

Committee: Cabinet

Agenda Item

Date: 20 June 2013

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Title: Council Tax Discounts & Local Council Tax Support – Consultation for 2014/15 Scheme

Portfolio Holder: Councillor Robert Chambers

Key decision: **No**

Summary

1. This report sets out suggestions for changes to the Council's Local Council Tax Support (LCTS) Scheme and other Council Tax discounts from 2014/15, and asks the Cabinet to approve the instigation of a consultation process.

Recommendations

2. The Cabinet is recommended to approve that a consultation process be carried out on the following draft proposals:
 - a) Implement changes to the LCTS scheme as set out in paragraphs 18 to 20.
 - b) Provide discretionary subsidy for town & parish councils for 2014/15 in accordance with the principles set out in paragraph 30.
 - c) Provide discretionary subsidy for major preceptors for 2014/15 in accordance with the principles set out in paragraph 37.
 - d) Implement Council Tax Discounts changes with effect from 1 April 2014 as set out in paragraph 44.

Financial Implications

3. Detailed in the report (paragraph 47).

Background Papers

4. None.

Impact

Communication/Consultation	Proposals to be subject to public consultation and discussions with major preceptors
Community Safety	None.
Equalities	An equalities impact assessment will be completed as part of developing final proposals for decisions by Cabinet and the Council later in the year.

Health and Safety	None.
Human Rights/Legal Implications	Compliance with relevant legislation.
Sustainability	The objective is to achieve a financially sustainable set of arrangements.
Ward-specific impacts	None.
Workforce/Workplace	Ongoing demands on the Revenues & Benefits, Housing and Customer Service teams

Local Council Tax Support

5. LCTS replaced Council Tax Benefit (CTB) from 1 April 2013. The Council has adopted a scheme which has the following key elements:
 - a) Pensioners on low income protected from adverse changes (as required by Government)
 - b) Disabled people, carers and blind people on a low income protected from adverse changes
 - c) Working people previously on full CTB pay no more than 8.5% of the council tax bill
 - d) £25 per week of earned wages income disregarded from assessment (to provide a work incentive)
 - e) Child Benefit and Child Maintenance disregarded from assessment (to minimise exacerbation of child poverty, or accusations of same)
 - f) Hardship Policy to enable additional support for genuine extreme hardship cases
 - g) Discretionary subsidy from UDC budget to ensure cost neutrality for County, Police and Fire (because the cost of the 'generous' UDC scheme is greater than the Government funding provided)
 - h) Funding of parish councils to ensure no effects on parish council tax Band D calculation (caused by LCTS discounts reducing the taxbase).

6. The Council's agreed strategy is that the 2013/14 scheme, and the UDC subsidy of it, is a transitional approach for 2013/14 only – done in order to phase in the impact on the affected households. The stated intention was to review the scheme during 2013/14 and make changes for 2014/15, allied to a review of council tax discounts on second homes and empty homes.

7. It is necessary to initiate this process, which will involve public consultation and consultation with County, Police and Fire.

Costs and savings

8. Below is an updated summary of the total estimated costs and budgetary impacts of the UDC LCTS scheme for 2013/14.

£000	TOTAL	County, Police & Fire share	UDC share	UDC budget	Variance
LCTS discounts (loss of Council Tax income)	3,974	3,398	576	372	204
Government funding for LCTS (part of Formula Funding)	(3,583)	(3,070)	(513)	(513)	-
DCLG Transition Grant (one off)	(96)	(82)	(14)	(13)	(1)
Net direct cost	295	246	49	(154)	203
UDC funding of major preceptors	-	(246)	246	212	34
UDC funding of parish councils	194	-	194	194	-
Hardship Support	10	7	3	3	-
ECC funding of hardship administration	-	5	(5)	(5)	-
Estimated collection losses	34	29	5	5	-
TOTAL NET COST	533	41	492	255	237
Use of LGRR Contingency Reserve			(489)	(252)	(237)
Net cost to be funded from UDC General Fund budget			3	3	-

9. It is intended that a new scheme be drawn up for 2014/15, with the aim of reducing the net cost of the scheme, and the UDC subsidy of it so that the UDC subsidy reaches zero within a few years.

10. Based on the above table, savings and/or additional income of about £500,000 are needed, actually £600,000 assuming no more Transition Grant will be forthcoming.

