

# **MAIDSTONE BOROUGH COUNCIL**

## **CABINET**

**25 July 2012**

### **REPORT OF DIRECTOR OF REGENERATION AND COMMUNITIES**

**Report prepared by Stephen McGinnes**

#### **Localisation of Council Tax Support**

1. Issue for Consideration
  - 1.1 To consider the principle of the local council tax scheme which the Council should progress and undertaking a formal consultation.
2. Recommendation of the Director of Regeneration and Communities
  - 2.1 That the Council undertakes a formal consultation as outlined under point 5, identifying option 6 (see appendix A) as the preferred scheme for implementation.
3. Reasons for Recommendation
  - 3.1 Background
  - 3.2 The current national scheme for council tax benefit will cease on the 31<sup>st</sup> March 2013 and be replaced by a new locally determined discount scheme. The new local scheme is intended to be administered in a similar way to other discounts, such as the single person discount, as opposed to a benefit payment; albeit that the scheme will at least initially still retain an element of means testing as part of its qualifying criteria.
  - 3.3 With responsibility for funding the scheme transferring from the Department for Work and Pensions to the Department for Communities and Local Government, a 10% saving is assumed by the Treasury in the overall cost of the scheme. Funding will also be awarded in the form of a fixed grant as opposed to being demand led, with the cost currently met in full.

- 3.4 As a discount, the cost of the scheme has the effect of reducing the council tax base and thus affects all tiers of authorities, including Parish Councils and Major Preceptors.
- 3.5 In addition to the changes within the benefit system, the Local Government Finance Act which is currently progressing through Parliament also provides new local discretion in relation to the discounts and exemptions provided for empty properties and second homes.

This includes the option to remove the current 10% discount that is provided for second homes and replace the current mandatory exemptions for the following categories of properties with a reduced level of discount.

- Properties that are empty and in need of substantial refurbishment or repair (Class A)
  - Properties that are empty for up to 6 months (Class C)
  - Properties where the mortgagee is in possession (Class L)
- 3.6 Whilst further work is required in relation to the wider opportunities to be introduced through the Local Government Finance Act, consideration has been given to how the changes could support and help mitigate the full impact of the changes to council tax benefit, whilst reducing the period that properties remain empty within the Borough.
- 3.7 As a consequence, Kent County Council has been actively involved in coordinating a number of options, which have been modelled and discussed at officer level through the Kent Finance Officers Group, Kent Benefit Managers Group and at Member level through the Kent Forum. These options are set out within appendix A.
- 3.8 There are 6 primary options which have been considered, with option 6 representing a variation to a County wide scheme (option 5) that was proposed jointly by Kent County Council and other major preceptors.
- 3.9 Option 6 has been identified as the preferred scheme on the basis that it supports;
- The policy aim of the welfare reform agenda to make work pay and reduce benefit dependency
  - Households currently in receipt of Council Tax Benefit by mitigating in part the reduction in Government funding for the scheme.

- The wider public interest by avoiding the reduction in Grant being met through a general increase in council tax or reduction in local services.
  - The aim of reducing the length at which properties remain empty within the Borough.
  - The financial standing of the Council by limiting the financial impact of any increase in demand and cost for the scheme, whilst recognizing and contributing to the anticipated cost of collection.
- 3.10 The scheme outlined within option 6 will provide for a 13% reduction in current council tax benefit entitlements, whilst otherwise retaining the existing rules and criteria. It will also use the new discretion to be introduced through the Local Government Finance Act to remove the 10% discount provided for second homes and reduce the exemption that empty properties receive from 6 to 3 months.
- 3.11 The financial impact of each option is shown in Appendix B.
4. The issue that requires a decision is 'what option would be most appropriate for the people of Maidstone?'
- 4.1 The Council needs to decide whether it will absorb the 10% reduction in funding or develop a scheme that can be maintained within the reduced level of funding.
- 4.2 If the Council decides to meet the anticipated shortfall in grant it will place an additional burden on the level of council tax charged across the Borough or require a reduction in spending on services.
- 4.3 If a local scheme is developed which reflects the reduction in grant, those households currently receiving support in the form of council tax benefit will have a reduction in the level of financial support provided, increasing the contribution which they are required to make towards the payment of council tax.
- 4.4 Residents of pensionable age are identified by government as a group to be protected from any adverse change or reductions in benefit as a result of implementing a new local scheme. No other groups have been identified.
5. Who will we consult following the decision
- 5.1 Following agreement as to the principle of the scheme to be adopted, a formal consultation will be undertaken with residents, local businesses, landlords, voluntary sector partners and precepting authorities.

