

Committee/Meeting: Cabinet	Date: 9 January 2013	Classification: Unrestricted	Report No: CAB 68/123
Report of: Corporate Director Resources Originating officer(s) Steve Hill – Head of Benefits Services		Title: London Borough of Tower Hamlets Council Tax Support Scheme Wards Affected: All	

Lead Member	Councillor Alibor Choudhury
Community Plan Theme	A Prosperous Community
Strategic Priority	Manage the impact of welfare reform on local residents

1. **SUMMARY**

- 1.1 The Coalition Government, via the DCLG (Department of Communities, Localities and Local Government) has decided to abolish national Council Tax Benefit with effect from 1st April 2013 and compel Local Authorities to devise their own local Council Tax Support schemes to replace Council Tax Benefit.
- 1.2 From April 2013, Subsidy for the new local Council Tax Support scheme is likely to be at least 10% less than is currently provided in respect of the Council Tax Benefit Scheme. This equates to a reduction in funding to the Council of approximately £3m.
- 1.3 Pensioners are protected under the new scheme and their entitlements cannot be reduced however, the new scheme will impact upon approximately 25,000 working age claimants in the Borough.
- 1.4 In determining a new local Council Tax Support scheme, each Council must decide whether to pass on the 10% cut to working age households.
- 1.5 Cabinet decided on 25th July 2012 that the Council should agree a model which introduces a means tested Council Tax Support scheme which broadly mirrors the existing Council Tax Benefit scheme from April 2013.
- 1.6 Cabinet also agreed in principle, not to pass on the 10% reduction in Council Tax Benefit Subsidy to residents for 2013-14 through 2014/15 at a cost of around £2.655m per annum in respect of loss of Government funding.
- 1.5 The Council must have agreed a new scheme before the end of January 2013 or the Council will have the DCLG default scheme imposed on it and it will have to meet the reduction from Council funds.

2. **DECISIONS REQUIRED**

The Mayor in Cabinet is recommended:

- 2.1 To agree the proposed Council Tax Support scheme as the replacement to Council Tax Benefit from April 2013. (The draft scheme is published on the Council's website)
- 2.2 To note the results of the public consultation on the Council Tax Support scheme.
- 2.3 Note that the scheme will need to be agreed by full Council.
- 2.3 To note that adoption of the scheme will enable the council to apply for part of a £100m DCLG transition grant.

3. **REASONS FOR THE DECISIONS**

- 3.1 The Council is obliged to agree a local Council Tax Support scheme to replace the national Council Tax Benefit Scheme which will be abolished in April 2013. Since Cabinet's decision on the 25th July, the Council Tax Support scheme for Tower Hamlets has been designed and developed, and consultation in accordance with the requirements currently indicated in the Local Government Finance Bill 2010-2012 has taken place. This report updates Members on the progress made and sets out the decisions that are now required.
- 3.2 The local Council Tax Support scheme needs to be submitted to DCLG by 31st January 2013.

4. **OPTIONS CONSIDERED**

- 4.1 The Council is required by law to put in place a council tax reduction scheme by 31 January 2013. If it does not do so, then the Government's default scheme will apply in Tower Hamlets. The default scheme is set out in the Council Tax Reduction Schemes (Default Scheme) (England) Regulations 2012 and is publicly available.
- 4.2 The Council has limited discretion as to the contents of its council tax reduction scheme, as the scheme must contain the matters required by the Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012. The chief area of discretion relates to non-pensioners, in respect of whom a means-based approach is proposed as set out in the report.
- 4.3 It is also proposed, for reasons set out in the report, that the scheme is framed so as to permit the Council not to pass on the Government's 10% reduction in funding.

- 4.4 An alternative approach would be possible, but may require further consultation and analysis.

