1. **PURPOSE OF REPORT**

The purpose of the report is to:

1. Remind members of the background to the national abolition of Council Tax Benefit (CTB) and replacement Localised Council Tax Support (LCTS) which came into effect from April 2013;
2. Remind members of the Council’s financial guiding principles.
3. Outline the findings from the public consultation undertaken.
4. Outline the key strategic choices that may be available to the Council following the consultation.
5. Request the Committee to make a recommendation to Council in relation to the changes in the Council Tax Support Scheme to be effective from 1st April 2015.
6. **BACKGROUND**

 **Why Council Tax Support Needed To Be Introduced?**

2.1 The Government announced that from April 2013 Council Tax Benefit would be replaced with a Council Tax support scheme. Unlike Council Tax Benefit (CTB) which was set by Central Government, the new Council Tax support scheme had to be defined by individual Local Authorities (albeit with much central prescription).

* 1. The following illustrations highlight the key changes made at that time;

Council Tax Benefit (pre April 2013 situation);

Govt.

KBC

Applicant

Government Scheme

**100%** reimbursement on actuals

Council Tax Support (post April 2013 situation);

Govt.

KBC

Applicant

“Local” Scheme National elements

**85%** reimbursement of historic cost

|  |
| --- |
| Table 1 - Comparison of current national scheme with changes from April 2013 |
|   | **Council Tax Benefit** | **Council Tax Support** |
| **Scheme Structure** | National | National & Local |
| **Administration** | Local | Local |
| **Funding** | National | Local Govt. – with a ‘fixed’ cash grant of historic cost (likely to be only 85% for KBC) |

|  |
| --- |
| Table 2 - Impact on Categories of Claimants |
|  **Category** | **Schemes from April 2013** |
| Pensioners | Protected – ‘local schemes’ must give the same level of benefits to pensioners (national policy requirement) |
| ‘Vulnerable Groups’ | In theory a Local Choice but must give regard to vulnerable groups when designing a local scheme. In practice, most of this group will also be protected. |
| Others | Local Choice  |

* 1. Nationally these changes were designed to save around £500m which had been trailed nationally as a 10% reduction. In essence, this meant each local authority had to reduce its council tax support or find compensatory savings and efficiencies, and additionally carry (at a local level) the risk for upward pressure in claimant numbers due to the economic circumstances.
	2. The Government had stated that they would not be funding the cost of the scheme. It was expected that locally we would receive around 85% of the cash grant for 2013/14, leaving the initial shortfall for KBC of about £129,000 (equivalent of 2% on the Council Tax). It was anticipated that any future rise in caseload would not attract any national funding and would need to be met at local level also. The overall annual funding shortfall for the borough (when the County Council and the police share were included) was estimated to be around £880,000.

The Present Scheme

* 1. The Council undertook an extensive public consultation during Autumn 2012 which included major precepting authorities (i.e., the County Council and the Police Authority), the voluntary sector and the public. The responses submitted were considered by the Executive and a new scheme was recommended by the Executive and approved by Full Council in January 2013.
	2. The scheme was designed to operate into the medium term without constant change, amendment and additional consultation exercises.
	3. To do this, members firstly had to decide on the scheme that they wished to operate prior to the consideration of any one off transitional grant that was available for 2013/14. This would enable the Council to make a decision about how the scheme would operate into the medium term. In coming to a preferred scheme, the Executive Committee gave due regard to the Councils Financial Strategy and the guiding principles that underpin that strategy. The following extracts from the Council’s Budget Containment Strategy, are of direct relevance;
	4. *Budget Containment Strategy***:**

*1. Where a specific grant which funds a specific service is withdrawn, the service stops;*

*2. Where grant funding reduces, which Kettering Borough Council passports through to another organisation*, the reduced sum continues to be passported*, providing the end recipient organisation feels it can still provide a value-added service at that funding point.*

*5. The Council should not substitute itself as a provider / funder of services when another public provider cuts such a service.*

2.11 Prior to discussing the options members endorsed a simple set of additional *guiding principles* that would help frame the discussion about which option was preferable. These were;

1. *In the medium term, the cost of a local scheme must be contained within the grant made available from the Government (to comply with the existing budget guiding principles)*
2. *The scheme should incentivise work*
3. *The impact on working age claimants should as far as possible be minimised through considering changes to Council Tax exemptions and discounts.*

2.12 In October 2012 the government announced a transitional grant scheme which would be open to all authorities to apply for (provided that their local council tax support scheme met specific criteria as set down by the government).