5.2 The consultation is planned to start on the 6<sup>th</sup> August and close on the 5<sup>th</sup> October 2012.

5.3 An outline of the proposed scheme and details of its impact will be provided within the consultation document. The consultation will be sent by post to key stakeholders and households directly affected by the change, with wider comments invited through the consultation pages of the Councils website. The final decision, taking account of the consultation responses will be taken by Full Council later this financial year.

## 6. Alternative Action and why not Recommended

6.1 It is not possible to devise a completely new scheme by April 2013 and software suppliers have indicated that only limited changes to the current software may be possible.

6.2 Should the Council fail to adopt a local scheme by the 31<sup>st</sup> January 2013 the Council would by default be required to continue a scheme based on the current rules regarding entitlement, requiring it to absorb the 10% reduction in grant funding.

6.3 The modelling of alternative schemes can be progressed in the future but the timescale, software changes required and delay in the regulations for the new local scheme severely limit the options available in designing a scheme for April 2013. The other major constraint is the requirement to fully protect pensioners so that they receive the same level of support as they receive under the current system, whilst achieving a 10% reduction in the overall funding of the scheme.

6.4 Further, the Government is encouraging authorities to consider the impact of proposed schemes on other vulnerable groups and not to devise schemes that act as a disincentive to work.

6.5 A summary of the options, their benefit and limitations is attached as Appendix A.

## 7. Impact on Corporate Objectives

7.1 The proposed changes have a significant impact on local communities, customers and value for money through the way in which the council manages public finances.

7.2 The changes proposed through the Welfare Reform agenda and Local Council Tax Benefit Scheme are aimed at providing greater work

incentives, which has the potential to positively impact on the economic prosperity of those returning to employment as well as the wider community. The immediate implication of the change will be a reduction in the level of support and increased financial burden for individuals and families on low incomes.

- 7.3 The changes recommended to empty properties (Class C) and second homes recognise and support the council's wider aims to reduce the number of empty properties in the borough.

## 8. Risk Management

- 8.1 The legislation to support the localisation of Council Tax Benefit and changes outlined within option 6 with regards to empty properties is contained within the Local Government Finance Bill which is yet to receive Royal Assent. The Bill and supporting regulation may therefore be delayed or amended impacting on the proposed scheme. This would require the Council to amend the proposed scheme or find alternative funding.
- 8.2 The level of grant to be provided for the scheme and any administrative grant have not been announced and may vary from the estimates detailed within the report. Depending on the level of any variation the percentage reduction in benefit may require amendment to avoid additional pressures being placed on the level of council tax or service provision.
- 8.3 Whilst the recommended option limits the impact of any increases in demand and cost for the scheme, should that proposal not be implemented and an alternative option selected, the council would carry the risk that demand for the scheme could increase, for example should the number of unemployed people increase, placing an additional financial burden on the Council. Provision would need to be made within the Council's medium term financial strategy to meet the cost of such change.
- 8.4 The level of change may create financial difficulty for residents affected, resulting in increased complaints and a reduction in the council tax collection rate. The revenues team is actively investigating support mechanisms to help households experiencing financial difficulties and renewing its recovery processes to ensure that collection rates are maintained.

