

East Herts Council Report

Executive

Date of Meeting: 6 October 2020

Report by: Councillor Geoff Williamson, Deputy Leader and Executive Member for Financial sustainability

Report title: COUNCIL TAX REDUCTION SCHEME 2021/22

Ward(s) affected: All

Summary

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 2021/22

RECOMMENDATIONS FOR EXECUTIVE:

- (a) **To recommend to Council to continue the current local Council Tax Support Scheme for 2021/22.**

1.0 Proposal(s)

- 1.1 That Executive consider, in accordance with the Government's requirement for an annual approval of the Council Tax support scheme, to propose to the Council to continue the current local Council Tax scheme for 2021/22.

2.0 Background

- 2.1 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.

- 2.2 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.
- 2.3 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.
- 2.4 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.
- 2.5 Since the introduction of CTS in April 2013 various changes have been considered but the scheme has remained the same. Appendix A provides details of the history of the scheme.
- 2.6 The Overview and Scrutiny Committee considered a report at its meeting on 15 September 2020 inviting it to consider options and whether to recommend to Executive that it should recommend continuation of the current scheme to Council. Previously Overview and Scrutiny committee received a presentation on a potential new scheme for 2019/20 based on income bands. The aim was to find a scheme which would 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.
- 2.7 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. Testing was carried out but did not produce the desired outcomes.
- 2.8 This report therefore details the current position on Council Tax, and seeks support to continue the current scheme for 2021/22.

3.0 Reasons

- 3.1 In 2013 the Council initially devised a scheme which replicated the previous Council tax Benefit scheme but limited the Council Tax liability that was used to assess entitlement to 91.5% for working age

customers. The Council has maintained this position for the first 8 years of the scheme.

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

3.3 Currently (2020/21) 75.86% of the tax base income is precepted by Herts County and Council and 10.62% 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.

3.4 Before the introduction of CTS there had been a number of years of constant case load increases, the caseload has since stabilised and reduced, 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
2018/19	£ 6,066,356 **	Actual
2019/20	£5,999,213	Actual

* The Band D value of the 2017/18 taxbase increased by 4.39% on 2016/17,

**The Band D value of the 2018/19 taxbase increased by 5.76% on 2017/18

3.5 The level of spend on CTS has continued to reduce in real terms since its introduction. This has supported previous recommendations to leave the scheme unchanged.

3.6 The impact of Covid -19 on the economy in the short, medium or long term is as yet unknown. However for the first time since 2009, the case load for working age claimants has begun to rise. This is considered to be as a result of the lockdown. It may be symptomatic of the beginning of a recession as seen in 2008/09, where caseloads rose

continuously for 5 years before reducing, or it may be a short term response to the lockdown and furlough arrangements.

- 3.7 The impact of this growth, although small at present needs to be considered for its impact on the taxbase and the proportion of the cost borne by East Herts Council.
- 3.8 The taxbase for 2020/21 was calculated in October 2019, and assumed Council Tax Support would cost the equivalent of 3410.53 band D values. At 1 July 2020 the actual band D cost of Council Tax support was 3438, which is £51,000 more expensive. In context however the taxbase is set to produce £114.2m and has many variables.
- 3.9 Whilst the working age caseload has seen a modest rise in recent months, the elderly caseload continues to fall and is thus mitigating the impacts of this change.
- 3.10 If the net rate of growth of CTS continues during the year we could have an increase in the caseload of 404. The impact on this years taxbase is mitigated by pro-rata entitlement, but a full year impact, assuming all are band D properties would be in the region of £753k. East Herts' share of the taxbase is 9.33% which would account for £70.3k.
- 3.11 It is perhaps not unreasonable to expect a spike when the furlough scheme becomes less generous and again when it is withdrawn, although the impact or duration of these potential outcomes is unknown. Changes in caseload are monitored so any trend would be promptly identified.
- 3.12 The taxbase is also impacted by other variables, and changes in anyone of them can impact on its ability to generate the expected income levels on which the budget is set. The Covid-19 pandemic may for example have a dampening effect on new builds coming into the taxbase which will further reduce its income raising capacity, or this may be accelerated by reduced housing costs.
- 3.13 Consideration of any variations to the existing scheme needs to consider;
- The 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
- The roll out of Universal Credit

3.14 The CTS scheme for 2020/21 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 continue e.g. war pension disregards;
- All other aspects of the new Council Tax Support scheme to mirror the previous Council Tax Benefit scheme.

