

## Cabinet

12 September 2012

### Local Council Tax Support Scheme and Review of Discretionary Council Tax Discount on Unoccupied Properties



CORP/R/12/01

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#### Purpose of the Report

- 1 To set out a proposed Local Council Tax Support Scheme to be implemented from 1 April 2013.
- 2 To propose a number of technical changes to Council Tax discounts on empty properties in order to generate additional council tax income for the Council with effect from 1 April 2013.

#### Background

- 3 The Welfare Reform Act 2012 abolished the national council tax benefits system (CTB), paving the way for new Local Council Tax Support Schemes (LCTSS) to be introduced under the auspices of the Local Government Finance Bill. The main proposals are as follows:
  - (i) the Government has stated it has two underlying principles underpinning its approach to the localisation of Council Tax Benefits in England:
    - Localised schemes should provide support for the most vulnerable, including vulnerable pensioners.
    - Localised schemes should assist with lifting the poorest people of working age, off benefits and supporting them into work.
  - (ii) by localising Council Tax Benefits, the Government believes this will provide local authorities with a financial stake in ensuring these two policy aims are successfully supported;
  - (iii) the LCTSS is to be implemented from April 2013, with Councils required to formally approve their local schemes by 31 January 2013;
  - (iv) the Government will introduce a new un-ring fenced grant equal to 90% of forecasted council tax benefit funding levels had the existing benefit system continued into 2013/14. The new grant will be based on the Office of Budget Responsibility's (OBR) forecast of the level of CTB

that would have been awarded in 2013/14 under the current regime, taking into account the forecast for economic growth contained in the March 2012 Budget, plus assumptions on Council Tax increases across this period. The Council will be responsible for the costs of any increase in caseload or costs above the OBR forecasts, as the level of Government support will be fixed for a number of years.

- (v) early indications are that the OBR forecasts are assuming a reduction in caseload going forward. In Durham, our caseload is actually increasing as is the case in other local authorities in the region, reflecting the relatively worse economic conditions in this area compared to most other areas in the country.
  - (vi) the loss of benefit subsidy from the Government and replacement with a discount under the new scheme will result in an estimated 20% reduction in the Council's council tax base (currently 157,295.3 band D equivalent properties). The consequential reduction in council tax income will be offset by the receipt of the LCTSS grant funding (less the 10% cut), which is to be included within the new Business Rates Retention funding scheme.
- 4 Cabinet received a report on progress on developing a LCTSS for Durham on 18 April 2012. To achieve a financially neutral position for the Council, the new scheme would need to reduce payments to working age benefit recipients by circa £5.5m in total, taking into account the level of precepts levied by Police, Fire and local Town and Parish Councils.
- 5 Given the Government requirement for pensioners in receipt of CTB are to be fully protected under the new scheme, and taking into account that pensioners account for 50% of current payments in County Durham, working age claimant CTB awards would therefore need to reduce by circa 20% to achieve a cost neutral position – assuming that these council tax sums were all to be fully recoverable. If the cut in grant is passed on via the LCTSS, causing working age benefit claimants to become liable to paying council tax, then estimated non-payment within this cohort would be significantly higher than the current 1.5% non collection estimates and therefore would need to be built into our financial forecasting.
- 6 If the Council were to adopt a cost neutral local scheme, at Band A, a working age council tax payer currently in receipt of full CTB would receive a Council Tax bill of c£250 a year. Transaction costs involved in collecting these relatively modest sums would be comparably significant and disproportionate, with significant provisions for bad debt having to be assumed.
- 7 In addition to the introduction of LCTSS, the Government is proposing to allow Councils to change discount awards relating to three classes of empty property discounts, which are currently subject to statutory limitations. These discretions will be available from 1 April 2013 where the Council would be able to reduce the discount currently awarded to a property where it qualified for a discount under the legislative classifications of Class A, C and L:
- (i) Class A relates to properties which are empty, unfurnished and undergoing major structural work to make them habitable. Currently,

properties falling within Class A are exempt for a maximum period of 12 months after which time, Council tax is charged at 100%. The Government is proposing to allow discretion over the amount of discount awarded, including the ability to withdraw the discount in full, but no discretion to vary the 12 month qualifying period;

- (ii) Class C relates to properties which are empty and unfurnished. Currently, properties falling within Class C are exempt for a maximum period of 6 months after which Council tax is charged at 100%. The Government is proposing to allow discretion over both the amount of discount awarded, including the ability to withdraw the discount in full, and the ability to vary the level of discount over time;
- (iii) Class L relates to properties which have been repossessed by banks and building societies due to defaults on mortgages and are unoccupied. Currently, properties falling within Class L are permanently exempt until the property is sold or let. The Government is proposing to allow discretion over the amount of discount awarded, including the ability to withdraw the discount in full.

