
COUNCIL TAX BENEFIT LOCALISATION

To: **Council – 6th December 2012**

Main Portfolio Area: **Finance**

By: **Andrew Stevens, Assistant Director, EK Services and Sarah Martin, Financial Services Manager, TDC**

Classification: **Unrestricted**

Ward: **All**

Summary: Government is reducing the funding of Council Tax Benefit (CTB) by 10%, and transferring the responsibility for the design of the scheme to local authorities, together with transfer of the financial risks. This has to be implemented in time to set the Council Tax base in January 2013, and to be fully operational by April 2013.

This report seeks final approval for the Thanet DC Council Tax Reduction Scheme (CTRS) taking into account the outcome of the recent consultation exercise

For Decision

1.0 Introduction and Background

- 1.1 Council Tax Benefit (CTB) is a means tested benefit. It is a national scheme, but it is administered by the billing authorities (the district councils in two tier areas). CTB is currently fully funded by the government, who also provide an administration grant. In 2011/12 TDC paid out £15.4m (subject to final audit) in CTB.
- 1.2 The Comprehensive Spending Review of 2010 paved the way for the localised Council Tax scheme and committed to reducing the national expenditure figure by 10%. Since then the Government have announced that they are intending to use projected 2013/14 expenditure to “size” the national pot. Current projections are that expenditure levels (notwithstanding the introduction of local schemes) on CTB would fall in 2013/14 so the size of the reductions needed when deciding on local schemes increases from 10% to around 14% as the national “pot” is likely to shrink.
- 1.3 CTB claimants do not receive the benefit in cash – instead their Council Tax bill is credited with the benefit, so many (those in receipt of 100% benefit) do not pay any element of their Council Tax.
- 1.4 From 31 March 2013, the current national CTB scheme will be replaced by The Council Tax Reduction Scheme (CTRS). The form of this scheme is down to local discretion, subject to a few nationally set criteria; therefore there will be schemes devised by each of the 300+ local authorities.

1.5 The impact of any reduction in government grant, any change to the discounts given to Council Tax payers, or change in the collection rates, will have an impact on precepting authorities pro rata to their share of Council Tax.

1.6 Executive summary of proposals

The proposed scheme that was detailed in the consultation is explained below

- remove empty property discounts (technically, this means giving a 0% discount for 6 months). Currently if a property is unoccupied and unfurnished then the owner does not have to pay Council Tax for a period of up to 6 months.
 - remove second home discounts (currently 10%),
 - reduce CTRS by 5-6% for those of working age – so they will receive a bill for 5-6% of their Council Tax for 2013/14 (this % may vary in the future, depending on the costs of the scheme and this was made clear in the consultation).
 - Discontinue second adult rebate cases for working age claimants (there are only 70 such claims in the TDC area).
- 1.7 We do not intend to change current discounts for single people (single person discount), Council Tax exemptions given when a person dies and the property becomes empty or the exemption given to properties undergoing major renovation works.
- 1.8 Despite a low response to the consultation exercise (more details are provided later in the report) there was clear support for the proposal to keep any reduction in Council Tax benefits as low as possible from all respondent groups.

1.9 Key elements of the changes

The Council Tax for a band D property in Thanet is:

Authority	2012/13 Council Tax £	% ex Towns and Parishes
Kent County Council	1,047.78	71.55
Police	138.68	9.47
Fire and Rescue	67.95	4.64
Thanet District Council	209.97	14.34
Town and Parish Average	27.17	-
Total	1,491.55	100.00

1.10 Thus, over 70% of the impact will be on KCC. In contrast, Thanet, as the billing authority, are responsible for designing, approving and taking all decisions on the new CTRS (after due consultation), even though it will only bear around 14% of the consequences.

