

**Committee:** Cabinet

**Agenda Item**

**Date:** 18 June 2015

**10**

**Title:** 2016/17 Local Council Tax Support Scheme

**Portfolio Holder:** Councillor Simon Howell

Key decision: **No**

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## **Summary**

1. There is a requirement to annually review the Local Council Tax Support (LCTS) Scheme, and propose changes to the scheme for the following financial year. The decisions made, even if no change is proposed, must then be consulted upon before a decision is taken at Full Council in December on the final scheme for the following financial year.
2. As can be seen from the table in paragraph 8 Uttlesford has the lowest percentage contribution requirement of any authority in Essex. This demonstrates that whilst the council has had sufficient funds to support the scheme it has done so.
3. In 2013/14 when the original scheme was introduced the contribution rate was set at 8.5% and this increased in 2014/15 to 12.5%. This rate was frozen in 2015/16.

## **Recommendations**

4. The Cabinet is recommended to approve that a consultation process be carried out on the following draft proposals:
  - a) The 2016/17 LCTS scheme is set on the same basis as the 2015/16 scheme and therefore the contribution rate is frozen for the second consecutive year.
  - b) Provide discretionary subsidy for town & parish councils for 2016/17 in accordance with the principles set out in paragraph 25.
  - c) The 2016/17 Council Tax discounts are set at the same rate as the 2015/16 discounts as set out in paragraphs 26 – 29.

## **Financial Implications**

5. Detailed in the report (paragraph 34).

## **Background Papers**

6. 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 (LCTS)

7. LCTS replaced Council Tax Benefit (CTB) from 1 April 2013. The Council has adopted a scheme for 2015/16 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 receive discretionary protection from adverse changes
  - c) Working age people previously on full CTB pay no more than 12.5% 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).

## 2015/16 Contribution Rates across Essex

8. The council has the lowest percentage liability cap within Essex as is shown below

	<b>% Liability Cap 2013/14</b>	<b>% Liability Cap 2014/15</b>	<b>% Liability Cap 2015/16</b>
Basildon	15	25	25
Braintree	20	20	20
Brentwood	20	20	20
Castle Point	30	30	30
Chelmsford	20	23	23
Colchester	20	20	20
Epping Forest	20	20	20
Harlow	24	24	24
Maldon	20	20	20
Rochford	20	20	20
Southend-on-Sea	25	25	25
Tendring	15	15	20
Thurrock	25	25	25
Uttlesford	8.5	12.5	12.5

### **Caseload**

9. What the table below shows is the significant drop in the number of Working Age claimants (30% between 2012/13 and 2015/16). Whilst this is positive and welcomed it does mean any future changes to the scheme are directly impacting a much smaller group of people which means for them bigger changes than previously encountered. In addition, as the group is smaller the monies raised from increasing the contribution rate has also decreased.

	<b>2012/13 Baseline Caseload</b>	<b>2013/14 Caseload</b>	<b>2014/15 Caseload</b>	<b>2015/16 Caseload</b>
Pensioner and Disabled Claimants	2,540	2,586	2,541	2,497
Working Age Claimants	1,321	1,132	957	920
Total	3,861	3,718	3,498	3,417

- The small drop in pensioner and disabled claimants may be a consequence of the change in retirement age from 65 to 67

### **Costs**

10. Under the old CTB scheme the council was refunded the full cost. When LCTS commenced the government only gave councils 90% of the cost with the expectation that the cost of the lost 10% would be passed onto the taxpayer. The core funding of UDC's share has been paid through the Revenue Support Grant (RSG) which has been reducing for the last few years as it is being replaced by New Homes Bonus and Business Rates Retention. By 2020/21 the RSG will have gone completely and with it the direct funding from the old CTB scheme unless Central Government continue to fund pensioners.
11. The cost of the 2014/15 scheme for UDC was £59,000 and this increases to a forecast £120,000 for 2015/16. Whilst the LCTS scheme was frozen the reducing RSG led to the overall increase in cost.
12. With the RSG forecast to decrease by a further 20% in 2016/17 it will add an additional £84,000 to the cost of administering the current scheme, even after the reduced caseload and therefore expenditure is taken into account.
13. This figure would be reduced if the contribution rate was increased for Working Age group claimants.