11. There are four additional variables to be aware of, all of which have potential to increase the level of savings needed, but it is suggested that they be disregarded for the purpose of examining scheme change:

Caseload growth risk:	If more people become eligible to claim LCTS, e.g. because of economic downturn, then costs will increase. However caseload is currently steady.
Collection risk:	The impact of the changes is that low income working age households are now paying more Council Tax, in some cases these are people who have never had to pay Council Tax because they were on full CTB. Inevitably in some cases there will be bad debts. We have estimated collection rate for this category of debt at 67%. Initial experience in April and May suggests that we will exceed this collection rate, with over three quarters of this customer group up to date with their payments. With more targeted work planned, there is confidence that the estimated collection rate will be achieved or exceeded.
Funding reduction risk:	The LCTS component of the Local Government Finance Settlement may reduce from 2014/15 onwards. The recommended position that UDC should adopt is that UDC council tax payers should not be expected to subsidise funding losses sustained by County, Police and Fire.
Precept increase risk:	LCTS costs will increase if any of the precepting bodies increase their Council Tax. For example, if County was to increase Council Tax by 2%, the total cost of discounts would increase by around £60k. The recommended position that UDC should adopt is that UDC council tax payers should not be expected to subsidise additional LCTS costs relating to County, Police and Fire precept increases.

12. Taking all of the above factors into account, the objective over the medium term is to reduce costs and/or increase income by £600,000 per year. This is to be achieved within the context of the Council's policy of seeking to phase in adverse impacts on low income households.
13. The options for the savings, to be used in whatever combination Members find desirable, are as follows.
- a) Reduce the costs of LCTS discounts, by requiring low-income households to pay more Council Tax
 - b) Generate additional income by reducing the discounts given on second homes and empty homes, and by adding an empty homes premium, so that the owners of such properties pay more Council Tax.

Reducing the cost of LCTS Discounts

14. This could be achieved in a number of ways, some of which, it is suggested, would be politically unacceptable, e.g.:

- Reducing or removing protection for disabled
- Reducing or removing the disregard of earned income (work incentive)
- Reducing or removing the disregard of child benefit and child maintenance.

15. The most obvious way of reducing the LCTS cost is to require non-protected households to pay more Council Tax – by increasing the 8.5% liability cap to a higher figure.

16. Informal consultation with the Finance Portfolio Holder has led officers to examine the options of increasing the liability cap to a figure between 10% and 20%. It is felt that following the 2015 General Election, it is likely that welfare reforms will accelerate; in order for people to more easily adjust, it is desirable to enter 2015 from a higher starting point than the current 8.5%, otherwise the jump in one year may be too great.

17. The table below summarises the effects of increasing the liability cap.

Liability cap	Estimated 2014/15 Cost of discounts given to working age non-vulnerable LCTS claimants	Estimated additional council tax income (gross)	Estimated council tax income adjust for prudent assumed collection rate of 75%	Average discount per household (full year)	Average additional council tax payable per affected household (full year)	Per week
8.5%	£1,288,000	-	-	£853	-	-
10%	£1,266,000	£22,000	£17,000	£838	£15	£0.29
12.5%	£1,231,000	£57,000	£43,000	£815	£38	£0.73
15%	£1,196,000	£92,000	£69,000	£792	£61	£1.18
20%	£1,126,000	£162,000	£122,000	£746	£107	£2.06

18. Officers feel that the middle option from the table above, an increase in the liability cap to 12.5%, strikes a good balance between the objectives of reducing costs to the Council but phasing in the impact on affected households in a relatively manageable way. It is suggested that this be key proposal for consultation in terms of LCTS scheme changes.

19. The DCLG Transition Grant for 2013/14 was a one off item and there is no information to suggest that further Transition Grant may be available in 2014/15. If an announcement is made late in 2013, the Council may wish to amend its plans accordingly. The consultation will therefore need to be sufficiently flexible to accommodate this possibility.

20. Some local authorities are considering the extent to which administrative easements can be made in order to improve customer service, be more pragmatic and minimise costs. Presently, the slightest change in a claimant's circumstances (e.g. tax credits varying by a few pence) trigger a complete reassessment of the council tax account and reissuing of bills and notifications with associated time, printing and postage costs etc. In such circumstances the cost is disproportionate to the adjustment being made and the degree of accuracy being obtained. Some councils are therefore looking to introduce fixed term periods and/or *de minimis* thresholds which obviate the need to process minor changes in circumstances. It is proposed that the UDC consultation make reference to the possibility of administrative easements being introduced subject to an impact assessment and cost benefit analysis.

Funding for Town/Parish Councils

21. A key feature of the LCTS scheme is that the LCTS discounts reduce the taxbase, and therefore affect council tax calculations, including the headline Band D figure.

