

Agenda Item 3

Executive Member	Simon Ling and Vivienne Michael
Strategic Management Team Lead Officer	Richard Burrows and Rachel O'Reilly
Author	Rachel O'Reilly
Telephone	01306 879358
Email	rachel.o'reilly@molevalley.gov.uk
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Ward (s) affected	All
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Subject	Local Government Finance Act 2012 – Implications for Council Tax and Council Tax Support
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RECOMMENDATIONS

The Council is recommended to adopt Option 3:

- to adopt the package of technical reforms to Council Tax charging on Empty and Second Homes; and
- adopt the 'default' scheme as Mole Valley District Council's Council Tax Support Scheme for 2013/14 including the continuation of 100% disregard for War Widow Pensions.

The Council is also asked to approve that

- 1) authority be delegated to the Corporate Head of Service with responsibility for Benefits, in consultation with the Portfolio Holder, to make minor administrative and/or technical changes to the local council tax support scheme; and
- 2) authority be delegated to Corporate Head of Service with responsibility for Revenues, in consultation with the Portfolio Holder, to make minor administrative and/or technical changes to council tax discounts where the Council had the freedom to do so.

SUMMARY

The Local Government Finance Act 2012 covers changes to Council Tax, Council Tax Benefit and non-domestic rates.

The Act gives the Council the opportunity to consider reducing existing discounts on empty properties and increase charges on second homes.

The Act also requires Council's to adopt a local scheme for Council Tax Support to replace the Council Tax Benefit scheme which is being abolished on 31st March 2013.

This report suggests a package of reforms for Mole Valley which would

- Levy additional charges on empty properties and second homes to enable more efficient use of existing housing stock in the district
- Enable the Council to adopt a local scheme for Council Tax Support for Mole Valley.

The options being presented to the Council are:

- 1 Agree the package of technical changes to Council Tax on Empty and Second Homes and adopt, as the Mole Valley Council Tax Support Scheme, the scheme as proposed at consultation including the continuation of 100% disregard for War Widow Pensions.
- 2 Agree the package of technical changes to Council Tax on Empty and Second Homes and adopt, as the Mole Valley Council Tax Support Scheme, the scheme as proposed at consultation minus the de minimus level of £5 weekly payment and including the continuation of 100% disregard for War Widow Pensions.
- 3 Agree the package of technical changes to Council Tax on Empty and Second Homes and adopt, as the Mole Valley Council Tax Support Scheme, the default scheme for 2013/14 including the continuation of 100% disregard for War Widow Pensions.

The Council is recommended to approve Option 3.

The decision must be taken by 31st January 2013.

The Council has the authority to determine the Recommendations

1.0 BACKGROUND

The Local Government Finance Act 2012 received Royal Assent on 31st October 2012 and covers changes to Council Tax, Council Tax Benefit and non-domestic rates. This report is set out in two distinct but related sections and covers the Council Tax Technical Reforms and local support for Council Tax.

The Act extends flexibilities to Billing Authorities, in respect of Council Tax, to reduce existing discounts on empty homes and increase charges on second homes.

The Act also requires Councils to develop and implement a local scheme for Council Tax Support (the Local Scheme) which will be a replacement for the national Council Tax Benefit Scheme which is being abolished in April 2013. This Local Scheme must be adopted formally by Council by January 31st 2013.

Mole Valley District Council (MVDC) is the Billing Authority for Council Tax for the District area and it collects this tax for Surrey County Council (SCC) and Surrey Police Authority (SPA) as the major preceptors. MVDC then redistributes the Council Tax it

collects to those precepting authorities in the following proportions - SCC – 76% and SPA – 14%, the remaining 10% is retained by MVDC (minus some Parish precepts).

This report makes recommendations on implementing changes to Council tax to encourage better use of the district's housing stock by reducing property discounts and the introduction of an empty property premium. It also presents, and links these technical reforms, to the options for the introduction of a new local scheme of Council Tax support.

1 Council Tax Technical Changes

This section of the report covers the technical reforms to Council Tax and proposes reduced property discounts and the introduction of an empty homes premium.

Technical Reforms

Council tax is charged on the valuation band of a property. There are various circumstances in which the liability can be reduced. These include a system of discounts applicable to a property, where no council tax is due for a prescribed period before a charge is then made.

The new Act provides local Councils with greater flexibility over property discounts on empty properties and second homes and introduces a premium that can be charged on long term empty homes.

The Act includes the following flexibilities for discounts and premiums from April 2013:-

- replacing the current 12 month 'Class A' exemption ('Class A' being a vacant dwelling where major repair works or structural alterations are required or under way) and 6 month 'Class C' exemption ('Class C' being a vacant dwelling which is empty and substantially unfurnished) with discounts, the amount of which would be for billing authorities to determine.
- giving billing authorities the power to levy up to full council tax on second homes where currently a minimum of 10% discount applies.
- empowering local authorities to adopt an "empty homes premium" payable on top of the normal council tax chargeable in respect of dwellings which have been empty for two years or more.

Evaluation of Reforms

The following table provides a description of the changes being recommended for Mole Valley.

Current Exemption/Discount	Description	Current Mole Valley position	Proposed Position
Class A	Properties undergoing or in need of major structural repair	12 months exemption then 100% charge	Remove exemption and charge 100% from day 1
Class C	Properties vacant	6 months	28 day exemption, then 100%

	and unfurnished	exemption then 100% charge	charge
2 nd Home Discount	Furnished properties not occupied as main home	90% charge	100% charge – ie removal of 10% discount
Long Term Empty Properties	Vacant and unfurnished properties, empty for over 2 years	100% charge	Additional 50% charge as a premium

The potential yield from the above changes could be in the region of £457,000 across the Mole Valley area; Mole Valley District Council's proportion of that being £46,000.

During the summer, the Localism Panel considered the implementation of technical reforms in relation to the changes to Council Tax Support. Since that work was undertaken, the formal regulations for these technical reforms have been published and the extent to which authorities are now able to make these charges has been clarified.

The proposals being recommended to Council in this report would optimise the changes being allowed by the regulations and are in line with recommendations being put to other authorities nationally.

Both central government and Surrey County Council have suggested that the extra revenue generated from adopting these technical reforms can and should be used to help finance the implementation of the Local Council Tax Support scheme (which will be funded at 10% less than the existing Council Tax Benefit scheme).

Whilst these changes would increase income to the Collection Fund and could help offset the reduction in funding of the local scheme for Council Tax Support, there are wider benefits to bringing empty homes back into occupation.

Quite apart from the financial argument, there are many negative socio-economic impacts of empty properties. These include environmental health and health and safety concerns as well as anti-social behaviour. The District has an identified need for further housing and any actions to bring existing properties back into use will help alleviate this and help prevent homelessness. Furthermore, any net increase in homes brought back into occupation following long periods of being empty attracts the corresponding New Homes Bonus.

Proposals

It is proposed that the Council:-

- applies full council tax with no discount on homes that are in need of, or undergoing, major repair work or structural alteration;
- applies a council tax discount in respect of unoccupied and substantially

unfurnished properties of 100% for the first 28 days with no discount thereafter;

- applies the full council tax with no discount for furnished properties not occupied as a main home; and
- charges an empty homes council tax premium of 50% on properties left empty for more than two years

The Council will establish a process and contingency fund for persons demonstrating hardship due to exceptional circumstances.

Financial and Administration Implications

The revenue generated from these changes to second and empty homes will depend both on the number of properties affected in future years and on the Council's ability to identify and collect the additional liabilities due.

There will be additional administrative work in the identification and collection of these changes to council tax liabilities. This is unquantified at this time, though would be less than the District's share of the additional revenue estimate.

2 Localisation of Council Tax Support

This section of the report covers the requirement to adopt a local scheme for Council Tax Support for Mole Valley.

The Government announced, as part of the Spending Review in 2010, that it would abolish the national scheme of Council Tax Benefit from April 2013 and expect local schemes to manage that support, with an expectation that expenditure would be reduced by 10%. The proposals are part of a wider policy of decentralisation aimed at giving councils increased financial autonomy and a greater stake in the economic future of their local area.

Councils are required to establish local Council Tax Support schemes to be implemented in April 2013. Along with the changed scheme comes a change to the way it is funded. Currently the DWP fund Council Tax Benefit by way of reimbursing the authority based on a year end claim. In future this funding responsibility will transfer to the DCLG and will be funded by way of an up-front grant based on 90% of the cost of the previous scheme. Local Schemes will either have to take account of this reduction in funding and be designed to operate within that level of funding or find any shortfall from elsewhere within the Council's budget.

The 10% reduction in funding, taking into account assumptions around Council Tax and caseload increases, is in the region of £500,000 across Mole Valley, 76% of which falls to Surrey County Council, 14% to Surrey Police Authority and the remainder to Mole Valley DC – approximately £50,000.

Scheme Criteria

In developing a local scheme for Council Tax Support which costs the Council 10% less than the previous scheme, there are a number of criteria that must be observed.

It is prescribed in the legislation that certain groups of claimants must be either protected or considered for protection under the new scheme. Pensioners must not be adversely affected by the scheme. Currently 52% of the claimants of Council Tax Benefit in Mole Valley are pensioners.

This leaves the 10% saving to be passed on to the 48% of working age claimants, except there is provision for Councils to consider protection for other 'vulnerable groups' further increasing the impact on a smaller number of claimants.

Once a draft scheme was developed, Councils had to consult on any proposed changes with the public and with major preceptors and ultimately adopt a new local scheme by the end of January 2013.

Development of the Mole Valley scheme

In early 2012, Local Authorities across Surrey began working together on a joint framework for Council Tax Support, which involved SCC as the major preceptor, in order to move forward with a common basis for all local schemes across the County. Each District and Borough would be able to make local variations on this theme as appropriate.

The Surrey Framework is based on the existing means-tested national scheme but with the removal or reduction of certain criteria to reduce the cost of the overall scheme.

In June and July 2012 the MVDC Localism Panel worked within this framework to develop a draft scheme for consultation with residents. The Panel were concerned that any scheme they proposed should be based on ability-to-pay rather than an arbitrary 'across the board' charge (potentially in the region of 20%) being imposed to make up the shortfall. With this in mind, the Panel considered a number of options and recommended that some of the 10% shortfall be recovered from claimants by way of variations to the current Council Tax Benefit scheme, but also that the changes to Council Tax charging on empty and second homes (as described above) were implemented.

The Panel's recommendations were used to develop the draft local scheme that was released for consultation. This scheme proposed to adopt the majority of the current rules of the national Council Tax Benefit scheme with the following variations to working age claimants support:

- 1 Reduce the Capital Limit from £16,000 to £8,000
- 2 Remove Second Adult Rebate
- 3 Restrict award to the level of a Band D property
- 4 Introduce a minimum payable award of £5 per week

The financial effect of these changes would amount to approximately a £73,000 reduction in Council Tax Support expenditure.

The consultation would also include the stated intention that the remainder of the financial gap left by the 10% reduction in funding would be met through the changes to charging on empty properties and second homes.

Consultation

The 12 week consultation ran from 7th September to 30th November 2012.

The consultation and questionnaire were launched on the Council's website and through the local media.

All current working age claimants (approximately 2000) were written to and asked to comment on the proposed changes by way of an enclosed questionnaire. A random sample of another 2000 non-claimants were written to directly and asked to give their views.

Direct approaches for feedback were made to interested parties including Mole Valley Housing Association and the Citizens Advice Bureau.

The major preceptors, Surrey County Council and Surrey Police Authority were written to separately to gather their views and impacts on them from the proposed scheme.

In all, 576 responses were received to the consultation. Of those responses, 66% were from current working age claimants.

There was general support for the principal changes being proposed and a consistent 20% - 21% expressed no particular view to each of the questions.

Proposed change	Agree %	Disagree %
Reduce the Capital Limit from £16,000 to £8,000	45	34
Remove Second Adult Rebate	49	30
Restrict award to the level of a Band D property	47	33
Introduce a minimum payable award of £5 per week	41	40

The proposal for an introduction of a minimum payment of £5 per week received the most negative response, those in favour equal to those in opposition to the principle.

The inference from this result is that this element of the scheme would have an impact on the largest proportion of those affected and may be an element that was worth considering for omission from the Council's Local Scheme. At a potential £10,000 saving from this element of the new scheme, this criteria could be removed from the local scheme without a material financial impact on the outcome if the technical reforms were also to be implemented.

Conclusions drawn throughout the design of the proposed Mole Valley local scheme and from the consultation are that officers and the Portfolio Holders feel that it is a robust and fair scheme.

War Widows Pensions

Currently, as a local discretion under the national Council Tax Benefit scheme, Mole Valley fully disregards war widows' pensions for the purpose of calculating entitlement to benefits. The Royal British Legion has requested that this practice continues in any new local scheme of Council Tax Support and it is recommended that the Council continues its commitment to this local condition.

Recent developments

Over the last few months there has been mounting concern nationally and locally about the potential social effects of some Council's plans for passing these savings requirements onto claimants. There has been specific concern in terms of some proposals for large 'across the board' charges that could create further hardship, and consequent knock on effects, as well as cause increased cost in terms of collection of Council Tax from individuals who have previously not had to pay or cannot afford to pay.

DCLG Transitional Grant

In October 2012, the DCLG announced that it was making a one-year transitional grant available for 2013/14. The grant will only be payable to authorities who choose to design their schemes that fit with certain criteria. The main criteria being that those who are on 100% support under the current benefit scheme, pay no more than 8.5% of their current liability.

The DCLG funding for the Mole Valley area would be £93,000 (including the elements relating to SCC and SPA).

The proposed Mole Valley scheme described above would not qualify for this grant as it would fail this criteria.

Surrey County Council Offer

Surrey County Council (SCC) expressed concerns about the impacts across Districts and Boroughs of the increased administration, collection and potential write-off costs associated with 'across the board' charges imposed on those least able to pay. Moreover, the County has made it clear that they would be concerned about the impact on services, for example child protection and family services from some of these blanket charges and they wish to minimise those potential impacts.

To this end SCC has made an offer to Districts and Boroughs to underwrite any shortfall in year 1 (up to £1m across the County) incurred following adoption of a scheme which satisfies these principles.

The proposed Mole Valley scheme described above would qualify for this funding and would eliminate any funding shortfall for MVDC in 2013/14.

Mole Valley Alternative option – Adopt the 'default' scheme

These recent offers from DCLG and SCC have brought about an opportunity for Mole Valley to reconsider the need to make material changes to the current scheme in year one (2013/14). Whilst the scheme that was proposed and consulted on is deemed to have strengths and satisfied the criteria presented, there is now the potential for the

Council to consider adopting the 'default' scheme for the next financial year.

The default scheme is essentially the current national Council Tax Benefit scheme, albeit that it would have to officially be adopted as Mole Valley's local scheme by full Council.

The benefits of taking this course of action for year one would be:

- No claimant would be financially affected by this scheme in year one
- In financial terms, the Council would be no worse off as the 'default' scheme would satisfy the criteria for both the DCLG and SCC offers of financial support in year one.
- There would be the opportunity throughout 2013/14 to have time to consider a new scheme for implementation from April 2014. The basis of a future scheme may reflect that which was consulted on in the autumn, but will also be informed by the combined effects of the other Welfare Reforms that are coming into place in 2013 including the Benefits Cap, Under-occupancy rules and Universal Credit.
- The Council could negate the potential cost of transitional protection which could apply to claimants upon moving between schemes after one year.

From the beginning, timescales for Councils to design, adopt and implement local Council Tax Support Schemes for April 2013 were considered ambitious in the extreme; the enabling legislation was only passed on 31st October 2012. It is anticipated that whatever arrangements are brought into being in year one would need to be reviewed and likely changed for future years with the benefit of experience. By adopting the 'no change' approach for Council Tax Support in 2013/14 it would afford the Council time to develop a more considered scheme for 2014/15 onwards and monitor the experiences of other authorities who are implementing changes for in 2013/14.

The cost to the authority of administering the 'default' scheme would be the same as is currently the case. Another benefit of an additional year of planning for a new scheme would be to afford the Council time to consider the level of administration required for the Benefits service to implement a new scheme whilst also taking into account the other Welfare Reforms which are coming into effect in 2013/14.

Equalities Impacts

An Equality Impact Assessment was carried out in relation to the technical changes and the Council Tax Support Scheme that was put out to consultation.

In terms of Equalities Impacts, the adoption of the default scheme would afford the same protections to vulnerable groups as the national Council Tax Benefit scheme currently does.

Financial Implications

The financial model for both the Mole Valley Local scheme which was put out for consultation, and the 'default' scheme depend on implementing the changes to charging on empty properties and second homes as set out earlier in this report and show that the resultant effect is the same in both scenarios i.e. no additional cost to Mole Valley DC.

	MVDC (£'000)		MV Total (£'000)	
	Default	Local	Default	Local
Council Tax Technical Changes	46	46	457	457
Council Tax Support scheme	-52	-52	-517	-517
Sub-total	-6	-6	-60	-60
Other				
MVDC Local Scheme changes	-	8	-	73
DCLG grant	9	-	93	-
Balance	3	2	33	13

The consideration for Council, given that the financial scenario would be equivalent under both the Local or the 'default' scheme are issues in relation to the impacts of implementing a changed scheme from April 2013 as opposed to allowing more time to develop a more considered and informed scheme from April 2014.

Options for Council Tax Support changes:

- 1 Agree the package of technical changes to Council Tax on Empty and Second Homes and adopt, as the Mole Valley Council Tax Support Scheme, the scheme as proposed at consultation including the continuation of 100% disregard for War Widow Pensions.
- 2 Agree the package of technical changes to Council Tax on Empty and Second Homes and adopt, as the Mole Valley Council Tax Support Scheme, the scheme as proposed at consultation minus the de minimus level of £5 weekly payment and including the continuation of 100% disregard for War Widow Pensions.
- 3 Agree the package of technical changes to Council Tax on Empty and Second Homes and adopt, as the Mole Valley Council Tax Support Scheme, the default scheme for 2013/14 including the continuation of 100% disregard for War Widow Pensions.

2.0 CORPORATE IMPLICATIONS

Legal Implications - The Council has a legal obligation to make a Council Tax Reduction Scheme by 31 January 2013 relating to the financial year beginning on 1 April 2013; this is a statutory requirement and therefore compliance is mandatory.

Financial Implications – These have been considered in the relevant sections of the report.

Reputational Implications – All steps have been taken to make the consultation on this issue inclusive. There will be a robust public communications plan to inform the community of any changes that will come from this issue, especially those directly affected.

Risk Implications - the risks to implementing the different options have been assessed and adopting the 'default' scheme is considered to have the lowest impact on the Council and claimants. Actions will be put in place to ensure these are minimised where possible.

Equalities Implications - These are set out in a separate equality impact assessments. These impacts will be monitored and addressed as necessary during the first year of the scheme.

Employment Issues – None specifically identified at this time.

Sustainability Issues - The proposed changes to the empty and second homes discounts and premiums should encourage better use of Mole Valley's homes, which has the potential to bring a range of social, economic and environmental benefits to the district. The necessary changes to the Council Tax Scheme have been designed to reduce the financial burden on our most vulnerable resident, thereby seeking to support a fair and socially inclusive society. Changes to both schemes have been necessary in order to address pressures on the Council's budget and continue to provide a range of services to the community.

Consultation – Details of the consultation approach to this issue is covered within the report.

3.0 BACKGROUND PAPERS

Local Government Finance Act 2012
Mole Valley District Council Council Tax Reduction Scheme Regulations (draft)
Equalities Impact Assessments – Technical Changes 2013 and Proposed Scheme for Council Tax Support 2013.