### Increasing the Contribution Rate

14. If the cap is increased the scheme would generate more income. However as the Working Age group is reducing in size the amount of additional income per percentage point is also decreasing.
15. When the LCTS scheme for Uttlesford was established it was anticipated that collection from the taxpayers may be a challenge and therefore the expected collection rate was set at 75%. Collection has not proven to be a major issue with the current rate being in excess of 90%. For this report we have assumed a collection rate of 90%.
16. The table below sets out the additional income achievable by increasing the liability cap from 12.5% and the additional money that would have to be paid by the claimant each year and each week.

Contribution Rate	Income benefit to billing authority and major preceptors		Effect on claimant	
	Additional Council Tax Income £	Additional Income with 90% Collection Rate £	Average Additional Cost per claim per year £	Average Additional Cost per claim per week £
15.00%	21,225	19,103	23.07	0.44
17.50%	39,267	35,340	42.68	0.82
20.00%	56,857	51,171	61.80	1.19
22.50%	74,008	66,607	80.44	1.55
25.00%	90,730	81,657	98.62	1.90
27.50%	107,034	96,330	116.34	2.24
30.00%	122,930	110,637	133.62	2.57

17. What the table on the previous page demonstrates is that an increase of contribution rate to 15% would generate an additional council tax potential income of £21,225 of

which £19,103 would be collected and shared between the preceptors. The impact on a Working Age claimant who receives the maximum amount of LCTS would be an additional 44p per week to pay adding up to £23.07 for a full year.

## **Income Sharing Agreement**

18. An Essex wide income sharing agreement was entered into with all billing authorities and the major preceptors at the time of implementation of the new LCTS scheme. The main principles of the agreement are to ensure a joint approach to maximising income collection (please refer to points 31 and 32 of this report) and reduce fraud and ensure compliance. In monitoring and working proactively on fraud this ensures that our Taxbase is maintained at the maximum level generating extra revenue for both the major preceptors and billing authorities.

Preceptors receive a share of all income generated for Council Tax and this is allocated through the Collection Fund at year end.

The increased income generated specifically from these activities and internal decisions by UDC each year is monitored and the preceptors have agreed to share their element of the extra income with the Local Authorities.

A further post is being funded through this agreement from 2015/16 for a period of three years to work directly on all areas of fraud and compliance within Council Tax. The income generated directly from this work will also be shared as per the agreement.

## **Funding for Town/Parish Councils**

19. 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.
20. 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.
21. 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.

22. An example of this principle is below.

2015/16		2016/17 without UDC funding	2016/17 with UDC funding	
Parish precept	£12,000	£12,000	Parish income requirement	£12,000 (no change) £14,000 (£2,000 increase)
			<b>UDC funding</b>	<b>£-3,000</b> <b>£-3,000</b>
			Parish precept	£9,000 £11,000 (£2,000 increase)
Taxbase	400	300 (smaller figure due to LCTS discounts)	Taxbase	300 300
Parish Band D figure	£30.00	£40.00	Parish Band D figure	£30.00 £36.67
		33% increase		No change 22% increase

23. Calculations show that the total UDC funding required to achieve neutrality in each town/parish for 2015/16 was £171,000 and this is the figure that has been used for calculating the cost of the 2016/17 scheme.

24. 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 2016/17. If there is a referendum limit then discontinuation of the UDC subsidy would cause financial difficulties for some town & parish councils.

25. It is therefore proposed that a discretionary parish subsidy scheme continues for 2016/17 and indeed into the medium term subject to affordability and the consultation is undertaken on the following basis:

- 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) The total UDC parish subsidy pot to be distributed using the formula of [2012/13 Parish Band D x 2016/17 Parish LCTS taxbase reduction] – thus avoiding UDC subsidising any precept increases made in 2013/14, 2014/15 or 2015/16. The payment then to be adjusted pro rata to ensure that the total funding pot is not exceeded.
- c) That the Council intends to continue town/parish council subsidy beyond 2016/17, subject to affordability issues that may arise from changes in local government finance.
- d) 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.