- 1.11 Each billing authority has to design and implement its own CTRS scheme (although authorities may work together). There are 300+ billing authorities in the UK, all of whom could be asking their ICT suppliers (there are 3 main suppliers who, between them, provide Council Tax systems for most of the councils) for changes to be developed, tested and implemented in time to set the Council Tax base in January 2013 and be operational by April 2013.
- 1.12 The current CTB scheme does not have any direct financial impact on the council. It is a demand led benefit, where government fully refunds the Council for the benefit it has paid out. In contrast, the CTRS will be a Council Tax **discount based scheme** (like single person discounts). This will reduce the taxbase and therefore the Council Tax collected by TDC for itself and its preceptors. To compensate them for the lost Council Tax, government will provide a grant, but only at 90% of the cost of current CTB, so we have to bear the 10%, or devise a CTRS that delivers the 10% saving. The new CTRS will continue to be demand led, but with a fixed grant from Government – thus transferring the risk of increased caseloads as have been seen over the last few years.
- 1.13 If the costs of the CTRS overrun, it cannot be amended "in year". The overrun costs have to be borne by the LA's in proportion to their share of the Council Tax.
- 1.14 Because the discount will not be 100% for working age claimants, we will have to send Council Tax bills (for a proportion of the Council Tax) to claimants, many of whom are not accustomed to paying Council Tax, having previously received 100% benefit. This has to be reflected in our projection of collection rates.
- 1.15 The government grant is currently calculated as 90% of the "government forecast" 2013/14 benefit expenditure. This is subject to review, but government had been forecasting reductions in unemployment and benefit expenditure, so the "forecast" is below budgeted 2012/13 expenditure. Current trends in claimant numbers do not support the government forecasts.
- 1.16 Authorities therefore have to design a CTRS scheme that makes significant savings against current spend, or bear the grant loss themselves, or some mixture of the two. Councils are also free to use the recent freedoms given to alter specific Council Tax discounts and exemptions to mitigate the impact on benefit recipients.
- 1.17 Government require that any new scheme must protect pensioners who currently receive CTB. They amount to around 45% of the claimant base. That potentially doubles the proportion of savings that have to come from the other claimants.
- 1.18 The new scheme is also expected (but this is not compulsory) to protect the vulnerable (not defined by government) and not to disproportionately disadvantage those in work currently receiving CTB.

2.0 The Current Situation

2.1 Development of the new CTRS Scheme

CTB for Thanet, Dover & Canterbury Councils is managed by EK Services (EKS). This has given the EK partner authorities the opportunity to develop a joint EK CTRS – with shared principles, modelling and methodology. Officers across Kent have also developed a Kent-wide CTRS.

2.2 The major preceptors have agreed that they will underwrite risks to districts if they implement the Kent-wide or similar schemes (including the EK CTRS) that deliver the required 10% savings, protect pensioners and do not disadvantage CTRS claimants in work.

2.3 EKS have undertaken extensive modelling of claimant demographics and collection rates. The EK scheme has been developed to meet the criteria of the Kent wide scheme, but also to mitigate some of the disadvantages.

2.4 The proposed scheme that was detailed in the consultation is explained below

- remove empty property discounts (technically, this means giving a 0% discount for 6 months). Currently if a property is unoccupied and unfurnished then the owner does not have to pay Council Tax for a period of up to 6 months.
- remove second home discounts (currently 10%),
- reduce CTRS by 5-6% for those of working age – so they will receive a bill for 5-6% of their Council Tax for 2013/14 (this % may vary in the future, depending on the costs of the scheme and this was made clear in the consultation). Discontinue second adult rebate cases for working age claimants (there are only 70 such claims in the TDC area).

2.5 Because this proposed scheme meets the criteria of the Kent-wide agreement, the major preceptors (KCC, Police, Fire) will still:

- between them, pay each district council £125k per year for three years for their additional administrative costs. This money will be used to employ additional staff to deal with enquiries from the public, collect the additional Council Tax and undertake visits;
- contribute to additional administrative costs if the number of households claiming CTRS increases by more than 15%. In practice, although this is a welcome proposal, it is unlikely to happen as caseloads have risen by less than this over the last few years;
- underwrite the risk of increased caseloads by bearing any difference in cost between the grant the district council receives and the total amount paid out in CTRS each year; and
- operate this for 3 years.

2.6 The advantages of this scheme were:

- it should achieve most, or all, of the required savings
- it is supported by the preceptors;
- the greater reductions in empty homes discounts reduces the impact on CTRS claimants and discourages empty homes;
- it protects pensioners;
- it protects the districts from increases in claimant numbers;
- the lower Council Tax bills should give a better collection rate. This is considered to be a significant advantage of the EK scheme;
- the Council Tax bills to those on CTRS will be smaller, with more of the costs met by the reduced discounts on empty and second homes. This places less pressure on low income households at a time when their other household bills or incomes are being squeezed. We are currently exploring how we could proactively contact customers who are facing advanced recovery action to help them pay their bills where they haven't done so to date. We would not usually issue summons to people for small balances in any case and this approach will continue in the future.
- the incentives to use empty homes are further increased.