5. THE NEW COUNCIL TAX SUPPORT SCHEME

- 5.1 In July, Members were informed of the tight timetable for the adoption of a new scheme, issues that had still to be clarified by the Government and the raft of other changes brought about by the Welfare Reform Agenda. As such, it was felt that the Council's local scheme should broadly mirror the existing Council Tax Benefit scheme, which residents already understand. Mirroring the existing means testing arrangements also minimises Benefits Service administration costs for the new scheme.
- 5.2 The Council has consulted with precepting authorities and local residents on the proposed Council Tax Support Scheme. It has also held a public consultation on the proposed scheme via East End Life and the Council's website. Very few comments were received and none that have caused an amendment to the proposed scheme.
- 5.3 This level and type of response is in line with that received by other London Authorities proposing to meet the 10% funding reduction.
- 5.4 In addition to the consultation exercise, the proposed Council Tax Support scheme is available to the public on the Council's website and the Benefits Service is continuing to accept any comments, ideas or suggestions on the proposed scheme up until its adoption by full Council.
- 5.4 The proposed means tested Council Tax Support scheme broadly mirrors the existing Council Tax Benefit scheme is therefore the one that it proposed.
- 5.5 In agreeing such a scheme with the criteria described above and before the deadline imposed by the DCLG, allows the Authority to apply for a proportion of the recently announced DCLG £100m transition grant. It is expected that this could amount to £540k for the Council.
- 5.6 In the event that the Council fails to devise, agree and implement a local Council Tax Support scheme by the 31st January deadline, the DCLG will impose the default scheme which does not incorporate any scope to offset the 10% shortfall in Government Funding. However, the Council would be able to apply for transitional grant funding if it has the default scheme imposed on it.
- 5.7 A decision not to pass on the 10% Government funding reduction avoids the need to otherwise collect relatively small amounts of Council Tax from residents who are financially vulnerable.
- 5.8 If the 10% were passed on, approximately 25,000 working age claimants would have had an increase in the amount of Council Tax they have to pay. Of these, around 16,000 currently receive 100% benefit (less any non-

dependant charges that may apply) will therefore not be used to making payments for their Council Tax and will be receiving relatively small bills.

- 5.9 The cost of collection would likely to be proportionately higher as it could be expected that a larger proportion would have defaulted on their instalment plan. It is very difficult to estimate how collection in this area would fare, with estimates of between 25% and 70%. There is no doubt however, that bad debt provisions would have needed to be addressed to reflect the lower collection levels for these taxpayers. The decision not to pass on the 10% Government funding reduction avoids these problems.
- 5.10 The Council's proposed scheme adopts the elements required by the Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012. In this respect it follows closely the Government's default scheme, but is different from that scheme in the following respects –
- it is a local scheme
 - It is not a scheme imposed on the Authority
 - It fully disregards War Pensions
 - It introduces discretion to set up an internal appeal process prior to referring to the national Appeals process

6. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 6.1 This report describes the new Council Local Council Tax Benefit Scheme to be introduced from 1st April 2013 that replaces the current national scheme which must be agreed by the Council before the end of January 2013.
- 6.2 Cabinet on 25th July 2012 agreed a number of decisions in principle regarding the introduction of a new Council Tax Benefit scheme namely not to pass on a predicted 10% cut in Council Tax Benefit funding received by the Council to claimants by reducing their Council Tax Benefit.
- 6.3 The reduction in funding for the new scheme is estimated to cost the Council approximately £2.655m per annum for 2013-14 and 2014-15 and the Medium Term Financial Plan has provided for this reduction in the Council's budgeted income from 2013/14 onwards. Also, the Council will apply for and is expected to receive £540k from transitional grant from the Government for the new scheme in 2013-14. However, if the Council fails to agree its own local scheme a default government scheme will be imposed that does not include the option not to pass on the 10% reduction in Council Benefit to claimants.
- 6.4 There is a risk that given the current general economic environment and the changes to the welfare benefit system, the number of claimants could rise significantly over the next few years. If this were to be the case then there could be additional costs over and above those quoted in the report.

7. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

- 7.1 On 31 October 2012, the Local Government Finance Act 2012 amended the Local Government Finance Act 1992 (“**the 1992 Act**”) to introduce a requirement for local council tax reduction schemes. Section 13A of the 1992 Act and Schedule 1 to the Act require each billing authority in England to make a scheme specifying the reductions which are to apply to council tax payable in respect of dwellings situated in its area by: (a) persons considered by the authority to be in financial need; and (b) classes of persons considered by the authority to generally be in financial need. The Council is required to have a council tax reduction scheme in place by 31 January 2013.
- 7.2 Schedule 1A to the 1992 Act requires that the council tax reduction scheme address the following matters –
- The scheme must state the classes of person who are entitled to a reduction. This may be determined by reference to the income of any person liable to pay council tax, the capital of any such person or both income and capital. It may be determined by reference to the number of such a person’s dependants and whether or not the person has applied for a reduction.
 - The scheme must specify the reduction to which a person in a given class is entitled to and different reductions may apply to different classes. The reduction may be in the form of a percentage discount, a discount of an amount specified or calculated under the scheme, an amount of council tax or the whole of council tax.
 - The scheme must specify the procedure by which a person may apply for a reduction and how a person may appeal a decision in respect of reduction of council tax.
 - The scheme must contain other matters specified in Regulations made by the Secretary of State.
- 7.3 Pursuant to powers given in the 1992 Act, the Secretary of State has made the Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012 (“**the Prescribed Requirements Regulations**”), which set out detailed matters that must be contained in council tax reduction schemes. The proposed scheme has been prepared in accordance with these requirements.
- 7.4 Before making a scheme, the Council must (in the following order): (a) consult any major precepting authority which has power to issue a precept to it; (b) publish a draft scheme in such manner as it thinks fit, and (c) consult such other persons as it considers are likely to have an interest in the operation of the scheme. Paragraph 3.4 of the report sets out the consultation which has been conducted which meets these requirements.
- 7.5 The Council must publish its council tax reductions scheme. It must also keep the scheme under review and decide each financial year whether to revise or replace the scheme.