* 1. Members agreed to apply for the one-off transitional grant for 2013/14 and the Council were successful in their application. Therefore 2013/14 was in effect a ‘transitional year’ until the new scheme was fully implemented in 2014/15. This meant that those who were previously on 100% support under Council Tax benefit paid 8.5% of their council tax liability in 2013/14 prior to moving to 15% in 2014/15.
	2. Accordingly, members of the Committee are reminded that the scheme that Council approved in January 2013 was fully implemented from April 2014. The one-off transitional grant that the Government paid for 2013/14 was for one year only.
	3. In making their decision, Full Council was advised that the ‘new’ scheme would need to be kept under constant review into the future due to the potential change in central government grant funding and the estimated increase in caseload.
	4. The following table is a reminder of the proportions of caseload;

|  |  |  |
| --- | --- | --- |
|  Category | Schemes from April 2013 | Approx Proportion of Case Load |
|  Pensioners |  Councils must give the same level of benefits to pensioners (national policy requirement) | 45% |
| ‘ Vulnerable Groups |  In theory a Local Choice had to give regard to vulnerable groups when the local scheme was designed. In practice, most of this group are also protected | 38% |
|  Others |  Local Choice  | 17% |

1. **SCHEME OPTIONS FOR 2015/16**
	1. Looking forward, the current 15% taper will be insufficient to balance the budget for 2015/16. This is because;
2. the funding envelope is being reduced every year in line with the reductions in the headline revenue grant that the council receives from government. Whilst it is not possible to identify the level of grant being received the approach taken by many authorities has been to assume the grant is being reduced at the same rate as the formula grant therefore the Council are modelling the following reductions in Council Tax Support ‘grant’:

2015/16 (15.8%)

2016/17 (10.0%)

2017/18 (10.0%)

2018/19 (10.0%)

2019/20 (10.0%)

1. the changes in caseload continue to increase.

3.2 The following table provides a position statement of the current scheme (ie, continuing to operate with a the 15% taper);

|  |  |
| --- | --- |
| Financial Year | NetAnnual Cost of LCTS Scheme(£) |
| 2013/14 | -92,000 |
| 2014/15 | 8,000 |
| 2015/16 | 139,000 |
| 2016/17 | 224,000 |
| 2017/18 | 306,000 |
| 2018/19 | 383,000 |
| 2019/20 | 458,000 |

*\* The above table illustrates the cash impact to this Council. Any decisions on the Taper level impact on both the Police and the County Council. The cash impact is based on the respective share of the overall Council Tax Bill. The impact to the Police & Crime Commissioner Northants (PCCN) will be similar to KBC as the PCCN accounts for around 14% of the overall bill. The cost to the County Council will be somewhat greater as their share of the Council Tax Bill is around 72%.*

* 1. It can be seen that a surplus was created at the end of 2013/14 of £92,000, this was due to two reasons
1. the government paid a one-off cash grant to help mitigate the impact
2. the budget sums included a small contingency sum

 It is estimated that the annual budget will be about in balance by the end of this financial year (2014/15) but will be increasingly in deficit in future years.

* 1. The only significant tool the Council has available (to adhere to its budget guiding principles) is to adjust (increase) the ’taper’ to ensure that the budget is in balance. Previously the Council adjusted a number of discounts and exemptions to help reduce the financial burden of the legislation changes – there no material scope to change these going forward (without changes in primary legislation around issues such as single persons discounts or the protected status for people of pension age) and therefore the only options available to balance the budget for the scheme are in relation to increasing the taper level.
	2. There are two main options available for changing the Taper that adhere to the current policy position - these were previously reported to the Executive Committee in September 2014 and these were the two options stakeholders and customers have been consulted upon. The two options are;

**Option 1 –** Adjust the level of the Taper based on the ‘annual cost’ of the Council Tax Support Scheme – this would result in the taper changing from its current level of 15% to 35%.