2.7 Details around the scheme rules

The current regulations governing Council Tax Benefit have been abolished from 31.3.13. The local CTRS scheme that is being proposed will aim to replicate the same rules regarding claim start dates, backdating, income disregards and calculation, applicable amounts, non dependant deductions etc. The only difference will be the reduction of 5% to 6% from the weekly entitlement calculated under the existing rules and the discontinuing of "second adult rebate" for working age claimants from 1.4.13. There are only 70 "second adult rebate" claimants in the TDC area who are of working age. As all of the other rules remain the same this report does not include the entire scheme rules, but they will be completed and published well before the 1st April 2013 implementation date.

- 2.8 As it is proposed to remove the empty property exemption then current recipients will only receive this up until the 31st March 2013 regardless of the start date, at which point it will be removed.
- 2.9 There is also a piece of work to be carried out relating to the evidence and information required to support a claim for CTRS. At the moment the Department for Work and Pensions are quite prescriptive over what they expect to see to support a claim for Council Tax Benefit and the external auditors then examine claims on that basis. In the future Council Tax Benefit is being transformed into a "discount" and this means there is complete local discretion over the levels of evidence needed to support a claim. Clearly there is a balance to be found between designing a straightforward claims process to support the vulnerable and protecting taxpayers money.

2.10 Outcome of consultation

The consultation period ran from 23 July 2012 to 17 September 2012 (8 weeks). The following numbers of customers in the Thanet area were written to directly and asked to comment on the proposals:

All working age people receiving Council Tax Benefits	10,000
All second home owners	1421
All known landlords	955
5% sample of the "general population" not included in the above groups. These people have no direct financial interest in the proposal and are not directly affected	2326
Total	14,702

- 2.11 Consultation letters and emails were sent to interest groups such as the Citizens Advice Bureau. Letters were also sent to all Town and Parish Councils. The consultation was publicised in the local and regional press/media and has been available on the council website throughout.
- 2.12 Consultees were asked to respond via a dedicated page on the council website. However, an alternative method of completing a paper form was also available. This was freely available from the Council offices and local libraries. An "information line" was set up from 9am to 5pm throughout the consultation period for those who wanted more information about the proposals. This information line was set up in conjunction with Canterbury and Dover Councils and was manned by temporary staff specifically employed for that purpose. They dealt with over 500 calls during the consultation period.
- 2.13 Overall, a total of 385 responses were received from the 14,702 issued which represents a return rate of 2.6%. Response rates from each of the groups varied with second home owners having a higher return rate of 7.2% and benefit claimants having a return rate of just over 1%. Anecdotal evidence from other local Councils is that many others have had a similarly low response rate. Certainly the response rate was almost identical to that of Canterbury and Dover (all three Councils had a response rate of under 3%). We cannot provide a full analysis of the comparison, however, as many Councils are still out to consultation at the time of writing this report.
- 2.14 Out of the 385 responses received, 335 (87%) responded using the internet and 50 (13%) used a paper form. The full results are included in Appendix I and a summary is given in the next part of the report.
- 2.15 The replies to the consultation were broken down into categories of respondent so that we can identify how, for example, the second home-owners responded to particular questions compared to benefit recipients.
- 2.16 The consultation document asked 5 main questions:
- In summary, to what extent do you agree or disagree with the principle that the overall financial shortfall should be covered from changes to Council Tax discounts and exemptions and benefit reductions?

- To what extent do you agree or disagree that we should aim to keep the benefit reduction as low as possible to protect the vulnerable and people on the lowest incomes?
- We are proposing to introduce shortened claim forms for the new local Council Tax Support scheme to make it easier for people to claim. To what extent do you agree or disagree with this?
- We are planning to introduce more visits and spot checks to make sure people are paying the right amount of Council Tax. To what extent do you agree or disagree with this?
- Overall, to what extent do you agree or disagree with the scheme that is being proposed?

