

# REPORT TO RESOURCES PDG

**REPORT OF: HEAD OF FINANCE**

**REPORT NO: HOF283**

**DATE: 24 July 2014**

<b>TITLE:</b>	<b>Local Council Tax Support Scheme – Year 2</b>	
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	None	
<b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>	Councillor Mike Taylor Well Run Council Portfolio Holder	
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<b>INITIAL IMPACT ANALYSIS:</b>	Carried out and Referred to in paragraph (7) below:	Full impact assessment Required:
<b>Equality and Diversity</b>	N/A	No
<b>FREEDOM OF INFORMATION ACT:</b>	This report is publicly available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>	
<b>BACKGROUND PAPERS</b>		

## 1. RECOMMENDATION

Members of the Resources PDG are asked to note the outturn position with respect to the Localised Council Tax Support Scheme (LCTSS) and to recommend if any changes to the scheme for the financial year 2015/16 are required.

## **2. PURPOSE OF THE REPORT**

To update members on the current position with respect to the LCTSS that was introduced by Council in April 2013.

## **3 DETAILS OF REPORT**

### **South Kesteven District Council – Local Council Tax Support Scheme**

On 1st April 2013, South Kesteven District Council introduced a new local Council Tax Reduction (CTR) scheme to replace the Council Tax Benefit scheme previously administered on behalf of the Department of Work and Pensions (DWP). This followed the government's decision, announced in 2011, to abolish the centralised Council Tax Benefit scheme and allow councils to design and introduce their own support/reduction scheme in line with their own local policies. Government funding of the new local schemes was set at 10% less than the outgoing council tax benefit scheme which meant that a completely new scheme had to be developed to ensure that the overall cost of the scheme remained within the level of the central funding.

The initial scheme was set up as a 2 year scheme, to be reviewed after the completion of year 1 in order to ensure that it has met the council's objectives and also remains within the expenditure levels predicted during the development of the scheme.

It is also the first opportunity for the Council to consider whether or not the scheme will need to be amended from Year 3.

### **Review of SKDC's local scheme**

The new system of localised support for council tax payers was introduced from 1 April 2013. The key changes from the outgoing centralised council tax benefit scheme were that the development, delivery and administration of this new category of discount would be fully localised.

A specific grant is paid by government, both to billing authorities and to major precepting authorities, to reflect their proportions of council tax payable. Any scheme adopted by the SKDC would have to work within these financial constraints.

The discount scheme was split into two key areas. Firstly, support for pensioners which, in accordance with the new legislation, would follow the same rules as the outgoing Council Tax Benefit system. Secondly, support for working age recipients, where the design of the scheme is to a large extent at the discretion of local authorities. No amendments were permitted to the pensioner scheme, therefore any reduction in the overall cost of the scheme would have to be met by the working age claimant group.

A requirement was placed on local authorities to consider the needs of vulnerable groups when designing a local scheme.

A range of options were considered by officers and members. Each of these options provides different levels of savings and affect customers in different ways. Areas that were considered include:

- Abolishing second adult rebate
- Changing the amount of some/all non-dependent reductions
- Restrictions to a particular CTAX band E/D/C
- Increasing the taper (the rate at which support is withdrawn as income increases)
- Capping the maximum liability funded for support
- Minimum entitlement awards
- Increasing earning disregards
- Cutting capital limits and/ or reducing lower capital thresholds

Detailed analysis of our caseload enabled us to model the impact of each of these changes. Through combining different components and varying the types of restricts or incentives put in place, a scheme was been designed and introduced that took into account the needs of vulnerable groups whilst providing an improved work incentive for those in employment.

The working age scheme accepted by members had the following characteristics:

- 80% maximum eligibility for those who do not fall into a vulnerable group
- 100% maximum eligibility for vulnerable customers
- No band restrictions
- Carers, disabled and war pensioners protected
- Inclusion of enhanced working disregards

To be treated as vulnerable for Council Tax Support, a customer must either:

- Qualify for a disability, enhanced disability or severe disability premium for the claimant or partner, or
- Qualify for disability or enhanced disability premium for a dependent, or
- Qualify for a disability earnings disregard, or
- Receive a disability related council tax reduction, or
- Be in receipt of a war disability pension, or
- Be in receipt of a war widows pension, or
- Be in receipt of a carers allowance.

Applying the 80% maximum eligibility would help to ensure that the scheme was transparent for all but would mean that some customers who previously qualified for help with their council tax bill will no longer receive assistance. The 100% maximum eligibility would ensure that those in most need due to their vulnerability receive protection from this change.

