

EAST HERTS COUNCIL

EXECUTIVE - 27 JUNE 2017

COUNCIL - 18 JULY 2017

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

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COUNCIL TAX REDUCTION SCHEME 2018/19

WARD(S) AFFECTED: ALL

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**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 2018/19.

**RECOMMENDATION FOR EXECUTIVE: that**

<b>(A)</b>	<b>Executive recommends to Council that there be no changes to the scheme design for East Herts local Council Tax Support scheme for April 2018.</b>
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**1. 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 18/19 but bringing forward this report offers an opportunity to consider fully the implications of any changes on the wider financial health of the organisation.

## **2. 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 1<sup>st</sup> 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 through prescribed regulations.

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. However the move away from RSG makes this funding link less obvious.

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.

### **Council Tax Reduction Scheme (CTS)**

2.2.12. 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. The Council has maintained this position for the first 5 years of the scheme.

2.2.13. The cost of the scheme is reflected in the tax base, in the same way as other discounts which reduce the collectable debit.

2.2.14. 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.

2.2.15. Currently (2017/18) 76.81% of the Tax base income is precepted by Herts County and Council and 9.37% 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. The lower the cost of the scheme, the higher the tax base on which they can precept.

2.2.16. 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, alongside a growing taxbase due to new developments in the area. 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	£ 5,734,780.11	Actual
2016/17	£ 5,670,937.52	Actual
2017/18	£ 5,997,528.70	Estimate*

\*The Tax base is calculated in October of the preceding year. The Band D value of the 2017/18 taxbase increased by 4.3%

2.2.17. From 14/15 the 90% grant that was included in the RSG was no longer individually identifiable. Therefore calculating the total cost of the scheme i.e. the cost of the CTS scheme versus the CTS grant given by Government is now impossible, as the grant has been subsumed within the total RSG and NDR (Business Rates) figures.

2.2.18. 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.

2.2.19. 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.

2.2.20. It continues to be a challenge to support and educate these customers into a regular payment arrangement. We have;

- Offered flexible repayment options,

- Given more time to pay,
- Worked on a project with the Citizens advice Bureau to support customers with repeated arrears,
- Promoted other debt and advice agencies.

2.2.21 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 73.18% for 2016/17.

2.2.22 The overall in-year collection rate for all working age CTS customers was 77.43% in 2014/15, and 79.95% in 2016/17. In contrast to the *all tax payers* in-year collection rate, which for 2014/15 was 98.2%, and 98.4% in 2016/17.

2.2.26 This means that whilst there, is an increasing level of arrears to be collected from CTS customers the in- year collection rates are improving. At 31.3.2017, 462 Working Age (WA) CTS households had a balance outstanding at the end of the year (2016/17) equal to or greater than their initial net liability, indicating that they had not paid their liability and or had incurred additional costs of recovery.

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

- the spare room subsidy scheme
- the new Benefit CAP,
- 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.

### **2018/19 onwards**

2.2.28 At the time of writing a general election has just been called, so there is a degree of uncertainty about the future of currently planned for welfare reforms.

2.2.29 However in the autumn of 2016 some of these same households experienced further reductions in their incomes. The new lower Benefit CAP now affects 141 households instead of 36.

2.2.30 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 98.4% in 2016/17, but this was dampened by only 79.95% 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 (passporting customers) paid only 73.18%. These account for 69.7% of all working age customers.

2.2.31 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.

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

- Variations in grant funding
- 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

2.2.33 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.

2.2.34 Corporate Business Scrutiny considered potential changes to the scheme for 17/18 in March 2016, but given the reducing cost of the scheme and the uncertainty around the upcoming welfare reforms were happy to recommend that the scheme remain unchanged for 2017/18.

2.2.35 The CTS scheme for 2017/18 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.;
- All local discretions currently in place will continue e.g. war pension disregards;
- All other aspects of the new Council Tax Support scheme to mirror the previous Council Tax Benefit scheme.

2.2.36 In recognition of the fact that the additional Council Tax liability is more difficult to collect, a collection rate of 98.9% has been assumed. This is slightly higher than in 2016/17. (98.65%)

### **2.3 Options that could be considered in redesigning a scheme**

2.3.1 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.

2.3.2 The Government continues to make changes to the Housing Benefit regulations which are not currently mirrored in the CTS regulations. This means the schemes are no longer aligned. The frequency of changes to Housing Benefit and Universal credit schemes, make it almost impossible to mirror these in the CTS scheme, not least of which because of the difference in timing. The Housing Benefit and Universal Credit schemes are changed when needed during the year, and the CTS scheme can only be revised annually.

2.3.3 Consideration was given last year to align some of the more significant differences but the financial implications across the caseload would have been small, and the changes would have required a full consultation exercise, to achieve only a temporary alignment, and therefore this was rejected.

2.3.4 Our caseload for CTS indicates that the proportion of working age customers compared to pensioners is approximately an equal share, (53.69% WA :46.31% Elderly) although this does change



over time, especially given the national age threshold for becoming a pensioner is increasing.