2.17 A summary of the responses has been provided below for reference, with a brief analysis underneath each question. The percentages of “agree” and “disagree” will not add up to 100% as the table below does not include “neither agree or disagree” and “no replies”. Full results from the consultation are included in Appendix I

Q1 In summary, to what extent do you agree or disagree with the principle that the overall financial shortfall should be covered from changes to Council Tax discounts and exemptions and benefit reductions?

	Overall	I do not pay Council Tax	I pay Council Tax but I receive Council Tax benefits	I pay Council Tax but I do not receive any benefits to help with this	I am a Landlord	I am a second home owner
	385	46	89	106	33	102
Agree	43.9%	41.3%	35.9%	73.5%	33.4%	27.4%
Disagree	44.9%	39.2%	52.8%	20.8%	48.5%	66.6%

Overall, respondents were split over whether they agreed or disagreed with the proposed scheme. Landlords and second home owners were less inclined to agree than people receiving benefits. The “general population” group replied differently with over 70% of respondents agreeing with the scheme that has been proposed. This group are those with no direct financial interest in the scheme (ie they are not landlords, not second home owners and do not receive Council Tax Benefit or other exemptions) This needs to be put into context of the overall low numbers of replies.

Q2 To what extent do you agree or disagree that we should aim to keep the benefit reduction as low as possible to protect the vulnerable and people on the lowest incomes?

The majority	Overall	I do not pay Council Tax	I pay Council Tax but I receive Council Tax benefits	I pay Council Tax but I do not receive any benefits to help with this	I am a Landlord	I am a second home owner
		385	46	89	106	33
Agree	70.9%	93.4%	89.9%	62.3%	57.6%	61.8%
Disagree	17.6%	0%	6.7%	28.3%	30.3%	21.6%

The majority of respondents in all categories agreed that we should keep the benefit reduction as low as possible to protect the vulnerable and people on the lowest income. The vast majority of benefit recipients themselves supported this proposal. The majority of the general population, landlords and second home owners also supported this principle and their support ranged from 57% to 62% agreeing. All of this needs to be put into context of the overall low numbers of replies.

Q3 We are proposing to introduce shortened claim forms for the new local Council Tax Support scheme to make it easier for people to claim. To what extent do you agree or disagree with this?

	Overall	I do not pay Council Tax	I pay Council Tax but I receive Council Tax benefits	I pay Council Tax but I do not receive any benefits to help with this	I am a Landlord	I am a second home owner
		385	46	89	106	33
Agree	60.5%	73.9%	77.5%	59.4%	48.5%	49.1%
Disagree	16.9%	4.4%	9%	24.6%	12.1%	24.5%

Overall 60% of respondents agreed with this proposal. Landlords and second home owners were less inclined to agree but there were a larger number of “neither agree or disagree” within those groups. Officers will take this forward into the new scheme and will review the existing claim form and the evidence requirements needed to support a claim for the new CTRS. All of this needs to be put into context of the overall low numbers of replies.

Q4 We are planning to introduce more visits and spot checks to make sure people are paying the right amount of Council Tax. To what extent do you agree or disagree with this?

	Overall	I do not pay Council Tax	I pay Council Tax but I receive Council Tax benefits	I pay Council Tax but I do not receive any benefits to help with this	I am a Landlord	I am a second home owner
	385	46	89	106	33	102
Agree	77.4%	69.6%	75.3%	87.8%	81.9%	75.5%
Disagree	7.5%	10.9%	6.7%	5.7%	6.1%	9.8%

This question produced the highest proportion of respondents who agreed in the survey. The “general population” group in particular supported this proposal and, generally, seemed most focussed on value for money and detecting fraudulent claims for benefits and discounts. This is something officers will take forward into the new scheme. All of this needs to be put into context of the overall low numbers of replies.

Q5 Overall, to what extent do you agree or disagree with the scheme that is being proposed?

	Overall	I do not pay Council Tax	I pay Council Tax but I receive Council Tax benefits	I pay Council Tax but I do not receive any benefits to help with this	I am a Landlord	I am a second home owner
	385	46	89	106	33	102
Agree	42%	34.8%	33.7%	74.5%	27.3%	26.5%
Disagree	46.5%	50%	47.2%	22.6%	66.6%	66.7%

This “summary question” produced similar results to that of Question 1. The “benefit recipients”, “landlords” and “second home owners” disagreed with the scheme that was being proposed whilst over 70% of the “general population” supported what was being proposed.

