

New Local Council Tax Support Scheme

SUMMARY

This report asks the Council to adopt a new Local Council Tax Support Scheme. The new scheme will replace Council Tax Benefits with effect from April 2013.

PORTFOLIO	Finance	Date signed off: 8 January 2013
WARDS AFFECTED	All	

Recommendation

The Council is advised to:

1. **CONSIDER** the options for a Local Council Tax Support Scheme, the outcome of consultation and the equalities impact assessment;
2. **NOTE** the principle that everyone must make a contribution to the cost of local services;
3. **RESOLVE** that delegated authority be given to the Executive Head of Finance in conjunction with the Portfolio Holder for Finance to make minor amendments as may be necessary for final adoption;
4. **RESOLVE** that up to £26,000 be transferred to Parishes to compensate them for the effects of the Local Council Tax Support Scheme such that their Tax base for 2013/14 is no lower than their tax base for 2012/13;
5. **RESOLVE** that a Hardship Fund of £10,000 be created under Section 13A of the Local Government Act 1992 for exceptional cases;
6. **RESOLVE** that war widows pensions and military compensation payments be disregarded as income for entitlement to Local Council Tax Support;
7. **RESOLVE** that the budget for 2012/13 be amended to include £84,000 New Burdens funding for the implementation of the Council Tax support scheme;
8. **RESOLVE** that those claimants of working age who, under the existing scheme qualify for disability premiums, be exempt from the changes introduced by the new scheme;
9. **RESOLVE** that the Local Council Tax Support Scheme for Surrey Heath from 1 April 2013 subject to the application of regulations issued for schemes under the Local Government Finance Act 2012 be one of either;

Scheme A – Default scheme

- **No change to relief eligibility from the current Council Tax benefit**

scheme

Scheme B – Surrey Framework Scheme consisting of:

- **No second adult rebate**
- **Reduce Capital Limit to £6,000**
- **Restrict minimum award to £5 per week**
- **Restrict eligible Council Tax to a Valuation Band D**
- **Reduce backdating to 3 months from the current 6 months**

Scheme C – DCLG Transitional scheme consisting of:

- **Restrict maximum relief to 91.5% of Council Tax liability**

Scheme D – Self Funding Scheme:

- **No second adult rebate**
- **Reduce Capital Limit to £6,000**
- **Restrict minimum award to £5 per week**
- **Restrict eligible Council Tax to a Valuation Band D**
- **Reduce backdating to 3 months from the current 6 months**
- **Restrict maximum relief to 70% of Council Tax liability**

10. **NOTE that the scheme may need to be revised later in the year for 2014/15 to take account of changing circumstances and issues arising in 2013/14**

1. EXECUTIVE RECOMMENDATION TO COUNCIL

- 1.1 The Executive considered this report at its meeting on 8th January 2013. At that meeting the following Recommendation was made to Council:

The Executive recommended to Council that

- i. the principle that everyone must make a contribution to the cost of local services be noted;*
- ii. delegated authority be given to the Executive Head of Finance in conjunction with the Portfolio Holder for Finance to make minor amendments as may be necessary for final adoption of the Local Council Tax Support Scheme;*
- iii. up to £26,000 be transferred to Parishes to compensate them for the effects of the Local Council Tax Support Scheme such that their Tax base for 2013/14 is no lower than their tax base for 2012/13;*
- iv. a Hardship Fund be created under Section 13A of the Local Government Act 1992 for exceptional cases;*
- v. war widows pensions and military compensation payments be disregarded as income for entitlement to Local Council Tax Support;*
- vi. the scheme may need to be revised later in the year for 2014/15 to take account of changing circumstances and issues arising in 2013/14;*
- vii. the Local Council Tax Support Scheme for Surrey Heath from 1 April 2013, subject to the application of regulations issued for schemes under the Local Government Finance Act 2012, be the Self-Funding Scheme (Option 4 of the agenda report) as follows; :*

- *No second adult rebate*
- *Reduce Capital Limit to £6,000*
- *Restrict minimum award to £5 per week*
- *Restrict eligible Council Tax to Valuation Band D*
- *Reduce backdating to 3 months from the current 6 months*
- *Restrict maximum relief to 70% of Council Tax*

In addition it was proposed at the meeting of the Executive that it be recommended to Council that protection be granted to Disabled persons who are in receipt of Disabled benefit premiums. This change is estimated to add £8k to the cost of the scheme for Surrey Heath. Hence the following recommendation was added at the meeting and is reflected in the resolution for Council in this paper:

“The Executive recommend to Council that those claimants of working age who, under the existing scheme qualify for disability premiums, be exempt from the changes introduced by the new Scheme;”

2. RESOURCE IMPLICATIONS

- 2.1 The financial implications, which are dealt with elsewhere in this paper, range from £38k to £82k depending on the scheme chosen and the financing decisions made. However these are only estimates based on the information available at present and should be viewed only as indicative.
- 2.2 The new scheme transfers the financial risk from central government to local authorities. Hence the cost due to say an increase in numbers of claimants, bad debts, overpayments through change in circumstances etc. will fall on Councils. Councils will only be able to react to this, say by changing eligibility; on an annual basis leaving them open to these financial risks. Given current spend is £3.6m it can be appreciated that a small variation could have a significant financial effect. Only 13 % of this would actually fall on Surrey Heath with a further 13% being passed on to the Police and the remainder to Surrey County Council.
- 2.3 The grant to pay for the scheme for 2013/14 will be paid as a separately identifiable line in the 2013/14 settlement however after that year it will not be separately identified and instead rolled up in to the baseline funding arising from the retention of business rates scheme. This will make it very hard to identify if future reductions in funding are driven by a desire to reduce overall Council expenditure or to reduce benefits.
- 2.4 The Government announced as part of the Local Government funding settlement on the 19th December that Surrey Heath would receive £419,000 towards the cost of this scheme. This compares with an earlier indicative figure of £411,000 which has been used in this paper. Given the settlement has to be confirmed by Parliament in January and may change no figures have been amended in this report
- 2.5 The Government has announced implementation funding under the new burdens funding of £84,000 for 2012/13 with a further £34,382 in 2013/14 and £61,214 the year after