8 The Government is also proposing that the Council will be allowed to reduce or remove the current 10% discount awarded to second homes and to charge an empty property premium on properties that are long-term empty (i.e. 2 years or more) of up to 150% of the full council tax.

9 These technical reforms of council tax are in line with the Government's policy aims - that all unoccupied properties should be subject to a higher Council Tax charge to encourage the owners of these premises to bring them back into use. They also support the reasons for the previous decision by the Council to reduce the discount awarded to long term empty properties from 50% to 0% with effect 1 April 2012. One of the beneficial effects of implementing these changes in Durham will be for more empty properties to be sold or let more quickly which is in line with the Council's Empty Property Strategy.

### **Local Council Tax Support Scheme**

10 The potential implications of the LCTSS are far-reaching and should not be under-estimated:

- the Council will need to decide which groups of working age, low income households will experience the largest increases in their Council Tax liability. This will inevitably result in increased financial hardship in these households and reputational issues for the Council;
- Council Tax collection costs would rise and collection rates would fall as the Council attempts to collect council tax from the most disadvantaged, a scenario not dissimilar to that experienced in the collection of the community charge in the early 1990's. This will impact on the Council Tax base thereby potentially increasing council tax charges for all council tax payers or alternatively, leading to a cut in other council services;

- whilst the Government has indicated that the new LCTSS grant may remain unchanged for only 2 years, with the intention of incentivising Councils to influence job creation and getting people back into work, the likelihood is that claimant volumes will change from year to year. Where they increase due to higher unemployment, successful take-up campaigns and increasing incidence of retired population the financial risk of increased council tax support costs will lie solely with the Council, not Government;
  - the level of future funding from government is uncertain, particularly when this is subsumed into formula grant from 2014/15 onwards;
  - the Council is expected to consider and fund itself, any contingency arrangements for unplanned increases in demand and take-up;
  - the extremely tight timescale to introduce a LCTSS, given its importance and complexity that will impact on a very large number of the most vulnerable council tax payers in County Durham will be extremely challenging, with any proposals needing to be consulted upon with local stakeholders. ICT software and other systems and processes need to be redesigned and tested.
- 11 There are currently c64,000 CTB claimants in receipt of c£55m of CTB entitlement in 2012/13. The £55m equates to approximately 20% of the current total council tax liability to be collected in 2012/13. Around 50% of the claimants are pensioners, who must be fully protected under the new legislative changes.
- 12 Of the c31,500 working age claimants c70% relate to 'passported' benefit claimants, that is claimants who automatically qualify for council tax benefit (usually at 100%) due to being on Income Based Jobseekers Allowance; Income Related Employment and Support Allowance and Income Support. Using the current CTB awards, and assuming no change in caseload, it has been possible to calculate the impact of the transfer from a benefit payment to a LCTSS discount which impacts upon the county wide council tax base and therefore the amount of income raised from council tax payers, assuming that the reduction is not passed on to working age benefit claimants through a consequential reduction in their council tax benefit entitlement.

### **Protection for Parish and Town Councils**

- 13 On 28 August, the Government published a new consultation document, amending the proposals published on 17 May. The Government is now proposing to protect parish and town councils from the impact of the introduction of the LCTSS. If adopted, this would mean that town and parish council tax bases would not reduce and the Council would effectively have to maintain two council tax bases.
- 14 The consultation period for this proposed change ends on 9 October and should this late change manifest itself into legislation, there will be a detrimental financial impact on the Council, the Police Authority and Fire Authority budgets from 2013/14.

- 15 The original proposals would have impacted on Council Tax yield in respect of town and parish councils to the value of c£3m, with the Government providing LCTSS grant to the Council of £2.3m with the expectation that the Council would agreed to pass this onto local town and parish councils. Much of the detail on how this change will work through is still to be clarified at this time, however, it seems likely that the shortfall (c£700k) will now rest within the Collection Fund and have to be made good by the Council and potentially its major precepting bodies, increasing the financial detriment and burdens faced by the Council and the Police / Fire authorities as a result.

