

CABINET

25 AUGUST 2015

LOCALISED SUPPORT FOR COUNCIL TAX

Portfolio Holders: Councillor Alan Jarrett, Leader of the Council
Councillor Rupert Turpin, Portfolio Holder for Business Management

Report from: Phil Watts, Chief Finance Officer

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Summary

This report seeks Members approval to recommend a revised council tax reduction scheme to Full Council to take effect from 1 April 2016 and to commence the requisite public consultation.

1. Budget and Policy Framework

1.1 It is the Cabinet's responsibility to propose a budget to be agreed by Council. The scope of the localised Council Tax Reduction Scheme (CTRS) will have an impact on both the taxbase calculation and the budget requirement that underpin the budget proposal. The consequences of dealing with these issues will directly impact on the level of council tax. Approval of the Council Tax Support Scheme is a matter for Full Council.

2. Background

2.1 On 23 January 2013 Council adopted a local CTRS (decision number 774/2013).

2.2 Any entitlement to a reduction is based on a means test, by taking into consideration a person's income and comparing this with any personal allowances, premiums and disregards to which they may be entitled.

2.3 For each financial year, the Council must consider whether to revise its scheme or to replace it with a replacement scheme. It must make any revision to its scheme, or any replacement scheme, no later than 31 January for the subsequent financial year.

2.4 Revisions to the CTRS or a replacement CTRS must be the subject of consultation.

- 2.5 In order to maintain the balance between the council tax reduction scheme and the allowances to which claimants are entitled Council amended the original scheme on 24 January 2014, following public consultation, so that it is updated on an annual basis in line with national changes (decision number 748/2014). The April 2016 allowances will not be announced until January 2016 and will be included in the Council report at that time.
- 2.6 On 8 July the Chancellor of the Exchequer in his Summer Budget announced a number of welfare reforms. A timeline of these reforms is at Appendix 1.
- 2.7 Early indications at a national level suggest these reforms will increase the cost of CTRS by around £200 to £250 per affected claim.
- 2.8 Officers calculations suggest the increase on cost in Medway will be approximately £350,000 based on 1,752 working age claimants who are in employment and whose income exceeds their applicable amounts.

3. The Scheme

- 3.1 The current Medway scheme is available from the following link:
<http://democracy.medway.gov.uk/ieListDocuments.aspx?CId=122&MId=2973&Ver=4>
- 3.2 The scheme consists of two parts; the first makes provision for non-pensioners and is at Members' discretion, and the other makes provision for pensioners that is made on a national basis and in line with previous awards of council tax benefit
- 3.3 Key aspects of the current CTRS are:
- Any entitlement to a reduction is based on a means test, by taking into consideration a customer's income and comparing this with any personal allowances, premiums and disregards to which they may be entitled
 - Only 75% of council tax liability is used to assess Council Tax Support
 - A minimum deduction is made in respect of non-dependants to include any such person in the household, aged 18 years or more
 - Those in receipt of a war widow or war disablement pension enjoy the same protection as pensioners.

4. Options – maintain current scheme

- 4.1 Maintain the current scheme

The current scheme as described above costs approximately £14.5m per annum. The additional cost from the welfare reforms as at 2.8 above gives a total estimated cost in 2016/17 of £14.85m

5. Options - varying the minimum discount

- 5.1 When considering the amount of discount to be awarded it must be remembered that Medway Council's council tax remains one of the lowest in the country.

- 5.2 The table below summarises the costs of the current scheme (75% discount) compared with impact of reducing the maximum discount available to eligible claimants to 70% and 65%. It then plots the gross additional income that would be invoiced alongside the projected income collected based on the current collection rate for CTRS cases.