The government asked that schemes were designed to include an incentive to work. Enhancing the work disregards used within the calculation of entitlement meant that SKDC would take a lower level of earnings into account when calculating council tax support entitlement. This ensured that SKDC's scheme met with the governments wishes.

### **Evaluation of the financial impact of SKDC's Council Tax Reduction scheme**

Whilst there was no requirement to work within the grant allocated by central government any additional expenditure would have to be met through other sources

available to the council, therefore members took the decision that the scheme was to be fully funded from within the central government allocation.

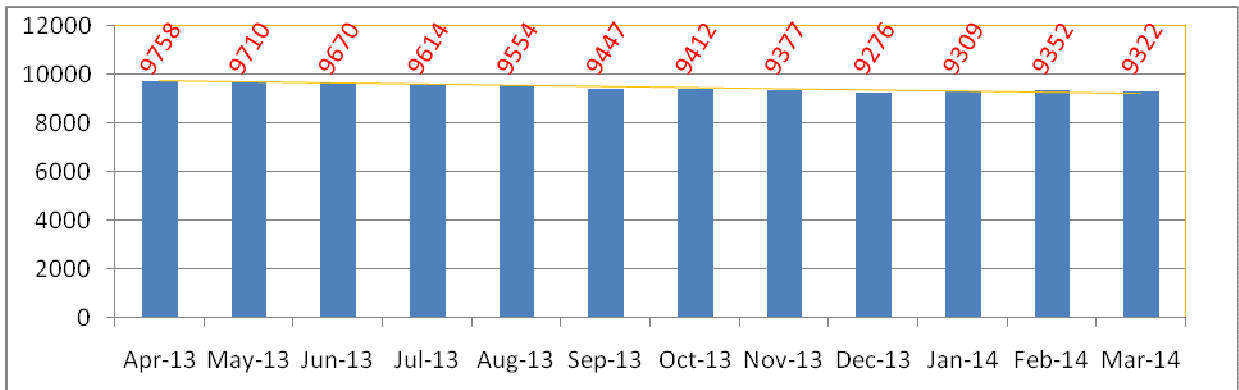
Extensive modelling and forecasting was undertaken by officers to project the likely level of expenditure in years 1 and 2. Whilst these figures gave an indication of the likely burden faced by the council, it is clear that due to the number of variables and the complexities within both the local and national economies, our actual expenditure could vary from the figures contained within the original report.

For example, sudden increases in the number of people claiming help with their Council Tax bill or increases in the council tax charge would lead to additional expenditure being incurred and the possibility that the scheme would cost more than initially expected. Once the scheme was approved, the Council would be legally obliged to continue to award support against its own rules, and would not be able to vary its scheme “in year” to limit the financial impact on itself or the general council tax payer. Conversely, improvements in the economy or the effects of wider welfare reform measures could see the amount of money spent on council tax support reduce. This may therefore mean that the local authority could have made its discount scheme more generous or have been able to provide enhanced work incentives to those taking up employment.

The following table shows an analysis of the actual CTR scheme costs for year 1, shown against the predicted cost of the scheme from the initial modelling which was contained in the original cabinet report prepared in August 2012.

<b>Council Tax Reduction - Expenditure analysis - Year 2013-14</b>	<b>Year 1 Initial Estimate</b>	<b>2013-14 Actual (Year 1)</b>
	<b>£ Amount</b>	<b>£ Amount</b>
2AR Pensioner	6,829.31	6,733.30
2AR WA	5,047.00	4,976.05
Pensioner	3,688,874.29	3,637,015.70
Vulnerable	1,477,151.16	1,456,385.21
WA Employed	706,938.57	697,000.35
WA Unemployed	947,379.11	934,060.75
	<b>6,832,219.44</b>	<b>6,736,171.36</b>

The analysis has confirmed that the overall scheme cost for Year 1 was lower than the original predicted cost by £93,048 (-1.36%). The Council’s element of this difference amounts to approximately 10% or £9,000. To determine the reason for this an analysis of the number of council tax support claimants over year 1 has revealed a drop in the number of claimants from 9,758 to 9,322, a fall of 4.5%.



The reason for the fall in the number of CTR scheme claimants during year 1 can probably be attributed to two factors. Firstly, the number of claimants finding that they no longer qualify for any financial support has increased because the changes made to the eligibility criteria were designed to reduce the overall cost of the local scheme. Also, as the economic climate has started to improve the number of working age claimants finding work or increasing the number of hours they work has resulted in a fall in the number of working age claimants qualifying for help.

### **Year 2 (2014-15) and Year 3 (2015-16)**

We have used the same modelling tool to calculate the expected level of expenditure in year 2 and year 3. This will enable the overall scheme costs to be considered in order to determine whether or not the scheme should be amended further for year 3.