### Forecasted Benefit Caseload from 2013/14 and Financial Impact

- 16 In modelling the LCTSS it would also be prudent to make provision for an increase in caseload in 2013/14. The Office of Budget Responsibility (OBR) estimates, which will inform the new grant, are based on national trend data and will not be adjusted to reflect local economic circumstances, save for the starting point being adjusted to reflect the outturn 2011/12 subsidised council tax benefits expenditure. The OBR methodology is based on:
- (i) Forecast national changes in the number and mix of households that would have been claiming CTB in 2013/14. In general the OBR expects there to be a reduction in numbers claiming passported benefits (due to the combined impact of forecasted economic growth and the forecasted reduced worklessness numbers from the new welfare reform agenda) and in pensioner numbers but an increase in numbers of low income earners i.e. fewer people on full council tax benefit but an increase in people on partial benefit;
  - (ii) An underlying assumption that the total number of claimants has already peaked and that local authorities will pass on the 10% grant cut through reducing entitlement to working age claimants;
  - (iii) Provision for assumed council tax increases up to and including 2013/14, though these assumptions have not yet been published; and
  - (iv) Modelling the annual totals of claimant and annual expenditure flows over four separate quarters.
- 17 The current OBR estimates of national council tax benefit expenditure, are set out below:

Year	Assumed Number of Claimants '000	% Change Year on Year	Value of CTB Expend. £m	Ave. Value per Claim £	% Change Year on Year
2010/11	5,805	N/a	4,799	827	N/a
2011/12	5,882	+1.3%	4,802	816	-1.3%
2012/13	5,849	-0.6%	4,761	814	-0.3%
2013/14	5,713	-2.3%	4,235	741	-9.0%
2010/11 to 13/14	N/a	-1.6%	N/a	N/a	-10.4%

- 18 Clearly, the situation in each region and within each local authority area will be different. For example, the average value per claim in 2011/12 in County Durham was £827 compared to the national average of £816. In addition, the

economic prospects and growth in the County may not be in line with the National forecasts on which the OBR have modelled the grant allocations.

19 In order to successfully plan for the implementation of the LCTSS and cover the potential increasing cost of local council tax support, a prudent 5% growth in the number of claimants is suggested for 2013/14 budgeting purposes. This assumption may need to be revisited if a sharp, economic downturn is realised as a result of national or international issues. Some relevant points are illustrated below:

- Whilst 5% is more than double the current trend growth - DCC linear trend projections indicate that the number of claimants in County Durham will grow by 2.2% to the end of 2014 - the Council needs to have sufficient provision for increases in demand and take-up, given that the financial risks inherent in the LCTSS will lie with the Council from 2013/14 onwards;
- Over the last two years the trend in claimant growth has been relatively flat. The numbers of claimants in March 2012 were the same as they were in March 2010. Numbers did fluctuate month to month and peaked at almost 65,000 in the winter of 2010/11 before declining again. In recent months claimants have risen slightly – currently standing at c64,000;
- It is not possible to accurately predict whether the Council will see an increase in caseload, and therefore costs, as a result of the move to the LCTSS scheme – a discount against the council tax bill rather than a benefit payment. DWP research in 2009/10 showed that as many as 3 million people (around 30%) who would be entitled to CTB did not claim. To what extent this is due to the fact that CTB is a benefit or because the claim is means tested and requires the disclosure of personal information including bank statements etc in order to be processed is unknown; and
- Within the wider Welfare Reforms, one of the policy aims of which is to increase access to benefits, may also have an impact on demand for the Councils LCTSS, given that this will no longer form part of the Universal Credit calculation.

### **Local Scheme Design**

20 The Local Council Tax Support Scheme that the Council adopts can vary from passing on the full reduction in Government grant, which will mean working age council tax benefit claimants would have to pay at least 20% of their council tax bills, to adopting the Government's default scheme, where current claimants would receive the same support in 2013/14 as in the current year.

21 There are advantages and disadvantages to each approach. Should the Council decide to pass on the reduction, working age claimants could experience significant increases in their Council Tax liability, which in turn could lead to financial hardship and collection issues with potential further financial pressure to claimants where they will be impacted by the welfare reform agenda from October 2013.

- 22 However should the Council decide to adopt the Government's default scheme, which does not pass on the grant reduction to the claimants it would leave the Council a funding gap of £4.6m in 2013/14 budget.
- 23 The extremely tight timetable to introduce a local scheme does not allow for a full understanding of the impact of the forthcoming welfare reform agenda. An option therefore would be for the Council to adopt the default scheme in 2013/14 to allow more time for a full understanding of the impact of localisation of council tax support along with the welfare reform agenda including the introduction of universal credit in October 2013.

