

## **Committee:** Overview and Scrutiny Commission – Financial Monitoring Task Group

**Date:** 29 October 2013

Agenda item:

Wards:

### **Subject:** Council Tax Support Scheme

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Forward Plan reference number:

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### **Recommendations:**

That members of Overview and Scrutiny Financial Monitoring Task Group:

- A. Note that the council tax support scheme for 2013/13 was implemented on 1 April 2013 and that the level of council tax support granted in 2013/14 has reduced from the level of council tax benefit granted in 2012/13.
- B. Note that a minor change is being proposed to the 2014/15 council tax support scheme to ensure that residents currently receiving council tax support do not face an increase in their council tax bills from April 2014.
- C. Note that the removal of exemptions and discounts for empty properties was implemented on 1 April 2013 and that the level of net collectable council tax debt has increased by approximately £2.5 million on last year.
- D. Note that despite the increase in the net collectable council tax debt the collection rate for 2013/14 is slightly higher than for the same period last year.
- E. Note the potential options for changing the council tax support scheme for 2015/16 and gives a steer on how it would like to see a more detailed proposal progressed.
- F. Decides how it will report this information back to the Overview and Scrutiny Commission.

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## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. As part of its work program Overview and Scrutiny Commission wanted a report to it in November 2013 regarding the council tax support scheme.
- 1.2. As the Overview and Scrutiny Commission meeting on the 26 November has a full agenda this report is presented to the Financial Task Group.

- 1.3. This report provides information on:
- (1) The implemented council tax support scheme for 2013/14.
  - (2) Details of neighbouring authorities council tax support schemes.
  - (3) The minor change required to the council tax support scheme for 2014/15.
  - (4) The implemented changes to council tax empty properties.
  - (5) The possible options available to change the council tax support scheme from 2015/16 and the outline timetable for this.
- 1.4. The Financial Task Group reviews the information received and determines how it reports the information back to the Overview and Scrutiny Commission.

## **2 DETAILS**

### **2.1. Council Tax Support Scheme 2013/14**

- 2.2. As part of the Spending Review 2010, the Government announced that it intended to localise council tax benefit (CTB) from 1 April 2013 with a 10% reduction in expenditure. These plans were included as part of the terms of reference for the Local Government Resource Review.
- 2.3. Council's were required to agree local schemes by the 31 January 2013.
- 2.4. On the 21 November 2012 full Council approved that the Council would absorb the funding reduction for council tax support and adopt the existing default scheme as its local council tax support scheme. It also agreed that a review of local schemes would be undertaken for the full year of 2013/14 and that changes arising from the review will be developed for consideration for the 2015/16 budget process. In effect this meant Merton would adopt the default scheme for 2013/14 and 2014/15.
- 2.5. As part of the 2013/14 Local Government Finance Settlement the reduced level of funding paid to Merton as Council Tax Support Grant was £9.731 million. Merton's forecast based on estimated council tax benefit expenditure for 11/12 indicated the loss of council tax due to the scheme would be £11.010 million (Merton only share). The Government assumed a 10% reduction and applying this to £11.010million equates to £9.909million.
- 2.6. Council tax support was implemented from 1 April 2013 and the estimated council tax support expenditure for Merton for 2013/14 is £10.635 million. Merton was also eligible for a grant of £274,697 to support the scheme.
- 2.7. The amount of council tax support granted in 2013/14 has reduced from the level of council tax benefit granted in 2012/13. In 2012/13 approximately £14.0 million was granted compared to £13.6 million council tax support in 2013/14, (these figures include the GLA share)
- 2.8. There has been a reduction in the number of live claims in payment, from an average of 14,130 in 2012/13 to 13,980 in 2013/14.
- 2.9. Another reason for the reduction relates to the impact of the 2013/14 uprating process which saw a 10% increase in most non-dependant

deductions. (Non-dependant deduction is the amount an over 18 year old is expected to contribute to the household and therefore the council tax support is reduced by this amount)

2.10. The expected expenditure for the 13/14 council tax support scheme is in line with the estimated budgeted expenditure.

2.11. **Neighbouring Council's Council Tax Support Schemes 2013/14**

2.12. In London the majority of Council's have adopted local council tax support schemes which pass on the full or part of the funding reduction and results in a reduction of assistance for existing claimants of council tax benefit. From data collected in March at least 7 London boroughs absorbed the funding reduction, 3 boroughs partially absorbed the reduction and 2 boroughs failed to confirm either way, the remainder all passed on the funding reduction.

