

EAST HERTS COUNCIL

CORPORATE BUSINESS SCRUTINY COMMITTEE – 22 MARCH 2016

REPORT BY DIRECTOR OF FINANCE AND SUPPORT SERVICES

COUNCIL TAX REDUCTION SCHEME 2017/18

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 2017/18.

**RECOMMENDATION FOR CORPORATE BUSINESS SCRUTINY**

<b>(A)</b>	Members consider whether other options around scheme design should be explored further for the East Herts Local Council Tax Support Scheme for April 2017.
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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 It may appear early to consider a scheme for 17/18 but bringing forward this report offers an opportunity to:

1.4 Allow enough time for careful consideration by members.

1.5 Deliver meaningful consultation with those affected and the public.

1.6 Consider fully the implications of any changes on the wider financial health of the organisation.

1.7 Ensure that our partners who are financially affected by any changes (the county council, police, and all town and parish councils) can plan for any impacts.

## 2.0 Report

### 2.1 The origins of Council Tax Support (CTS)

2.2 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.

2.3 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 customer’s 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.

2.4 The second group were called ‘standard claims’. These customers had their means testing undertaken by the council and were awarded Council Tax benefit in accordance with the national scheme criteria. These customers had income above the minimum requirements and were 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.

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

### 2.6 The impact of changes from 1 April 2013

2.7 From April 2013, 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 set a national scheme for Elderly customers.

- 2.8 Instead of the local scheme being funded on the basis of actual expenditure, the Government moved the funding into the Revenue Support Grant (RSG) settlement (one of the strands of central government grant that councils currently receive), fixing it at only 90% of the subsidy paid in a prior 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. However the move away from RSG makes this funding link less obvious.
- 2.9 Each Council had to devise a way to fund 100% of the cost of the Elderly 'national' scheme and provide a Working age scheme, whilst receiving 10% less funding.
- 2.10 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.
- 2.11 Local Authorities must also 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.
- 2.12 Other Council Tax discounts and premiums
- 2.13 At the same time as introducing the requirement for a local Council Tax Reduction Scheme the Government enabled Councils to review the level of Council Tax discount granted to a small group of other discount areas, including long term empty, second homes and empty and substantially unfurnished properties. These were previously subject to national discount schemes.
- 2.14 East Herts reduced the discounts on the empty properties from 100% for the specified periods, to 50%. Second home discounts were removed, but an option to add an additional 50% charge (ie., 150%) to properties which had been empty for more than 2 years was not taken up.

2.15 The current potential income from adding the 50% premium to the long term empty properties, and the cost of the 50% discounts given on short term empty properties is detailed below. East Herts share of this income or cost is currently 10.34%. The remaining 89.66% cost is split between the County Council, Police Town and Parish Councils.

2.16 These changes can be made without the consultation needed to make changes to the CTS scheme.

<b>Long term empty premium</b> 158 properties empty for more than 2 years 50% premium - estimate if all were band D	<b>100% of Income</b>  £ 119,000.00
<b>Council Tax discounts</b> Empty and substantially unfurnished and Empty-uninhabitable - est cost 2015/16	<b>100% of cost</b>  £ 440,000.00

2.17 Local Authorities in the area have responded differently to the capability to vary these discounts, depending on their circumstances and policy objectives.

	Premium charged on Long Term Empty properties?	Discount for 'empty and unfurnished'	Discount for Empty-uninhabitable
East Herts	No	50% for 6 months	50% for up to 12 months
Stevenage	No	10% for 6 months	10% for up to 12 months
North Herts	Yes	100% for 28 days only	Zero
Hertsmere	Yes	100% for up to 2 months	50% for up to 12 months
Welwyn	Yes	100% for one month	Zero
St Albans	Yes	50% for 6 months	Zero
Dacorum	Yes	100% for up to 3 months	100% for up to 3 months

Three Rivers	Yes	Zero	Zero
Watford	Yes	Zero	Zero
Central Beds	Yes	Zero	Zero
Bedford	Yes	Zero	Zero
Luton	Yes	Zero	Zero

## 2.18 East Herts' Council Tax Reduction Scheme (CTS)

2.19 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. In effect this required working age customers to pay at least 10% of their council tax bill. The Government subsequently offered a one off transitional grant to Councils who restricted the reduction to 91.5%, and accordingly the Council amended the proposal and took the one off transitional grant. The Council has maintained this position for the first 4 years of the scheme. Therefore working age customers are currently liable for at least 8.5%.