3. KEY ISSUES

- 3.1 All Councils must have a scheme in place by the 31st January 2013 otherwise the existing default scheme continues.
- 3.2 Central Government funding for this relief for 2013/14 is being reduced and Councils have been given the power to change some entitlements to benefit to cover the shortfall.
- 3.3 The Government has decided to protect all pensioners in receipt of current council tax benefit meaning that the total shortfall falls on working age claimants.
- 3.4 Councils have also been given the power to change Council Tax exemptions on say empty properties as a way of partly funding this scheme
- 3.5 Any shortfall not covered will fall on the preceptors in proportion to their precept.
- 3.6 A consultation has been carried out with local residents the results of which are in this paper. In addition an Equalities Impact Assessment has been completed.
- 3.7 Our major preceptors Surrey Police and Surrey County Council who will bear some of the cost of the new scheme have been consulted and their comments are attached
- 3.8 The charging of Council Tax to residents who in the past have not paid any is likely to result in additional collection costs and impact on the Council Tax collection rate.
- 3.9 It is likely that the scheme adopted for 2013/14 will need to be amended in future years in the light of government funding constraints and issues arising from the operation of the proposed scheme.

4. OPTIONS

- 4.1 The Council has the option to accept, reject or amend the recommendation
- 4.2 It should be noted that any major variation to the proposed local schemes may require further consultation and equalities assessment. In addition if a scheme is not approved by the 31st January then the existing scheme automatically becomes the default scheme for 2013/14.

5. PROPOSALS

As members are able to select 1 of 4 possible schemes there are 4 options included within this proposal.

It is PROPOSED that the Council:

1. CONSIDER the options for a Local Council Tax Support Scheme, the outcome of consultation and the community and equalities impact assessment

2. NOTE that the principle that everyone must make a contribution to the cost of local services
3. RESOLVE that delegated authority be given to the Executive Head of Finance in conjunction with the Portfolio Holder for Finance to make minor amendments as may be necessary for final adoption.
4. RESOLVE that up to £26,000 be transferred to Parishes to compensate them for the effects of the Local Council Tax Support scheme such that their Tax base for 2013/14 is no lower than their tax base for 2012/13
5. RESOLVE that a Hardship Fund of £10,000 be created under Section 13A of the Local Government Act 1992 for exceptional cases.
6. RESOLVE that war widows pensions and military compensation payments be disregarded as income for entitlement to Local Council Tax Support
7. RESOLVE that the budget for 2012/13 be amended to include £84,000 New Burdens funding for the implementation of the Council Tax support scheme
8. RESOLVE that those claimants of working age who, under the existing scheme qualify for disability premiums, be exempt from the changes introduced by the new scheme
9. RESOLVE that the Local Council Tax Support Scheme for Surrey Heath from 1 April 2013 subject to the application of regulations issued for schemes under the Local Government Finance Act 2012 be one of either:
 - Scheme A – Default scheme
 - No change to relief eligibility from the current Council Tax benefit scheme
 - Scheme B – Surrey Framework Scheme consisting of:
 - No second adult rebate
 - Reduce Capital Limit to £6,000
 - Restrict minimum award to £5
 - Restrict eligible Council Tax to Band D
 - Reduce backdating to 3 months from the current 6 months
 - Scheme C – DCLG Transitional scheme consisting of:
 - Restrict maximum relief to 91.5% of Council Tax
 - Scheme D – Self Funding Scheme:
 - No second adult rebate
 - Reduce Capital Limit to £6,000
 - Restrict minimum award to £5
 - Restrict eligible Council Tax to Band D
 - Reduce backdating to 3 months from the current 6 months
 - Restrict maximum relief to 70% of Council Tax
10. NOTE that the scheme may need to be revised later in the year for 2014/15 to take account of changing circumstances and issues arising in 2013/14

6. SUPPORTING INFORMATION

6.1 Background

- 6.1.1 The Local Government Finance Act received Royal Assent on 31 October 2012. The Act paves the way for the implementation of localised council tax support schemes. This Act requires councils currently responsible for the administration of council tax benefits to design local schemes to administer council tax support, working within a framework set out in legislation.
- 6.1.2 Local Council Tax Support Schemes must be approved by January 2013 and implemented from April 2013.
- 6.1.3 Central Government included as an objective of the Act to 'Provide a framework for the localisation of support for council tax in England, which, alongside other council tax measures, will give councils increased financial autonomy and a greater stake in the economic future of their local area, while providing continuation of council tax support for the most vulnerable in society, including pensioners. The localisation of council tax support will enable the England share of around £500m saving on expenditure across Great Britain to be realised'.
- 6.1.4 The Government has stated that vulnerable pensioners should be protected and that the changes should support incentives for people to find and stay in work. Pensioners on low income should continue to receive support with their council tax on the same basis as the current council tax benefit scheme.
- 6.1.5 The current national Council Tax Benefit scheme is based on means testing for pensioners and for those of working age on low incomes. The scheme provides additional protection for those with extra expenses or needs through a series of premiums and income disregards.
- 6.1.6 The Council is currently reimbursed fully for all properly awarded benefit (i.e. where the Council has made no mistakes in the calculation of individuals' benefits) so that council tax revenue is protected.
- 6.1.7 There will be a transfer of financial risk from central to local government as council tax revenue from the lowest income working age households will no longer be protected by government funding. Surrey District Councils, as billing authorities, also face additional collection and recovery costs.
- 6.1.8 Where a local scheme is being redesigned so that future financial assistance is provided within the reduced government funding, the reduction in support will fall entirely on working age claimants. For this reason there is significant concern over the possible impacts of local schemes on the more vulnerable claimants.
- 6.1.9 This report seeks the Committees decision on a preferred scheme which will be presented to Council for approval on 22nd January 2013.
- 6.1.10 For information a breakdown by ward of number of claimants is as follows:

Ward	Number	Ward	Number	Ward	Number
St Michaels W	199	St Pauls	47	Mytchett & Deepcut	204

St Michaels E	164	Frimley W	247	Bisley	80
Town	182	Frimley E	26	Chobham & Valley End	202
Old Dean	538	Parkside	167	West End	85
Watchetts W	199	Heatherside	148	Windelsham NW	17
Watchetts E	143	Frimley Green	250	Windlesham S	85
Bagshot	324	Lightwater	141	TOTAL	3,448

These are broken down into:

Type of Claimant	Number	Current spend £m	%age by spend
Pension Age (Unaffected by changes)	1,596	1.84	48.5%
Working age Passported from other benefits	1,050	1.26	33.2%
Working age Vulnerable	175	0.180	4.7%
Working age other	627	0.512	13.6%
Total	3,448	3.793	

6.2 Council Tax Relief, Tax Base and Parishes

- 6.2.1 Currently benefit claimants have their council tax paid by the DWP. This involves the DWP effectively “paying” the claimant’s Council Tax by reimbursing the billing authority and hence the collection fund. These properties despite having their Council tax “paid” by government form part of the tax base.
- 6.2.2 The new scheme however will operate as a relief so that if say a property qualifies for 100% relief this will reduce the tax base by 1 unit. This effectively means that as the tax base has fallen each of the preceptors will receive less money for a given level of council tax and so the “cost” of the relief is shared amongst all the preceptors in relation to their precept. The government will compensate for this “loss” of Council tax income by paying the additional grant to fund the scheme, albeit at a reduced rate from that paid currently, to all the major preceptors in relation to their precept.
- 6.2.3 Parishes, whilst being affected from the reduction in tax base resulting from the new scheme, will not receive any grant directly from the Government to compensate them because they are currently 100% funded through local taxation. A compensatory grant covering only part of the cost of the old scheme will instead be added to the amount that Surrey Heath receives. This means that in order to achieve the same level of income Parishes would have to increase their tax charge on all council tax payers to take account of the fall in the base as illustrated by the example below:

Windlesham Parish

Existing arrangements

Tax base x council tax charge = Total precept

$$8,143 \times \text{£}32.59 = \text{£}265,390$$

New arrangements

Windlesham has 564 claimants so assume that the tax base falls by 507

$$7,625 \times \text{£}32.59 = \text{£}248,498$$

Hence to achieve the same total precept as before the council tax charge would need to increase to £34.80 or 6.8%.

- 6.2.4 The Government are suggesting that billing authorities should decide the level of funding to be passed on to parishes to compensate them for this loss. This may involve parishes taking an element of the costs of the relief.
- 6.2.5 Within the indicative settlement £26k has been allocated to compensate minor preceptors such as Parishes. Given the complexity and uncertainty as to the effect of the new scheme it is recommended that Surrey Heath undertake to provide funding up to £26k to bring the tax base at least to the same level it was in 2012/13. This would mean that parishes have certainty as to the level of income they will receive for a given precept.

6.3 Estimating the Funding Gap

- 6.3.1 The current forecast of Council Tax Benefits provided to Borough residents, based on the national scheme, is £3,793,000 (out of council tax sums due totalling £56 million covering the county council, police and borough services).
- 6.3.2 The Department for Communities and Local Government (DCLG) indicative allocation of council tax support grant for next year for SHBC is £411,000 including £26,000 to compensate local preceptors for the effects of the scheme. As future funding is being allocated to each of the precept authorities and Surrey Heath Borough Council's share of the Council tax is 13.1% of the total council tax bill, the best estimate of government funding for this Borough's local scheme in 2013/14 is £3,140,000.
- 6.3.3 For the purpose of estimating savings required in a local scheme, the Surrey Districts have used a consistent methodology. For this Borough the estimated funding gap is **£653,000**. This is the difference in funding between the estimated cost of the current benefit scheme and the government funding that will be provided next year. It is this figure which is being used to scope the possible funding gap that may need to be covered by savings in the Surrey Heath Local Council Tax Support Scheme or elsewhere in Council/Police budgets and/or raised through changing/amending existing Council Tax exemptions.
- 6.3.4 Where council tax support provided under a local scheme exceeds government grant, the cost will fall upon major preceptors pro-rata to council tax precepts:-
- Surrey Heath Borough Council 13.1%
 - Surrey Police Authority 13.0%
 - Surrey County Council 73.9%

- 6.3.5 For all Surrey District areas the potential funding gap is greater than the government's headline announcement of a 10% cut in funding. The main reason is that central government is forecasting a reduction in demand, whereas our experience is a continuing increase. In addition Central Government has assumed a council tax freeze next year in their calculations. Although decisions have not yet been made, the increase across Surrey is considered more likely to be closer to 2% given financial and service pressures faced.
- 6.3.6 It is emphasised that the actual funding gap will not be known until the end of 2013/14. We can at best only estimate the cost of any scheme and the level of demand / entitlement in 2013/14. The true cost will only become clearer as the year progresses and unlike under the existing scheme any variation in entitlement will have to be met by the major preceptors rather than the Department for Works and Pensions (DWP) as is the case currently.
- 6.3.7 The Government has stated that there will be a ceiling/floor mechanism to protect authorities from large increases in costs financed by other authorities which did not experience the same pressures. The details of this have not been released as yet.
- 6.3.8 If all Districts maintained local schemes providing the current level of entitlement to council tax benefits, using the Surrey Treasurers calculation, the total Surrey-wide gap could be between £6 million and £9 million with Surrey County Council picking up to ¾ of this funding loss and Surrey Police around 1/8th.