### Technical Reforms of Council Tax

- 24 The table below shows the value of discounts awarded under Class A; C and L, plus the 10% second homes discount awarded in 2011/12. The table also includes the number of long term empty properties (over two years) last year and the estimated additional Council Tax that could be generated from applying a 50% premium / additional charge to these. These figures are broadly in line with the levels awarded in previous years and as such can be relied on for modelling purposes at this stage:

<b>Class of Exemption</b>	<b>£000</b>	<b>No. of Awards</b>
Class A	488	1,116
Class C	4,682	24,896
Class L	272	727
Second Homes	224	4,597
Long Term Empty	1,200	1,861
<b>Total</b>	<b>6,866</b>	<b>33,197</b>

- 25 Removing the full discount from Classes A, C, L, the remaining 10% discount on Second Homes and charging an empty property premium on properties that are long-term empty (i.e. 2 years or more) of up to 150% of the full council tax has the potential to generate an additional £6.866m in gross Council Tax income, impacting on c33,200 properties / council tax payers. However, these figures take no account of the additional challenge in collecting Council Tax on these empty properties plus the increased numbers of tax payers who would qualify for hardship relief from the council tax charges on empty properties. The net council tax income after taking into account non collection and additional hardship relief qualifiers would be less than the £6.866m..
- 26 Withdrawing all the discounts awarded at Class A, C and L, plus removing the remaining 10% discount of second homes and charging an empty property premium on properties that are long-term empty (i.e. 2 years or more) of up to 150% of the full council tax would increase the Council Tax Base and generate additional Council Tax, broadly in line with the net impact of the introduction of the Government's default scheme for LCTSS and cover the cost of the proposed changes to funding of parish and town council precepts published on 28 August. This would therefore have a neutral impact on the

2013/14 budget forecasts as part of the Council's medium term financial plan 2013/14 to 2016/17 (MTFP 3), with the cost of one policy decision effectively cancelling out the cost of the other.

- 27 Withdrawing or reducing these discounts will have a beneficial impact on parish and town council precepts through an increase in council tax base in these areas should the proposed changes to funding of parish and town council precepts become enacted in legislation. The impact at an individual parish area will vary significantly, based on the current profile of discounts awarded across each parish area and are still being worked up.

### **Hardship Relief**

- 28 If the decision was made to withdraw or reduce the current policies with regards to Class A, C and L; remove the remaining 10% discount on second homes; and to charge an empty property premium on properties that are long-term empty (i.e. 2 years or more) of up to 150% of the full council tax, the current Hardship Relief Policy, including the arrangements for raising awareness of and access to it, would need to be reviewed to ensure that tax payers facing financial hardship as a result of the proposals set out in this report are afforded support where necessary.
- 29 The Hardship Relief Policy, which is underpinned by a financial assessment of the income of individuals, would be a key mitigation tool for the Council. Any increase in awards would inevitably result in a loss of council tax income and a prudent estimate would need to be built into the forecasts / MTFP in recognition of this.
- 30 During the coming months officers will consider how the existing policy could be revised, extended and promoted, with an updated policy being put in place in advance of the implementation of the new arrangements. Further work will also be undertaken to baseline potential increases in awards and impact on the Council Tax revenues that could be generated from the withdrawal of the discounts.

### **Financial Implications**

- 31 On 17 May 2012, the Government published indicative LCTSS grant allocations for 2013/14, based on the OBR forecasts of what would have been council tax benefit expenditure in 2013/14 had the current scheme continued, less the 10% cut, but factoring in assumed council tax increases up to 2013/14. These indicative grant allocations, will be updated in the Autumn based on 2011/12 subsidised council tax benefit expenditure levels and updated OBR forecasts.
- 32 The Government is proposing to provide the Council with an equivalent grant sum for LCTSS relating to Town and Parish Councils as it does not have the powers to grant fund these bodies direct. This is the main reason for the Government's recent consultation document proposing to protect parish and town councils from the impact of changes included in the LCTSS, where their respective council tax bases are to be excluded from the impact from moving from a benefit to a discount.



- 33 If the parish and town councils are to be protected from the implications of the LCTSS at a detrimental cost to the Council and potentially the Police and Fire authorities of c£700k in total and since they will all benefit by way of increased council tax base from the removal of council tax discounts, the Council could, as part of the consultation process, look to negotiate the removal of the existing 'double taxation' grants to parish and town councils amounting to £250k per annum.
- 34 Introducing the Government's default LCTSS and withdrawing the discounts awarded at Class A, C and L; removing the remaining 10% discount of second homes plus charging an empty property premium on properties that are long-term empty (i.e. 2 years or more) of up to 150% of the full council tax, would give the Council the potential for a cost neutral position for 2013/14. Should this be agreed, the situation would need to be continuously reviewed during 2013/14 as this may not be a sustainable financial position going forward into MTFP (4) and beyond given the uncertainty and financial burdens and risks around potential increased demand for the LCTSS and the future financial outlook in terms of the wider austerity measures facing the Council over the medium term.