2.20 The cost of the scheme is reflected in the tax base, and the income from the Government coming through the RSG. For 2013/14 the expected and actual positions are shown below.

2013/14

Precept	Government Grant and one off transitional grant	Expected expenditure 2013/14	Actual Expenditure 2013/14
75.29% HCC	£ 4,843,880.00	£ 4,922,208.27	£ 4,855,027.60
9.95% Police	£ 640,074.00	£ 650,497.71	£ 641,447.03
14.76% EHC/Parish	£ 950,247.00	£ 964,959.41	£ 952,320.15
	£ 6,434,201.00	£ 6,537,665.39	£ 6,448,794.78
Grant Shortfall		-£ 103,464.39	-£ 14,593.78

2.21 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.

2.22 Currently (2015/16) 75.6% of the Tax base income is precepted by Herts County and Council and 9.8% by the Police, and accordingly they have a vested interest in the value of the CTS scheme as it directly impacts on their ability to raise funds.

2.23 Before the introduction of CTS there had been a number of years of constant case load increases. The caseload has since stabilised and begun to reduce the impact on the cost of the scheme is demonstrated below.

Year	Cost of the CTS scheme		
2013/14	£	6,448,794.78	Actual
2014/15	£	6,066,188.65	Actual
2015/16	£	5,801,816.55	@ 1.3.16
2016/17	£	5,841,915.70	Estimate*

#### 2.24 East Herts Customers

2.25 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 'passported' 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.

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

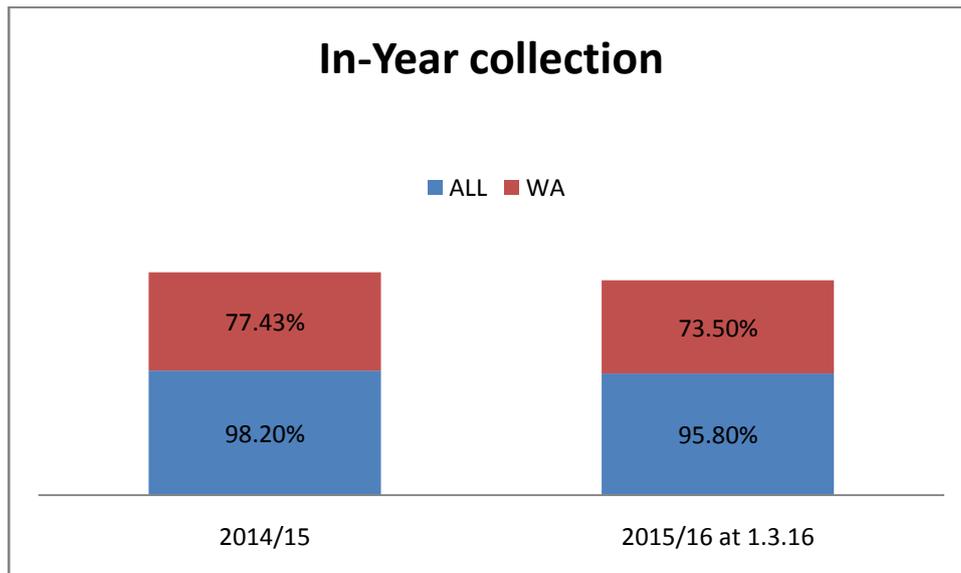
2.27 Offered flexible repayment options

2.28 Given more time to pay in the first year of the scheme

2.29 Initiated a project with the Citizens Advice Bureau to support customers with repeated arrears

2.30 Promoted other debt and advice agencies.

- 2.31 The in-year collection rate for working age claimants who had only the minimum 8.5% liability to pay was 67.49% in 2014/15 and is currently 67.7% (at 1.3.2016) for the 2015/16 liability.
- 2.32 The overall in-year collection rate for all working age CTS customers was 77.43% in 2014/15, and is currently at (1.3.2016) 73.5%. In contrast to the 'all tax payers' in-year collection rate, which for 2014/15 was 98.2%, and is currently (1.3.2016) in line to achieve the same level for 15/16.



