

EAST HERTS COUNCIL

EXECUTIVE - 11 SEPTEMBER 2018

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

COUNCIL TAX REDUCTION SCHEME 2019/20

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 2019/20.

<u>RECOMMENDATIONS FOR EXECUTIVE:</u> that:	
(A)	Executive recommend to Council that there be no changes to the scheme design for East Herts local Council Tax Support scheme for April 2019.

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 11th March 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 On 17 April 2018 Overview and Scrutiny committee received a presentation on a potential new scheme for 2019/20 based on income bands. The new style of scheme would aim to simplify the criteria for customers as well as mitigating the impact of changes in circumstances on workload and council tax collection, resulting from universal credit reassessments.
- 1.4 Members were advised that substantial modelling would need to be carried out to avoid any unintended consequences, as well as enabling full consultation with tax payers and major preceptors. Unfortunately the software modelling tool has proved to be insufficiently sophisticated to enable the modelling to be progressed with sufficient confidence in the results. A new module is due for release in the autumn and it is proposed to recommence modelling again at that time, for consideration for a scheme from 2020.
- 1.5 Members were advised that in the event that the modelling was not completed in time, it would be necessary to request to continue the existing scheme for 2019/20. The chair of Overview and Scrutiny has been advised of the situation and confirmed that this report can be submitted to Executive without further review by that committee.
- 1.6 This report therefore details the current position on Council Tax, and seeks support to continue the current scheme for 2019/20 whilst testing on a revised structure of scheme can be continued.

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

2.2.5. Schemes must support work incentives.

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

2.2.7. 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.

2.2.8. 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.

2.2.9. 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)

2.2.10. 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 6 years of the scheme.

- 2.2.11. The cost of the scheme is reflected in the tax base, in the same way as other discounts which reduce the collectable debit.
- 2.2.12. 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.
- 2.2.13. Currently (2018/19) 76.98% of the Tax base income is precepted by Herts County and Council and 9.56% 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.
- 2.2.14. 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	Actual
2014/15	£ 6,066,188	Actual
2015/16	£ 5,734,780	Actual
2016/17	£ 5,670,937	Actual
2017/18	£ 5,813,163	Actual

*The Tax base is calculated in October of the preceding year. The Band D value of the 2018/19 taxbase increased by 5.7%

- 2.2.15. 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.

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

2.2.17. 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.

2.2.18. 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 70.49% for 2017/18

2.2.22 The overall in-year collection rate for all working age CTS customers was 77.43% in 2014/15, and 78.66% in 2017/18. In contrast to the *all tax payers* in-year collection rate, which for 2014/15 was 98.2%, and 98.3% in 2017/18.

2.2.23 Many of these same customers have been affected by other welfare reforms introduced ;

- 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.

2.2.24 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 98.3% in 2017/18, but this was dampened by only 78.66% 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 (passported customers) paid only 70.49%

2.2.25 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.

2.2.26 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

2.2.27 Any revision to a scheme must be made by the Council by the 11th March, 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.

2.2.28 Corporate Business Scrutiny considered in detail potential changes to the scheme 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 and 2018/19

2.2.29 The CTS scheme for 2018/19 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.

2.2.30 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.

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 The caseload for CTS indicates that the proportion of working age customers compared to pensioners is changing over time very slightly. It demonstrates a reduction in the proportion of the caseload for Elderly customers and this is attributed to the rising of the national age threshold for becoming a pensioner. (At 1.6.18, 55% WA :45% Elderly)
- 2.3.5 The presentation to Overview and Scrutiny in April outlined an indicative income band scheme along with the potential to simplify entitlement criteria and the treatment of income and capital.
- 2.3.6 The presentation explained that due to the national roll out of 'full service' universal credit (impacting in East Herts from October 2018) there was a need to look to reduce the impact of monthly changes in universal credit on entitlement to CTS and Council tax collection.

2.3.7 Members were supportive of the approach subject to extensive testing to minimise any unintended consequences on our most vulnerable residents.

2.3.8 The type of changes that could be made to the *existing style* of scheme can be summarised as follows,

2.3.9 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.

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

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.

This could 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.

2.3.11 Introducing a minimum amount we would pay out

Some Councils 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.

2.3.12 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.

2.3.13 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, (subject to modelling) to move away from a fully means tested benefit towards a discount scheme based on income bands in 2020. This would make administration more efficient and far less complex and time consuming for the customer. Consequently any amendments to the scheme for 2019/20 would be temporary.

3.0 Implications/Consultations

- 3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

None

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

Contact Officer: Su Tarran – Head of Revenues & Benefits shared service, ext 2075
Su.tarran@hertspartnership-ala.gov.uk

Report Author: Su Tarran – Head of Shared Revenues and Benefits Service
Su.tarran@hertspartnership-ala.gov.uk