

Committee: Full Council

Agenda Item

Date: 11 December 2012

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Title: Local Council Tax Support Scheme

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Item for decision

**Stephen Joyce
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Summary

1. On 20 November, the Cabinet decided its final recommendations for Uttlesford's Scheme of Local Council Tax Support (LCTS). LCTS replaces Council Tax Benefit with effect from 1 April 2013.
2. The Council is required to make the final determination, and is requested to endorse the Cabinet's recommendations. The documentation considered by the Cabinet accompanies this report.
3. Since 20 November, there have been some important developments which require certain key principles to be endorsed by the Council. None of these affect the design of the LCTS scheme itself.

Recommendations

4. The Council is recommended by the Cabinet to approve:
 - a) The UDC LCTS Scheme as set out in paragraph 43 of the attached report, pursuant to Section 13A & Schedule 1a of the Local Government Finance Act 1992 (as amended)
 - b) Confirmation that council tax discounts for Empty Homes and Second Homes will be unchanged for 2013/14, with a view to reviewing the discounts for 2014/15.
 - c) UDC General Fund base budget funding for additional Recovery team resource of up to £40,000 (less any external contributions received)
 - d) UDC General Fund base budget funding for exceptional hardship relief of up to £10,000 (less any external contributions received)
 - e) Authority for the Assistant Chief Executive – Finance to submit a claim to DCLG for Transition Grant Funding.
5. The Council is recommended to endorse the existing and continuing disregard of all war pensions and Armed Forces Compensation Scheme payments from the assessment of a household's eligibility for support under the existing Housing & Council Tax Benefits system and the future LCTS scheme.

Financial Implications

6. The financial implications relating to the proposed LCTS scheme are set out in the attached report. In summary:
 - For 2013/14, an estimated net direct cost of £212,000, to be funded from the UDC LGRR contingency reserve. This is a one-off cost, during 2013/14, the scheme is to be reviewed so ensure ongoing financial sustainability from 2014/15.
 - With effect from 2013/14, ongoing costs of administering the scheme are £50,000 per year, comprising £40,000 of Recovery team resource and £10,000 of exceptional hardship support. These will be a cost to the General Fund budget. At the time of issuing this report, discussions were ongoing with ECC, Police and Fire regarding the potential for them to contribute towards these costs.
 - In addition, collection losses are forecasted to arise, the UDC share of which is estimated at £5,000 per year. This is a cost to the General Fund budget.
7. Subject to the Local Government Finance Settlement (provisional announcement expected week commencing 17 December), the Council expects to receive £160,000 of funding intended for distribution to town & parish councils. Income and expenditure to this level are consistent with the budget forecast and outlook for 2013/14 approved by the Cabinet on 20 November. The estimated cost of funding needed to ensure financial neutrality for town & parish councils is £194,000. Once the final Government figure is known, the difference will be an additional call on the Council's LGRR contingency reserve. The review of the scheme during 2013/14, to ensure ongoing financial sustainability from 2014/15, will need to take this aspect into account.
8. As noted above, the intention is to review the scheme during 2013/14, and make adjustments as necessary to ensure ongoing financial sustainability from 2014/15, including possible adjustments to Second & Empty Homes discounts.

Background Papers

9. Before the Council meeting a detailed technical document setting out the LCTS scheme in a form compliant with statutory regulations will be available on the Council's website at www.uttlesford.gov.uk/lcts. Copies are available to Members upon request.

Impact

Communication/Consultation	Detailed in the attached report
Community Safety	No specific issues.
Equalities	Equalities Impact Assessment is appended to the attached report.
Health and Safety	No specific issues.
Human Rights/Legal Implications	It is a legal requirement to adopt an LCTS scheme, or a default scheme will be imposed by LCTS.
Sustainability	The scheme will be reviewed in 2013/14 to ensure ongoing sustainability from 2014/15.
Ward-specific impacts	No specific issues.
Workforce/Workplace	The scheme will require additional resources in the recovery team.

Endorsement of war pensions disregard (and related items)

10. Recently emerged is best practice guidance to the effect that the Full Council should explicitly endorse the treatment of certain items in the existing Housing & Council Tax Benefits scheme, and future LCTS scheme. In particular, the disregarding of all income from war pensions and Armed Forces Compensation Scheme payments from the assessment of a household's eligibility for support.
11. This disregarding has been a feature of UDC's Housing & Council Tax Benefits arrangements and there were no plans to change this in the LCTS scheme, however this has not been explicitly mentioned until now. The Council is therefore recommended to formally endorse this element of the scheme.

Parish Taxbase adjustments

12. On 26 November, the Government announced its final decisions on its proposals regarding the technical calculations of LCTS taxbase adjustments and their effect on town & parish taxbase figures, and by association, town & parish precepts.
13. The Government had proposed arrangements by which town & parish taxbase figures and precepts would not be affected by LCTS. 94% of respondents to the consultation, including 97% of parish councils who responded, agreed with the proposals.
14. Surprisingly, the Government has not accepted the consultation results or stuck with its own proposal, and has made a decision that town & parish taxbase calculations should be adjusted to take account of the effect of LCTS discounts. LCTS discounts will reduce the taxbase, in the same way as Single Persons Discounts and Second/Empty Homes discounts do currently.

15. The Government intends that district councils will distribute funding to town & parish councils to compensate for the reduction in their taxbase. This should in turn avoid excessive increases in parish Band D figures, and reduce the risk of referenda.

