

Committee: Cabinet

Agenda Item

Date: 17 September 2014

8

Title: Local Council Tax Support Scheme

Portfolio Holder: Councillor Robert Chambers

Key decision: **No**

Summary

1. This report provides a recap on the transition from Council Tax Benefit to Local Council Tax Support (LCTS) and sets out the financial outcomes arising from the first year of LCTS (2013/14). In summary, the financial outcomes were better than expected due to a steady reduction in the total caseload during the year. As a result the Council was not required to provide any subsidy to ensure a cost neutral position for County, Police and Fire. There were 30 cases of exceptional hardship requiring £9,292 of additional financial support, otherwise no widespread problems arose. LCTS customers paid over 92% of their Council Tax bills, significantly more than anticipated.
2. 2014/15 is the second year of LCTS and current indications are that the scheme is operating normally with no significant issues arising.
3. It is time to consider whether further scheme revisions are necessary for 2015/16.
4. The report concludes that there is not a strong case to consider further scheme revisions for 2015/16 and requests the Cabinet to endorse the position that the 2014/15 LCTS scheme will continue into 2015/16. This obviates the requirement to carry out consultations.

Recommendations

5. The Cabinet is recommended to endorse the position that there will be no adjustments to the Council's Local Council Tax Support Scheme for 2015/16.

Financial Implications

6. No direct financial implications arising from the recommendation.

Background Papers

7. None.

Impact

Communication/Consultation	If LCTS scheme changes are proposed, a formal consultation process is required. This will not be needed if the recommendation is approved.
Community Safety	None
Equalities	LCTS scheme adoption was based on a detailed EQIA.
Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	An ongoing need to strike the right balance between sustainability of council finances and minimising adverse financial impacts for LCTS recipients.
Ward-specific impacts	None
Workforce/Workplace	None

Local Council Tax Support - background

8. 2013/14 was the first year of the new Local Council Tax Support scheme. It replaced the national Council Tax Benefit scheme, which was abolished at the end of 2012/13.
9. Council Tax Benefit was fully funded by Central Government, who bore the financial risk of an increase in demand. For 2013/14, the Government provided funding for LCTS at approx. 90% of previous funding levels i.e. a 10% cut in funding. Councils also took on the financial risk of increases in demand. This gave Council a further financial incentive to facilitate a strong local economy, as part of a wider strategy for local government finance that includes localisation of business rates and cuts in core funding being progressively replaced by reward-based funding e.g. New Homes Bonus.
10. Councils were required to design their own LCTS schemes and determine which people received support to pay their Council Tax. The Government required Councils to ensure that pensioners were not adversely affected by the transition. The effect of the pensioners protection and the 10% funding cut was that all things being equal, working age Council Tax Benefit recipients would have their support cut by an average of around 20%. This is part of the Coalition Government's policy to cut the cost of welfare and give working age people an incentive to work.

11. Following public consultation, in December 2012 the Council adopted an LCTS scheme with the following key elements:

- Protection for pensioners (mandatory)
- Protection for vulnerable working age people – disabled, carers and blind people (discretionary)
- Non-vulnerable working age people previously on full Council Tax Benefit were required to pay a minimum 8.5% of the Council Tax bill
- Disregarding Child Maintenance and Child Benefit income from the means test
- Disregarding £25 per week of earned wages income from the means test (incentive to work)
- Retain the capital cut off limit at the £16,000 level
- Exceptional Hardship scheme established with a budget of £10,000.

12. The Uttlesford scheme was the most generous in Essex and was the only one in the county to qualify for additional “transition” funding from DCLG.

13. It was estimated as at December 2012 that of 3,989 people claiming Council Tax Benefit, 2,152 were pensioners and would be protected, 410 were vulnerable working age people and would also be protected, and 1,427 were non-vulnerable working age people who would be required to pay more Council Tax as a result of the transition from Council Tax Benefit to LCTS. The average impact per affected claimant was estimated at £1.49 per week.

14. There was a pan-Essex agreement that district councils would adopt LCTS schemes that were cost neutral for the major preceptors (County, Police and Fire), that is to say, the amount of Council Tax income foregone from granting LCTS discounts would not exceed the Government funding provided. The UDC scheme was estimated to exceed the funding by £212,000 and the Council committed to provide funding to the major preceptors to make up this shortfall, thus preserving the cost neutrality principle for County, Police and Fire. The sum of £212,000 was built into the 2013/14 UDC budget.

15. In addition, the Council entered into an agreement with County, Police and Fire whereby the major preceptors would provide funding for the employment of an additional Revenues officer, in order to maximise the collection of Council Tax income from people who would now have to pay more Council Tax as a result of the transition from Council Tax Benefit to LCTS.

2013/14 review

16. The following table showed that as the year progressed, the number of people claiming LCTS support steadily declined, and with it, the cost of the LCTS discounts. By the end of the year, the cost of the LCTS discounts was fractionally within the Government funding provided, such that there was no requirement for UDC to provide subsidy to County, Police and Fire. Accordingly the budgeted £212,000 was not used.