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

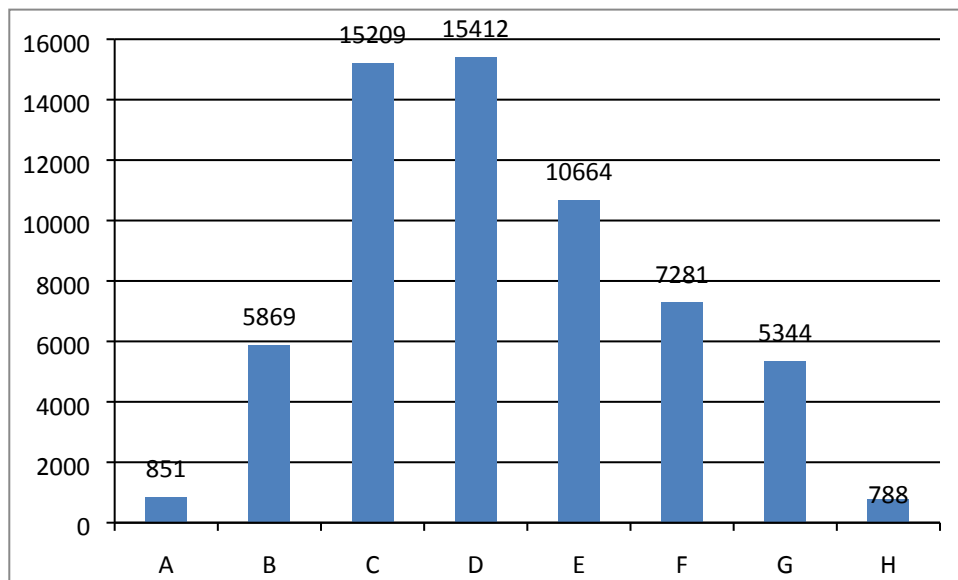
2.3.6 Changing the level of “minimum payment” for all working age customers

- 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

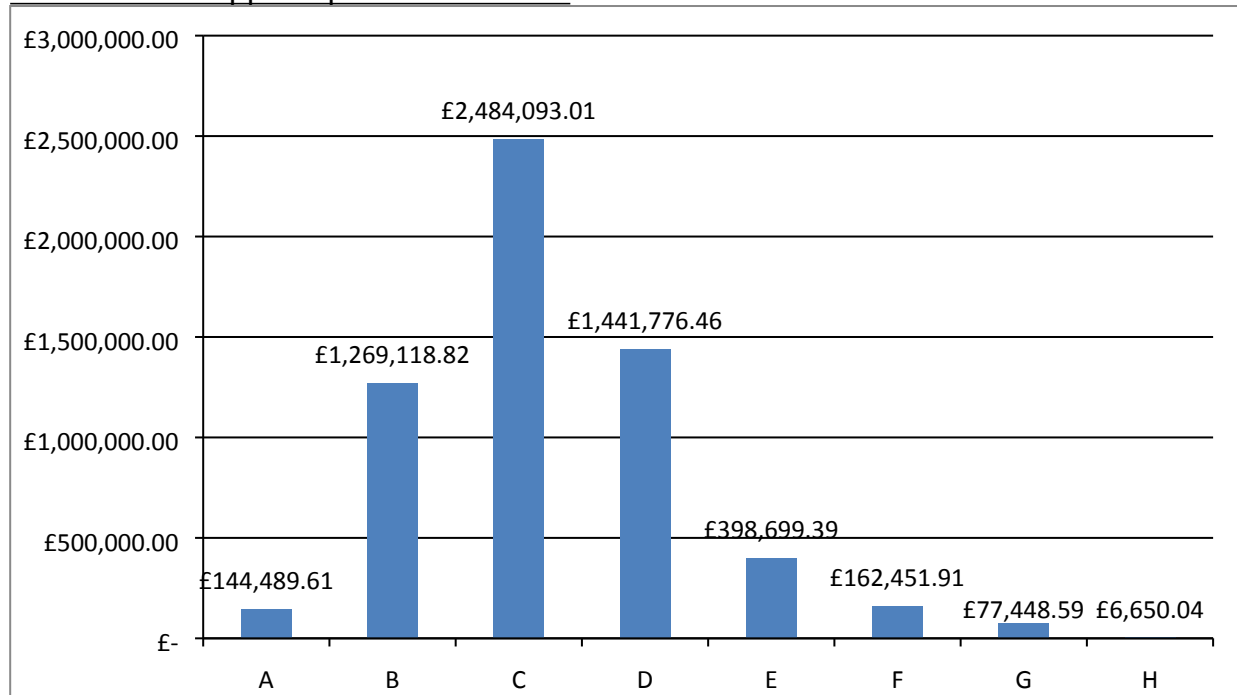
scheme, we need to consider the significant financial impact this could have on others. There would still be costs associated with administering the scheme whatever the level of award, as not everyone gets the full benefit so this would not mitigate the additional cost to the Council. On current estimates, we believe the additional burden could be around £300k.

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

Number of properties by band at 1.4.2017



### Council Tax Support spend at 1.4.2017



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. 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.

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.

### 2.3.8 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 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.

### 2.3.9 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.

### 2.3.10 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 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 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 as a result of the general election.
- 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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