Table 1: Potential impact of changes to the CTRS

Max. CTRS Discount	Cost of CTRS Discount	Gross Additional Revenue	Based on 75% collection rate in year	Based on 85% collection rate over two years
75% (current scheme)	£14,448,543	N/A	N/A	N/A
70%	£13,880,756	£ 567,787	£ 425,840	£ 482,619
65%	£13,315,588	£1,132,955	£ 849,716	£ 963,012

- 5.3 Given the relatively recent introduction of CTRS there is little historical data to indicate what the impact of changes to the scheme might be on the collection rate. In 2013/14 and 2014/15 the in-year collection rate was approximately 76%. By 31 March 2015 the collection rate for 2013/14 council tax had risen to 86% (see Appendix 2).
- 5.4 The estimates in Table 1 are based on a collection rate of 75% in-year to reflect the potential impact of arrears accruing over time. The more significant risk is that whilst some may continue to meet their obligations, others who may have been striving to pay at 25% may decide that at 30% or more it is simply too much and stop paying altogether. This is impossible to predict, although anecdotally Rochdale identified this tipping point and have now proposed to increase the discount to 80%.
- 5.5 Members are also asked to note that for those working age taxpayers on benefits, the Council is able to deduct the Council Tax from their benefits on a weekly basis. However, the amount that can be deducted is in many cases less than the weekly amount due. There are approximately 1,900 such cases where the sum being collected in this way is less than the annual council tax liability and arrears are mounting up. Reducing the discount to 70% in these cases would simply impact on the overall collection rate and result in a further £87,740.10 of debt that the Council is unlikely to recover (1,900 x (band B £923.58 x 5%)). Reducing the discount to 65% would double the figure to £175,480.20.

6. Options – other

- 6.1 Whilst the Council has discretion to amend the maximum amount it awards, there are other amendments to the scheme that could be considered. Examples and minimum costs based on our current 75% scheme include:

- Continuing to offer war widows and war disablement pensioners the protection offered to pensioners in recognition of the contributions that families have made to their community and in service to the country (Cost £5,000)
- Enhancing extended payments from 4 weeks to 8 weeks as at 7.3.1 below which will provide extra support to those people moving from benefits into work (Cost £25,000).

7. Advice and Analysis

7.1 Consultation

7.1.1 Should Members wish to revise the current scheme there is a legal requirement to undertake a consultation exercise which good practice suggests should be for a minimum of 12 weeks.

7.1.2 The Supreme Court recently concluded that a consultation conducted by the London Borough of Haringey into a proposed council tax relief scheme was 'unfair and therefore unlawful'.

7.1.3 The court endorsed the 'Sedley criteria' advanced and accepted in R v Brent London Borough Council ex parte Gunning as 'a prescription for fairness' in consultations

- Consultation must be when proposals are still at a formative stage;
- The proposer must give sufficient reasons for any proposal to permit intelligent consideration and response;
- Adequate time must be given for consideration and response; and
- The product of consultation must be conscientiously taken into account.

7.1.4 The Court found that In this case, fairness 'demanded' that the consultation refer to other ways of absorbing budget shortfalls such as impacts on other services and the reasons Haringey had concluded such alternatives were unacceptable.

7.1.5 In conducting the consultation, the local authority would be required to explain the impact on other local authority services of not implementing the revised scheme. It is proposed to articulate this in terms of the following:

- a) Increasing council tax
- b) Use of reserves
- c) Cuts in support services
- d) Reductions in expenditure on social care.

7.2 Collection

7.2.1 Any reduction in the discount will result in a need to collect the corresponding amount of council tax from working age benefit claimants.

7.2.2 Where the claimant is on state benefits the Council may apply for deductions from their benefits. This is currently at the rate of £3.70 per week, and no other enforcement action may be taken in relation to the debt for which money is being deducted. This means that in the majority of cases the claimant will become further in debt each year as the deductions fail to keep pace with the amount of council tax charged. This in turn could discourage people from seeking employment (it is a requirement of a CTRS scheme that it should encourage employment).

7.2.3 As previously stated the Council has around 1,900 accounts subject to a benefit deduction order of which 93 will clear their current liability by the end of March 2016. 90 cases will take in excess of 10 years to collect existing balances, with the top two cases taking just over 35 years. If it is deemed acceptable to 'stack up' benefit deductions then it may be considered discriminatory not to permit low earning claimants to similarly accrue debts.