22. The Government intends that billing authorities distribute a share of their LCTS funding to town & parish councils to compensate for the reduction in their taxbase. This should avoid excessive increases in parish Band D figures. Whether and how this is done, is a discretionary matter for each authority.

23. For 2013/14 UDC decided 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 effect is that the parish Band D figure is not affected by these adjustments, and any increase or decrease in the Band D figure was solely because of changes in the town/parish council's budget.

24. 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	£14,000 (£2,000 increase)
			-£3,000	-£3,000
			Parish precept	£9,000 (£11,000 (£2,000 increase))
Taxbase	400	300 (smaller figure due to LCTS discounts)	Taxbase	300
Parish Band D figure	£30.00	£40.00	Parish Band D figure	£30.00
		33% increase		£36.67
				No change
				22% increase

25. Calculations showed that the total UDC funding required to achieve neutrality in each town/parish was £194,000 and this money was paid over to town & parish councils in May 2013.
26. Although many parish councils did reduce their intended precept accordingly, some did not and in a few cases there were large precept increases such that the average town/parish Band D increase in 2013/14 was 7.3%. It is emphasised that any such increases were solely due to town/parish council spending increases and not the LCTS discounts and taxbase reductions.
27. Although an entirely discretionary payment, it is fairly clear that to discontinue some form of parish council subsidy would lead to large parish band D increases. It is not yet known whether there will be a council tax referendum limit for town & parish councils in 2014/15. If there is a referendum limit then discontinuation of the UDC subsidy would cause financial difficulties for some town & parish councils.
28. It is therefore proposed that a discretionary parish subsidy scheme continues for 2014/15 and indeed into the medium term subject to affordability.
29. However, in continuing with its arrangements the Council (UDC) needs to be mindful of two budgetary pressures that need to be managed:
- a) Firstly that the Council's LCTS funding from Government is likely to reduce in proportion to the rest of the Formula Funding received under the Local Government Finance Settlement. Best planning assumption at the present time is a 10% reduction in 2014/15. If the level of subsidy for parish councils is protected at the 2013/14 level, £194,000, then the district council will bear a disproportionate share of the funding reduction.
 - b) Secondly that the intention of the scheme is to neutralise the effect of LCTS taxbase adjustments, and not to subsidise local decision making by town/parish councils to increase their spending plans and in turn, the council tax paid by local residents. Because of the increases made by some town/parish councils in 2013/14, care needs to be taken that this does not in turn lead to additional costs being borne by the district council.
30. It is therefore suggested that the following proposals be consulted upon:
- a) UDC should continue to provide discretionary funding to town and parish councils to mitigate the effect of LCTS discount taxbase reductions on the Band D Council Tax calculation.
 - b) UDC should cap the total town/parish subsidy funding at the 2013/14 level adjusted pro rata for the loss of formula funding sustained by UDC in the Local Government Funding Settlement; assuming a 10% reduction this would mean a reduction in parish council funding of around £19,400 (of which around £6,980 would be SWTC and £4,750 GDTC). This should mean no net increase in the bottom line cost to UDC of the parish subsidy element of the LCTS scheme.

- c) The total UDC parish subsidy pot to be distributed using the formula of [2012/13 Parish Band D x 2014/15 Parish LCTS taxbase reduction] – thus avoiding UDC subsidising any precept increases made in 2013/14 or 2014/15. The payment then to be adjusted pro rata to ensure that the total funding pot is not exceeded, e.g. 10% reduction.
- d) That the Council intends to continue town/parish council subsidy beyond 2014/15, subject to affordability issues that may arise from changes in local government finance.
- e) In the event of parish referendum limits being imposed by DCLG the entire scheme to be reviewed and consideration given to putting in place arrangements that minimise risks to town/parish councils.