6.4 Transitional Funding Offers - DCLG

- 6.4.1 In October the DCLG announced that it was making a transitional grant available for 2013/14. This grant will only be payable to authorities who choose to design their schemes so that –
- a) Those who are on 100% support under the current benefit scheme pay no more than 8.5% of their current liability
 - b) The taper rate at which benefit starts to reduce currently at 20% does not increase above 25%
 - c) There is no sharp increase in support for those entering work
 - d) There is no large increase in non-dependant deductions
- 6.4.2 Although final details of the DCLG funding offer will not become available until after the 31st January 2013 it is estimated that this would provide one off extra funding of about £11,100 to SHBC with equivalent amounts being paid to our preceptors in proportion to their precepts.
- 6.4.3 It is likely that authorities that adopt the default scheme would also qualify for this funding although this has not been confirmed as yet

6.5 Transitional Funding Offers – Surrey County Council

- 6.5.1 Surrey County Council have also provisionally offered funding to help finance the council tax support funding gap for 2013/14 only if authorities they adopt the Surrey Framework scheme measures (see para 5.8) and make changes to the Council Tax discounts and exemptions to provide additional income and thereby reduce the overall funding gap.
- 6.5.2 Surrey County Council have provisionally offered up to £1m in total to help close districts', boroughs' and the police authority's funding gaps created by the 10% reduction in Council Tax support grant, less the amount gained by using the Council Tax flexibilities and the Surrey framework. For Surrey Heath this would be £12,000. This funding may also be available to assist with funding a Sec13A hardship fund. No funds will be provided by the county to assist with collection costs.
- 6.5.3 Surrey County Council will not provide transitional funding for a scheme where all working age households have to make a contribution.
- 6.5.4 If Surrey Heath were to adopt the default scheme provided that it was combined with the Council Tax flexibilities the county would cover any shortfall in funding that arose
- 6.5.5 A flow chart at Annexe 5 shows the options and which ones would attract transitional funding from either the Department of Communities and Local Government or Surrey County Council.

6.6 Approaches

- 6.6.1 It is proposed that the Council considers four main approaches, although within each there are further detailed options which can also be considered. The approaches considered are as follows:-
- A. **The Default Scheme:** It would be possible to adopt the current Council Tax Benefit scheme and subsume all current regulations into our own local scheme, subject to any changes to regulations from central government. This would provide the same level of support provided to all claimants as in the national council tax benefits scheme.
 - B. **The Surrey Framework Scheme:** This is based on the current council tax benefit scheme but with some of the eligibility criteria tightened so that some, but not all, claimants received less support
 - C. **A Scheme Based on the DCLG criteria for Transitional Funding:** This would require all working age claimants to contribute at least 8.5% to their council tax bills
 - D. **A Full Funding Reduction Scheme:** This requires both the Surrey Framework changes to council tax criteria and would require all working age claimants to contribute at least 30% to their council tax bills
- 6.6.2 Annexe 4 provides a summary of advantages and disadvantages of these four approaches.

6.7 The Default Scheme – Scheme A

- 6.7.1 The default scheme maintains the existing Council Tax benefit scheme. i.e. All current claimants maintain their existing entitlement and suffer no reduction in benefit. New claimants would be assessed under the current criteria.
- 6.7.2 Councils can either make a decision to adopt the default scheme or it becomes the new scheme if no alternative scheme is adopted by Council by the 31st January 2013
- 6.7.3 The default scheme would probably qualify for the DCLG funding and if combined with changes to Council Tax exemptions would also qualify for the SCC additional funding.
- 6.7.4 The financial implications are outlined in para 5.11

6.8 The Surrey Framework Scheme – Scheme B

- 6.8.1 Government funding for council tax support is being reduced for 2013/14 and that Councils can either retain the existing scheme and make up the difference in funding or design local schemes that provide reduced support for existing claimants.
- 6.8.2 As each Council can design its own scheme there will inevitably be differences one area and another due to local demographic factors, differing council financial standings, council policies and priorities.
- 6.8.3 In two-tier areas the Government required Districts to consult with precept authorities prior to wider public consultation. The precept authorities have an interest in the potential impact on their services as well as a financial interest.
- 6.8.4 The consultation response from Surrey County Council is attached at Annex 1. Surrey Police did not submit a response.
- 6.8.5 It is worth noting that future budget decisions for Surrey Police will be the responsibility for the Police and Crime Commissioner who has only recently been elected and so their views on the scheme are not known at this time.
- 6.8.6 Surrey County Council identified their key priorities on this issue were:-
 - a) To preserve the current high council tax collection rate
 - b) Avoid indirect cost consequences on county and district services of any changes to local schemes
 - c) To ensure joined up partnership actions on this scheme, business rate pooling and Surrey's economic growth strategy, and
 - d) To avoid detrimental impacts on front line policing
- 6.8.7 For this reason the Surrey Councils have looked at the possibility of using the greater flexibility provided by the technical reforms to council tax (property discounts and premiums) along with variations to the current benefit scheme to reduce the budget gap caused by the reduction in government funding for benefits.

6.8.8 In responding to the county and police views, finance officers in Surrey developed a framework or range of options that would reduce the costs of proving support for council tax bills or increase funding available.

6.8.9 The Surrey Framework consists of: -

- Retaining the existing scheme but changing five of the existing criteria used to calculate entitlement for council tax benefits (removing second adult rebate, reducing the capital allowance limit, restricting the minimum benefit payable, restricting support to property band 'D' and removing backdated awards).
- Raising additional council tax income by reducing property discounts and introducing an empty homes premium (The Executive has already received a separate report covering the 'technical reforms' to council tax under the Local Government Finance Act and the estimated income that could be raised if the Council decided to reduce certain discounts or introduce premiums from April 2013.)
- No across the board percentage reduction for all claimants

6.8.10 The county has stated that whatever shortfall arises between the costs of the new scheme less income arising from flexibilities would be covered by them. It is estimated that £486k could be raised from changes to Council Tax exemptions of which £63k would be available to Surrey Heath to offset the costs of the scheme. This means that the only costs for districts would be the additional costs of collection.

