

LOCAL COUNCIL TAX SUPPORT SCHEME

Report of the Director & Company Secretary

1. SUMMARY

As part of the welfare reform programme, council tax benefit is being localised but in the case of Derby with only 86% of the current funding attached. The Council has consulted over its proposed scheme for households of working age. Following consultation with the Chair of the Board, the attached response was sent on behalf of Derby Homes.

2. RECOMMENDATION

To note the response.

3. MATTER FOR CONSIDERATION

- 3.1 The Council Tax has been the principal local income collection stream for councils from 1993. Since then it has been mirrored by a rebate scheme operated by the council but conforming to national rules and with the expenditure fully re-imbursed by central government. As part of the welfare reform programme, council tax benefit is being localised but with only 90% (average) of the funding attached.
- 3.2 Derby City Council expects to receive less than 86% of its current expenditure. As persons over above working age are required to be protected, each council needs to devise a scheme of entitlement, effective April 2013, for people of working age that is containable within the available budget.
- 3.3 Hitherto, lowest income households have received 100% rebates but the funding shortfall will require these working age residents to make a contribution in most council areas. Similarly, households who have received partial help will often receive less in future.
- 3.4 The Council has held a public consultation over its proposed scheme. As the closing date was 30 October 2012 the attached response was sent on behalf of Derby Homes, following consultation with the Chair.

4. CONSULTATION IMPLICATIONS

None directly. The response was on behalf of the Board. All interested residents had the opportunity to respond directly to the Council.

5. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

Our response highlighted the potential risks to the Housing Revenue Account when low income tenants are expected to pay a new or increased contribution to council tax. This financial pressure will be compounded for those households who also face a 14% or 25% reduction in eligible housing benefit because of the under occupation rules which also take effect in April 2013.

6. COUNCIL IMPLICATIONS

Devising the Local Council Tax Support scheme is a matter for the City Council. Derby Homes' response has been made as an interested stakeholder. This is a matter which requires the approval of the Council.

The areas listed below have no implications directly arising from this report:

Legal and Confidentiality
Personnel
Environmental
Equalities Impact Assessment
Health & Safety
Risk
Policy Review

If Board Members or others would like to discuss this report ahead of the meeting please contact:

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Background Information: <http://www.derby.gov.uk/council-and-democracy/consultations/your-city-your-say-latest-consultations/big-changes-to-council-tax-benefit/>

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Dear Mr Horton

LOCAL COUNCIL TAX SCHEME - CONSULTATION RESPONSE

Derby Homes fully appreciates the dilemma facing the City Council as set out in the Foreword by Councillor Russell. By its nature as an income-related benefit, the existing national scheme has hitherto meant that all Council Tax Benefit (CTB) recipients have been recognised as having inadequate income to meet (in whole or part) their council tax liability. The localisation of Council Tax Support, but accompanied by less than 86% of the previous funding, requires the Council to create a scheme for working age householders that will incur £2.6m less expenditure than the current national scheme. That therefore necessitates a difficult choice by the Council in deciding which residents shall be expected to re-allocate their household income in order to meet a future shortfall in help with paying their council tax.

The Council's proposal is that all householders of working age will have a maximum council tax benefit entitlement of 80% and therefore have to contribute a minimum of 20%. Paragraph 6 of the consultation shows how the Council proposes to help vulnerable groups, mainly by continuing to disregard certain benefits. Part of the Council's dilemma is if a good case is made during this consultation to adjust the proposed scheme in favour of a section of Derby's residents, the Council could only actually deliver for that category of residents by making off-setting adjustments, meaning other residents would then have even more to find from often fixed incomes.

The comments below follow the order in the consultation paper and are made so that the Council is aware of:



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You can now pay your rent, view your rent account, report a repair and more on Derby Homes website.
www.derbyhomes.org/my-derby-homes to register.

- concerns that will or may affect our tenants

Though the total target saving is £2.6m is known, at the time of writing Derby Homes is not aware of the costs of component elements of the proposed scheme eg setting a capital limit at £6,000 or of abolishing backdating. This means that while we will suggest some changes to the proposed scheme we are not in a position to include the net saving/pressure of making the modifications. **Our principal concern is that setting the minimum household contribution at 20% is too high. The figure needs to be set at the minimum possible so that lowest income households can reasonably afford to pay it and thereby avoid the Council having an income shortfall, both in council tax and rent collection.**

Issue 1: the proposal to cap support to Band B

The Council's proposal to cap assistance at Band B level means that the 8% of current working age CTB recipients in higher banded properties would bear the whole shortfall, from the same income (£111.45 per week for a couple, £71.00 for a single adult (£56.25 if under 25)). The reported total number potentially affected across the city (not just Derby Homes tenants, but all owner occupiers and renters) in each band is currently:

- Band C - 645
- Band D - 152
- Band E – 51
- Band F – 25
- Band G – 2
- Band H - 0

The Council consultation document explains that out of all those currently receiving Council Tax Benefit in Derby, 92% live in homes in bands A and B while 8% live in homes above band B. The proposed change will mean Council Tax support would be capped at the band B rate, even if the resident lives in a higher band property (C to H).

Although the Council's highest valued property is in Band D, the impact in all bands of the Council's current proposal is set out below. The amount in column 4 is the weekly amount to be found from £111.45 for a childless couple or from £71.00 for a single adult (£56.25 if under 25).

Property Band	1. Annual Council Tax	2. Annual eligible for benefit	3. Annual net liability (A. – B.) £	4. Weekly amount to pay (column 3. divided by 52) £
A	£ 905.41	£724.33	181.08	3.48
A - Single	£ 679.05	£543.24	135.81	2.61
B	£ 1,056.31	£845.05	211.26	4.06
B - Single	£ 792.23	£633.78	158.44	3.05
C	£ 1,207.22	£845.05	362.17	6.96
C - Single	£ 905.41	£633.78	271.63	5.22
D	£ 1,358.12	£845.05	513.07	9.87
D - Single	£ 1,018.59	£633.78	384.81	7.40
E	£ 1,659.93	£845.05	814.88	15.67
E - Single	£ 1,244.95	£633.78	611.17	11.75
F	£ 1,961.72	£845.05	1116.67	21.47
F - Single	£ 1,471.29	£633.78	837.51	16.11
G	£ 2,263.53	£845.05	1418.48	27.28
G - Single	£ 1,697.65	£633.78	1,063.87	20.45
H	£ 2,716.24	£845.05	1871.19	35.98
H - Single	£ 2037.18	£633.78	1,403.4	26.99

The Council's proposal does envisage regular income collection from every household. To be affordable within the total available budget it seems inevitable that higher contributions will be required from higher banded properties.

It is a concern that around 2,500 council tenants that are going to face an under occupation deduction from housing benefit of between £10 and £20 per week as well as this new charge. The compound effect of both these changes will produce huge pressure on their household budget and lead to non-collection in many cases.

Issue 2: the proposal to put a maximum limit on council tax support at 80% and requiring a minimum contribution of 20%

The proposal is that all householders of working age will have a maximum council tax benefit entitlement of 80% and therefore have to contribute a minimum of 20%. The 20% figure is familiar to local government finance professionals as that was the net contribution under the community charge (poll tax) in 1990 to 1993. A direct parallel cannot be made with that period because the 'poll tax' was then levied on all adult individuals, rather than households. However the experience across billing authorities was a widespread reluctance by residents to pay plus very considerable officer time devoted to pursuing arrears which could not be legally written off. A report indicates that many council treasurers anticipate similar difficulties:

<http://www.guardian.co.uk/money/2012/oct/15/local-authorities-residents-council-tax>

Using 2012/13 benefit rates, recipients of income-related JSA under pension credit qualifying age would need to budget as follows:

	Weekly JSA	Of which, to budget for net Council Tax
Couple in Band A property	£111.45	£3.48
Single adult in Band A property	£71.00 if aged 25 or over £56.25 if aged 24 or less	£2.61
Couple in Band B property	£111.45	£4.06
Single adult in Band B property	£71.00 if aged 25 or over £56.25 if aged 24 or less	£3.05

In relation to the table it is appreciated that where dependent children are present the overall amount of household benefits (higher JSA, with child amounts and family premiums, and disregarded child benefit) would be greater while the net council tax would remain the same.

As flagged at issue 1, the new Council Tax Support scheme will commence in April 2013 and coincide with the introduction of the under-occupancy deductions from housing benefit for social housing tenants below pension credit age. Those tenants of Derby Homes and of local housing associations who are affected will thereafter need to fund a 14% shortfall in their eligible housing benefit (for one spare bedroom) or 25% (two or more spare bedrooms). This is therefore in addition to the contribution to be found for the net council tax liability.

This double effect for 'under-occupying' social tenants can be predicted to cause financial hardship for the individuals involved. For the City Council the aggregated risk is that residents find themselves juggling their finances and prioritise one potential debt over another. Derby Homes and the Council should collaborate on the joint aim of maximising the collection of both. To will be most likely to be achieved by keeping the minimum council tax at an affordable level.

Bearing in mind the experience of the Community Charge – the 'Poll Tax' - in the early 1990's when there was widespread non-payment of the minimum 20% contribution, setting the Council Tax contribution at 20% in 2013/14 can be predicted to be just too high for the lowest income households budget to pay.

Issue 3: the proposal to reduce the capital limit from £16,000 to £6,000 – no comment

Issue 4: the proposal to remove second adult rebates from the scheme – no comment

Issue 5: the proposal to remove the backdating of benefit where the applicant has shown good cause

Under the long-standing national schemes the backdating of council tax and housing benefits has always required the claimant to establish good cause. Derby Homes therefore wishes to flag our concern about the proposal that the Council will no longer offer the backdating of council tax support claims. This would mean that in future a tenant who can demonstrate 'good cause' and so receive backdated housing benefit would be denied arrears of council tax. While this outcome protects the landlord and, in the case of Derby Homes also the HRA, it does mean that the General Fund will be owed money by vulnerable residents who are unlikely to reduce their debt except at such a low rate that it is outweighed by the administrative costs. In some cases the sustainability of the tenancy may be adversely affected by the further financial pressure. Derby Homes recommends that the backdating of benefit for working age claimants on grounds of good cause should be retained.

Issue 6: the proposal to set a minimum award of £2 or £4 per week

The proposal is not to award support if the amount is less than between £2 to £4 a week and the actual amount is to depend on what is affordable within the scheme. Currently the minimum for council tax benefit is 1p per week; for housing benefit the minimum is 50p per week which the government do not propose to change.

Although householders who would be caught by this payment threshold appear to have a significant amount of income above their 'applicable amount', the effect of the tapers on housing benefit and council tax support mean households may only

gain 15p per net £1 increase in earnings. Therefore withdrawal of council tax support below the payment threshold would have result of leaving the residents/families affected with reduced disposable income compared to now, and this may act as a disincentive for people in low paid work to marginally increase their hours and income.

Issue 7, 8 and 9: Recognising the needs of particular households

Derby Homes welcomes the retention of these protections but does not propose any additions or expansions because of the 'zero-sum' calculation entailed.

Proposed modifications

At issue 5 we have recommended that the backdating of benefit for working age claimants on grounds of good cause should be retained.

Our overall concern is that setting the minimum household contribution at 20% will be too high for the lowest income households to afford and will result in non-collection. At issues 1 and 2 the Council's proposals are predicated on every household making a contribution and that residents in higher banded properties shall have more to pay. Derby Homes accepts that any modifications have to be afforded within the Council's net budget.

On 16 October the Government announced a fund of £100m transition grant to encourage best practice. The criteria are:

- those who would be on 100 per cent support under current council tax benefit arrangements pay between zero and no more than 8.5 per cent of their council tax liability
- the taper rate does not increase above 25 per cent
- there is no sharp reduction in support for those entering work - for claimants currently entitled to less than 100 per cent support, the taper will be applied to an amount at least equal to their maximum eligible award

Our understanding is that the Council's current proposals meet the second and third criteria because the income taper will remain at 20% and continue to operate from the household's maximum eligible award. The Council would currently be debarred from accessing the central grant because the proposed minimum 20% contribution in Derby would exceed the 8.5% limit. The proposed cap at Band B means some residents will pay considerably more. As we consider the 20% minimum to be too high to enable compliance by the lowest income households, Derby Homes recommends that the City Council should seek to revise the scheme to enable the

minimum contribution to be lowered to 8.5% so as to access the central government grant. One means of working toward that would be to increase the income taper from 20% to just under 25%. The effect of that would be to decrease the amount of council tax support payable to households with incomes above the threshold for maximum help. However, such individuals or families would benefit from the more generous starting point of the taper running from 8.5% rather than the current proposal of 20%.

Meeting the Whitehall criteria potentially offers the triple benefits of:

- accessing central government grant to reduce the £2.6m shortfall
- reducing the liability on the lowest income households across all bands and
- making payment more likely, reducing the risk to the Council's income streams

Derby Homes is willing to collaborate with the Council with any administrative or income collection system that can help promote the revenue collection of both our organisations.

Yours sincerely

David Enticott

Director and Company Secretary