<b>Agenda Item No.</b>  <b>5</b>
<b>Title</b>	<b>Council Tax Support</b>	Council Tax Support
<b>For further information about this report please contact</b>	Andrea Wyatt Ext 6831	
<b>Wards of the District directly affected</b>		
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>		
<b>Background Papers</b>		

<b>Contrary to the policy framework:</b>	Yes/No
<b>Contrary to the budgetary framework:</b>	Yes/No
<b>Key Decision?</b>	Yes/No
<b>Included within the Forward Plan? (If yes include reference number)</b>	Yes/No
<b>Equality &amp; Sustainability Impact Assessment Undertaken</b>	Yes/No (If No state why below)
An EIA will be undertaken in tandem with the consultation process.	

Officer/Councillor Approval		
Officer Approval	Date	Name
Deputy Chief Executive & Monitoring Officer	22 <sup>nd</sup> June 2012	Andrew Jones
Head of Service	29 June 2012	Mike Snow
CMT	29 June 2012	
Section 151 Officer	29 June 2012	Mike Snow
Finance	29 June 2012	Mike Snow
Portfolio Holder(s)	29 June 2012	Mike Snow
Consultation & Community Engagement		
It is a statutory requirement that consultation in respect of the new Council Tax Support scheme is undertaken amongst precepting authorities, key stakeholders and persons affected. An Equality Impact Assessment will also be undertaken and the findings will be circulated with the consultation documents.		
Final Decision?		Yes/No
Suggested next steps (if not final decision please set out below)		

## 1. **SUMMARY**

- 1.1 The Government have announced that the national Council Tax Benefit scheme, administered by Local Authorities will be abolished from April 2013. Each Local Authority must design its own Local Council Tax Support scheme and this must be in place by 31<sup>st</sup> January 2013 ready for implementation on the 1<sup>st</sup> April 2013.
- 1.2 Government funding for the scheme will be cut by at least 10% and Local Authorities must decide how they will make the savings required.
- 1.3 Existing and future pensioner claimants will be protected from any changes to council tax benefit and assessment of support for this group will remain unchanged.

## 2. **RECOMMENDATION**

- 2.1 That Executive agrees that the proposed Council Tax Support scheme for Warwick District from April 2013 principally replicates the default Council Tax Support scheme to be prescribed for by the Government. This will be based on the current national Council Tax Benefit scheme and will not make the required savings.
- 2.2 That Executive agrees the following amendments to the default scheme for new claimants from 1<sup>st</sup> April 2013.
  - 1) Take no account of the second adult rebate scheme
  - 2) Reduce the capital cut off limit for Council Tax support in all cases to £10,000 from £16,000
  - 3) Reduce the tariff income level for Council Tax support to £3,000 from £6,000
  - 4) Disregard Child Benefit from the calculation of Council Tax Support for the first child only
- 2.3 That Executive agrees to delegate powers to the Head of Finance to enable any amendments to be made to the scheme which will have no financial impact to customers, but which it is deemed are required to ensure that the scheme is less complex to administer than the current scheme.
- 2.4 That Executive agrees that the major precepting authorities, Warwickshire County Council and Warwickshire Police Authority are consulted on the proposed scheme, with any response presented to the Executive in August ahead of broader consultation.
- 2.5 That Executive agrees to receive a further report following the consultation process to enable it to decide upon the Warwick District Council, Council Tax Support scheme to be implemented from April 2013.
- 2.6 That Executive agrees to receive a report detailing a review of the proposed scheme during 2013.