Examples of the financial impact on households are provided as appendix B.

a. Other Implications

1.	Financial	X
9.	Staffing	X
10.	Legal	X
11.	Equality Impact Needs Assessment	X
12.	Environmental/Sustainable Development	
13.	Community Safety	
14.	Human Rights Act	X
15.	Procurement	
16.	Asset Management	

i. Financial

The estimated grant for 2013/14 is £9,583,000 against an estimated requirement of £10,949,000. The shortfall of £1,366,000 will place an additional cost of the Council and precepting authority as follows:

Maidstone Borough Council	£ 205,000
Kent County Council	£ 970,000
Kent Police	£ 123,000
Kent Fire and Rescue	<u>£ 68,000</u>
	£1,366,000

If the Council adopts option 5 or 6 this shortfall and any additional cost should the demand and cost of the scheme increase, will be met through the outlined changes and precepting authorities.

Whilst the Council will endeavour to collect any additional council tax charged in full, it is expected that there will be a lower percentage of collection due to the financial pressures on households in receipt of Council Tax benefit. Allowance of £40,000 has been made within the Council's current budget strategy to allow for the impact of welfare reform.

The impact of the changes on the funding and precept from Parish Councils is currently being assessed, with detailed modelling of the

impact and funding arrangements to be undertaken in consultation with Parish Councils.

ii. Staffing

The reduction in government grant and corresponding reduction in the proposed local council tax scheme will increase the overall level of council tax to be collected by the council in the region of £1.3 million.

To account for the additional work involved in the billing, recovery and customer enquiries generated it is estimated that an additional 4 full time equivalent staff will be required. With the Revenues and Benefits service operating in partnership with Tunbridge Wells Borough Council the additional cost to Maidstone Borough Council is estimated at £85,000.

This additional cost will be met in full through a joint contribution by Kent County Council, Kent Fire and Rescue and Kent Police should the Council progress Option 6.

iii. Legal

The legal implication of the change is covered within the body of the report.

The report seeks to obtain Cabinet approval regarding the principle of the scheme which the Council should progress to consultation stage. The final recommendation and decision are to be made by the Full Council following the outcome of the public consultation.

iv. Equality Impact Needs Assessment

An interim assessment has been undertaken of the options available to inform the recommendation made. A further assessment will be undertaken following the response to the consultation and a final decision being sought by Full Council.

v. Human Rights Act

The proposed changes have the potential to materially impact on individuals and families through the reduced support available in the form a Local Council Tax Discount.

Consideration has therefore been given regarding the impact on Human Rights with particular emphasis given to the impact on; respect for private and family life, protection from discrimination and protection of property.

The proposed scheme is considered to provide the appropriate balance in supporting those residents requiring support through the scheme and the wider public interest of residents and services within the Borough.

### Conclusions

The localisation of the council tax benefit scheme forms part of the Government's wider welfare reform agenda and represent a considerable financial and social challenge, impacting on residents, the Borough Council and Major Precepting Authorities. The policy intention of the change is to create links and incentives for the Council to reduce benefit dependency and focus attention on economic prosperity and job creation.

The timeframe for implementation and reduction in funding, limit the level of any change to be implemented, with all options initially to have a level of adverse impact on benefit recipients, the Borough Council and Major Precepting Authorities. The challenge for the council is to introduce a scheme that limits the short term financial impact on residents and administering bodies, whilst developing longer term strategies to reduce benefit dependency in the Borough.

It is considered that option 6 provides the best balance in terms of protecting households that are currently in receipt of council tax benefit from the full level of reduction, whilst recognising the need for the Borough Council and Precepting Authorities to manage the financial risk and impact that it could have on the council tax payer and key local services.

b. Relevant Documents

i. Appendices

APPENDIX A - Options 1 to 6  
APPENDIX B – Case Studies  
APPENDIX C – Financial summary

ii. Background Documents

DCLG Publications and Guidance:-

Statement of Intent  
Funding Arrangements Consultation  
Taking Work Incentives into Account  
Vulnerable People – Local Authority Duties



**IS THIS A KEY DECISION REPORT?**

Yes

No

If yes, when did it first appear in the Forward Plan?

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This is a Key Decision because:

The introduction will have a significant bearing on the 5,500 residents currently in receipt of council tax benefit and the future financial standing of the Council.

Wards/Parishes affected:

The changes impact on residents throughout the Borough and Council Tax Base used to determine Parish precepts.