7.2.4 Members are reminded of the existence of Council Tax Discretionary Relief to assist in cases where the payment of council tax would cause undue hardship, although this is considered to be short term help. It may be that the policy will need reviewing should the CTRS scheme change.

7.3 Making work pay

7.3.1 In order to promote the scheme as encouraging work to pay, consideration could be given to enhancing extended payments. An extended payment is a payment of Housing Benefit or CTRS made for a maximum of 4 weeks after a claimant or partner who has been in receipt of a qualifying benefit for 26 weeks or more starts work, increases their hours of work, or earnings, and as result of this are no longer entitled to:

- Income Support
- Job Seekers Allowance (income based)
- Incapacity Benefit
- Severe Disability Allowance
- Employment and Support Allowance

7.3.2 Extending the four week period for CTRS to eight weeks would cost an additional £25,000.

7.3.3 Promotion of any job creation programmes, training opportunities etc would also help strengthen the Council's position of making work pay.

7.4 Diversity Impact Assessment

7.4.1 At the Council meeting on 22 January 2015 (decision 691b/2015) The Council instructed officers to carry out a new Diversity Impact Assessment (DIA) to determine the impact of the Local Council Tax Reduction Scheme alongside the scheme when it is next presented for approval in 2016.

7.4.2 Officers have already started work on the DIA and completed a Mosaic profiling of CTRS cases. Initial results show an over representation in the group considered to be a municipal challenge (hard to help) – with 4 in 5 CTR claimants within this group being of working age and a higher than average number being single. A total of 2,143 households in Medway fall into this category while around 55% are in receipt of CTR alone.

7.4.3 The majority of municipal challenge CTR claimants are within three wards – River, Strood South and Chatham Central and although there is little variation in gender they are more likely to be from diverse backgrounds with a lower than average number from an English background.

7.5 Government review

7.5.1 The *Local Government Finance Act 2012* places a requirement on the Government to conduct a review of all local Council Tax support schemes within three years of the Act taking effect (i.e. by October 2015).

8. Risk management

Risk	Description	Action to avoid or mitigate risk
Forecast cost of scheme falls short of estimate	Likelihood D (Low) Impact 3 (Marginal) Claimants may have reduced benefits 'unnecessarily'	Use of data modelling tools and data analysis
Forecast cost of scheme excessive	Likelihood D (Low) Impact 2 (Critical)	Use of data modelling tools and data analysis
Effect on collection	Likelihood B (High) Impact 2 (Critical) Dependant on method of funding, but new scheme likely to produce small debts and debtors who have not had to pay before	Quick and efficient recovery processes
Comparison to neighbouring authorities	Likelihood D (Low) Impact 2 (Critical) If the Medway scheme is markedly more generous than surrounding authorities' schemes there is a possibility of claimants migrating into Medway placing additional stress on funding	Maintain links to other local authorities

9. Financial and legal implications

9.1 The Council is under a legal duty under Schedule 1A to the Local Government Finance Act 1992 to consider each year whether to revise its council tax

reduction scheme or to replace it with another scheme. Schedule 1A also provides that any revision to the scheme, or any replacement scheme, must be made no later than 31 January in the financial year preceding that for which the revision or replacement scheme is to have effect.

9.2 The potential financial implications are estimated at Table 1 and the commentary at Section 5.

10. Recommendations

10.1 Cabinet is asked to agree to the commencement of a twelve week consultation in relation to proposals to reduce the maximum CTRS discount from 75% to 65%.

11. Suggested Reasons for Decision

11.1 Changes to the Council Tax Support Scheme are a matter full Council, however Cabinet are asked to recommend the amended scheme now to allow a full twelve weeks consultation in advance of Council in January 2016.