### **3. REASONS FOR THE RECOMMENDATION**

- 3.1 National legislation governing the current administration of Council Tax Benefit will be abolished for claims made after 1<sup>st</sup> April 2013 and Local Authorities are expected to introduce their own local schemes which will be subject to a 10% cut in funding from Central Government.
- 3.2 As discussed in Section 7, there will be significant problems in introducing a new Council Tax support from April 2013 that makes the necessary savings so that the benefit awarded matches the reduced financial support to be provided by Central Government. Any new scheme aimed at making the full financial savings would place an additional financial burden on working age claimants who are already on low incomes.
- 3.3 If the Council's Council Tax Support scheme were to reduce the benefit awarded so that the cost of the scheme is within the total funding provided by Central Government, the Council would have to collect Council Tax from tax payers who have previously not had to pay or can't afford to pay more than they already do. This would be likely to lead to a rise in non payers. Tax payers who default on their council tax instalments face possible Court and bailiff costs which would only serve to increase the financial pressure on these people.
- 3.4 The cost of collection (which falls upon the District Council) is likely to increase due to the additional resource that would be required in order to collect outstanding council tax.
- 3.5 There have already been changes to the Housing Benefit scheme with further changes planned for April 2013. As a result, Benefit recipients are also having to contribute more to their rent.
- 3.6 Accordingly, it is proposed that from April 2013 the Council's scheme for Council Tax Support will mostly mirror the current Council Tax Benefit Scheme, as reflected in the "Default Scheme" that will be issued by the Government. However, several changes are proposed as discussed in paragraphs 3.7 below for all new claims made after 1<sup>st</sup> April 2013. By not making major changes to the scheme for the first year, it is intended that the scheme should be further reviewed prior to April 2014 in the light of local and national experience, so as to endeavour to make further financial savings from the scheme in line with the Government financial support.
- 3.7 The changes proposed to be incorporated within the Council's Council Tax Support scheme for new claimants from 1<sup>st</sup> April 2013 are:-
  - 3.7.1 Second adult rebate (SAR) can be claimed by a person who is solely liable for council tax but has a second adult (who is not a partner) living in the property. Unlike main Benefit, this scheme does not take into account any of the income or capital of the tax payer. SAR reduces a council tax bill by 25%, 15% or 7.5% depending on the income of the second adult in a property. If a tax payer is on a low income they can apply for support based on their own income.
  - 3.7.2 Under the current scheme there is a £16,000 limit whereby those with savings at and above this level are not able to receive council tax benefit, whilst a claimant with £15,999.99 in the bank may still qualify. Reducing this limit to £10,000 should not place a considerable financial burden on anyone, if they do

not have sufficient income they could supplement their council tax payments with monies drawn from their bank accounts without affecting their day to day living.

3.8.3 Under the current scheme, any savings below £6,000 are ignored. For every £250.00 over £6,000, £1.00 per week income is taken into account in the Benefit calculation. It is proposed to reduce this limit to £3,000.

3.8.4 Prior to November 2009 all child benefit received was included in the Benefit assessment. However, the Government amended the legislation so that from November 2009 all child benefit was disregarded. At this stage, it is proposed the child benefit in respect of the first child continues to be disregarded and child benefit in respect of further children is included in the Benefits assessment. It would be possible to include further child benefit in the assessment at a later date.

#### **4. POLICY FRAMEWORK**

##### **4.1 Fit for the Future –**

4.2 To remove or reduce the help to people who currently receive assistance to pay their council tax could result in plunging some of the most vulnerable people in society further into poverty. This would contravene the Council's vision to make Warwick District a great place to live, work and visit as set out in the Sustainable Community Strategy.

#### **5. BUDGETARY FRAMEWORK**

5.1 The Council currently spends around £9m in council tax benefit annually under the scheme determined by Department for Work and Pensions. This is all financed by Central Government by way of Benefits Subsidy grant.

5.2 In future, the funding will be paid to the main precepting authorities, i.e. Warwickshire County Council, Warwickshire Police Authority and Warwick District Council. Within the latest consultation document on the funding arrangements, the District Council will receive £718,000, and a further £107,000 in respect of parish/town councils.

5.3 If no changes are made to the current Benefit scheme, it will be necessary for the Council to find the savings required from elsewhere. The Government intend to reduce funding for the scheme by at least 10% and we estimate that Warwick District Council's share of this will be around £100,000. There will also be budgetary implications for both the County Council and the Police as discussed in paragraph 7.7

5.4 The recommendations will put additional financial pressure onto the District Council for 2013/14. Taking into account the changes proposed to the current scheme, and the reduction in financial support from the Government, the net additional cost to the Council is estimated to be £90,000. It should be noted that it is not possible to be entirely accurate about this figure, as it will depend upon the circumstances of future claimants.

5.5 For 2014/15, the scheme should be reviewed to seek to remove the financial burden from the scheme upon the Council. Accordingly, within the Council's Medium Term Financial Projections, the increased net cost of the scheme has

only been factored in for 2013/14. If the scheme is not amended to make the financial saving from 2014/15, this will increase the level of savings that the Council needs to achieve elsewhere.

- 5.6 Whilst the Council could seek to pass on the full reduction in Government support, so removing the cost of £90,000 above, the Council would incur additional costs of collection, estimated at £50,000 per annum. In addition, there would be increased write-offs, a proportion of the costs of these having to be picked up by the District Council.