**Option 2 –** Adjust the level of the Taper based on the ‘cumulative cost’ of the Council Tax Support Scheme over the medium term (ie, looking back at the last 3 years) – this would result in a taper being applied of 25% rather than the current 15% reduction.

* 1. If option 1 was the preferred option, indicative calculations suggest that the current 15% level would have to increase to around 35% in order for the Cost of Council Tax support to remain cost neutral in 2015/16
	2. If option 2 was the preferred option the Council would instead be looking to address the cumulative deficit of £55,000 (see table below). This would result in a taper of around 25% for 2015/16 (rather than 35%).
	3. The table in section 3.2 shows the current and projected financial cost of the current scheme. The following table shows an estimated position from 2015/16 if each of the two options were applied.

|  |  |  |
| --- | --- | --- |
| Financial Year | Annual Cost of LCTS SchemeOption 1 | Cumulative Cost of LCTS SchemeOption 2 |
| 2013/14 | (£92,000) | (£92,000) |
| 2014/15 | £8,000 | (£84,000) |
| 2015/16 | £0 | £0 |
| 2016/17 | £85,000 | £169,000 |
| 2017/18 | £167,000 | £420,000 |
| 2018/19 | £244,000 | £748,000 |
| 2019/20 | £319,000 | £1,151,000 |

* 1. Whilst it can be argued that both options adhere to the existing principles, it is fair to say that Option 1 is the one that is the best fit and is what should be applied in financial terms. The difficulty with Option 2 is that it is backward looking and potentially stores up a bigger problem for future years.
	2. The following table (updated) is reproduced from the September Executive report in relation to the two options;

|  |  |
| --- | --- |
| **Option 1**Taper based on the ‘annual cost’ of the Council Tax Support Scheme | The taper would need to increase from its current level of 15% to 35% to address the estimated funding shortfall of £139,000 for 2015/16.This is the correct option to adopt from a financial modelling perspective and is the best fit to the Council’s budget guiding principles.Such an increase in the Taper rates could adversely impact on the Collection RatesA taper of 35% would require lower increases to the taper rates compared to Option 2 in future years if the current policy position is to be maintainedThis constitutes a change to the current local scheme and has required a formal consultation exercise and is ultimately a decision of Full Council. |
| **Option 2**Taper based on the ‘cumulative cost’ over the medium term of the Council Tax Support Scheme | The taper would need to increase from its current level of 15% to 25% to address the estimated three year rolling funding shortfall of £55,000 from 2015/16.In effect this option is a ‘backward’ looking one that is likely to result in greater budgetary pressure for the scheme in future years.A lower increase in the Taper rate is less likely to adversely effect the Collection RateA taper rate of 25% would require higher increases to the taper rates compared to Option 1 in future years if the current policy position is to be maintained.This constitutes a change to the current local scheme and has required a formal consultation exercise and is ultimately a decision of Full Council.If this option were considered, it would be advisable to parallel run it with a lobbying campaign about possible other changes to national council tax discounts and exemptions as well as continuing to make the point to the Government that benefits should have remaining a national policy issue and hence be controlled and funded centrally (not locally). |

* 1. Whilst both options result in an increase in the Taper Rate and would enable the cost of Council Tax Support to remain cost neutral in 2015/16 it is unlikely that this is a position that would continue to be maintained into the medium term without adversely impacting on the collection rate.
	2. If there are no national policy changes to Single Person Discounts or the protection currently provided to pensioners, Council Tax Support is going to continue to be an additional cost pressure to local government every single year due to the estimated continuing decrease in the Government’s funding envelope. Further lobbying work is required at a national level if Council Tax Support is to remain cost neutral as without further changes the cost of Council Tax Support will continue to be an annual budget pressure to local government – unless the economy and caseload starts to decrease.
	3. As part of the recent response that the Council made to the LGA commissioned independent review of local government finance, the following comments were made – *‘an area that the commission may wish to reconsider is that of Local Council Tax Support – the changes that were introduced in April 2013 have resulted in differences across the country about how much support specific groups of individuals receive. This has been a consequence of the economics of a particular authority, rather than consideration of the specific issue itself. Relatively poorer areas have a proportionately greater burden fall upon them for the relief of debt. More prosperous areas have a proportionately lower burden – something that we are sure wasn’t intended. Government responsibility is warranted: the management and rate of poverty in society is a national issue. Passing responsibility for CTB to local authorities has resulted in some local authorities being unfairly impacted, whereas others have not really felt the impact. The Commission may wish to take a view as to the equity of the poverty relief burden under the current system’.* The Committee may wish to take the view that it should continue to lobby the Government on this point – irrespective of the option that is recommended to Council.
1. **ADMINISTRATION OF FUTURE COUNCIL TAX SUPPORT SCHEME**