6.8.11 There are options to adjust some of the Surrey Framework proposals. Increasing the capital limit to £16,000 would add £2,200 to the cost of the scheme for Surrey Heath. Reducing backdating to 1 month would add £1,200 and changing to Band E would increase costs by about £2,500.

6.8.12 The financial implications are outlined in para 5.11

6.9 Scheme to qualify for DCLG Transitional Funding – Scheme C

6.9.1 This scheme was announced by DCLG in October. An additional £100m of funding is being provided to Councils whose schemes ensure that no claimant is more than 8.5% worse off than their existing entitlement.

6.9.2 Using this scheme ensures that every claimant makes some contribution to the cost of local services which is in line with Government policy.

6.9.3 Councils will only be able to apply for funding after the 31st January once their schemes have been agreed. It is estimated that Surrey Heath could receive £11k but it should be noted the funding is only guaranteed for one year.

6.9.4 The financial implications are outlined in para 5.11

6.10 Fully funded scheme – Scheme D

- 6.10.1 It is possible to cover the entire savings required by simply reducing benefits across the board. It is estimated that a reduction of 30% coupled with the Surrey Framework amendments would achieve this.
- 6.10.2 Consideration has been given to treating Child Benefit and Maintenance as income when calculating benefit however this has been discounted to protect children and low income families. If however this was adopted a further £90k or so could be saved.
- 6.10.3 This scheme would not qualify for any form of transitional relief from either SCC or the DCLG.
- 6.10.4 The financial implications are outlined in para 5.11

6.11 Financial and Manpower Implications

- 6.11.1 The DCLG provided implementation funding of £84,000 in the current financial year. Of this over £60,000 has been incurred in making the necessary software changes for any new scheme. The Government has announced that a further £34,382 will be paid in 2013/14 and £61,214 the year after. In addition staff have spent considerable time analysing and working up various schemes. Further new burdens funding may be available but not for the design of the scheme as this is a responsibility of local authorities.
- 6.11.2 As stated in this report, the financial risks for local schemes will transfer to local authorities, along with the responsibility for preparing and agreeing schemes. The only financial element that will be fixed prior to the year start is the central government grant which will be announced at the end of this month and confirmed in January 2013.

6.11.3 The cost analysis below covers four different approaches. The figures are based on discussions with the other Surrey Councils and using modelling software to take into account a range of variable factors that may impact on the cost of local council tax support provided next year. Please note these are only estimates. All figures are rounded to the nearest £1,000:-

Scheme:	Default Scheme	Surrey Framework	DCLG scheme	Amended Full funding scheme
<i>Scheme Ref.</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>
	£000	£000	£000	£000
Estimated Funding Gap	653	653	653	653
Savings from New Local Scheme	0	-97	-188	-760
New protection for Vulnerable/Disabled <i>Prop'd Exec 8th Jan 13</i>				60
Estimated Cost of Protections (10%)	0	0	19	76
Allowance for non-collection at, say, 10%	0	10	17	69
Revised Funding Gap	653	566	501	97
DCLG Transitional Grant (1 year only)	-92	0	-92	0
Funding Gap 2013/14	561	566	409	97
Attributable to:				
Surrey County Council	415	418	303	71
Surrey Police Authority	73	74	53	13
SHBC	73	74	53	13
Less SCC Grant (1 Year only)	-12	-12	0	0
SHBC adjusted Shortfall	61	62	53	13

6.11.4 The full cost to SHBC for each scheme is estimated as follows:-

Scheme:	Default Scheme	Surrey Framework	DCLG scheme	Full funding scheme
<i>Scheme Ref.</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>
	£000	£000	£000	£000
Net subsidy for council tax support from above	61	62	53	13
Estimated additional Collection / recovery costs	0	10	15	15
Hardship Fund	10	10	10	10
Estimated net budget impact for SHBC	71	82	78	38

6.11.5 The budgetary impacts would be a new cost pressure for the Council and some of the income raised from the changes to Council Tax exemptions or other savings may be needed to cover these shortfalls.

7. CORPORATE OBJECTIVES AND KEY PRIORITIES

7.1 Keeping Surrey Heath a Pleasant Place to live

7.2 Promoting a Buoyant and sustainable local economy

By encouraging claimants to enter the employment market and thus contribute to the local economy

7.3 Encouraging supportive and caring communities

By providing benefits to those in greatest need whilst also ensuring that everyone makes a contribution to the cost of local services

6.3 Delivering Services efficiently, effectively and economically

Reduce transaction costs by implementing a scheme that is simple to operate and easily understood by claimants