2.13. As requested by Overview and Scrutiny listed below is a summary of the changes neighbouring Council's have made to their new schemes. Please note that with all the schemes pensioners are exempt and none of the changes apply to them.

2.14. Sutton Council

- Restrict support at band D
- Reduce savings limit from £16,000 to £10,000
- Remove second adult rebate
- Increase non-dependant deductions (over 18 year olds living in the property)
- Everyone shall pay something
- Increased taper from 20% to 25% (support reduces by this percentage for every addition pound of income)
- Will include 25% of child benefit (currently disregarded)
- Most vulnerable are protected (pensioners, claimants receiving disability benefits/premiums and claimants with a child under five)

Sutton have estimated that around 4,800 households will be affected by the changes with:

31 residents affected by an average of £23 a week  
190 residents affected by an average of £14 a week  
378 residents affected by an average of £8 a week  
497 residents affected by an average of £5 a week  
2894 affected by an average of £3.50 a week  
800 affected by an average of £1 a week.

2.15. Croydon Council

- Restrict support to band D
- Reduce savings limit from £16,000 to £8,000
- Remove second adult rebate
- Increase non-dependant deductions

- Everyone shall pay something
- Most vulnerable protected (pensioners, in receipt of disability living allowance, income support or employment support allowance or single parents with a child or children under five)

Croydon will ask all working age people not working to pay at least 15% of their council tax liability, this will equate to approximately £3.50 per week.

They will ask all working age people that are working to pay at least 15% more of their council tax liability (on average this is £5.00 per week)

They will ask other adults living in the property who are not the main taxpayer or partner to contribute more to meeting the council tax, many who do not currently contribute anything will be asked to contribute £3.50 per week.

#### 2.16. Kingston Council

- Remove second adult rebate
- Increase non-dependant deductions
- Most vulnerable protected (claimants in receipt of disability benefits/premiums)

#### 2.17. Richmond Council

- Remove second adult rebate
- Increase non-dependant deductions
- Earnings disregard increased (increase in amount of earnings that are not taken into account for calculation)
- Most vulnerable protected (as within council tax benefit scheme)

Richmond have estimated that 422 claimants will lose an average of £5.88 per week in support.

2.18. Sutton and Croydon have substantially changed their local schemes from the default scheme with the result of thousands of benefit claimants having to contribute more to their council tax. Residents who have not previously had to pay any council tax are now required to make a contribution.

2.19. Both Sutton and Croydon have reported collection rates of 87% and 88% respectively against the council tax support scheme.

2.20. Sutton have reported that so far this year they have issued summonses for council tax arrears to 270 residents affected by the changes to their scheme. They have not stipulated if these are for residents who have had to pay council tax for the first time or have an increased bill due to the changes. They reported that approximately 4,800 residents faced an increased council tax bill which means 5% have been taking through the court process. The issue of a summons and obtaining a liability order adds further costs to the

resident that are added to the council tax bill (Sutton charge £110.00 for issuing the summons and £20.00 for obtaining the liability order).

2.21. **Council Tax Support Scheme 2014/15**

2.22. As detailed in 2.4 above, full Council approved that the Council would absorb the funding reduction for council tax support and adopt the existing default scheme as its local council tax support scheme. It also agreed that a review of local schemes would be undertaken for the full year of 2013/14 and that changes arising from the review will be developed for consideration for the 2015/16 budget process. In effect this meant Merton would adopt the default scheme for 2013/14 and 2014/15.

2.23. Each year the Government uprate the housing benefit scheme and used to uprate the old council tax benefit scheme. This is where state pensions and benefits are increased by a set percentage and the Government also increase the applicable amounts and personal allowances (elements that help identify how much income a family or individual requires each week before their housing benefit starts to be reduced) and also non dependant deductions (the amount a non child who lives with the claimant is expected to contribute to the rent and or council tax each week).

2.24. The Government have stated that under the new scheme pensioners must not be worse off and that existing levels of support for them must remain and this protection will be achieved by keeping in place existing national rules, with eligibility and rates defined in Regulations broadly similar to those that already exist. This is known as the Prescribed pensioners scheme.

2.25. When full Council adopted the Governments default last year it was not clear what would happen with regards to the uprating of the default scheme from April 2014. At the end of September 2013 advice has been received from the Department of Communities and Local Government that if a Council does not agree its local scheme for 2014/15 by the 31 January 2014 then the Council's own scheme for 2013/14 becomes its new default scheme and will continue for the financial year 2014/15.

2.26. The means for Merton residents that their state benefits would be increased through the government uprating but without making a minor change to the council tax support scheme the applicable amounts and personal allowances, and non dependant deductions would all remain unchanged. This would result in non pension age claimants in receipt of state benefits facing increased council tax bills.

2.27. The intention of the full Council decision was that residents would not be worse off under council tax support for 2013/14 and 2014/15. Therefore a minor change is required to the council tax support scheme to apply the uprating process to it.

2.28. It is estimated that if the uprating was not applied the expenditure of the scheme, if everything else remained constant, would reduce by approximately £30,000 for the year.

2.29. Any change to the council tax support scheme for 2014/15 must be agreed by full Council before the 31 January 2014. In addition, any changes to the scheme must be consulted on.

- 2.30. A formal consultation exercise commenced on 10 October 2013 offering two options. The first option is to uprate the council tax support scheme and second option is not to uprate the council tax support scheme. The Council is consulting with residents, benefit claimants, the GLA, voluntary sector groups and Councillors.
- 2.31. The results of this consultation exercise will be fed into the report which goes to full council on the 20 November 2013, the last meeting before the deadline.
- 2.32. The Government will uprate the housing benefit scheme from the 2 April 2014 and the detail of this process is unlikely to be known until early December. The Government will also uprate the Prescribed pensioner scheme for council tax support from 1 April 2014. Once the detailed information is known it is proposed to use the data from this to uprate the council tax support scheme.
- 2.33. Any uprating of the council tax support scheme will be effective from the 1 April 2014
- 2.34. **Council Tax Technical Reforms - Removal of exemptions and discounts for empty properties**
- 2.35. On the 6 February 2013 Council agreed to remove the 10% discount on second homes and remove the exemptions for long term empty properties (class C exemption) and empty and uninhabitable properties (class A exemption)
- 2.36. As part of the budget process for 2013/14 it was estimated that the value of these changes would be £1.581 million and that this would increase the council tax base by 1,121.5.
- 2.37. These changes were implemented from April 2013. There have only been 2 complaints received regarding the removal of the discounts/exemptions.
- 2.38. Since April 2013, due to council tax technical reforms and the reduction in the level of council tax support being granted the net council tax debt being collected for 2013/14 has increased considerably compared to 2012/13. The table below shows the level of council tax debt after the award of discounts and exemptions, the amount of council tax support being granted and the net collectable debt being collected.

Month/Year	Oct 12 £ million	Mar 13 £ million	Apr 13 £ million	Sept 13 £ million
Debt after discounts & exemptions	110.861	111.031	112.930	113.091
CTS granted	14.012	14.035	13.616	13.593
Net collectable debt	96.849	96.995	99.314	99.498

Note: The figures for CTS for October 12 and March 13 are based on the council tax benefit scheme.

- 2.39. The debt after discounts and exemptions figure will vary throughout the year based on a number of different factors, those being, number of new properties (increase or decrease in property numbers), number of other discounts and exemptions granted such as single person discount, student exemption.
- 2.40. Full Council also requested a review of the empty homes premium to establish if a premium should be charged on empty properties. This review will be undertaken for the full year of 2013/14 and then reported back to Cabinet for consideration for the 2015/16 budget process
- 2.41. **Council Tax Support Scheme 2015/16**
- 2.42. Full Council agreed that a review of local schemes would be undertaken for the full year of 2013/14 and that changes arising from the review will be developed for consideration for the 2015/16.
- 2.43. Unless the Council wanted to start from scratch and devise a new council tax support scheme with different principals to the existing housing benefit and council tax support scheme, the only real option available is to make adjustments to the existing scheme similar to those made by neighbouring authorities and the majority of Council's that have implemented new schemes.
- 2.44. Devising a completely new scheme would be expensive as we would need to procure a new computer system or pay our existing supplier to provide an enhancement. We have already had to pay the existing supplier £36,000 to develop the council tax support scheme infrastructure along with the flexibility to adjust and amend the scheme as required. The cost of development of council tax support was extremely high and was shared between all the system users. The costs of a be-spoke system to be developed for the Council would be prohibitive. For 2013/14 £99,546 funding has been provided by the Department of Communities and Local Government for supporting and developing the council tax support scheme. It is not clear at this stage if this funding will be available for 2014/15.
- 2.45. The easiest scheme to administer would be based on banded discounts dependant on level of income where the Council did not have to undertake the "means test" and collating income and evidence. However, to achieve this we would require all claimants to be receiving Universal Credit and for the Department of Work and Pensions to provide the Council with data on all residents. If this was possible we could then devise a discount scheme dependant on level of income. So for example, we may choose to grant 100% discount if the claimants income was below a certain level based on circumstances, then a 75% discount if the income was slightly more than this level etc.
- 2.46. We are some way away from the possibility of a scheme like this as Universal Credit has not been rolled out other than in small pilot areas. We would need all our residents to be transferred to Universal Credit to achieve this. The initially implementation plan for Universal Credit had all claimants migrated by the end of 2017. Although there have been delays in the

implementation timetable it is not clear if this is still on course to be achieved.

- 2.47. Given the above, at this stage the only practical option available is to make changes to the scheme similar to neighbouring authorities, such as restrict council tax support to a lower council tax band, reduce the capital limit, increase non-dependant deductions, everyone shall pay something etc.
- 2.48. Attached as appendix 1 is a list of potential changes that could be made, how much the change would reduce the council tax support bill by, the likely number of claimants affected and specific examples of the impact.
- 2.49. It should be noted that these figures are based on council tax benefit granted in 2011/12. These options were developed using a modelling tool to help devise changes to council tax support for 2012/13. Unfortunately, it has not been possible to use more up to date data due to technical issues with the current modelling tool available. Work is being undertaken to fix this issue to ensure that a more accurate estimate will be provided of any preferred option.
- 2.50. There could be up to a 10% error rate in the figures as since these options were developed there has been a reduction in amount of council tax support granted, as explained in 2.9 and 2.10 above.

### **3 ALTERNATIVE OPTIONS**

- 3.1. None for the purpose of this report

### **4 CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1. A consultation exercise is currently underway for the proposed change to the 2014/15 Council Tax Support scheme.
- 4.2. There would need to be a formal consultation exercise for any proposed changes to the council tax support scheme from 2015/16.
- 4.3. This consultation exercise would need to be undertaken during the summer of 2015 so that full Council could agree the new scheme on

### **5 TIMETABLE**

- 5.1. The proposed changes to the council tax support scheme for 2014/15 must be agreed by the 31 January 2014.
- 5.2. A report will be presented to full Council on the 20 November 2013 for agreement of the minor changes to the scheme.
- 5.3. Any changes to the council tax support scheme for 2015/16 must be agreed by full Council before 31 January 2016.

### **6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**



- 6.1. The financial impact of the changes to the council tax support scheme and the removal of discounts and exemptions for empty properties have been built into the council tax base calculation for 2013/14 that was agreed by Council as part of the budget process.
- 6.2. The council has recently submitted its Council Tax Base Return (CTB) to Government. This is based as at October 2013 and incorporates the latest information on Council Tax Support and discounts and exemptions. This will be used to calculate the Council Tax Base for 2014/15 and the MTFs 2014-18 will be updated as appropriate during the budget process.

## **7 LEGAL AND STATUTORY IMPLICATIONS**

- 7.1. Any changes to the Council's council tax support scheme must be agreed by full Council before the 31 January of the year the change is proposed. If a scheme is not agreed then the previous years scheme becomes the default scheme for the new financial year.

## **8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 8.1. There must be formal consultation exercise undertaken before any changes to the council tax support scheme.

## **9 CRIME AND DISORDER IMPLICATIONS**

- 9.1. Any potential local scheme which results in reductions of support could mean some residents who have never paid council tax before having a small charge to pay. In the past it has proved difficult in collecting council tax or community charge from residents who are on limited income and or benefits.
- 9.2. It is possible that collection rates will fall and increased council tax recovery action is required to pursue this new debt. Alternatively there could be an increase in bad debt provision or write off of uncollected council tax.

## **10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 10.1. The Council will need to closely monitor the cost of the local scheme to ensure it is affordable for future years and provide a financial contingency for the scheme to cover for possible increased caseload.
- 10.2. If a local scheme is agreed which results in reduced council tax support for residents there could be a risk that the collection rate would fall as it is likely that many residents would be required to contribute towards council tax for the first time and the council tax could prove difficult to collect.
- 10.3. Consideration should be given for an increased bad debt provision.

## **11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**

11.1. Appendix A – Options of changes to scheme with the financial impact on scheme and claimants