4.1 The Council are responsible for the administration and collection of Council Tax for the borough of Kettering, the split in Council Tax funding is broken down in the following chart;

* 1. The impact of welfare reform and the current economic climate has increased significantly customer contact and office administration for the Council. Going forward this is expected to continue to increase and as such will continue to put pressure on the Council’s revenue account.
	2. For Information – the statistics for customer contact are provided in the following table;

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **12/13****Oct** **Cumulative** | **13/14****Oct****Cumulative** | **14/15****Oct****Cumulative** |
| Online forms | 2,743 | 3,238 | 3,902 |
| Customers seen face to face including A6 towns | 25,979 | 30,045 | 32,927 |
| Number of E-Mails | 2,791 | 3,385 | 3,888 |
| Number of web chats | 881 | 1,432 | 1,678 |
| Telephone contact | 201,161 | 204,817 | 206,697 |
| TOTAL | 233,555 | 242,917 | 249,092 |

* 1. For Information – the statistics for customer assistance are provided in the following table;

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **12/13****Oct****Cumulative** | **13/14****Oct****Cumulative** | **14/15****Oct****Cumulative** |
| Reminder Notices | 10,061 | 14,580 | 13,908 |
| Summons | 2,805 | 4,156 | 3,720 |
| Liability Orders | 2,301 | 3,477 | 3,191 |
| Total | 15,167 | 22,213 | 20,819 |

* 1. The figures above show the increase in Council Tax recovery in 2013/14 when Council Tax Support was introduced, against the reduction in recovery to date for 2014/15. The reduction in recovery is partly due to the increased individual assistance by the Council to customers around budget and financial management.
	2. The credit union was launched in April 2014 to assist the borough's more vulnerable customers, it was established to give assistance in managing finances and give access to more affordable banking and credit. The project was set up with the East Midlands Credit Union because of the identified changing needs of the customers within the Borough of Kettering. The expectation of need and the actual need has exceeded the Council’s targets within the first seven months of opening.
	3. The steps the Council are taking to assist the Borough's most vulnerable Customers is having a positive impact in helping, assisting and preventing debt; however the increased number of customers needing this assistance continues to rise. Irrespective of the option chosen for this scheme, the Council will need to proactively assist customers in conjunction with our partner agencies.
1. **CONSULTATION**
	1. The consultation timeline is reproduced below;



5.2 Further information about the two Consultation Options (based on a Band B property - being the average property banding within the borough) are provided in the following table;

|  |  |  |  |
| --- | --- | --- | --- |
| Scheme | Reduction (Taper) | Annual Amount | Weekly Amount |
| Current scheme | 15% | £169.28 | £3.25 |
| **Option 1**Taper based on the ‘annual cost’ of the Council Tax Support Scheme | 35% | £394.99 | £7.60 |
| **Option 2**Taper based on the ‘cumulative cost’ over the funding envelope of the Council Tax Support Scheme | 25% | £282.14 | £5.43 |

5.3 A formal eight week consultation process as dictated by law has been undertaken, the results of which are in the body of the report

5.4 As part of the consultation exercise, the council also proposed to allow for annual up-ratings to be effective from the 1st of April each year to applicable amounts, premiums, income/capital disregards and non-dependant deductions. These would be increased in line with changes made by government to the Default Scheme. In the event that the government does not publish updated figures as part of the Default Scheme, the Council reserve the right to up-rate these annually by reference to the consumer price index, retail price index, rates used for housing benefit and universal credit or by some other method decided by the Council. The ability to up-rate these amounts will be subject to any restrictions imposed by the Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations.) Applicants who are affected by up rating will be notified of the following year adjustments in March of the preceding financial year.

5.5 These up-ratings will ensure that the scheme remains current and where appropriate in line with the Housing Benefit Scheme and that generally awards are not reduced by the impact of increases to state benefits and inflationary pressures.

5.6 The number of customers consulted was as follows;

|  |  |  |  |
| --- | --- | --- | --- |
| Type of Consultation | No. Issued | No. of Responses | % of Responses |
| Face to Face in the Community | 700 | 130 | 81% |
| Via the web site | n/a | 5 | 3% |
| Written | 7,000 | 7 | 4% |
| Face to Face with KBC customer Service Centre | 200 | 20 | 12% |
| TOTAL | 7,900 | 162 | 100% |

1. **CONSULTATION RESULTS**

6.1 Overall, the following responses were received on the two elements of the consultation exercise;

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Scheme | Option 135% Reduction | Option 225% Reduction | Neither Option | Total |
| Responses | 40 | 107 | 15 | 162 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Scheme | Annually uprate scheme | Do not annually uprate scheme | Neither Option | Total |
| Responses | 113 | 41 | 8 | 162 |

6.2 Below are comments from key partner agencies in respect of the proposed changes to the Council Tax Support Scheme from April 2015

|  |  |
| --- | --- |
| Stakeholder | Comment |
| NorthamptonshireCounty Council | **Question 1** Of the options presented option 2 (25% reduction) is preferred for the reasons provided below.**Question 2** Yes the scheme should be up rated annually so that it remains ‘current’.**Question 3**The County Council fully recognises the need to respond to reduced funding in respect of Council Tax Support following central government changes. There is a need to balance this reduced level of funding and the need to protect vulnerable groups in our communities. The proposals and decisions are not easy in this time of continued austerity. As a result the County Council considers that the increase in the payable proportion in option 1 is too great an increase in a single step. Whilst option 2 is still a substantial increase there are other District Council schemes where the percentage rate being applied is similar. The County Council therefore prefers option 2 although it is recognised, as stated in the consultation material, that further rises in the percentage payable are likely to be required in future years. However this step change approach is preferred to enable those affected to adjust over time. |
| Police Crime Commissioner | At the time of writing this report, no response had been received. |

6.3 Responses from Voluntary Sector Partners are summarised below;

|  |  |
| --- | --- |
| Partner | Comment |
| 1 | Although it is clear that this will pose financial difficulties on some vulnerable residents, it is also clear that many still deem benefits for life. As long as we support those genuinely vulnerable people, others need to be made responsible for their finances. It is not acceptable to think that because people are working or earning too much to qualify for HB/CTR, that they can afford an increase in their council tax to fund those that are still not doing anything to better their situation. |
| 2 | We are really concerned about this, even on the lower option it represents approx. 10% (or 20% if under 25) of a person’s JSA.We have a number of clients on rent repayment plans who will be unable to meet that commitment if this goes up at all. |
| 3 | I am working age, work full time and do not receive LCTS, therefore the proposals do not affect my personal situation at the current time. However I would be very concerned about the impact on those claiming benefits and with very low incomes, of increasing the liability reduction to as much as 35% for 2015-16. I think 25% is a significant increase as it is compared to the current 15%, and 35% more than doubles what people claiming LCTS will typically have to pay each week. I think 35% is too high a jump and it should be increased more gradually than this to enable vulnerable people living on very low incomes to adjust more easily, particularly bearing in mind they are going to have to deal with other significant changes within the wider welfare reforms. I would be concerned that the most vulnerable simply could not afford to pay double towards their council tax each week when some of them are living on only £56/£72.40 per week. I appreciate the need to increase the liability reduction if the government funding is reduced however I think it needs to be done as sensitively as possible to avoid additional hardship as people need to feed and clothe themselves first and foremost and warm their homes and I myself cannot even begin to imagine how difficult that must be for those who are only living on £56/£72.40 per week. I therefore think that of the two proposals given, the lower reduction of 25% would be most appropriate. |

6.4 Customer Responses have been gathered from a full range of customers including customers who do claim Council Tax Support and do not claim Council Tax Support – these can be found at appendix A

**7** **POLICY IMPLICATIONS**

7.1 This report will determine the changes to the local policy for the Council Tax Support Scheme from April 2015. Accordingly, the final decision rests with the full Council who will consider the recommendations of this Committee at its meeting on 17th December 2014.