3.15 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 CTS arrangements all working age customer have to pay at least 8.5% towards their bill.

3.16 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.

3.17 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 72.42% for 2019/20

3.18 The overall in-year collection rate for all working age CTS customers was 77.43% in 2014/15, and 77.95% in 2019/20. In contrast to the all tax payers in-year collection rate, which for 2014/15 was 98.2%, and 97.8% in 2019/20.

3.19 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. 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.

3.20 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.

4.0 **Options that could be considered in redesigning a scheme**

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.

4.2 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.

4.3 Consideration was been given previously to align some of the more significant differences between Housing Benefit and Council Tax support but the financial implications across the caseload have been assessed as small, and the changes would have required a full consultation exercise, to achieve only a temporary alignment, and therefore this was rejected.

4.4 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 may be attributed to the rising of the national age threshold for becoming a pensioner. (At 1.4.20, 55.4%% WA: 44.6% Elderly), consequently more customers would be affected by any changes.

- 4.5 Previously consideration was given to an income-band scheme which appeared to offer an opportunity to simplify entitlement criteria and the treatment of income and capital. This was driven by the roll out of 'full service' Universal Credit, (impacting in East Herts from October 2018) so there was a need to look to reduce the impact of monthly changes in universal credit on entitlement to CTS and Council tax collection.
- 4.6 Members were supportive of the approach, however subsequent testing has shown that there are unintended consequences for customers with disability premiums, and to correct for these would make the scheme overly complex and thus not achieve the desired outcomes.
- 4.7 Consideration has previously been given to each of the following changes, but each relies on the basic scheme construction remaining the same.
- a) Changing the level of "minimum payment" for all working age customers
- I. 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.
 - II. 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.
 - III. 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.

- IV. 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 the impact upon the totality of the funding for the Council and importantly, other precepting bodies too. These impact on their overall funding levels, and given we represent under 14% of the total cost of the scheme, EHC needs 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.

- b) 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.

- c) Introducing a minimum amount that would be paid out

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 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.

- d) Changes around discretions for Disability, Children and other Dependents
- I. 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.
 - II. 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.
 - III. 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.

e) Other adjustments

There include; income tapers, non-dependent deductions, income disregards etc. but all 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.

4.8 **The impact, challenges and opportunities of Universal Credit.**

4.8.1 Customers claiming UC who apply for Council Tax Support do not require the Council to carry out means testing on their circumstances. They need only provide their UC entitlement letters (details of which can be confirmed through LA's access to the DWP systems). These claims are already means tested and have differential applicable amounts applied by the DWP, and the only income element that is needed for an award of CTS is earnings. Consideration has to be taken of any deductions being made for overpayments or recovery of advances, but these lend themselves to a simplified assessment and processing system, and could be incorporated into a discount scheme.

4.8.2 Universal credit full service roll out took effect in this area in October 2018. This means that customers who would previously have applied for Housing Benefit (HB) and CTS are now applying for UC and CTS. The DWP pilot for moving existing HB claimants on to UC was not successful and therefore they have deferred progressing managed migration until a further pilot or pilots are completed.

- 4.8.3 There is therefore no information available currently to determine when this councils existing working age HB caseload will move to UC.
- 4.8.4 There are certain groups of HB claimant that will not, in the foreseeable future migrate to UC, as they are deemed too complex. This means that in addition to the pensioner case load there will be a residual working age caseload to manage.
- 4.8.5 It has therefore been appropriate to consider if the current CTS scheme is fit for purpose now that a growing number of customers will be in receipt of UC.
- 4.8.6 The reduction in new claims for HB might seem to reduce the services workload, however as the current scheme requires the same preparation and processing to award a CTS claim as an HB one, there is no saving. Currently claims or changes in circumstances are prepared and input and both awards (HB & CTS) are processed simultaneously. Claims not requiring an HB assessment simply produce one output (CTS award) rather than two.
- 4.8.7 UC claimants have to apply to the council for CTS entitlement. There is a common misunderstanding among claimants that it is all covered by their claim for UC. The Council therefore often only gets to engage with these customers when their Council Tax account is in arrears, and additional recovery action has to be taken. Clearly this is an additional administrative burden for the council, and costly for the customer.
- 4.8.8 Universal Credit is reassessed monthly, and those customers who are working (nationally this is estimated at more than 40%) are likely to experience variations in the UC entitlement each month. This is attributed to salary and wages frequencies affecting the 'monthly' assessments. Each time there is a change in the UC award, their entitlement to CTS has to be reassessed. Every time the CTS is reassessed, it produces a new Council Tax Bill. These constant changes in bills and amounts due are not only confusing to the customer trying to budget, but it also resets any recovery action being taken for non-payment.
- 4.8.9 The service has received a significant increase in workload from these monthly changes. They are received electronically from the DWP using an existing process called ATLAS. However development of automation routines has mitigated the impact of this increase workload on resources. Further developments in this area are being pursued.
- 4.8.10 Identifying and acknowledging these challenges from UC requires any potential change to the CTS scheme to consider;