### **Equality and Impact Assessment**

- 35 The Equality Act 2010 aims to advance equality of opportunity and provide protection from discrimination for people based on their 'protected characteristics'. We are legally required under the public sector equality duty (PSED) to have due regard to the need to:
- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act;
  - advance equality of opportunity between people who share a relevant protected characteristic and those who do not; and
  - foster good relations between those who share a relevant protected characteristic and those who do not.
- 36 In relation to the LCTSS, this means that the Council needs to take account of the available data and broader evidence to actively consider how the scheme might affect people who share a relevant protected characteristic and people who do not share it. The PSED does not prevent public authorities making difficult decisions but we must ensure that the decision making process is fully informed by equality impacts and, where there is potential for negative impact, full consideration is given to mitigating actions and implementation of the final decision can be clearly justified.

### ***Government Equalities Impact Assessment (EIA)***

- 37 The Government EIA was published in January 2012 and is relatively brief. It considered equality impacts in relation to age and disability, concluding that protection for pensioners would be a positive impact and the effects on disabled people would depend on how each local authority responded to the reduction in council tax support. No impacts were identified in relation to gender or ethnicity and no other protected characteristics were considered

and it was left to individual councils to identify full local impacts, based on local implementation.

***Durham County Council LCTSS Equalities Impact Assessment: Summary***

- 38 An initial equality impact assessment for the local implementation of the national LCTSS proposals was undertaken in February 2012. The equality impact assessment has been updated and refined as part of the modelling work and the latest draft is attached at Appendix 2.
- 39 The equality impact assessment considers:
- the impact should the council decide to protect the financial position of all claimants by adopting the default scheme in 2013/14;
  - the impact should the council decide to pass on the reduction to working age claimants.
- 40 The assessment does not consider alternative ways of passing on differential reductions to some groups of working age claimants. Protecting council tax support for some working age claimants would require problematic judgements on entitlement and determining which groups were most vulnerable.
- 41 Should the default scheme be adopted as our local scheme, then there will be no negative equalities impact, with the financial position of claimants protected in 2013/14, and the position to be revisited next year once the wider impact of the new council tax support scheme and welfare reform are better understood. On the positive side, the move to a discount rather than a benefits payment may improve take up amongst older people as there is some evidence to suggest some feel a stigma associated with claiming a benefit which reduces take up.
- 42 Should the Cabinet decide against adopting the default scheme in 2013/14, and elect instead to pass on the reduction in funding to working age claimants, there is a range of potential negative equalities impacts. The main impact for working age claimants would be financial as they would need to fund the 20% difference against their current entitlement. For some this may be a significant amount of their household income which could lead to additional negative impacts including:
- Health / wellbeing as a result of stress or anxiety over financial difficulties;
  - Housing where people are unable to meet other costs as a result of increased council tax contributions or look to move to cheaper alternative accommodation, whilst this is relatively unlikely it is still a potential impact to be considered;
  - Legal action as a result of not paying council tax can have a negative impact both in terms of additional costs and stress but also potentially in relation to employment.

- 43 These impacts are possible across all protected characteristics but are most likely in relation to gender, age and disability with limited potential impacts for race / ethnicity and sexual orientation. There is no evidence available at this stage to show potential impact on transgender status, religion or belief. Further details are provided within the attached full equalities impact assessment.
- 44 There would be a positive impact on older people as a result of protecting pensioners; in County Durham this will benefit older women particularly as there are a greater number of older women in the population than older men. Additionally, there may be positive impacts where working age people are encouraged to find employment, whilst this is the Government's stated aim there is little evidence locally to support it. Some claimants may seek additional income from other benefits or use other services to help deal with the changes; this could have a positive impact where people take up entitlements for which they are eligible but do not already receive them.
- 44 The equality impact assessment does not include cumulative impacts of the Government's other welfare reforms but the combined financial effect could be significant for some people.