- 2.33 This means that there is an increasing level of arrears to be collected from CTS customers. At 31.3.2015, 447 Working Age (WA) CTS households had a balance outstanding at the end of the year (2014/15) greater than their initial net liability, indicating that they had not paid their liability and had incurred additional costs of recovery. At 1.2.2016, there are 405 working age CTS households where the outstanding liability exceeds their initial net liability.
- 2.34 There are 213 accounts which appear in both the 2014/15 and 2015/16 lists which have outstanding balances greater than their net liability, indicating that they have not paid for these two years. A similar breakdown is not available for the 2013/14 year.

at 31.3.15	WA CTS
2013/14 liability outstanding	£ 171,139.95
2014/15 liability outstanding	£ 325,723.43
at 1.2.2016	
2013/14 liability outstanding	£ 114,128.35
2014/15 liability outstanding	£ 202,933.77
2015/16 liability outstanding at 1.3.16	£ 381,853.03

2.35 Many of these same customers were affected by other welfare reforms introduced at the same time including:

- The spare room subsidy scheme
- The Benefit cap
- Reviews of disability benefits etc.

2.36 Many families find that they have increasing debts with their councils and landlords for bills that were previously paid for them.

2.37 2016/17 onwards

2.38 The new welfare reforms being introduced from April 2016 will see some of these same households experience further reductions in their incomes. The DWP advise that the new lower Benefit cap is expected to affect up to 199 households in the East Herts area, and is due for roll out in the autumn of 2016.

2.39 Consideration of any variations to the existing scheme needs to consider;

2.40 The continued reduction in the Council's funding from central government

2.41 The reducing cost of CTS from falling caseload and reduction in entitlement levels

2.42 The impact of other welfare benefits reforms on the ability to pay

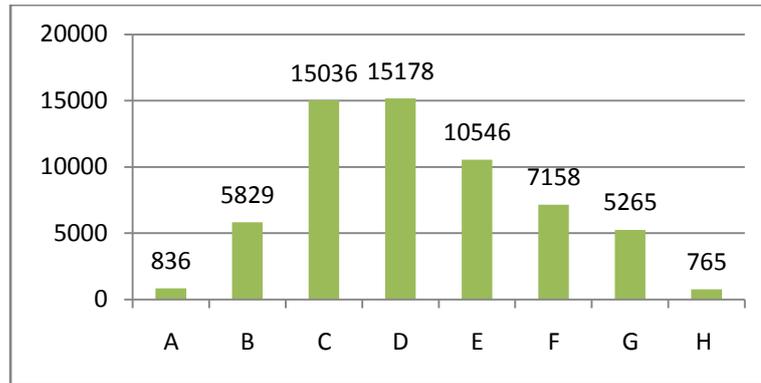
2.43 The cost of increasing arrears and recovery costs