8. POLICY FRAMEWORK

8.1 Any new scheme must be delivered within the provisions of the Local Government Finance Act 2012.

9. LEGAL ISSUES

No specific issues

10. GOVERNANCE ISSUES

No specific issues

11. SUSTAINABILITY

No specific Issues

12. RISK MANAGEMENT

- 12.1 All of the figures provided are based on estimates without any experience as to the effect of decisions made. There is a risk that the actual figures may be significantly different
- 12.2 The Government plans to amend the Council Tax Base Regulation so that the new Council Tax Support is taken into account in the calculation of the tax base (the number of Band D equivalent properties used for the purpose of calculation the council tax requirement). The council tax base will be reduced as the billing authority and precept authorities will be foregoing council tax income from properties where support is given. This is similar to the way that existing Council Tax discounts and exemptions are treated. There are risks around the accuracy of the forecasts for new schemes and pressures, such as continued economic downturn and recession, leading to an increase in the number of people claiming support during the year.
- 12.3 In order to run a new scheme effectively, the Council will need to make the necessary changes to the existing Northgate software. There is a risk that they may not be able to make the changes in time for implementation in April 2013 or that there will be insufficient time to test the new system. This may lead to errors and overpayments which then take time to recover and correct.
- 12.4 Depending on which scheme is adopted, there will be varying degrees of difficulty in collecting the tax due. This will inevitably affect tax collection rates, increase staffing costs and a rise in the bad debt provision may well be required.
- 12.5 Depending on the complexity of the reduction scheme and the potential problems on recovering council tax, the need to retain staff with the necessary skills to means test benefit will be an issue, particularly with the abolition of Housing Benefit by 2017. More resources may be required to ensure we maximise recovery. We do not know what the effect on the administration grant will be.
- 12.6 There are still a number of issues which will need to be addressed and included in any new scheme from the outset. This includes the treatment of the new Universal Credit payments which will start in October 2013 for new working age claims, and how fraud can be dealt since the Local Council Tax Support scheme will be outside the remit of the new Single Fraud investigation Service
- 12.7 There is a risk of legal challenge if the equalities impact is not considered sufficient.

12.8 The more radical and complex the scheme changes and the higher number of claimants affected the greater the risks to effective administration of the new Local Council Tax Support scheme and the risk of legal challenge. There is a risk of unforeseen impacts which has been mitigated through consultation and the community and equality impact assessment and by the proposal for a hardship fund.

12.9 There is a risk that future funding will be reduced therefore meaning that greater cuts will be required.

12.10 Authorities will bear the risk of any overpayments from previous years.

13. EQUALITIES IMPACT

Equalities and Other Legal Implications

13.1 The Local Government Finance Act came into force on 31st October 2012. It is for the billing authority to decide on the local scheme. In order to meet the 31 January 2013 deadline for establishing a scheme, the final scheme will need to be agreed at this meeting and the decision ratified by full Council on 22nd January 2013.

13.2 An Equality Impact Assessment (EIA) has been carried out on the possible options for the new scheme. The full assessment can be found at Annexe 7.

13.3 A summary of the findings of the EIA is shown below : -

Summary of 'Negative' Impact by Characteristic								
Option	Age – Younger People	Age – Children	Disability	Gender	Race	Religion	Pregnancy & Maternity	Socio-Economically Disadvantaged
Second Adult Rebate			Negative (low)	Negative (low)				Negative (low)
Backdating	Negative (low)		Negative (high)		Negative (low)		Negative (low)	Negative (high)
Band Restriction		Negative (low)	Negative (low)					Negative (high)
Minimum Award								Negative (low)
Capital Limit								Negative (high)

Maximum Award	Negative (high)		Negative (high)				Negative (high)	Negative (high)
Child Benefit & Maintenance	Negative (high)	Negative (high)		Negative (high)	Negative (low)	Negative (low)	Negative (high)	Negative (high)

13.4 The following section covers the effects on the different schemes.

Scheme A - The default scheme

13.5 The default scheme already has in-built protection for the groups that would be adversely affected as identified by the Equality Impact Assessment.

13.6 People who receive a benefit for their disability from the Department for Work and Pensions have their needs allowance increased by premiums which would have the effect of increasing their Council Tax Support. Similarly for those receiving Disability Living Allowance due to severe disablement this income is ignored when assessing entitlement to Council Tax Support. There is also a higher partial disregard of any earnings for disabled people.

13.7 A higher needs allowance is also paid for lone parents and families with children. Income from Child Benefit is also disregarded in full and various levels of disregard apply to earnings with lone parents allowed a higher disregard than couples or single people.

13.8 As part of the current benefit scheme the Government provides an annual grant for a Discretionary Housing Payment scheme. This is used to help benefit recipients who find themselves in severe hardship and is designed to assist them for a short period while they adjust to their new circumstances or until their particular crisis has passed.

13.9 The Government's discretionary hardship funding grant currently covers Housing Benefit and Council Tax Benefit, although the majority of the grant is used on Housing Benefit, From April 2013 the grant will be payable for Housing Benefit only.

13.10 The Council has power under section 13A Local Government Finance Act 1992 to reduce (partially or fully) the amount payable by a council taxpayer, or a class of council taxpayers, to the extent it thinks fit. This power could be used to set up a similar hardship scheme to the Discretionary Housing Payments for the default scheme.

13.11 Since there would be no further central government grant from next year, the Council would need to make a provision for Section 13A payments. This intention is that the cost of this is shared with the other major preceptors.

13.12 The criteria for the hardship scheme would take into account the findings in the Equality Impact Assessment

Scheme B - The Surrey Framework Scheme

13.13 The Equality Impact Assessment was prepared using the scheme options provided in the resident's consultation. As can be seen from the summary below, a number of characteristics would be affected by certain changes to the current scheme suggested as part of the Surrey Framework.

13.14 As already detailed above a 'Surrey Framework' scheme, as it is based on the current Council Tax Benefit scheme, already has many protections built in for the characteristics identified. However those who experience severe hardship due to the changes would not receive additional help.

Backdating

13.15 The proposal in the Surrey Framework was to remove backdating completely (excluding local authority error). This could have increased savings and saved some staff time on calculating and paying the awards. However, given the number of characteristics who would be adversely affected by complete removal, we are proposing to keep backdating but reduce the period from 6 months to 3 months. The advantages of this, apart from assisting the households who fall into these characteristics, is that the savings are small compared to the cost of recovering Council Tax from those households, courts are likely to look favourably on them due to their particular circumstances and are likely to remit the council tax and any cost payable. Although it might save some administration on the Council Tax Support scheme the majority of those requesting backdate require help with both their rent and council tax so a decision will still need to be made in respect of their Housing Benefit. It should be noted that Housing Benefit will still be backdated for six months. If this policy was adopted for Local Council Tax Support the additional cost would be to be borne by all the preceptors would be £10k of which the share for Surrey Heath would be £1,300.