Lead officer contact

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Appendices:

Appendix 1: Timeline for Welfare Reforms

Appendix 2: Council Tax Collection Rates

Background Papers:

None

Welfare Reforms announced in Budget

With effect from April 2016

Personal allowance increased to £11,000
Higher rate tax threshold increased to £43,000
National Living Wage set at £7.20 per hour
Social sector rents reduced by 1% per year for four years
Tax credits taper rate increased to 48%
Tax credits income threshold decreased to £3,850
Tax credits income rise disregard halved to £2,500
Work allowances lowered or eliminated under Universal Credit
JSA, ESA Work-Related Activity Group and Income Support rates frozen for four years
Child Benefit rates frozen for four years
Housing Benefit applicable amounts and LHA rates frozen for four years
Family Premium eliminated from Housing Benefit
Increasing help with child care costs for people on UC from 2016
Ending unemployment benefits for migrants with no prospect of employment
Greater incentives for local authorities to reduce housing benefit fraud and error

With effect from April 2017

Personal allowance increased to £11,200
Higher rate tax threshold increased to £43,600
Family element/first child premium, and child elements after third and subsequent children, eliminated for new births or claims on Universal Credit and tax credits
Benefit cap set at £23,000 in London; £20,000 elsewhere
18 to 21 year olds lose their automatic entitlement to housing support under Universal Credit
New ESA Work-Related Activity Group claimants to receive the same rate as JSA recipients
18 to 21 year olds on Universal Credit to receive intensive support at the start of their claim, expected to earn or learn after six months
Social tenants on incomes above £40,000 in London or £30,000 elsewhere to pay market rents

With effect from September 2017

Free childcare entitlement doubled from 15 to 30 hours for parents of 3 and 4 year olds

With effect from April 2018

Support for Mortgage Interest to become a loan

With effect from April 2020

Personal allowance increased to £12,500
Higher rate tax threshold increased to £50,000
National Living Wage set at £9/hour

AS AT 31 MARCH 2015						COUNCIL TAX DUE RE 2013/14				
COUNCIL TAX DUE RE 2014/15	COUNCIL TAX DUE RE 2014/15					COUNCIL TAX DUE RE 2013/14				
	ALL CTRS cases	Pensioners	Vulnerable	Working Age Employed	Working Age Other	ALL CTRS cases	Pensioners	Vulnerable	Working Age Employed	Working Age Other
TOTAL NET LIABILITY	£5,768,713.14	£1,349,922.33	£2,377.96	£1,457,728.09	£2,958,684.76	£5,913,188.14	£1,363,179.79	£4,688.52	£1,441,291.41	£3,104,028.42
TOTAL NET RECEIPTS	-£4,393,404.90	-£1,362,320.10	-£2,472.66	-£1,094,836.84	-£1,933,775.30	-£5,076,453.90	-£1,339,072.84	-£4,038.74	-£1,258,611.90	-£2,474,730.42
NET OUTSTANDING BALANCE	£1,375,308.24	-£12,397.77	-£94.70	£362,891.25	£1,024,909.46	£836,734.24	£24,106.95	£649.78	£182,679.51	£629,298.00
% OUTSTANDING	23.84%	-0.92%	-3.98%	24.89%	34.64%	14.15%	1.77%	13.86%	12.67%	20.27%
% COLLECTED	76.16%	100.92%	103.98%	75.11%	65.36%	85.85%	98.23%	86.14%	87.33%	79.73%
AS AT 31 MARCH 2014						COUNCIL TAX DUE RE 2013/14				
COUNCIL TAX DUE RE 2013/14						COUNCIL TAX DUE RE 2013/14				
CTAX ARREARS ANALYSIS						CTAX ARREARS ANALYSIS				
TOTAL NET LIABILITY						TOTAL NET LIABILITY				
TOTAL NET RECEIPTS						TOTAL NET RECEIPTS				
NET OUTSTANDING BALANCE						NET OUTSTANDING BALANCE				
% OUTSTANDING						% OUTSTANDING				
% COLLECTED						% COLLECTED				