## **6. ALTERNATIVE OPTION(S) CONSIDERED**

- 6.1 A number of alternative options have been considered as to how the current scheme could be changed in order to make the savings so as to make the new scheme cost neutral for the Council (and WCC/WPA). The table within Appendix A shows the different options that have been considered, and where possible, the difference between the current average weekly award of benefit and the new average award after the changes. The final column shows the likely savings that could be achieved from each option. These options could be considered either separately or a mix of different options.
- 6.2 Options 1, 2 and 3 within the table are based on a restriction of the maximum benefit awarded per week. This could be restricted to any amount but for the purposes of demonstrating the effects, information based on a restriction to £15.00 and £10.00 has been produced. No 2 shows the effect of the restriction if we protect vulnerable groups such as the disabled, families and carers and would place the financial burden solely on those that currently work.
- 6.3 Where a person who is solely liable for Council Tax lives with a second adult who is not their partner, they can apply for a Second Adult Rebate, based on the income of the second adult and can receive a reduction in their council tax bill of either 25%, 15% or 7.5%. Unlike main Benefit, this scheme does not take into account any of the income or capital of the tax payer. No 4 shows the likely effect should a decision be made to discontinue the second adult rebate scheme.
- 6.4 The Council could decide to restrict the maximum Benefit award to that of a Band D property although this option alone would not make the savings required, those in lower banded properties would not be affected.
- 6.5 If a claimant's income is above their applicable amount, a claimant must pay 20p towards their Council Tax for every £1.00 of income above the applicable amount. This could be increased to for example 40p as shown on line no 6. This would not affect claimants who currently receive full Council Tax Benefit and the financial burden would fall largely on those claimants who are working.
- 6.6 The Council could decide to restrict the maximum Benefit award to one band lower so for example people living in a Band C would have any Benefit assessed based on a Band B property. Line 7 shows the affect of this, this would achieve around half the savings although this could be increased if a reduction was also place on Band A claimants.
- 6.7 Line 8 shows the affect of restricting all Benefit awards by 20% so that every claimant would pay at least 20% towards their Council Tax, this would mean that claimants currently in receipt of maximum Benefit would be worse off than

those only receiving partial Benefit. Many claimants who receive full Benefit are vulnerable and it is likely that there would be heavy criticism were this to be introduced.

- 6.8 In November 2009 the Government introduced the child benefit disregard, this meant that since then, child benefit has been completely disregarded as income in the calculation for Council Tax Benefit. Lines 9 and 10 show the likely savings should the Council decide to include child benefit as income for the purposes of calculating any Benefit.
- 6.9 If the Council decides not to pursue any options, the Government will impose the default scheme and Benefit would then continue to be assessed in the same way as now. If however a scheme is imposed, we would be unable to make administrative changes which currently make the scheme complicated to administer.
- 6.10 Finally, the Council could opt not to make any changes to the way that Benefit is assessed. If we do nothing it would be preferable to opt to do so rather than have this imposed so that we can make administrative changes to the system which would hopefully produce some savings.

## **7. BACKGROUND**

- 7.1 Council Tax Benefit is currently paid to persons who have a liability to pay Council Tax and are on a low income, it is a means tested Benefit calculated using an "applicable amount" which is prescribed by the Government each year. The applicable amount is made up of premiums and allowances which a person, depending on their circumstances is expected to live on.
- 7.2 Those considered to be in vulnerable groups attract a more generous applicable amount to reflect their circumstances. The applicable amount is compared to the income received by the claimant after certain disregards have been applied. In addition certain benefits received by those in vulnerable groups are also disregarded.
- 7.3 If a claimants income is below the amount that the Government determines they should live on and they meet certain qualifying criteria, they may qualify for an income related Benefit paid by the DWP. These are known as "passported" cases and these claimants automatically qualify for 100% Council Tax Benefit.
- 7.4 The scheme is funded via subsidy received from the Government and authorities receive back what they pay out and this mitigates any risks associated with the scheme such as an increase in the number of claims and annual council tax rises.
- 7.5 From April 2013 the national Benefit scheme will be withdrawn and the Government expects Local Authorities to have in place their own Local Council Tax Support scheme with the expectation that they will reduce spending on council tax support by 10%, as reflected in reduced Government Subsidy. This reduced subsidy will be calculated by using a forecast of expected council tax benefit expenditure for 2013/14. In addition the Government anticipates that caseloads will fall by around 2.3% nationally and this will be factored into the calculation. If our caseload does not reduce by this amount, this will place additional financial pressure on the authority.

- 7.6 In future, the grant from Central Government in respect of Council Tax Support will be paid directly to the main precepting authorities (Warwickshire County Council, Warwickshire Police Authority and Warwick District Council) in relation to their precepts.
- 7.7 The Council will no longer be required to submit claims for subsidy to reclaim expenditure and instead the cost of the Benefit scheme will be accounted for by making adjustments to the Council Tax Base. The Council Tax Base is the measure of the number of dwellings to which council tax is chargeable in the area and is used to calculate the band D council tax for both the authority and the precepting authority's. The council tax base is the aggregate of the relevant amounts calculated for each of the valuation bands multiplied by the estimated collection rate for the year. The relevant amounts are calculated by taking account of the number of chargeable dwellings in each band shown on the valuation list on a specified day of the previous year and this is adjusted for the number of discounts, and reductions for disability, that apply to those dwellings.
- 7.8 From 2013 the council tax base calculation will need to take into account council tax reductions awarded under the new local scheme and this will result in a significant reduction in the number of chargeable dwellings in the council tax base. This will enable us to share the 10% burden from the reduced central government support with the major precepting authorities and should the 10% savings not be realised the loss to each authority is estimated to be:-

Warwick District Council	£100,000
Warwick County Council	£800,000
Warwickshire Police	£100,000
Total loss	£1,000,000

- 7.9 The impact on Council Tax base of these changes is that the tax base will reduce substantially as the planned value of the local Council Tax Support needs to be converted into a Band D equivalent.