Capital Limit

13.16 The proposal is to reduce the capital limit from £16,000 to £6,000. The limit could be reduced by a lesser sum. The £6,000 level was chosen to maximise the savings that could be made on the Surrey Framework and because above £6,000 tariff income calculations need to be made.

13.17 The disadvantages of setting a lower capital limit is that households will need to use their savings to pay the council tax and, depending on their level of savings above the limit, could come back on to support after a relatively short period. It could also be seen to discourage individuals saving. However setting this at a higher level will mean fewer savings for the support scheme and will involve more administration for a small number of households.

Band Restriction

13.18 The proposal to limit the maximum award to a Council Tax Band D property was made on the Surrey Framework to maximise savings and because it is the average Council Tax band for setting the annual charge.

13.19 The band restriction could be set at a higher Band instead.

13.20 The advantages of using a Band D restriction is the increased savings that could be achieved and it is the option favoured by Surrey County Council and a large percentage of the residents as per the consultation results.

13.21 Restricting to a band D property may mean that more households would need to use their savings to meet the loss, particularly since the gap for those currently in Band G or F properties would be substantial.

13.22 However a Section 13A hardship fund could be used to assist those most in need.

13.23 The hardship scheme would ensure that those in financial need due to their particular circumstances could receive help in a targeted way. The normal assessment for council tax support would then be done and any hardship dealt with as a separate assessment. It is proposed that such a scheme be jointly funded by all the major preceptors out of their council Tax exemptions

Scheme C - DCLG Transitional Funded Scheme

13.24 This scheme would still be based on the current Council Tax Benefit scheme and would contain the protections built in for the characteristics identified. However, as with adopting a default scheme those who experience severe hardship due to the changes would not receive additional help.

13.25 Since this scheme makes all working age claimants pay at least 8.5% of their Council Tax bill the numbers affected by this scheme would be the full 1850 households. Running a hardship scheme based on these numbers would not be financially viable or practicable given the numbers involved so in this case protections for the most vulnerable would need to be built in to the scheme.

13.26 From the Equality Impact Assessment the certain groups may need additional protection such as the disabled etc. For the purposes of this report we have assumed the protection to be in the region of 10% of the expected savings.

13.27 As already mentioned above, adding further protection to this scheme would be a manual process and therefore resource intensive and since the information would not always be available additional details will need to be gathered from claimants.

Scheme D - Full Funding Reduction Scheme

13.28 As with the DCLG Transitional Funded scheme, this option would be based on the current Council Tax Benefit scheme and would contain the protections built in for the characteristics identified. However, as with adopting a default scheme, those who experience severe hardship due to the changes would not receive additional help.

13.29 This scheme would mean all working age claimants paying at least 30% of their council tax bill and would affect 1850 current benefit recipients.

13.30 Possible changes to the treatment of Child benefit and maintenance were shown to have too many adverse equality impacts and for that reason have been ignored.

13.31 Operating a hardship scheme would have the same difficulties as with the DCLG Transitional Funded scheme but this would be exacerbated by the increased level of shortfall in support which claimants would need to find.

13.32 The same additional protection would be required for certain groups such as the disabled.

13.33 For the purposes of this report, we have assumed the protection to be in the region of 10% of the expected savings however it could be much higher given the number of groups this proposal adversely affects.

13.34 *The Executive at its meeting on the 8th January proposed that protection be given to Disabled people and this has been built in to the cost estimates*

Comments from the Surrey Heath Equalities Action Group

13.35 The Equality Action Group considered the proposals and made the following suggestions:

- Back dating of allowances to be retained for a 3 month period
- Literature, publicity and guidance to be fully accessible prior to changes, which includes communicating to local disability groups.
- Claimants affected by the changes are tagged on the council CSA system, to ensure that if they make contact, our advisors have an opportunity to explain these changes.
- CAB to be kept fully informed.
- Councillors to be kept fully informed.
- Ensure that staff receive sufficient training to implement and manage this change.
- Communicate changes with other relevant agencies such as the Youth Support Service, who support the most vulnerable within Surrey Heath, and who can help deliver these important messages.

14. HUMAN RIGHTS

14.1 Any new scheme could be open to challenge under Human Rights.

15. COMMUNITY SAFETY

15.1 It is possible that levying of small amounts of Council Tax on a large number of people may give rise to social issues

16. CONSULTATION

Consultation with Partners

16.1 Surrey Heath consulted our major preceptors Surrey County Council and Surrey Police. Their responses are in Annex 1 and any comments have been incorporated in to the equalities assessment as appropriate

Public Consultation

16.2 The Council carried out an eight week consultation with residents between 24th September and 18th November 2012.

16.3 Options presented for changes to the criteria for council tax benefits were those identified for consideration by most Surrey Districts.

16.4 The following options were covered in the consultation:-

Option 1 – Working age claimants should pay some Council Tax

Option 2 – Limit Council Tax support to Band D charge

Option 3 – Reduce the savings limit to £6,000 for working age people

Option 4 – Stop second adult rebate

Option 5 – Restrict minimum weekly payment to £5

Option 6 – Introduce a Restricted Award below 100% of Council Tax Liability

- 16.5 The Council used a wide range of methods to communicate and give access to the Council's consultation. Articles were placed in Heathscene and the local paper seeking resident's views. Details were also carried on the Council's website and in addition all current Council Tax benefit claimants were sent a mailshot advising them of the potential changes and inviting their response to the consultation. This has resulted in a total of 113 returned questionnaires.
- 16.6 The consultation questions and feedback is attached at Annexe 2 to this report.

16.7 The following table provides an overview of the response received:-

	Total of strongly agree and agree	Neither agree or disagree	Total of strongly disagree and disagree
All working age claimants should pay some Council Tax	59%	8%	33%
Stop second adult rebate	77%	12%	11%
Remove or restrict backdating	60%	13%	27%
Restrict award to Council Tax Band D	50%	16%	34%
Introduce a weekly minimum award of support of £5	66%	15%	19%
Introduce a lower capital cut-off limit	62%	7%	31%
Should families with young children and those in work pay additional Council Tax?	55%	15%	30%

16.8 Members are asked to consider carefully the feedback received which is separately shown for those respondents in receipt of benefits and those respondents not in receipt of benefits.