- 7.6 If the Council does not have a scheme in place by 31 January 2013 (in breach of its statutory duty), then the 1992 Act provides that the Government's default scheme will apply in Tower Hamlets. The default scheme is set out in the Council Tax Reduction Schemes (Default Scheme) (England) Regulations 2012. These follow closely the specifications in the Prescribed Requirements Regulations.
- 7.7 Before adopting a council tax reduction scheme, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who do not. An equality analysis has been prepared, which is set out in Appendix 2 to this report and summarised in section 6.
- 7.8 Section 67 of the 1992 Act specifies functions of an authority that shall be discharged only by the authority. The specified functions include making or revising a council tax reduction scheme under section 13A(2) of the 1992 Act. This means that full council has ultimate responsibility for making and revising the council tax reduction scheme.

8. ONE TOWER HAMLETS CONSIDERATIONS

- 8.1 The One Tower Hamlets vision and objectives which run throughout the Tower Hamlets Community Plan are to tackle inequality and strengthen cohesion and community leadership. The Welfare Reforms being introduced by the Coalition Government have the potential to reduce significantly the income of households in the borough who currently receive welfare benefit payments. The reduction in the Council Tax Benefit subsidy must be seen in the context of these wider changes. From April 2013 the government is introducing a benefit cap. All the benefits a household receives will be added together and capped at £350 for a single person without children and £500 per week for everyone else. If the household currently receives more than the cap, the difference will be cut from their housing benefit. The cap does not apply to households receiving Working Tax Credit, people who are not of working age, or people who receive Disability Living Allowance, Attendance Allowance or the support component of Employment Support Allowance. There will be further changes to the benefit system over the next few years. In particular, Universal Credit will be phased in between 2013 and 2017. It will replace six of the main means tested benefits and tax credits. The stated aim of these reforms is to ensure that people are better off in work. In developing the proposed Council Tax Support scheme, it was recognised that low income working age households in receipt of means tested benefits are likely to experience reductions in income and the proposed scheme therefore seeks to avoid further reducing the income of working age households who are currently eligible for Council Tax Benefit.
- 8.2 The proposed Council Tax Support scheme for Tower Hamlets does not deviate from the existing national Council Tax Benefit scheme.

- 8.3 As with the existing Council Tax Benefit scheme there are classes of people within the new scheme. Some classes are fully protected e.g. pensioners, while others such as working age claimants are not protected and could be liable to reduced benefit payments as a result of the Government's new regulations and the decision to reduce funding by 10%.
- 8.4 Cabinet's decision to absorb the 10% funding reduction means that in effect, nobody has to pay any more towards their Council Tax than they do currently; all classes of people are therefore protected through the new means tested Council Tax Support scheme.
- 8.5 The table below details the existing Council Tax Benefit caseload.

The new Council Tax Support scheme will maintain the status quo meaning no individual or group will be adversely impacted by the new Council Tax Support scheme. Indeed, the decision to fund the 10% cut will protect all residents who would otherwise be affected were the reductions in funding passed on.

Households in Receipt of CTB	35,227	100%
Total Pensioners in receipt of CTB	10,178	28.89%
No. of Pensioners on full CTB	8,143	23.12%
No. of Pensioners on part CTB entitlement	2,035	5.78%
Average weekly CTB for Pensioners	£16.19	
Total Annual CTB award for Pensioners	£8,594,447	28.39%
Total number Working Age Claimants in receipt of CTB	25,049	71.11%
Number of Working Age on full CTB	16,340	46.38%
Number who are working	6,703	19.03%
All other claims from Working Age	2,006	5.69%
Average weekly CTB for Working Age	£16.60	
Total Annual CTB for Working Age	£21,675,175	71.61%
Total Annual CTB (all claims)	£30,269,622.07	

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 9.1 None.

10. RISK MANAGEMENT IMPLICATIONS

10.1 The principle risk for the Council is to ensure that it has an agreed and workable scheme in place within the timetable set by the Government. This report is the first step in that process.

11 CRIME AND DISORDER REDUCTION IMPLICATIONS

11.1 None.

12 EFFICIENCY STATEMENT

12.1 It is noted that the funding for any scheme agreed by Members is likely to be at least 10% less than is currently provided in respect of the Council Tax Benefit Scheme

11. APPENDICES

Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2012

List of “Background Papers” used in the preparation of this report

Brief description of “background papers”	Name and telephone number of holder and address where open to inspection.
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None

N/A