Question 6 asked for general comments to be made about the proposed scheme. The full list is contained in Appendix I. The comments varied between people in the different categories. People receiving Council Tax Benefit had strong feelings about their benefits being reduced, landlords had strong feelings

about starting to pay Council Tax for empty properties and second home owners had strong feelings about now paying full Council Tax.

The main objections and comments have been summarised below. A full list of all the comments is included in Appendix I for reference.

2.18 People receiving Council Tax Benefit

The main theme was pointing out that people on benefits are already struggling financially, some are unable to work and further cuts would cause more hardship. There were several comments about the hard-up being penalised yet again by benefit cuts on top of those occurring elsewhere and saying that they would have to sacrifice other current living expenses in order to pay their bills.

2.19 Landlords

A theme coming out from landlords was pointing out that a vacant property often cannot be re-let immediately after a tenant leaves due to redecoration etc and a period of exemption (albeit shorter) should still be given. Another theme was relating to the lower returns on rented property if they were charged full Council Tax between tenants and the subsequent impact this will have on providing good quality accommodation.

2.20 Second home owners

Many second home owners made the point that they are a lesser burden than local residents on services provided such as refuse collection as they occupy the property on a part-time basis. Some also made the point that their second homes are used as holiday lets and bring tourism and extra income to the area and they themselves contribute to the local economy when they are using their second home. Some also mentioned that they would like the right to vote in local elections to give them the same rights as other local residents being charged full Council Tax.

2.21 General population not receiving benefits or discounts

Many comments agreed with the general principle of asking second home owners, benefit claimants and owners of empty properties to pay more Council Tax. They also raised issues around value for money and putting more effort into collecting Council Tax and finding benefit fraudsters and questioned the negative impact on working people on low incomes.

2.22 The Timetable

The planned outline timetable is:

Mid July to mid September – proposed scheme out to consultation

October –Scrutiny

November – Cabinet consider responses from consultation and recommend a local scheme to Council

December – Council approves the new scheme

December / January – set Council Tax base and inform preceptors

December to March – set up systems and processes, test software, notify claimants. Finalise CTRS detailed rules.

February – set budget for 2013/14

April – introduce local scheme

2.23 If the Council does not implement a local scheme in time, then a government determined default scheme would apply, which is likely to be the same as the current Council tax benefit scheme where annual expenditure would be substantially above the Government grant received, and the difference will be borne by the billing and major precepting councils in proportion to their shares of Council Tax. For TDC this cost of approximately £300k would represent our “share”.

3.0 Options

Although there are many minor adjustments to the proposed CTRS that could be considered, there are, in reality, three main options. They are:

- (1) Introduce a CTRS based on the current CTB scheme and accept the 10% reduction in CTB funding from government as a cost to the Council and Council Tax Payers. This is the “default” option.
- (2) Adopt the “East Kent” CTRS as proposed in the consultation.
- (3) Adopt the “Kent” CTRS, which is being consulted upon by the majority of the other Kent districts.

3.1 Evaluation of Options

Option 1 – the default option. The Council is currently facing a range of budget pressures that include reductions in settlements from central government, and the potential impact of the localisation of business rates. These pressures may be borne by a combination of Council Tax payers, through the pressure to increase Council Tax, and through service users where there is pressure to reduce services.

The scope to continue to protect all Council Tax Benefit claimants from the impact of reductions in benefit is therefore limited. In addition, this option will, if adopted, have a major financial impact on the other precepting authorities which, if replicated across Kent, would not be sustainable for those authorities. As a result they would be unwilling to underwrite the risks of increased claimant numbers. That will make the scheme prohibitively expensive. For these reasons this is not the preferred option. As mentioned previously Thanet’s “share” of the financial loss would be approximately £300k.

Option 2 – the East Kent CTRS. This option seeks to balance the pressure across a number of stakeholders.

The reduction in Council Tax benefit is limited to 5 – 6%, so the pressure on benefit recipients is contained, and is proportionate to the pressure on others. The reduction in benefit is also not considered to be so severe as to have a significant impact on collection rates. The option does place additional burdens upon landlords and second home owners – but this has to be weighed against the pressure on claimants and the rest of the community.