16.9 The consultation feedback has been used in the Equality Impact Assessment.

16.10 The Council currently disregards war widows' pensions for the purpose of calculating entitlement to benefits. The Royal British Legion has requested that the practice of disregarding military compensation payments continues. This is the default position assumed and the committee will be asked to reconfirm this in January 2013.

17. PR AND MARKETING

- 17.1 The introduction of a new scheme will need to be extensively communicated not only to affected parties but also to the wider public. This may bring PR challenges that will need to be managed.

18. OFFICER COMMENTS

- 18.1 The Council is required to approve a Local Council Tax Benefit Scheme by January 2013 and implement the scheme from April 2013.
- 18.2 Due to central government welfare spending cuts there will be a reduction in external funding.
- 18.3 The Council will need to consider the consultation feedback as well as the impact on those in receipt of benefit, views of the precept authorities, government objectives, Council priorities and the financial impact of government funding changes.
- 18.4 Surrey Districts have tried to work together on options that they feel can be put in place by next April. They have recognised the financial burden that will result for both Surrey County Council and Surrey Police if the current level of benefits is maintained and no additional income can be generated.
- 18.5 Inevitably any local scheme will need reviewing and the phased introduction of Universal Credit will make scheme changes unavoidable over the next few years.
- 18.6 The consultation clearly showed that amongst respondents there was a feeling that everyone should be made to pay something and indeed in the current economic climate this is to be expected.
- 18.7 However against this must be balanced the potential hardship that might result from a too large cut in benefit to quickly together with the increase in collections costs and bad debts. Therefore a transitional approach where specific eligibility changes are made in the first year and then an across the board reduction in the following year is considered more appropriate.
- 18.8 With these thoughts in mind the **officer recommendation would be to adopt option B – the Surrey Framework Scheme with an across the board reduction considered for 2014/15 depending on the level of funding provided.**
- 18.9 The main considerations in making this recommendation are as follows:-

- Option B uses the main elements of the Surrey Framework of changes in eligibility for support to reduce the additional burden on the general council tax-payer that would otherwise arise from the government spending cuts. By using the extra income from the technical reforms to council tax discounts, if approved, to offset part of the cost of local schemes and the additional funding from Surrey County Council the only costs to Surrey Heath would be those arising in respect of collection.
 - There is clear resident support for requiring all working age households to pay something towards their bills and also for changes in the way benefits are calculated. However the scale of the reduction required to make the scheme self financing and the potential hardship it may cause means it is difficult to implement all these changes in one step hence a phased approach would seem to be most appropriate.
 - The Surrey Framework scheme only affects relatively small number of existing claimants thereby reducing the potential impact on collection costs and administration.
 - There are options for variation within the Surrey Framework (e.g. the band restriction and capital limit) where alternative decisions can be made without significant administrative impact.
 - The scheme should be viewed as a transitional arrangement with a move to everyone pays something from 2014/15 in the light of local circumstances, funding and the income raised from the Council tax exemptions.
 - It is understood that members may not want to use income raised from the changes to Council Tax exemptions to offset the costs of the new Council Tax relief scheme. This may generate £63k which could be used to offset the costs of the new scheme.
 - The majority of Surrey districts have opted for Option B or a variant on it. This means that there is a level of consistency across the county in the treatment of claimants and the risk of challenge is therefore reduced.
 - Whilst it may be possibly for some districts to consider a self-funded scheme our mix of claimants where almost 50% are pensionable and therefore unaffected means the reduction in benefit for working age claimants is that much larger
 - Options A and C whilst appearing to be cheaper are reliant on one off funding from either the county or DCLG and hence are not sustainable beyond the first year.
- 18.10 There remain a number of risks in the administration and application of a new local scheme. The proposals in this report seek to minimise those risks, consistent with time and resources available and the need to protect the interest of the general tax-payer.
- 18.11 Approval of the scheme in January will enable communication of the changes and the implementation of system change to be made prior to billing. The decision will also affect the Council Tax Base which will need to be calculated before the precept authorities and parishes can prepare their budgets.

ANNEXES	Annex 1: SCC Consultation response Annex 1A: Surrey Police Consultation response Annex 2: Consultation feedback TBD Annex 3: Evaluation of Options Annex 4: Alternative Frameworks Annex 5: Transitional Funding Flow Chart Annex 6: Financial Data Annex 7: Equality Impact Assessment
BACKGROUND PAPERS	DCLG paper - Statement of Intent DCLG paper – Funding arrangements consultation DCLG paper - Vulnerable people – key local authority duties DCLG paper – Taking work incentives in to account
AUTHOR/CONTACT DETAILS	Kelvin Menon Executive Head of Finance Robert Fox Revenues and Benefits Manager
HEAD OF SERVICE	Kelvin Menon Executive Head of Finance

CONSULTATIONS, IMPLICATIONS AND ISSUES ADDRESSED

	Required	Consulted	Date
Resources			
Revenue	Yes	Yes	12/12/12
Capital	N/A	N/A	N/A
Human Resources	N/A	N/A	N/A
Asset Management	N/A	N/A	N/A
IT	N/A	N/A	N/A
Other Issues			
Corporate Objectives & Key Priorities	Yes	Yes	12/12/12
Policy Framework	N/A		
Legal	Yes		12/12/12
Governance	N/A		
Sustainability	N/A		
Risk Management	Yes	Yes	12/12/12
Equalities Impact Assessment	Yes	Yes	21/12/12
Community Safety	N/A	N/A	N/A
Human Rights	Yes	Yes	12/12/12
Consultation	YEs	Yes	Nov 12
P R & Marketing	N/A		

Review Date:

Version: