

**LONDON BOROUGH OF TOWER HAMLETS**

**COUNCIL MEETING**

**27<sup>th</sup> NOVEMBER 2013**

**COUNCIL TAX REPLACEMENT SCHEME YEAR TWO**

**REPORT OF THE CORPORATE DIRECTOR, RESOURCES  
INCLUDING RECOMMENDATIONS FROM THE CABINET  
MEETING ON 6<sup>TH</sup> NOVEMBER 2013**

**EXECUTIVE SUMMARY**

The Council must agree their new Council Tax Replacement scheme for 2014/15 by the end of January 2014.

This report proposes that the Council Tax Replacement scheme for 2014/15 should continue along the lines of the 2013/14 adopted Council Tax Replacement scheme which broadly mirrors the previous national Council Tax Benefits scheme; with the Council continuing to absorb the 10% reduction in Government funding rather than passing these “new” charges onto working age claimants in the Borough, thus ensuring that both working age residents and Pensioners have no additional Council Tax payments to make.

The report was considered by the Mayor in Cabinet on 6<sup>th</sup> November 2013. At the meeting the Mayor:-

1. Agreed the proposed Council Tax Replacement scheme for 2014/15 for consideration by full council.
2. Noted feedback on the public consultation on the proposed scheme for 2014/15; and
3. Referred the scheme to full Council for agreement.

**RECOMMENDATIONS**

That the Council agree the proposed Council Tax Replacement Scheme for 2014/15.

## **1. REASONS FOR THE DECISIONS**

- 1.1 The Council is obliged to agree a local Council Tax Replacement scheme following Government's decision, via the DCLG (Department of Communities, Localities and Local Government) to abolish the national Council Tax Benefit scheme with effect from April 2013. This decision compelled Authorities to devise their own local schemes mindful of the fact that Government funding for schemes would reduce by 10%.
- 1.2 The Council Tax Replacement scheme for 2014/15 needs to be agreed by full Council and submitted to DCLG by 31<sup>st</sup> January 2014.

## **2. ALTERNATIVE OPTIONS**

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

## **3. DETAILS OF REPORT**

- 3.1 The Council is required by law to put in place a Council Tax replacement scheme by 31<sup>st</sup> January 2014. If it does not do so, 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.
- 3.2 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 (Prescribed amendments) (England) Regulations 2012. The main area of discretion relates to non-pensioners, in respect of whom a means-based approach is proposed as set out in the report.
- 3.3 It is also proposed, for reasons set out in the report, that the scheme is framed for 2014/15, so as to permit the Council not to pass on the Government's 10% reduction in funding.
- 3.4 The adopted 2013/14 Council Tax Replacement scheme broadly mirrored the national Council Tax Benefit scheme which residents already understand. Mirroring the means testing arrangements also minimised administration costs for the Council's scheme.
- 3.5 The Council received one off additional funding from DCLG for 2013/14 in the form of transition funding (approximately £540k) however no funding is expected for 2014/15.
- 3.6 The Council will be consulting with precepting authorities and local residents on the proposed scheme. This public consultation will be undertaken via East End Life, the Council's website and using "My Tower Hamlets."
- 3.7 The consultation will close on Friday 15<sup>th</sup> November 2013 with feedback to be included in the final report to full Council. Feedback from the consultation

held last year was broadly in line with that received by other London Authorities who have proposed to absorb the 10% reduction in funding.

- 3.8 The proposed means tested Council Tax Replacement scheme for 2014/15 broadly mirrors the scheme adopted in 2013/14 and the previous national Council Tax Benefit scheme.
- 3.9 In agreeing the proposed Council Tax Replacement scheme Members will agree to fund the Government 10% reduction in funding for 2014/15 at a cost of approximately £3m.
- 3.10 In the event that the Council fails to agree and implement a local Council Tax Replacement scheme by the 31<sup>st</sup> January 2014 deadline, the DCLG will impose the default scheme. Any Authority that fails to set its own Council Tax Replacement scheme by this deadline must accept the default scheme and in doing so, cannot pass on to residents and therefore must absorb the 10% reduction in Government funding.
- 3.11 It should be noted that a decision not to pass on the 10% Government funding reduction for the Council Tax Replacement scheme avoids the need to otherwise collect relatively small amounts of Council Tax from residents who are financially vulnerable.
- 3.12 If the 10% were passed on, approximately 25,000 working age claimants in the Borough would have an increase in the amount of Council Tax they have to pay. Of these, around 16,000 receive 100% Benefit (less any non-dependant charges that may apply). These households will not be used to making payments for Council Tax and would receive relatively small Council Tax bills.
- 3.13 The cost of collection would likely to be proportionately higher as it could be expected that a larger proportion would default on their instalment plan. It is very difficult to estimate how collection in this area would fare, with estimates between 25% and 70%. The position is compounded by the combined welfare reforms and reductions in Benefits entitlements estimated for Tower Hamlets to be in the region of £11m per year. There is no doubt therefore, that bad debt provisions would need to be addressed to reflect lower collection levels for these new taxpayers. The decision to absorb the 10% Government funding reduction avoids these problems.
- 3.14 The Council's proposed scheme for 2014/15 adopts the elements required by the Council Tax Reductions 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 has an internal appeal process prior to referring to the national Appeals process

#### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 4.1. This report describes the proposed second year of the Council's Local Council Tax Benefit Scheme that was introduced from 1st April 2013 and agreed by Cabinet on 9th January 2013.
- 4.2. Mayor and Council originally agreed 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 following a reduction in funding for the new scheme. This reduction in funding was estimated to cost the Council approximately £2.655m per annum for 2013-14 and 2014-15.
- 4.3. It was agreed further to include in the Council's Medium Term Financial Plan (MTFP) the cost of this reduced funding in the Council's budget for 2013/14 and 2014-15.
- 4.4. In 2013-14 the Council received £540k from transitional grant from the Government for the new scheme in 2013-14 but this was for one year only. The Council is now required to agree the continuation of its agreed local scheme and submit this to the DCLG by 31<sup>st</sup> January 2014.
- 4.5. The report explains there continues to be 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 there could be additional costs over and above those quoted in the report.

#### **5. LEGAL COMMENTS**

- 5.1. 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 1A to that 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.
- 5.2. The Council was required to have a council tax reduction scheme in place by 31 January 2013. As the Council did not adopt its own scheme prior to 31 January 2013, the Government's default scheme applied in Tower Hamlets for 2013/2014. The default scheme is set out in the Council Tax Reduction Schemes (Default Scheme) (England) Regulations 2012.
- 5.3. For each financial year, the Council is required to consider whether to revise its scheme or to replace it with a different scheme. Any revision or replacement must be made by 31 January in the financial year preceding that for which the scheme is to take effect.

- 5.4 Before revising or replacing its 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. The report indicates that consultation is on-going. The consultation will need to be completed prior to the scheme being presented to full council for adoption.
- 5.5 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.
- 5.6 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.
- 5.7 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.
- 5.8 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 don't. An equality analysis will have to be completed alongside the consultation process and should be presented to cabinet and full council.
- 5.9 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.

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

- 6.1 The Vision and Priorities expressed in the Tower Hamlets Community Plan are to increase opportunity, prosperity and mobility in Tower Hamlets. The Welfare Reforms proposed, of which this is one element, could have a significant impact on each of these priorities for residents.
- 6.2 The proposed 2014/15 Council Tax Reduction scheme for Tower Hamlets does not deviate from the 2013/14 Council Tax Replacement scheme which in turn did not deviate from the national Council Tax Benefit scheme.
- 6.3 There are classes of people within the 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 regulations and the decision to reduce funding to Local Authorities by 10%.
- 6.4 Cabinet's decision to absorb the 10% funding reduction means that in effect, nobody had to pay any more towards their Council Tax than they do currently; all classes of people are therefore protected through the proposed means tested Council Tax Reduction scheme.
- 6.5 The proposed Council Tax Reduction scheme will maintain the status quo meaning no individual or group will be adversely impacted by the 2014/15 scheme. The decision to fund the 10% cut will protect all working age residents who would otherwise be affected were the reductions in funding passed on.
- 6.6 The current Council Tax (Benefit) replacement caseload consists of;

| <b>%</b> | <b>Client group</b>   | <b>Number of Households</b> |
|----------|-----------------------|-----------------------------|
| 71.7%    | Working age claimants | 25,485                      |
| 28.3%    | Pension age claimants | 9,725                       |

Further caseload breakdown details are shown in the Equality Impact Assessment at Appendix 2 of this report.

## **7. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 7.1 None.

## **8. RISK MANAGEMENT IMPLICATIONS**

- 8.1. The principle risk for the Council is to ensure 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.

## **9. CRIME AND DISORDER REDUCTION IMPLICATIONS**

9.1 None.

## **10. EFFICIENCY STATEMENT**

10.1 It is noted that funding for any scheme agreed by Members is likely to be at least 10% less than what was previously provided under the national Council Tax Benefit scheme which was abolished in April 2013.

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- NONE

#### **Appendices**

- Appendix 1 – Council Tax Replacement Scheme 2014/15 - Summary
- Appendix 2 - Consultation responses updated following the close of consultation on 15<sup>th</sup> November 2013
- Appendix 3 – Council Tax (Benefit) Replacement Scheme 2014/15 Equality Impact Assessment

#### **Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012**

A full copy of the proposed scheme is available and held by Steve Hill, Head of Benefits Services, third floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG. Telephone 0207-364- 7252 [steve.hill@towerhamlets.gov.uk](mailto:steve.hill@towerhamlets.gov.uk)

Copies of the proposed scheme will also be available at the Cabinet Meeting.

#### **Officer contact details for documents:**

- Steve Hill, Head of Benefits Services Ext. 7252