Major Preceptor Subsidy

- 31. As part of County-wide working set up to implement LCTS, the Council committed to the principle of ensuring, as far as possible, cost neutrality for the major preceptors (County, Police and Fire). Achieving cost neutrality ordinarily means requiring low income households to pay potentially significant sums to make good the reduction in Government funding. This is why many councils have adopted schemes with a liability cap in the 20-30% range.
- 32. In UDC, it was decided to adopt the DCLG Transition cap of 8.5%, and provide discretionary subsidy to major preceptors to achieve cost neutrality for them, (other than some relatively minor costs). This was budgeted at £212,000 with the current estimate being £246,000.
- 33. The Council is signatory to a 3 year agreement with the three major preceptors for a share of the additional income arising from changes in second homes and empty homes discounts to be distributed back to the billing authority. 2014/15 will be the second year of the scheme, and provides for a 30% share to be passed back. The share in 2015/16 will be 35%. There are no guarantees of ongoing income sharing beyond 2015/16.
- 34. In order to honour the principles that have been committed to, and avoid risks that may arise from departing from these principles, it is suggested that discretionary subsidy of major preceptors should continue, albeit on a reformed basis.
- 35. Significant funding reductions are likely in 2014/15 (and beyond) including the major preceptors' LCTS funding. It is suggested that it would be unaffordable, disproportionate and unreasonable for UDC and its Council Tax payers to take on the risk of funding reductions suffered by the major preceptors.
- 36. Similarly the costs of LCTS discounts are directly linked to the size of the Council Tax bill and thus any increases that may be decided upon by the major preceptors. At a time when UDC has cut its own council tax and committed to freezing it next year, it is suggested that it would not be

reasonable for the UDC budget to underwrite the costs attributable to major preceptor council tax increases.

37. Accordingly it suggested that the following proposals be consulted upon:

- a) UDC shall continue to provide discretionary subsidy to County, Police and Fire, to ensure cost neutrality of the scheme
- b) UDC will adopt a definition of cost neutral which ensures that the district council does not subsidise the major preceptors for:
 - Any reductions in formula funding that County, Police and Fire sustain in the Local Government Finance Settlement (an element of which will relate to LCTS)
 - Cessation of DCLG Transition Grant
 - Any increases in the cost of discounts attributable to increases in County, Police and Fire precepts beyond 2012/13 levels (e.g. the district will not fund the additional cost attributable to the Police 3.5% rise in 2013/14, or any rises in 2014/15).
- c) The definition of cost neutral will mean that the district council indemnifies County, Police and Fire against the following risks:
 - Increases in the cost of discounts arising from caseload growth
 - Shortfall in the estimated additional income from Council Tax discounts changes (discussed below).
- d) Continue to participate in the income sharing agreement with County, Police and Fire (2014/15 is Year 2 of a 3 year agreement).

Council Tax Discounts

38. From 1 April 2013, billing authorities (including UDC) have had a greater discretion over the level of council tax discounts given to owners of second homes and empty homes.

39. The Council chose not to make use of this discretion for 2013/14, in order to focus efforts on smooth implementation of the mandatory change from Council Tax Benefit to LCTS.

40. In determining its LCTS scheme for 2013/14, the Council decided that it would review Council Tax discounts during the year, with a view to possibly making changes for 2014/15. The underpinning objective is to increase Council Tax income to mitigate and offset LCTS costs and reductions in government funding.

41. Officers have developed proposals designed to strike a good balance between the objectives discussed above. These proposals, and the impacts on the affected households, are set out below.

	Discounts given 2013/14	Number of properties	Estimated cost of discounts given in 2013/14	Proposed change for 2014/15	Potential additional annual income	Average effect per affected household (full year)	Per week
Second homes	10%	319	£33,000	Remove discount	£33,000	£103	£2
Empty Homes Class A (major repairs)	100% for up to 12 months	119	£98,000	Reduce discount to 50% for up to 12 months	£49,000	£412	£8
Empty Homes Class C (vacant)	100% for up to 6 months	3,030	£612,000	Reduce discount to 50% for up to 6 months	£306,000	£101	£2
Empty Homes Premium (empty & unfurnished for more than 2 years)	None	175	-	Add premium of 50%	£87,000	£497	£10
				TOTAL	£475,000		
			Attrition factor, hardship support & non collection	20%	£380,000 Figure to be used for estimation purposes		

42. The average weekly impact of £2 to £10 compares with the current average impact of LCTS of £1.50 per week which would increase to £2.23 per week if the draft proposal is implemented.

43. Below is current information about other Essex billing authority Council Tax discounts. It shows that the proposals for UDC are generally consistent with the majority of other councils.