## Council Tax Discounts

26. 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.
27. In 2014/15 the Council reviewed Council Tax discounts with the underpinning objective to increase Council Tax income to mitigate and offset LCTS costs and reductions in government funding.
28. Following the consultation the table below shows the changes that were made to the scheme as from 1 April 2014 and which continued to operate through 2015/16.

	<b>Discounts given 2013/14</b>	<b>Changes introduced as from 1 April 2014</b>
Second homes	10%	Remove discount
Empty Homes Class A (major repairs)	100% for up to 12 months	Reduce discount to 50% for up to 12 months
Empty Homes Class C (vacant)	100% for up to 6 months	Reduce discount to 50% for up to 6 months
Empty Homes Premium (empty & unfurnished for more than 2 years)	None	Add premium of 50%

29. The effect of these changes on the 2016/17 budget are to provide an additional £400,000 of Council Tax income of which the UDC share is £57,000

## LCTS Administration, hardship and recovery funding

30. As part of the scheme the major preceptors (County, Fire and Police) provide funding of £34,000 per annum to employ an officer to ensure the efficient administration of the LCTS scheme. The officer also works with those people affected by the scheme so as to ensure they make their payments and thereby avoid costly recovery action being taken.
31. Essex County Council contributes £7,000 per annum towards the running of the hardship scheme which has a £15,000 annual budget (£8,000 UDC element).

## Consultation

32. It is intended that the consultation would start on or about 1 July and would run until the end of September 2015. The consultation would include:
- a) Citizens Panel e-survey
  - b) UDC Website / online survey
  - c) All Town and Parish Councils
  - d) Major Preceptors

33. The results of the consultation would be included in the reports that go to Cabinet and Scrutiny in the autumn.

### Putting it all together

34. The following table brings together all the costs and income arising from the recommendations in the report. It shows that the forecasted position for UDC in 2016/17 is a net cost of £204,000.

All figures £000	TOTAL forecast 2016/17	County, Police and Fire share forecast 2016/17	UDC share forecast 2016/17
LCTS discounts	3,205	2,754	451
Government LCTS funding at 20% reduction	(1,883)	(1,613)	(270)
<b>Subtotal – LCTS scheme</b>	<b>1,322</b>	<b>1,141</b>	<b>181</b>
Additional income generated by changes to internal policy	(400)	(343)	(57)
Major preceptors income sharing agreement – 16% passed back to district council	0	55	(55)
<b>Subtotal – net effect of the LCTS &amp; discounts changes</b>	<b>922</b>	<b>853</b>	<b>69</b>
UDC discretionary funding of town/parish councils	171	0	171
Major preceptor funding of LCTS administration & recovery costs	0	34	(34)
LCTS hardship scheme	15	7	8
ECC funding of hardship administration	0	5	(5)
<b>TOTAL NET COST</b>	<b>1,108</b>	<b>899</b>	<b>209</b>

## Timetable

35. The table below sets out the timetable for the setting of the 2016/17 LCTS Scheme

Cabinet	18 June 2015	Report to agree draft proposals and initiate consultation process
Consultation process	July – September 2015	Citizens Panel e-survey UDC Website / on line survey Town/parish councils Discussions with major preceptors
Cabinet	22 October 2015	Consider consultation responses and determine final proposals for 2016/17
Scrutiny	17 November 2015	Opportunity to review consultation outcomes and finalised proposals prior to consideration by Full Council
Provisional 2016/17 Local Government Finance Settlement, including LCTS funding	Late November / Early December 2015	Indication of available funding and council tax referendum limit
Cabinet	10 December 2015	Reconsideration as necessary in light of Scrutiny comments and Local Government Finance Settlement
Full Council	17 December 2015	Approve 2016/17 LCTS scheme
Full Council	25 February 2016	2016/17 Budget setting and council tax resolution
2016/17 Council Tax bills issued	Early-Mid March 2016	2016/17 LCTS scheme implemented

## Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
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.

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.