***Durham County Council Technical Reforms of Council Tax EIA: Summary***

- 45 An equality impact assessment of the impact of withdrawing or reducing discounts from Classes A, C, L; the remaining 10% discount on Second Homes; and charging an empty property premium on properties that are long-term empty (i.e. 2 years or more) of up to 150% of the full council tax has been undertaken and is attached at Appendix 3.
- 46 There is potential for financial impact on some individuals who will be required to pay more or are exempt for shorter periods. However there is limited evidence available relating to individuals so it is not possible to specify which equality groups are particularly affected.
- 47 Some empty properties are owned by organisations and landlords with multiple properties but some may be owned by individuals from particular equality groups. No equality data is collected for these exemptions so it is not possible to assess whether some groups are more numerous under the three exemptions than other groups. In respect of Class L exemptions for repossession there are some sources of evidence which can be used to make assumptions, for example national research by Shelter suggests that women who go through divorce, separation or death of a partner are more likely to suffer financial hardship and be at risk of losing their home through repossession than men in the same situation. Local data on homelessness support shows a higher proportion of women receiving help as a result of mortgage arrears or repossession.
- 48 The existing mitigating action of a hardship relief policy will continue whatever the outcome of this proposal, and the policy is to be reviewed to consider how it can be extended and promoted. In cases of demonstrable financial hardship, discounts of up to 100% can be granted where the local authority is satisfied that the liable person of an empty domestic property has made their best efforts to sell or let the property and to levy a council tax charge would

cause exceptional financial hardship. In addition there is a range of other exemptions which will continue to apply and mitigate the financial impact on vulnerable people, including properties where the individual has gone into a hospital or care home, moved away to receive or provide care or where the individual has died.

## Consultation

- 49 When introducing its proposals for the Local Council Tax Support Scheme, the Government published associated guidance setting out the need for consultation. The guidance states:

*'If a billing authority actively intends to adopt a reduction scheme, (as it should, in order to comply with the duty in section 13A(2) of the Local Government Act 1992, substituted by clause 8), no matter what the content of that scheme is (and even if it is the same or substantially similar to the default scheme) then it is a local scheme. The billing authority is therefore obliged to consult with major precepting authorities, publish a draft scheme and consult with such other persons it considers are likely to have an interest.'*

- 50 Consequently, although the recommendations set out elsewhere in this report are to implement a scheme that would retain the same level of support to Council Tax Benefit recipients as the current Council Tax Benefit Scheme, consultation is required before agreeing and publishing the scheme which the Council will put in place for 2013/14.

- 51 With regard to the proposed technical reforms of Council Tax, normally there is no obligation to consult on a proposal to remove discounts on Council Tax. However, given the direct link in the proposals set out in this report between the need to finance the proposed Local Council Tax Support Scheme in 2013/14 and the removal of currently available Council Tax discounts, for these particular circumstances, a consultation plan has been developed seeking views on both aspects of the overall proposal. When developing this approach, the plan makes it clear that these are exceptional circumstances and consultation on technical changes to Council Tax would not normally be required if these are made in isolation to other policies and service changes.

- 52 A copy of the Consultation Plan is available in the Members' Library and it recommends the key consultation period takes place between 13 September, and 26 October, 2012. This period builds on an earlier phase of consultation, primarily with our precepting authorities, that has helped shape the proposals set out in this report. This phase is also detailed in the plan.

- 53 The consultation will set out the Council's overall approach for establishing and funding a LCTSS scheme as detailed in this report and will provide an opportunity to comment on the proposals and to highlight any potential implications on individuals and agencies of progressing with the scheme. The key elements will include:

- an online questionnaire;
- a presentation to the Durham branch of the national Landlords Association and Durham Social Housing Group;

- holding a focus group with a range of current working age Council Tax Benefit recipients; and
  - targeted correspondence to the key organisations that offer welfare advice in the County.
- 54 During this period, meetings will also be held with the major precepting authorities to seek their views on the proposals as well as attending the County Durham Association of Local Councils and targeted correspondence to each town and parish council.
- 55 In addition to seeking views on the proposed Local Council Tax Support Scheme and technical reforms to Council Tax, the consultation with town and parish councils will also seek views on:
- the new consultation document published by the Government on 28 August which proposes to protect parish and town councils from the impact of changes included in the LCTSS where their respective council tax bases are to be excluded from the impact from moving from a benefit to a discount; and
  - the proposal to withdraw the £250,000 “double taxation” grant.
- 56 The findings of this consultation will then be used to help formulate the final proposals for a Local Council Tax Support Scheme and the review of discretionally Council Tax discounts that will be considered by Cabinet in December.

## **Summary**

- 57 The Government is abolishing the national Council Tax Benefits system and introducing the requirement for Councils to develop, publish and consult, then approve (by 31 January 2013) and implement Local Council Tax Support Schemes from 1 April 2013. Government support to the new scheme will be fixed and equate to 90% of the forecast CTB costs in 2013/14, whereas the under the current system as claimant numbers (and cost) increase or decrease so does Government support.
- 58 The new scheme must fully protect pensioners, with any reductions in entitlement being borne by working age claimants. In County Durham c50% of current CTB claimants are pensioners, meaning that working age claimants, face a c20% reduction in entitlement if the grant cut is passed on through a new LCTS scheme.
- 59 As part of its Technical Reforms of Council Tax, the Government is proposing to provide increased discretion to change discount awards relating to three classes of empty property discount, which are currently subject to statutory limitations, plus the ability to charge a premium (up to 50% extra) on long term empty properties and the ability to remove the discount on second homes.
- 60 These discretions would be available from 1 April 2013. In terms of Class C exemptions, the Government is also providing discretion over the qualifying period for the discount.