2013/14	Second Homes Discount	Empty Homes Class A (major repairs)	Empty Homes Class C (vacant)	Empty Homes Premium
Basildon	10%	100% 12 months	50% 6 months	None
Braintree	0%	0%	0%	None
Brentwood	10%	0%	0%	None
Castle Point	0%	0%	100% 1 month	50%
Chelmsford	10%	100% 3 months	100% 3 months	50%
Colchester	0%	0%	0%	50%
Epping Forest	5%	50%	100% 3 months	50%
Harlow	10%	100% 12 months	100% 6 months	None
Maldon	10%	100% 12 months	100% 6 months	50%
Rochford	10%	100% 12 months	100% 6 months	None
Southend	0%	25%	100% 3 months	50%
Tendring	0%	100% 12 months	0%	None
Thurrock	0%	50%	100% 3 months	50%
Uttlesford (now)	10%	100% 12 months	100% 6 months	0%
Uttlesford 2014/15 (proposal for consultation)	0%	50% 12months	50% 6 months	50%

44. It is therefore suggested that the draft proposals for consultation be as follows:

- a) Remove the 10% second homes discount
- b) Reduce the Empty Homes Class A (major repairs) discount from 100% for up to 12 months to 50% for up to 12 months
- c) Reduce the Empty Homes Class C (vacant dwellings) discount from 100% for up to 6 months to 50% for up to 6 months
- d) Introduce an Empty Homes Premium of 50% for dwellings unfurnished and empty for more than 2 years

45. The above changes to Empty Homes Discounts will have a minor effect on the Housing Revenue Account due to a small number of short term empty council dwellings. Based on current volumes, the estimated annual effect is around £2,000.

46. Single Persons Discounts: Councils do not have discretion over this discount which continues at 25% per qualifying household. With a private sector partner, work continues to identify and remove discounts from ineligible households, under a cost sharing agreement with Essex County Council and Essex Fire (Essex Police declining to contribute, despite benefiting from the results). Since 2010 SPDs totalling £190,000 have been removed from Uttlesford council tax payers. The cost of this work has been about £12,000. County have indicated that a detailed market testing exercise is needed before 2014/15 to ensure their ongoing funding support.

Forecasted financial effects of the proposals

47. The table below brings together the estimated costs and income arising from the draft proposals for consultation. It shows that the net cost falling upon UDC is £130,000, and therefore achieves good progress towards the goal of achieving a fully sustainable position.

£000	TOTAL	County, Police & Fire share	UDC share 2014/15
LCTS discounts if 12.5% cap Assumes no caseload growth Assumes no precept increases	3,917	3,349	568
Government funding for LCTS Assumes 10% reduction	(3,225)	(2,763)	(462)
Additional income generated by Council Tax Discounts Changes	(380)	(325)	(55)
Net direct cost	312	261	51
UDC funding of major preceptors Disregards effect of CLG funding cut (3,070+82) – 2,763 = 389 Net cost is smaller than the funding loss So no UDC subsidy is needed	-	-	-
Major preceptors income sharing agreement (30%)	-	98	(98)
UDC funding of parish councils Assumes 10% reduction	175	-	175
LCTS Hardship Support	10	7	3
Estimated LCTS collection losses	48	41	7
TOTAL NET COST	545	407	138
Use of LGRR reserve			(130)
Net cost to be funded from UDC General Fund budget			8

Timetable

Cabinet	20 June 2013	Report to agree draft proposals and initiate consultation process
Consultation process	July – September 2013	Citizens Panel e-survey UDC Website / on line survey Town/parish councils Discussions with major preceptors
Cabinet	24 October 2013	Consider consultation responses and determine final proposals for 2014/15
Scrutiny	26 November 2013	Opportunity to review consultation outcomes and finalised proposals prior to consideration by Full Council
Provisional 2014/15 Local Government Finance Settlement, including LCTS funding	Late November / Early December 2013	Indication of available funding and council tax referendum limit
Cabinet	5 December 2013	Reconsideration as necessary in light of Scrutiny comments and Local Government Finance Settlement
Full Council	10 December 2013	Approve 2014/15 LCTS scheme and Council Tax Discounts
Full Council	27 February 2014	2014/15 Budget setting and council tax resolution
2014/15 Council Tax bills issued	Early-Mid March 2014	New discounts implemented

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Proposals are not supported by consultation responses	2 (the proposals are felt to be reasonable, but people adversely affected may object to them)	2 (alteration to the proposals may be needed prior to final scheme approval)	Conduct clear and transparent consultation process and carefully consider the results.
Assumptions about costs and income levels are incorrect	3 (a high degree of variability and estimation is involved)	3 (use of reserves may differ from the level envisaged)	Monitor trends closely and review scheme each year to make necessary adjustments. Maintain adequate contingency reserves.

Risk	Likelihood	Impact	Mitigating actions
Relationships with major preceptors and town/parish councils could be affected by funding reductions	3 (if partners are adversely affected there will be a degree of resistance)	2 (alteration to the proposals may be needed prior to final scheme approval)	Explain the arguments clearly Carefully consider comments received.

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.