16. On 29 November, officers discussed this issue with the Leader and the Finance Portfolio Holder. It was concluded that the most appropriate course of action was to distribute funds to town & parish councils in such a way as to ensure that they are neither advantaged or disadvantaged by the LCTS taxbase adjustments. The other effect should be that the parish Band D figure is not affected by these adjustments either. The Council is recommended to endorse this principle.

17. An example of this principle is below.

2012/13		2013/14 without UDC funding	2013/14 with UDC funding	
Parish precept	£12,000	£12,000	Parish income requirement	£12,000 (no change)
			UDC funding	-£3,000
Taxbase	400	300 (smaller figure due to LCTS discounts)	Parish precept	£9,000
			Taxbase	300
Parish Band D figure	£30.00	£40.00 33% increase	Parish Band D figure	£30.00 No change

18. Calculations suggest that the total UDC funding required to achieve neutrality in each town/parish is £194,000 which compares with the anticipated Government funding being made available of £160,000.

19. In summary, the Leader has endorsed the principle that town & parish councils should not be advantaged or disadvantaged by technical changes to town & parish taxbase calculations. The Leader has authorised the Assistant Chief Executive – Finance, in consultation with the Finance & Administration Portfolio Holder, to implement a method of distributing funds to town & parish councils consistent with this.

Major preceptors - possible income sharing deal

20. Billing authorities such as UDC have discretion to vary second homes and empty homes discounts (and to levy an empty homes premium) in order to generate more income from Council Tax. This discretion is known as making “technical changes”.

21. Ministers have suggested that technical changes could be a means of replacing cuts in Government funding for LCTS, and therefore would minimise the additional hardship borne by low-incomed working age households.

22. Although some authorities are making technical changes for 2013/14, many including UDC and some other Essex districts have felt that implementing mandatory LCTS changes was a considerable challenge in itself, and that making discretionary changes to other discounts at the same time could be unmanageable.
23. In the case of Essex districts and UDC, this position was adopted in the absence of any offer from major preceptors (County, Police and Fire) to give districts a financial incentive to make technical changes, by allowing districts to retain a greater than usual share of the resulting increase in Council Tax income.
24. On 20 November, the Cabinet decided to recommend that the Council should not make technical changes in 2013/14, however a review should be carried out during 2013/14 with a view to making changes in 2014/15. This review would be part of the process to ensure that the LCTS is financially stable on an ongoing basis.
25. On 30 November, the County Council emailed proposed terms of a new income sharing arrangement between districts and County, Police and Fire. The offer is to share 25% of the net additional income from technical changes. The offer is for 2013/14 only, but with an expectation that it would roll on for future years if it proves to be successful.
26. As recently as meetings in October, and in the County Council's own response to UDC's LCTS consultation, there was no mention of an income sharing offer being made. Several districts have already completed their decision making processes and all others are doing so imminently. To receive an offer at this late stage potentially entails last minute revisions to carefully worked out proposals. It also means that the opportunity to consult with affected households has been missed, and the extensive planning and resourcing of what is a major change affecting up to 3,700 households would potentially have to be rushed.
27. Nevertheless it is necessary that the Council makes a decision about whether to make technical changes in full knowledge of a possible income sharing deal.
28. The total gross annual value of second homes discounts, empty homes discounts and empty homes premiums is £813,000 out of which officers estimate that a maximum of c.50% could be realised as additional council tax income by reducing the discounts. The total possible yield is therefore estimated at £400,000. Without an income sharing deal in place, ECC would receive 72.2%, Police 9.1%, Fire 4.4% and UDC 14.3%.

29. The following table summarises the possible additional income:

£000	UDC	ECC	Police	Fire	Total
No income sharing deal	57	289	36	18	400
Major preceptors transfer 25% to district	142	217	27	14	400

30. The costs to UDC of administering the reduced discounts and the consequent increase in recovery work is estimated at around £75,000 per year so it can be seen that without an incentive from the major preceptors, there is not a strong business case for UDC to unilaterally make the technical changes. Income sharing by the major preceptors makes this potentially attractive.

31. Officers have discussed this issue with the Leader and the Finance Portfolio Holder. It was concluded that the Cabinet's recommended course of action remains appropriate i.e. not to make technical changes in 2013/14 but to carry out a review for 2014/15. Despite the possibility of income sharing, the late notice compromises the Council's capacity to consult and implement this change properly.

32. Another factor is the longevity of any deal made. The County Council indicated that the offer is for 2013/14 only, but with an expectation that it would roll on for future years if it proves to be successful. Clearly this is not an unequivocal guarantee.

33. There is an existing agreement with the County Council to share the income arising from the decision taken a few years ago to reduce second homes discounts from 50% to 10%. The agreement is based on a 50/50 share of the County's proportion, and is worth £45,000 of additional income to UDC this year. 2012/13 is the first year of a three-year deal, but the County has advised that this is to end after 2012/13, to be superseded by the new proposed agreement. The County has asked districts to waive the contractual requirement to give four months notice of terminating the agreement.

34. Given that the proposed UDC LCTS scheme entails a discretionary subsidy of the scheme of £212,000, in order to fulfil the 'cost neutral' principle agreed with major preceptors, in the event of the existing second homes deal being withdrawn prematurely the Council would need to consider an adjustment to the discretionary subsidy being offered.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Detailed in the risk assessment in the attached Cabinet report			