

EAST HERTS COUNCIL

CORPORATE BUSINESS SCRUTINY 14 JULY 2015

REPORT BY DIRECTOR OF FINANCE AND SUPPORT SERVICES

COUNCIL TAX REDUCTION SCHEME 2016/17

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

To consider the latest available information around the current local Council Tax Support (CTS) scheme at East Herts and whether any changes to the scheme should be considered for 2016/17.

RECOMMENDATION FOR CORPORATE BUSINESS SCRUTINY

That:

(A)	Corporate Business Scrutiny Committee consider whether other options around scheme design should be explored further for East Herts local Council Tax Support scheme for April 2016
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1.0 Background

- 1.1. The Government made provision within the Local Government Finance Bill to replace the former national Council Tax Benefit (CTB) scheme from 1st April 2013 with localised schemes for Council Tax Reduction Schemes (CTS) devised by individual local authorities (LA's). The schemes are valid for one year and must be approved by Council before the end of January immediately preceding the financial year in which it is to take effect.
- 1.2. If the Council were to choose to consider any material revisions to the scheme, this would be the subject of public consultation, which would need to be considered by both those entitled to receive support as well as the general Tax payers of East Herts.
- 1.3. In previous years, we have brought reports to scrutiny later in the financial year with recommendations to consider the scheme. Bringing forward this report to earlier in the financial year offers an

opportunity to consider fully the implications of any changes on the wider financial health of the organisation.

2.0 REPORT

2.1. **The origins of Council Tax Support (CTS)**

2.1.1. Before April 2013, we administered Council Tax Benefit on behalf of the Government. This national scheme was specified in legislation and we were reimbursed by the Department of Work and Pensions (DWP) through a subsidy claim submitted annually and subject to audit.

2.1.2. The level of subsidy reimbursement varied dependant on whether benefit had been awarded, backdated or overpaid, but the point to note is that entitlement and subsidy were based on assessing entitlement on 100% of somebodies council tax liability, net of discounts (like a single person discount.)

2.1.3. The scheme was means tested and whilst the scheme differentiated between different client groups (providing extra support for disabled groups for example) there was little differential between Elderly and Working Age clients.

2.1.4. Clients fell into one of two groups, "Passported" and "standard claimants." A passported claim was one in which the DWP had already carried out a means test and then notified us that the customers income was at or below the minimum income level for their household composition. They would be automatically entitled to 100% of their Council Tax to be paid by Council Tax Benefit. A deduction would however be made from this entitlement where there were non dependants living in the home.

2.1.5. The second group were called 'standard claims'. These customers had their means testing done by the council and awarded Council Tax benefit in accordance with the national scheme criteria. These customers had income above the minimum requirements and would be required to pay something towards their council tax liability. A deduction would also be made from this entitlement where there were non dependants living in the home.

2.1.6. In very general terms the full expenditure on the scheme was reimbursed by the DWP.

2.2. The impact of changes from 1st April 2013

2.2.1. The national scheme for Council Tax Benefit ceased, and Councils had to devise their own Council Tax Reduction Schemes for working age claimants. The Government continues to specify the scheme for Elderly customers.

2.2.2. Instead of the scheme being funded through a subsidy claim based on actual expenditure, the Government moved the funding into the Revenue Support Grant (RSG) settlement, fixing it at only 90% of the subsidy paid in a previous year. RSG is the amount of grant that Government give to Councils to support their wider service delivery, and makes up one part of the income of the Council in addition to Council Tax receipts, fees and charges and an element of Business rate collection.

2.2.3. Each Council had to consider how to fund 100% of the cost of the Elderly 'national' scheme and provide a Working age scheme, whilst receiving 10% less funding.

2.2.4. We also have a duty to run a local CTS scheme within our area that must contain the following:

2.2.5. Pensioner claimants are protected from changes through the provision of a statutory scheme.

2.2.6. The protection for pensioner claimants will result in the 10% financial saving falling disproportionately on working-age claimants unless it can be met through other arrangements.

2.2.7. Schemes must support work incentives.

2.2.8. The DCLG Policy Statement of Intent does not give a recommended approach to be taken, but indicates the scheme should not contain features which creates dis-incentives to find employment. The current East Herts scheme complies with this statement.

2.2.9. LAs must ensure that appropriate consideration has been given to support for other vulnerable groups, including those which may require protection under other statutory provisions including the

Child Poverty Act 2010, the Disabled Persons Act 1986 and the Equality Act 2010, amongst others.

2.2.10. The DCLG has issued Policy Statements that address a range of issues including the following:

- Vulnerable People and Key Local Authority Duties;
- Taking work incentives into account;
- Information Sharing and Powers to Tackle Fraud.

2.2.11. The Local Government Finance Bill stated that a Billing Authority must have regard to any guidance issued by the Secretary of State. Our current recommended scheme has sought to address these requirements.

2.2.12. The Government enabled Councils to review the level of Council Tax discount granted on a small group of existing nationally specified discounts, including long term empty, second homes and empty and substantially un furnished properties. East Herts reduced the discounts on the empty properties from 100% for the specified periods, to 50%. Second home discounts were removed.

2.2.13. The Council initially devised a scheme which replicated the previous national scheme but limited the Council tax liability that was used to assess entitlement to 90% for working age customers. The Government offered a one off transitional grant to Councils who would restrict the reduction to 91.5%, and accordingly the Council amended the proposal and took the one off transitional grant.

2.2.14. The cost of the scheme was to be reflected in the tax base, and the income from the Government coming through the RSG.

2.2.15. This meant that the tax base was reduced by the expected value of the scheme for 13/14. This 'depression' was mitigated in part by the effect of reducing the discounts on empty properties.

2.2.16. The Government require that major preceptors (County and Police) are consulted each year, and if there is any change to the scheme a full consultation open to all tax payers in the district is required. There is no specific timescale prescribed but the period

must allow for meaningful consultation.

2.2.17. We expected 14/15 to look like this.

2013/14		Government Grant for 2013/14	one off CTS limitation grant	CTS Expenditure (budgeted at 4399.18 band D @1486.11	Cost
Precept					
75.29%	HCC	£4,718,480.00	£ 125,400.00	£ 4,922,208.27	-£ 78,328.27
9.95%	POLICE	£623,574.00	£ 16,500.00	£ 650,497.71	-£ 10,423.71
14.76%	EHC /Parish	£925,647.00	£ 24,600.00	£ 964,959.41	-£ 14,712.41
100.00%		£6,267,701.00	£ 166,500.00	£ 6,537,665.39	-£ 103,464.39

2.2.18. However after a number of years of constant case load increases, the caseload stabilised and the outturn looked like this

13/14 Actual		Government Grant for 2013/14	one off CTS grant limitation grant	CTS Expenditure (budgeted at 4399.18 band D @1486.11	Cost
Precept					
75.29%	HCC	£4,718,480.00	£ 125,400.00	£ 4,855,027.60	-£ 11,147.60
9.95%	POLICE	£ 623,574.00	£ 16,500.00	£ 641,447.03	-£ 1,373.03
14.76%	EHC /Parish	£925,647.00	£ 24,600.00	£ 952,320.15	-£ 2,073.15
100.00%		£6,267,701.00	£ 166,500.00	£ 6,448,794.78	-£ 14,593.78

2.2.19. In 14/15 the grant that was included in the RSG was no longer individually identifiable, and as such assumptions have to be made as to whether it has been retained at the original level (above) or has reduced by the same rate as the overall RSG payment to the council and major preceptors.

2.2.20. In 2014/15 the RSG reduced by 21.19% and in 2015/16 by a further 21.24%.

2.2.21. What is certain however is that the level of spend on CTS has continued to reduce, mitigating in part the impact of overall reductions in income to the Council.

Year	CTS expenditure		
2013/14	£	6,448,794.78	Actual
2014/15	£	6,066,188.65	Actual
2015/16	£	6,182,013.90	Budgeted
2015/16	£	5,952,610.41	Current & Projected

2.2.22. A large proportion of customers affected by the introduction of the CTS scheme had not previously had to pay anything towards their Council Tax bill. If they had been 'passport' under the Council Tax Benefit scheme their liability would have been discharged in full by a credit transfer onto their Council Tax account. Under the new arrangements all working age customer had to pay at least 8.5% towards their bill.

2.2.23. It continues to be a challenge to educate and support these customers into a regular payment arrangement, and arrears of Council Tax for these customers is increasing.