<b>Council Tax Reduction - Expenditure analysis</b>	<b>2014-15 Estimate (20% minimum payment - current scheme)</b>	<b>2015-16 Estimate (20% minimum payment - current scheme)</b>
	<b>£ Amount</b>	<b>£ Amount</b>
2AR Pensioner	£6,457.79	£6,531.95
2AR WA	£4,772.44	£4,827.25
Pensioner	£3,488,196.88	£3,528,254.13
Vulnerable	£1,396,793.08	£1,412,833.37
WA Employed	£668,480.60	£676,157.20
WA Unemployed	£895,841.00	£906,128.53
	<b>£6,460,541.79</b>	<b>£6,534,732.43</b>

Year 2 estimate is based on the known level of council tax payable for 2014-15 and assumes a static caseload during the year (caseload as at June 2014).

Year 3 estimate is based upon an assumed 1% increase in the council tax charge for 2014-15 and also assumes a static caseload (based on the current caseload as at June 2014).

In terms of central government funding, the level of funding of the local CTR scheme provided for Year 1 has been maintained for Year 2 within the councils main support grant from central government. It is therefore clear that the risk of the scheme cost in year 2 exceeding the financial limits set for year 1 are reduced due mainly to the decreasing caseload.

If a decision is taken to reduce the overall cost of the Council Tax Support scheme from Year 3, and assuming that the currently defined vulnerable groups within the scheme are to remain protected, then the only viable option available to members would be to increase the minimum payment threshold for working age claimants from 20% to 25%. The effect of such a change has been modelled and is shown in the table below.

<b>Council Tax Reduction - Expenditure analysis - Year 2013-14</b>	<b>2015-16 Estimate 20% Minimum payment</b>	<b>2015-16 Estimate 25% Minimum payment</b>
	<b>£ Amount</b>	<b>£ Amount</b>
2AR Pensioner	£6,531.95	£6,531.95
2AR WA	£4,827.25	£4,739.25
Pensioner	£3,528,254.13	£3,528,254.13
Vulnerable	£1,412,833.37	£1,412,768.88
WA Employed	£676,157.20	£623,831.12
WA Unemployed	£906,128.53	£839,610.16
	<b>6,534,732.43</b>	<b>6,415,735.49</b>

This would result in an overall reduction in the total cost of the scheme to the Council of around £12,000. However, this would increase the amount of council tax to be collected during 2015-16 and inevitably, due to the financial circumstances of the council tax payers in receipt of CTR, this debt will prove very difficult to collect and a significant proportion of this would ultimately have to be written-off as uneconomic to collect.

### **Impact on Council Tax collection**

The introduction of a minimum 20% payment for working age claimants towards their council tax has inevitably impacted on the rate of council tax recovery. Many claimants who previously had nothing to pay under the more generous Council Tax Benefit scheme are now required to find a yearly amount of around £200 for a Band A property, up to over £300+ for a Band D property and above. In addition to this, many working age claimants who may not previously have qualified for full council tax benefit but did receive some council tax benefit towards their council tax, have now found that they are no longer entitled to any help under the local CTR scheme.

It was anticipated that this “new” council tax would be more difficult to collect as many householders are struggling to make up the shortfall on their council tax payments. On that basis it is estimated that around 30% of this “new” council tax will not be collected due to the financial circumstances of some of the households affected. Having exhausted all available recovery options available to the council, some of this debt will have to be written off at a future date as uneconomical to recover or unrecoverable.

Analysis has shown that there was a significant increase in council tax recovery activity during 2013-14 which reflects the increase in the number of council tax payers as a result of the minimum 20% payment under the CTR scheme. The following table shows the volumes of the main recovery activities in 2013-14 compared to 2012-13.

Notice/ Recovery Stage	2012-13			2013-14		
	Accounts	£ Value	£ Average	Accounts	£ Value	£ Average
Reminders	14,625	£ 2,694,060	£ 184.21	19,555	£ 3,118,722	£ 159.48
Summons	5,794	£ 2,823,761	£ 487.36	8,433	£ 3,702,855	£ 439.09
Liability Orders	2,996	Not recorded		4,443	Not recorded	
Bailiffs	808	£ 605,359	£ 749.21	741	£ 527,514	£ 711.89

The data shows that the average value of the reminder notices sent is significantly lower in 2013-14 which reflects the increase in the number of smaller council tax bills issued in 2013-14 because of the number of new “20%” council tax bills issued.

As at 31st March 2014, approximately £459,872 of council tax remained outstanding from council tax payers who had received Council Tax Reduction during 2013-14.