	Number of LCTS recipients	2013/14 LCTS Discounts Cost £000	2013/14 Government Funding £000	Deficit / (surplus) £000
December 2012 estimate	3,989	3,862	3,650	212
March 2013 billing	4,021	3,871	3,679	192
30 June	3,910	3,843	3,679	164
30 September	3,843	3,743	3,679	64
31 December	3,781	3,694	3,679	15
31 March	3,739	3,668	3,679	(11)

17. It should be noted that the Government funding figure of £3,679,000 includes an additional one-off “transition” sum of £96,000, paid because the Council’s scheme met the DCLG transition level which was set at 8.5%. Without the extra £96,000 the scheme would have been in financial deficit.

18. A reduction in the number of people receiving LCTS discounts is an indicator that the local economy is reasonably strong and improving. The trend in LCTS is similar to the trend in Housing Benefit caseload.

19. During the year a total of 30 LCTS recipients experienced genuine financial hardship beyond their control and received support under the Council’s Exception Hardship scheme with a total of £9,292 of additional support provided.

20. By 31 March LCTS recipients paid 92.4% of the Council Tax they were liable to pay, significantly above estimated levels. Two main reasons for this: the relatively generous UDC scheme meant that the amounts people were required to pay were more manageable, and the investment in an additional Revenues Officer has proved successful. The Officer proactively engages with households including home visits.

21. The transition from Council Tax Benefit to Local Council Tax Support has involved treating LCTS as a discount i.e. loss of Council Tax income, with the effect of reducing the taxbase used to determine the annual precept. This had potential to cause chaos at the parish council level. The Council therefore provided discretionary subsidy to all town and parish councils to compensate them for the loss of taxbase. This ensured that all town and parish councils were placed in a completely neutral position as though LCTS was not happening. Any increase or decrease in the town/parish Band D Council Tax was solely due to changes in the town/parish councils' spending plans.
22. Overall in council finances terms, the 2013/14 LCTS scheme can be said to have had good outcomes. In terms of outcomes for LCTS recipients, although there were a few cases of genuine hardship there is no evidence of widespread difficulties arising as a result of LCTS and collection rates were significantly higher than expected. The Council's policy of taking a phased approach to minimise the impact on the affected households was effective in practice.

2014/15 LCTS scheme

23. Following public consultation, in December 2013 the Council decided to amend the LCTS scheme for 2014/15: the only change was to increase the minimum amount paid by LCTS recipients formerly entitled to full Council Tax Benefit from 8.5% to 12.5%. This change would have an average impact on the affected people of 90 pence per week. The Exceptional Hardship scheme budget was increased from £10,000 to £15,000.
24. Government funding for LCTS is no longer identifiable in the funding settlement. The previous amount of £3,583,000 (excluding one off transition funding), of which the UDC share was £513,000, has been rolled into the total settlement and subject to the same overall cut, in UDC's case the cut from 2013/14 to 2014/15 was 11%. However, for the purpose of determining cost neutrality for County, Police and Fire, the 2013/14 funding figure are used.
25. As at the billing stage (March 2014) there were a total of 3,723 LCTS recipients with a total discount value of £3,455,000. This is within the funding levels being used to judge cost neutrality so no subsidy from the UDC budget is expected, or has been budgeted for. The figures are in line with the established trend of a steady caseload reduction, and the expected reduced cost arising from the transition from 8.5% to 12.5%.
26. As at 31 August 2014, a total of nineteen LCTS recipients have been supported by the Exceptional Hardship scheme at a cost of £3,268. Collection is proceeding normally with no unusual trends or significant issues to report.
27. The Council has maintained its discretionary funding support of town/parish councils to ensure that they remain in a neutral position following the taxbase reductions.

28. The current indication is that the LCTS scheme continues to operate smoothly with financial outcomes in line with expectations and no significant issues arising.

2015/16 LCTS scheme

29. If the Council wishes to make further changes to its LCTS scheme for 2015/16, by law this has to be done no later than 31 January 2015. The process leading up to this necessitates consultation with the public and major preceptors to commence immediately with review of responses and determination of the Cabinet's proposals during late Autumn.

30. The financial outcomes for 2013/14 were better than expected, as discussed above. Current indications suggest no significant issues or departure from expectations in the operation of the 2014/15 LCTS scheme. As set out in the Medium Term Financial Strategy, a budget surplus is forecasted for 2015/16.

31. For these reasons, it is felt at the present time that there is not a strong case to consider further revisions to the LCTS scheme for 2015/16 and in particular there is no demonstrable need to consider an increase in the headline 12.5% figure. Another consideration is that the outcome of the 2015 General Election may affect Government policy towards welfare reform, Council Tax and LCTS and it is felt that any proposals to amend LCTS for 2015/16 may be precipitate.

32. For all of the above reasons, the Cabinet is recommended to endorse a position whereby the 2014/15 LCTS scheme will be retained and used again in 2015/16. As a result there are no proposed scheme changes and no requirement to carry out a public consultation.

33. Material uncertainties remain about the future of local government funding so there is a need to be disciplined about all aspects of the Council's budget. The LCTS scheme needs to be kept under review and depending on circumstances prevailing at the time; options need to be kept open for possible LCTS scheme revisions from 2016/17.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
LCTS caseload trends and collection experience worsens	1 – there is currently a stable, steadily reducing trend and collection is holding up well	2 – modest financial impact to be managed	Monitoring Keep options open for scheme revisions from 2016/17