2.2.24. Many of these same customers were affected by other welfare reforms introduced at the same time including the spare room subsidy scheme and the Benefit CAP, in addition to other reviews of disability benefits etc. Many families find that they have increasing debts with their councils and landlords for bills that were previously paid for them.

2.2.25. We make assumptions in respect of the level of non-payment of Council Tax when determining the tax base, alongside assumption over each of the variable elements of its composition. The in-year collection for all Council Tax payers was 98.2% in 2014/15, but this was dampened by only 77.43% collected from those working age customers in receipt of CTS. Those customers who under the old scheme would have not paid anything towards their council tax (passport customers) paid only 67.49%. These account for 69% of all working age customers.

2.2.26. The liability not paid in-year becomes arrears on which a bad debt provision has to be established, which is a further cost to the council. Where the outturn taxbase exceeds the estimated performance it generates a surplus on the collection fund, and conversely when the taxbase does not achieve its expected performance because of negative variations in the component elements, the collection fund would be in deficit. The Council is required to make precept payments during the year regardless of any in year variations.

2.2.27. Consideration of any variations to the existing scheme needs to consider;

- Variations in the RSG
- The reducing cost of CTS
- The impact of other welfare benefits reforms on the ability to pay
- The cost of increasing arrears and recovery costs
- The buoyancy of the taxbase generally
- The unknown budget and finance settlements

2.2.28. The timeline for a decision to be made (must be approved by 31.1.2016)

2.2.29. Any revision to a scheme must be made by the Council by the 31st January, immediately preceding the financial year in which it is to take effect and will require consultation with those affected. Additionally, consideration must be given to providing transitional protection where the support is to be reduced or removed. The financial impact of any decision on Council Tax Support also needs to be included when setting our budget and Council tax levels at the same time.

2.3. **Our current Council Tax Support Scheme**

2.3.1. The CTS scheme for 2015/16 as informed by the results of consultation and from the results of the equalities impact assessment can be summarised as follows:

- That the CTS scheme for all working age claimants will be based on 91.5% of their council tax liability.;
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- All local discretions currently in place will continue e.g. war pension disregards;
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- All other aspects of the new Council Tax Support scheme to mirror the previous Council Tax Benefit scheme.

2.3.2. In recognition of the fact that the additional Council Tax liability is more difficult to collect, a collection rate of 98.65% has been assumed. This is the same as that used for 2014/15.

2.4. Options that could be considered in redesigning a scheme

2.4.1. There are a number of options that could be considered when redesigning the scheme, although all revisions would affect working age customers only, given that pensioners have to be fully protected by our scheme. Our caseload for CTS indicates that the proportion of working age customers compared to pensioners is approximately an equal share, although this does change over time, especially given the national age threshold for becoming a pensioner is increasing.

2.4.2. The type of changes that could be made can be summarised as follows

2.4.3. Changing the level of “minimum payment” for all working age customers

- a) The current scheme assumes that all working age customers are asked to pay at least something towards their Council Tax, and as described earlier the minimum payment is 8.5% of liability. The Council could consider making a change to that amount but in doing so, the full impact of that decision needs to be considered.
- b) If the Council chose to increase this minimum payment to say 10%, this does not mean a straight line reduction in the amount that the Council will spend out. For individuals already finding it difficult to pay at the current level, it can be seen that increasing this amount could increase their hardship levels further, especially as these customers are likely to be receiving other benefits, which have been affected by the on-going Welfare reforms.
- c) Given our latest information shows that the collection rate for those working age customers in receipt of CTS is already significantly lower

than the overall rate, we would need to consider adding further amounts to our bad debt provision in respect of potential non-collection of our debts. Having done some indicative modelling, we estimate that increasing the minimum payment to 10% could result in a decrease in Council Tax spend of approximately £80k. This would be virtually wiped out by the need to increase bad debt provision.

- d) Conversely, if we were to consider reducing the minimum amount to be paid we would need to consider where we would find the additional amount that we would need to fund Council Tax Support and these impact upon the totality of the funding for the Council and importantly, other precepting bodies too. These impacts on their overall funding levels, and given we represent under 15% of the total cost of the scheme, we need to consider the significant financial impact this could have on others. There would still be costs associated with administering the scheme whatever the level of award, as not everyone gets the full benefit so this would not mitigate the additional cost to the Council. On current estimates, we believe the additional burden could be around £300k.