Approximately £408,786 of the outstanding council tax relates to working age claimants who are claiming (or have claimed) council tax reduction. It is noticeable that there are a significant number of accounts that owe small amounts of council tax for 2013-14 due to the minimum 20% payment. The table below illustrates this.

Working Age Claimants	Number of Claimants	£ Total o/s	£ Average
0-£300 outstanding for 2013-14	1,309	£ 153,601	£117.34
over £300 outstanding for 2013-14	552	£ 255,185	£462.29
	1,861	£ 408,786	

- Approximately 20% of all CTR claimants have made no payments towards the council tax they owe for 2013-14.
- In addition to the council tax payments, many CTR claimants also have to find additional money towards their rent due to the introduction of the Bedroom Tax.

Due to the increased difficulty in recovering this council tax it is estimated that a realistic collection rate of about 70% will be achieved on the unpaid council tax attributable to CTR claimants. It is therefore anticipated that the likely uncollectable debt (included in the bad debt provision) could be around £100,000-£125,000 of the current outstanding amount.

### **Council tax Discount / Exemptions – technical changes in 2013-14**

The introduction of the local council tax reduction scheme coincided with the introduction of a number of significant changes to the council tax scheme affecting empty property discounts and exemptions. The implementation of these changes had the affect of providing significant additional council tax income. The estimated savings of around £800,000 generated by the technical changes, whilst not specifically targeted at the local council tax reduction scheme, have clearly provided a significant financial buffer against the impact of the local scheme on the council tax collection rate achieved during 2013-14. It is accepted that there are no further technical changes that can be introduced to lever further Council Tax income beyond those already introduced.

### **Scheme Changes for Year 3 (If required)**

If it is deemed appropriate to make any changes to the current Council Tax support scheme this will require the district council to consult with major precepting authorities and those who are likely to have an interest in the scheme.

The consultation process would be split into two stages. Firstly, subject to the approval of the new draft scheme, consultation would be undertaken with major preceptors. Once this consultation period has come to an end, public consultation would have to begin.

The public consultation would have to run for a period of eight weeks from September 2014 to 2 November 2014. To ensure that the consultation is effective, a range of literature would be produced, stating the proposed new scheme in detail, with easy to understand case studies to illustrate the effect of the changes on different groups.

Consultation would have to be undertaken through a wide range of media. Consultation would begin with our proposed scheme being published on the Councils web page and promoted through the home screen. This would be accompanied by an online survey to allow residents to express their views on the main principles of the scheme.

Pensioners would not form part of the direct survey as they are protected through government legislation. It is anticipated that in the region of 5000 households would be asked to participate in this part of the consultation exercise.

The overall cost of a full consultation process is estimated to be around £15,000.

An overview of the consultation work plan is shown below which details key dates and milestones to be followed if a revised scheme is required for Year 3.

<b><u>Task</u></b>	<b><u>Start Date</u></b>	<b><u>End Date</u></b>
<i>Consultation with major precepting authorities</i>	<i>August 2014</i>	<i>September 2014</i>
<i>Consultation with affected groups</i>	<i>September 2014</i>	<i>November 2014</i>
<i>Production of Council Tax Support regulations</i>	<i>August 2014</i>	<i>November 2014</i>
<i>Cabinet Meeting</i>	<i>December 2014</i>	<i>December 2014</i>
<i>Full Council</i>	<i>December 2014</i>	<i>December 2014</i>
<i>Officer training (if required)</i>	<i>January 2015</i>	<i>January 2015</i>
<i>Data cleansing and promotional activities.</i>	<i>January 2015</i>	<i>February 2015</i>

**4. OTHER OPTIONS CONSIDERED**

All options are considered and included in the report.

**5. RESOURCE IMPLICATIONS**

These are included in the report.

**6. RISK AND MITIGATION**

None applicable

**7. ISSUES ARISING FROM EQUALITY IMPACT ANALYSIS**

These were included as part of the scheme when it was introduced in April 2013.

**8. CRIME AND DISORDER IMPLICATIONS**

None applicable

**9. COMMENTS OF FINANCIAL SERVICES**

Financial considerations are included in the report.

**10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES**

- 10.1** The Local Government Finance Act introduced in April 2013 a framework for the localisation of support for council tax in England which gives councils increased financial autonomy and a greater stake in the economic future of their local area, while providing continuation of council tax support for the most vulnerable in society including pensioners.

Consequently, the Council has no alternative but to develop and review its local scheme for council tax support.

**11. COMMENTS OF OTHER RELEVANT SERVICES**

None applicable

**12. APPENDIX:**

None