The option is also supported by Kent County Council, Police, Fire and Rescue, as it delivers the overall 10% savings. As a result, they have agreed to underwrite the costs arising from any increase in claimant numbers and provide administrative

support if this scheme is adopted. That saves the Council from including an addition provision for contingency and enables the Council to maintain the relatively low impact upon benefit claimants. It is proposed that discussions with KCC to confirm the underwriting position are to be delegated to officers.

Turning to the results of the consultation, although a majority of “directly affected” respondents did not agree with the proposed scheme, there was clear support from all groups for the principle of keeping the benefit reduction as low as possible to protect the vulnerable and people on the lowest incomes.

Once this view is accepted, the implications on second home owners and owners of empty properties are an inevitable consequence, because the resulting funding shortfall needs to be made up by a combination of reductions to benefits and reductions to Council Tax discounts and exemptions.

It is also significant that respondents from the “general population” who have no direct financial interest in the proposed scheme (ie they are not benefit recipients, second home owners or landlords) support the principle of reducing benefit awards and Council Tax discounts and exemptions, and 74% of them agree with the scheme that is being proposed.

For these reasons, this is the recommended option.

Option 3 – the Kent wide scheme. This option includes a reduction in benefit to claimants of 18% compared to the EK option of 6%. However, second homes discount is maintained and empty property relief is reduced to 3 months, rather than curtailed entirely.

The Kent scheme therefore offers a different balance between benefit claimants and other discounts. However, there is a potential risk that collection rates will be lower under the Kent scheme, and the Council is concerned that this scheme may be less sustainable in the long term and impacts greatly on the lowest income members of our community. For these reasons, this is not the preferred option.

4.0 Next Steps

4.1 It is recommended that Council approve Option 2 detailed above.

5.0 Corporate Implications

5.1 Financial and VAT

5.2 Legal

TDC must approve its local CTRS at full Council by 31st January 2013. If it does not do this then it is forced to adopt the “default” scheme for 2013/14 which is basically carrying on the current CTB scheme.

The obvious disadvantage to this is continuing to pay current levels of CTB with only 90% of it being reimbursed. The financial impact is shared by TDC and the major preceptors pro-rate to their share of Council Tax receipts.

In order to meet implementation timetables this report is being considered in advance of the statutory framework being in place which is expected in October/November. The draft regulations are complex and extensive but the DCLG assure local authorities that the final regulations will mirror what it

currently available in draft to help local authorities with the tight deadlines for implementation.

5.3 Corporate

5.4 Equity and Equalities

An initial Equalities Impact Assessment was undertaken when the proposed scheme went out to consultation. This has been reviewed upon receiving the responses.

Under the “general comments” part of the survey questionnaire several comments were made about the “protection” we were offering to vulnerable people. The current Council Tax Benefit regulations make allowances for increased income disregards and additions to “applicable amounts” (the amount the Government says a person or family should be able to live on per week) and we fully intend to carry these protections and income disregards forward into the Thanet CTRS. For example we currently disregard income such as child benefit, child maintenance and disability living allowance in the CTB calculation. The receipt of disability benefits also increases a person’s Council Tax Benefit awarded because of extra amounts given in the “applicable amount”. This is a positive approach which protects families, lone parents and disabled people. We will continue these income disregards on into the new CTRS to extend this protection. All client groups who are of working age will have their Council Tax Support reduced by 5% to 6% next April and this does not impact disproportionately on any particular client group – the approach is the same for everyone

6.0 OSP & Cabinet recommendation(s) to Council

6.1 Members of the Overview & Scrutiny Panel recommended Option 2.

6.2 Members of the Cabinet recommended Option 2

7.0 Officer Recommendations

7.1 That Council adopt the local Council Tax scheme as proposed in the consultation exercise and Option 2 above.

8.0 Decision Making Process

8.1 This is a key decision and has already been consulted with the Overview and Scrutiny Panel and Cabinet.

Future Meeting if applicable:	Date:
-------------------------------	-------

Contact Officer:	Andrew Stevens, Assistant Director, EK Services
Reporting to:	Sarah Martin, Financial Services Manager

Annex List

Annex 1	Full results of consultation including individual comments from members of the public
Annex 2	Equality Impact Assessment

Background Papers

Title	Details of where to access copy
None	N/A

Corporate Consultation Undertaken

Finance	Sarah Martin, Financial Services Manager
Legal	Harvey Patterson, Corporate & Regulatory Services Manager