2.44 The buoyancy of the taxbase generally

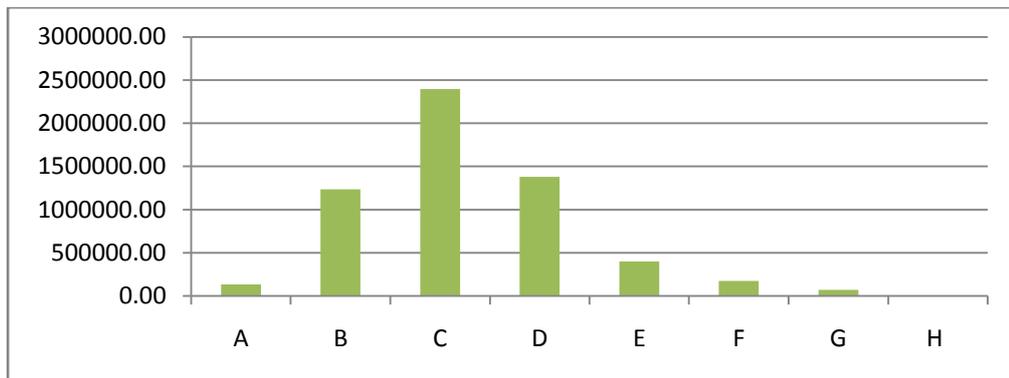
- 2.45 Any revision to a scheme must be made by the Council by the 31st January, immediately preceding the financial year in which it is to take effect and will require consultation with those affected. Additionally, consideration must be given to providing transitional protection where the support is to be reduced or removed. The financial impact of any decision also needs to be included when setting our budget and Council tax.
- 2.46 Corporate Business Scrutiny considered potential changes to the scheme for 16/17 in July 2015, but given the uncertainty around the upcoming welfare reforms resolved to recommend that the scheme remain unchanged for 2016/17. CBS requested however the opportunity to consider changes for 17/18.
- 2.47 The CTS scheme for 2016/17 can be summarised as follows:
- 2.48 That the CTS scheme for all working age claimants will be based on 91.5% of their council tax liability;
- 2.49 All local discretions currently in place will continue e.g. war pension disregards;
- 2.50 All other aspects of the new Council Tax Support scheme to mirror the previous Council Tax Benefit scheme.
- 2.51 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 2015/16.
- 2.52 Options that could be considered in redesigning a scheme
- 2.53 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.
- 2.54 Most recently the Government has introduced changes to the Housing Benefit regulations which are not currently mirrored in the CTS regulations. This means the schemes are no longer aligned. These changes include reducing the period that a claim can be backdated, and removing the family premium for new claims. The financial implications across the caseload will be small, but

changing the scheme so that these rules apply equally would reduce confusion for our customers. These changes would need to be consulted on.

- 2.55 Our caseload for CTS indicates that the proportion of working age customers compared to pensioners is approximately an equal share, (52% WA :48% Elderly) although this does change over time, especially given the national age threshold for becoming a pensioner is increasing.
- 2.56 The type of changes that could be made can be summarised as follows:
- 2.57 Changing the level of “minimum payment” for all working age customers
- 2.58 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 either by:
- 2.59 Increasing it (for example to 10%)
- 2.60 Reducing it
- 2.61 Increasing the amount customers are required to pay would risk the need for further bad debt provision – those customers who are currently struggling to pay would be unlikely to pay more – and we estimate in this example the change in cost would be £80k.
- 2.62 Reducing the amount customers are required to pay would create a funding gap that the council – and other precepting bodies – would have to fill. It would also add administrative costs. Assessing claims on 100% of liability is estimated to cost £300k.
- 2.63 Introducing a band cap (so limiting the amount that we would pay to a value of a lower property band, for example Band D)
- 2.64 Number of properties by band at 1 February 2016



2.65 CTS spend by band at 1 February 2016



2.66 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. The above table demonstrates that 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.

2.67 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.

2.68 Introducing a minimum amount that the council would fund

2.69 Some Councils have introduced a minimum level at which they 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 currently requiring support. There are no real savings in terms of administrative costs because

we would still have to undertake an assessment in order 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.

2.70 Changes around discretions for Disability, Children and other Dependents

2.71 This would change the nature of the scheme overall. East Herts councillors, when setting the original scheme were clear that all would contribute equally as the core scheme already differentiates preferentially to those with disabilities, children etc.

2.72 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.

2.73 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.

2.74 Other adjustments

2.75 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.

2.76 Finally, the intention is, in time 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.

2.77 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 had expected more details but some Government initiatives have been delayed. The earliest indication of actual numbers of customers affected by the latest Benefit cap, for example, will not be known until data samples are received after April.

3.2 We would need to consider the impact of any of those changes on the ability of our residents in receipt of Council Tax Support to pay their liability. This could impact upon collection rates, costs of recovery etc. Remembering the need for full consultation on any proposed changes.

### Background Papers

None.

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