- 61 The introduction of the new LCTSS will have the effect of reducing the Council's tax base, whereas any reduction or removal of discounts and exemptions will increase the tax base.
- 62 The Government has published proposals to financially protect Parish and Town Councils from the impact of the local council tax support scheme, which will result in a further "cost shunt" to the Council and the police and fire authorities.
- 63 Withdrawing discounts awarded at Class A, C and L; removing the remaining 10% discount of second homes and charging an empty property premium on properties that are long-term empty (i.e. 2 years or more) of up to 150% of the full council tax would increase the Council Tax Base and generate additional Council Tax, broadly in line with the net impact of the introduction of the LCTSS. This would therefore have a neutral impact on the 2013/14 budget, with one policy decision effectively cancelling out the impact of the other.
- 64 The Council and its major precepting authorities (the Police and Fire authorities) are to receive a new un-ringfenced grant in 2013/14, equal to 90% of the Governments forecast of what would have been CTB entitlement in 2013/14 had the current scheme continued. The forecasts are based on national trends and OBR estimates and as such may not reflect local circumstances in County Durham.
- 65 The Council's grant will include a sum relating to 90% of the Town and Parish element of the OBR forecast of current CTB expenditure and the remaining 10% will become a cost to the Council, Police Authority and Fire Authority. This cost could be offset in part by the removal of the current £250k "double taxation" grant paid to Town and Parish Councils, who would potentially receive an increase in their taxable capacity as a result of the proposed reductions in discounts set out in the report, and this will be considered as part of the planned consultation process.

### **Next Steps**

- 66 The proposals set out in this report will be subject to consultation, in accordance with the consultation and communication plan. The outcome of the consultation will be reported to Special Cabinet on 19 December 2012, before the LCTSS is formally considered and approved by Council on 9 January 2013.

### **Conclusions**

- 67 There is a statutory requirement to publish and consult on the Council's proposals with regards to the new LCTSS and the proposal is to publish and adopt the Government's default scheme, which seeks to maintain the current levels of support for 2013/14 only.
- 68 The Government is proposing to allow the Council to withdraw the discounts at Class A; C and L; remove the current 10% discount on second homes; and to charge an empty property premium on properties that are long-term empty (i.e. 2 years or more) of up to 150% of the full council tax.

- 69 There are a number of risks associated with the new LCTSS, not least of which is increased take-up and the consequential transfer of risk to the Council, plus the associated ICT software and systems related costs and issues. The financial risks to the Council have increased as a result of the consultation paper on town and parish protection published on 28 August 2012.
- 70 The proposals set out in this report represent a pragmatic response to the challenges faced by these changes; however, the scheme will be kept under continuous review in terms of affordability and sustainability during 2013/14. Any changes to the LCTSS will need to be consulted on and, should any changes be proposed, a report would need to be brought back to Cabinet in September 2013 before embarking on consultation in Autumn 2013.

## **Recommendations**

- 71 It is recommended that Cabinet agrees:
- (i) To undertake consultation on introducing a Local Council Tax Support Scheme from 1 April 2013, and the associated reforms to council tax, that retains the same level as support to council tax payers as the current Council Tax Benefit Scheme (as set out at Appendix 4);
  - (ii) That the Scheme be initially introduced for one year only and be kept under continuous review with a further decision to be considered by Cabinet in September 2013;
  - (iii) To delegate approval for the Corporate Director of Resources, in consultation with the Portfolio Holder for Resources, to revise and update the Council's Hardship Relief Policy;
  - (iv) To undertake consultation with the Town and Parish Councils on the Government's proposals to financially protect them from the impact of the local council tax support scheme and the potential detrimental financial impact this will have on the Council from 1 April 2013. The potential removal of the current £250k "double taxation" grant paid to Town and Parish Councils will be considered as part of the consultation process.

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## **Background Papers**

- Welfare Reform Act 2012.
- Localising Support for Council Tax & Technical Reforms of Council Tax – CLG Consultation Papers & Statements of Intent:  
<http://www.communities.gov.uk/localgovernment/localgovernmentfinance/counciltax>
- Localisation of Council Tax Benefit: Introduction of the Local Council Tax Support Scheme – Report to Cabinet 18 April 2012.