2.4.4. Introducing a band cap (so limiting the amount that we would pay to a value of a lower property band, for example Band D)

- a) In some Local Authorities, they have introduced a band cap where the scheme will only pay up to the equivalent of say a Band D property, even if you are in a higher banded property. Anecdotally this is unlikely to make significant changes to the overall cost of the scheme as the majority of those entitled will be within Band A-D properties anyway.
- b) This could also disproportionately affect those with a requirement for a larger property as they have children, other dependents due to caring responsibilities or a disability. These groups could already have been hit by other areas of Welfare reform including the Benefit Cap and the Spare Room subsidy limitation.

2.4.5. Introducing a minimum amount we would pay out

- a) In some Councils they have introduced a minimum level at which we will support residents. An example is that you have to be entitled to at least £5 a week to be supported. This means someone who is currently entitled to a lower amount, would not receive it, despite the fact that we have assessed them as at currently requiring support. There are no real savings in terms of administrative costs because we would still have to undertake an assessment to find out that we wouldn't award. In addition, the fact that they are currently entitled to

support indicates that they are financially vulnerable and the likelihood of being able to collect that additional amount from those residents is low. Therefore the potential reduction in costs overall is minimal and outweighed by an increase in bad debt provision and recovery costs.

2.4.6.Changes around discretions for Disability, Children and other Dependents

- a) This would change the nature of the scheme overall. East Herts, when setting its original scheme were clear that all would contribute equally as the core scheme already differentiates preferentially to those with disabilities, children etc.
- b) Any complexity that is added to the way in which we calculate entitlement, will make the administration of the scheme both more complex for our officers to manage both in terms of calculation but more importantly, to explain to our residents.
- c) This would also mean that the general working age population may need to pick up an even greater share of the cost if the scheme is to remain affordable and equitable.

2.4.7.Other adjustments

- a) There are a number of other component elements of the scheme that could be adjusted including income tapers, non-dependent deductions, income disregards etc. but all would carry the same risk to bad debt provisions, potential recovery costs and costs of administration. The more complex the scheme, the more difficult it is to comply with and customers' levels of understanding could be compromised.
- b) Finally, the intention is, in time is to move away from a means tested benefit towards a discount scheme. This would make administration more efficient and far less complex and time consuming for the customer. However, given we already have to operate a means tested Housing benefit scheme, the CTS calculation is produced simultaneously and minimised the duplication of effort of officers as far as possible, changing to a discount scheme would introduce a new process and administration costs.
- c) Officers are keen to explore developments nationally in this area and will keep members informed of any developments. However, at this time there are no such schemes in existence which demonstrates the challenge that this presents.

3.0 Welfare Reform

3.1. We know that further Welfare Reform will impact upon our residents, but at the time of writing this report we do not have any more details about who, or how, people will be affected. We would need to consider the impact of any of those changes on the ability for our residents in receipt of Council Tax Support as part of the overall package of changes. This could impact upon collection rates, costs of recovery etc. if individuals are affected by both changes at a national and local level.

4.0 BACKGROUND PAPERS

The Local Government Finance Bill 2012

<http://services.parliament.uk/bills/2012-13/localgovernmentfinance/documents.html>

The Local Government Finance Act 2012

<http://www.legislation.gov.uk/ukpga/2012/17/contents/enacted>

Statutory Instrument 2012 / 2885

<http://www.legislation.gov.uk/uksi/2012/2885/contents/made>

DCLG Statement of Intent

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6090/2176498.pdf

DCGL Policy document - Vulnerable People and Key Local Authority Duties

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6074/2148567.pdf

DCLG Policy Document – Taking work incentives into account

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6075/2148501.pdf

Policy Document – Information Sharing and Powers to Tackle Fraud

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6090/2176498.pdf

Contact Member: Councillor Geoff Williamson – Executive Member for Finance and Support Services
geoffery.williamson@eastherts.gov.uk

Contact Officer: Adele Taylor – Director of Finance and Support Service
adele.taylor@eastherts.gov.uk

Report Author: Su Tarran – Head of Shared Revenues and Benefits Service

Su.tarran@eastherts.gov.uk

Adele Taylor – Director of Finance and Support Services
adele.taylor@eastherts.gov.uk