This means that in future the amount of cash raised by an additional 1% increase in council tax will be reduced. The table below compares the amount raised by council tax increases between the existing arrangements and the position if the 10% reduction were passed on to eligible benefit recipients or absorbed by the precepting authorities.

Council Tax increase	Current Council Tax	Increase Under New Arrangements
%	£,000	£000
1	79	71
2	157	141
3	236	212
3.5	275	249

This reduction in council tax will need to be factored into the Council's Medium Term Financial Projections. With the projections allowing for 3.45% increases for 2013/14 and 2014/15, this will present a further financial burden on the Council of around £55,000.

- 7.10 In theory, if a scheme is put in place to make the 10% savings in council tax support, for the WDC, WCC and WPA, there should be a neutral impact upon each council's finances, whereby the reduced tax base will be compensated by the grant being paid directly to each authority by central government (para 7.6).
- 7.11 For parish and town councils, the reduced tax base could have an impact upon their council tax revenues. The Government expects billing and local precepting authorities to work together to manage the potential impact on the local precepting authority Band D council tax level. As referred to in paragraph 5.2, the latest consultation suggests billing authorities will receive funding in respect of parish and town councils in their area, this proposed to be £107,000 for Warwick District parish/towns. It is possible for the billing authority (WDC) to pass down this funding to each town/parish council. Alternatively, it may be possible to calculate an "alternative tax base" whereby the value of the council tax support is excluded. This issue will be subject to further consideration ahead of the tax base being calculated for 2013/14.
- 7.12 The Government have advised that any new scheme must protect current and future pensioners from any reductions in council tax benefit and further, their claims should continue to be calculated in accordance with the current rules. The table below shows the caseload data for Warwick District for the last 10 years;

### 7.13 Warwick District Council Caseload Data

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Total</b>	7100	7400	7400	7600	7800	7960	8670	9120	9050	8960
<b>Pass-ported</b>	4400	4800	4900	5000	5200	Not available	5510	5660	5490	5410
<b>Non Pass-ported</b>	2700	2600	2500	2600	5200	Not available	3160	3460	3560	3550

- 7.14 Around 45% of our claimants are of pension age which means any savings must come from the remaining 55% (4540) of the caseload. In simple terms, the 10% reduction in funding, would amount to broadly a 20% reduction in benefit from all non-pensioner claimants. In order to achieve a saving of £1,000,000, all of our working age claimants would need to contribute an additional £4.50 per week towards their council tax. However around 55% (2580) working age claimants currently qualify for 100% of their council tax paid and this means that they only receive in income, the minimum amount the Government expects them to live on.
- 7.15 Whilst there will be implications for our major preceptors, both the administration of any new scheme and collection of outstanding council tax, rests with the District Council. It is likely that it will be difficult to collect Council Tax from those who have previously not had to pay and who can least afford it. This will increase the cost of collection for the District Council, whereby it is estimated that the Council may need two additional recovery officers. In addition, any recovery action may end up with additional charges being levied against these customers should court action and bailiff action be deemed necessary. Following on from this, it is likely that recovery rates will decrease as there will be additional write-offs.



- 7.16 The new scheme must have been agreed by the end of January 2013 ready for implementation in April 2013. However, whether we retain the current scheme or adopt a new scheme, we must consult with the public and other bodies, including our preceptors and therefore any new scheme would need to have initial approval for consultation by the end of July at the latest.
- 7.17 If the Council does not adopt its own scheme by January 2013, it will need to implement the "Default Scheme". This is the scheme set by Central Government, unchanged from the current council tax benefits scheme. This will not make any savings, nor enable the Council to introduce any changes that may be believed to be necessary.
- 7.18 Consultation

The Bill already specifies that, before adopting a scheme, the billing authority must, in the following order:

- a. consult any major precepting authority which has power to issue a precept to it,
- b. carry out an equality impact assessment
- c. publish a draft scheme in such manner as it thinks fit, and
- d. consult such other persons as it considers are likely to have an interest in the operation of the scheme.

Accordingly, the Council must consult with the major precepting authorities, Warwickshire County Council and Warwickshire Police Authority, ahead of publishing a draft scheme. The result of this consultation will be reported to the Executive for consideration in August, ahead of a draft scheme being published for wider consultation.

Following the wider consultation, the results will be reported to Executive in November.