- Welfare Reforms – Report to Cabinet 30 May 2012.
- Localising Support for Council Tax - Council Tax Base and Funding for Local Precepting Authorities: Government consultation dated 28 August 2012
- Local Government Act 2003 and the subsequent regulations; the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003



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## **Appendix 1: Implications**

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### **Finance**

The Council needs to adopt a LCTSS scheme by 31 January 2013, effective from 1 April 2013. The Council will receive a 90% un-ring fenced grant based on OBR estimates of what would have been its CTB spend in 2013/14. The grant will be fixed for a number of years. Indicative grant allocations were published on 17 May, 2012, but will not be firmed up until the Autumn.

The Council's budget strategy to date has been to pass on any cuts in Government Grant to council tax payers by reducing services accordingly, to achieve this working age claimants would face a 20% reduction in current entitlement in 2013/14.

The Council needs to develop a local scheme, based on its own policy objectives, but reflective of protections afforded to vulnerable clients such as pensioners, who are to be protected on existing criteria.

The Council will be subject to greater financial risk as a result of the proposed changes.

The Government is also providing increased discretion with regards to a range of discounts, providing the opportunity to amend these to increase taxable capacity through its Technical Reforms of Council Tax.

Forecasts of caseload / take up of the new LCTSS will be crucial to financial modelling, as will any reduction in collection rates. This could impact on the collection fund which would mean an increase in council tax charges or a corresponding further cut in services.

### **Staffing**

An increase in council tax recovery staff may be required as a result of these changes.

### **Risk**

The report outlines a range of financial risks surrounding the implementation of the Governments proposals. The most significant concerns at this stage are with regards to the ability to achieve an implementation date of 1 April 2013, given the associated consultation requirements and systems upgrades in order to implement the changes.

### **Equality and Diversity / Public Sector Equality Duty**

The benefits service provides a service to vulnerable client groups. These include some of the protected characteristics as defined by the Equality Act 2010 such as people with a disability and older persons. Full equality impact assessments have been completed and will be kept under constant review /update.

### **Accommodation**

None

## **Crime and Disorder**

Any reduction in Council Tax support, alongside other welfare changes could see an increase in crime if customers seek to increase their income to make up for the benefits lost. The proposals set out in this seek to protect current entitlement in 2013/14 and as such have no implications, though the impact of the wider welfare reforms agenda will need to be kept under constant review.

## **Human Rights**

None

## **Consultation**

A two phase consultation process has been planned. In Phase 1, which commenced in May and runs up until Cabinet in September, the Council has been working with and sharing information with its precepting bodies, including the Police, the Fire Authorities and the Town and Parish Councils. There will be two consultation objectives; firstly identifying and understanding the potential impacts of the changes on the preceptors and secondly, raising awareness.

This phase has provided information about how and when we will consult and enable early discussions to take place with key stakeholders.

In Phase 2 the consultation will be on the proposed LCTSS and the withdrawal of discounts for Class A, Class C and Class L properties from 1 April 2013, plus removal of the remaining 10% from second homes and introduction of a 150% charge on long term empty properties (empty for more than 2 years), as set out in the report. This phase will run from 13 September 2012 to 26 October 2012 and during this time we will work with those who could be directly impacted upon by the proposed scheme as well as representative organisations.

The consultation objectives will be to:

- Publicise and seeks views on the proposed Local Council Tax Support Scheme for County Durham and the withdrawal of discounts as set out in the report
- Identify impacts on individuals and any particular group or organisation from these policy changes

This public consultation will ensure feedback can influence the scheme, allow sufficient time for feedback to be gathered, impacts to be understood, and a final scheme to be shaped. Cabinet (19 December) will consider the outcome of the consultation and (a) make decisions with regards to the amendment of discounts (b) make recommendations to Council in January 2013 in respect of the LCTSS.

## **Procurement**

None

## **Disability Discrimination Act**

See above.

## **Legal Implications**

The LCTSS will need to be adopted by 31 January each year and will be required to meet the requirements as set out by the legislation. If a Council does not adopt a local scheme then the default position will be that the national default scheme is enforced, whereby entitlement will be in line with the existing scheme. The proposals set out in this report are based on statements of intent and consultation papers published by CLG up to 31 August 2012.

The proposed Technical Reforms of Council Tax are currently subject to ongoing CLG consultation. Final decisions on the withdrawal or amendment of these discounts can only be taken once the CLG publishes its final proposals and regulations / legislation is passed to provide the Council with the necessary powers to amend.