**8 USE OF RESOURSES**

* 1. The financial implications of the current scheme, and the options that have been subject to consultation have been clearly outlined in the report – specifically in section 3. Some of the comments made earlier in the report are reproduced here to assist members.
	2. If option 1 was the preferred option, indicative calculations suggest that the current 15% level would have to increase to around 35% in order for the Cost of Council Tax support to remain cost neutral in 2015/16.
	3. If option 2 was the preferred option the Council would instead be looking to address the cumulative deficit of £55,000 (see table below). This would result in a taper of around 25% for 2015/16 (rather than 35%).
	4. The following table shows an estimated position from 2015/16 if each of the two options were applied.

|  |  |  |
| --- | --- | --- |
| Financial Year | Annual Cost of LCTS SchemeOption 1 | Cumulative Cost of LCTS SchemeOption 2 |
| 2015/16 | £0 | £0 |
| 2016/17 | £85,000 | £169,000 |
| 2017/18 | £167,000 | £420,000 |
| 2018/19 | £244,000 | £748,000 |
| 2019/20 | £319,000 | £1,151,000 |

* 1. Whilst it can be argued that both options adhere to the existing principles, it is fair to say that Option 1 is the one that is the best fit and is what should be applied in financial terms. The difficulty with Option 2 is that it is backward looking and potentially stores up a bigger problem for future years.
	2. It is important to note that the decision that the Executive Committee (and then Council) are being asked is to set a new scheme for 2015/16 that adheres to the Council’s budget guiding principles in the light of a continued reduction in the Government funding envelope for the scheme coupled with an increase in caseload. The figures that are projected for future years (in the table at section 8.4) can only be viewed as indicative at this stage and will no doubt change, however what they do indicate is that there is no longer term solution for this dilemma and it will need to be kept under constant review together with a lobbying effort on the other elements that may provide some financial flexibility moving forward.
1. **RECOMMENDATIONS**

**That the Executive Committee:**

9.1 Note and give careful consideration to the comments that were submitted as part of the consultation process and thank those that took part in the process

**That the Executive Committee recommends to Council:**

* 1. Having considered the results of the consultation exercise, the Executive decide which of the following to recommend to Council for implementation from 1st April 2015;
1. That Option 1 (changing the taper from 15% to 35%) be implemented from 1st April 2015;

**or**

1. That Option 2 (changing the taper from 15% to 25%) be implemented from 1st April 2015;

**or**

c) An alternative percentage

* 1. That annual up-ratings to be effective from the 1st of April each year to applicable amounts, premiums, income/capital disregards and non-dependant deductions. These would be increased in line with changes made by government to the Default Scheme. In the event that the government does not publish updated figures as part of the Default Scheme, the Council reserve the right to up-rate these annually by reference to the consumer price index, retail price index, rates used for housing benefit and universal credit or by some other method decided by the Council. The ability to up-rate these amounts will be subject to any restrictions imposed by the Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations);
	2. That the Council lobbies the Government for changes in the regulations that govern Council Tax Discounts and Exemptions so that there is greater flexibility to help deal with the financial consequence that the Local Council Tax Support Scheme has brought.
	3. That the Council continues to lobby the Government that the funding of ‘Council Tax Support’ should revert back to being a national issue and should be funded accordingly.

|  |  |
| --- | --- |
| Background Papers: |  |
| Title | Various incl. 2014 Consultation documents  |
| Date | Dec 2014 |
| Contact Officer | Julie Trahern |

|  |  |
| --- | --- |
| Previous Minutes/Reports: | Sept 2014 Durable Budget Committee Report |