- I. The potential for further automation of UC notices on live CTS claims, thus reducing the new workflow
- II. Mitigations for changes in UC entitlements to revise council tax liability, and thus avoid resetting recovery action.

This could be achieved if the CTS scheme set bands of entitlement, or fixed periods in which changes in income would not result in a change in entitlement, within the scope of a set range.

These options have the potential to be very expensive.

- III. The costs of changing the scheme.

The software supplier is estimating a cost in the region of £25k for each Council moving towards a banded CTS scheme. Herts County Council has already declined to contribute to any costs associated with changing the scheme, despite being the biggest preceptor for Council Tax.

Any changes to the scheme require full and meaningful consultation with all taxpayers in the district and there are significant costs associated with this level of consultation.

4.9 What others are doing:

- Some councils have moved to a banded scheme, but they still require substantial means testing of each claim.
- St Albans are with a different software supplier and introduced a banded scheme for UC claimants only from April 2019, which run alongside a scheme similar to our existing scheme for all other claimants. This is an interesting option which rather than dealing in % entitlements, specifies how much the customer will pay towards their Council Tax. This means customers on the same income pay the same towards their council tax, regardless of the size of the property they occupy. This also provides a scheme for customers to transition into when migrated from HB.
- Unfortunately we cannot replicate a scheme like this currently as we are unable to have two different live working age CTS schemes at the same time.
- Other councils are considering various options but anecdotally are awaiting more information around migration before changing current schemes.

4.10 Current position:

The current CTS scheme works and protects the most vulnerable customers by the use of applicable amounts and income disregards.

Work has been carried out over a period of time on developing a banded scheme for all working age claimants. This has included modelling of current claimants into a banded scheme, to assess the impact and identify any unintended consequences.

As it is not currently possible to have a separate schemes for just UC cases, all current working age claimants would have to be included. After testing the data it is clear that the intended simplicity of a banded scheme would be compromised as the need to differentiate between all the many and varied disability premiums and incomes would require too many bands for each category of household, to ensure sufficient protection for these groups.

In addition there would be all the costs of changing the scheme but no savings in administration, or increased simplicity for the customer.

4.11 Conclusion

The improvement in automation of UC notices is mitigating the increased workflow. It is proposed that we continue with a two stage approach for the future.

- Firstly, instead of looking to change the current scheme in the short term, that further automation of UC change notices continues.
- Secondly, once actual caseload migration is timetabled, consideration of a banded scheme or a discount scheme is revisited. At this time the majority of cases will convert to UC, and will have the means testing carried out by the DWP, thus offering opportunity for administrative savings.
- This will remove the current challenge around protecting the needs of those with disability incomes as this will be incorporated in the DWP assessment of UC entitlement.
- The impact of Covid-19 on the caseload and taxbase be monitored closely and if significant, an early consideration of changes to the scheme for 2022/23 be recommended.
- Members will also be able to review the original principles of the scheme, including that all WA customers pay 8.5% of their liability.
- This approach should ensure that costs associated with the change of schemes will be matched by efficiencies achievable in the administration processes.

5.0 Risks No

6.0 Implications/Consultations

6.1 Herts County Council and the Police will be consulted on the proposal.

Community Safety

No

Data Protection

No

Equalities

No

Environmental Sustainability

No

Financial

Finance had been consulted and fully support the proposal.

Health and Safety

No

Human Resources

No

Human Rights

No

Legal

No

Specific Wards

No

7.0 Background papers, appendices and other relevant material

Appendix A details the history of the Council tax support scheme.

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