



## Welfare Reform Sub-Committee – 12 October 2015

### Council Tax Support Scheme 2016/17

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#### **Purpose of report:**

To consider the options for a local Council Tax Support (CTS) scheme for 2016/17 prior to public consultation.

#### **Attachment(s)**

**Appendix A – Council Tax Support financial modelling**

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#### **1.0 Background**

- 1.1 The Welfare Reform Act 2012 introduced a responsibility for local councils to design and operate local CTS schemes to replace the national council tax benefit scheme. The Act was clear that any schemes would need to continue to protect the vulnerable and encourage claimants to get back to work.
- 1.2 The Act also specifically protects claimants of pensionable age from having their entitlement reduced as a consequence of the operation of a local CTS scheme.
- 1.3 The scheme adopted in East Northamptonshire for 2013/14 removed 'Second Adult Rebate' and made all working age claimants responsible for paying at least 8.5% of their council tax liability. Their CTS entitlement was calculated against the remaining 91.5% of liability.
- 1.4 The scheme adopted in East Northamptonshire for 2014/15 and 2015/16 made all working age customers responsible for paying at least 12.5% of their council tax liability. Their CTS entitlement is calculated against the remaining 87.5% of liability.

#### **2.0 Government Funding of Council Tax Support**

- 2.1 Members will be aware that the national 10% reduction in government funding for Council Tax Support Schemes over the last three years has been offset locally by the changes in the level of CTS for working age customers and maximising income from owners of empty properties by removing exemptions and applying a premium to long-term empty properties as provided for by the council tax technical reforms legislation.
- 2.2 The Government has not yet released indicative figures for 2016/17. However, an assumption has been made that funding will reduce again by 10%.
- 2.3 Officers have undertaken financial modelling and this is showing that the current CTS scheme would not be cost neutral in 2016/17; there would be a funding gap of around £289K (ENC element £24K).

#### **3.0 Welfare Reform changes**

- 3.1 Proposed changes to Housing Benefit regulations announced in the summer budget need to be considered in relation to the Council's CTS scheme for 2016/17.

- 3.2 For new claims made on or after April 2016 the needs allowance (known as applicable amount) will no longer include a Family Premium which is currently £17.45 per week. This would result in a family losing £3.49 per week in CTS.
- 3.3 There will also be a freeze in working age benefits for four years, and a restriction on the backdating of awards to a maximum of four weeks (previously 26 weeks).
- 3.4 In addition to the changes to Housing Benefit, there will also be changes to Tax Credits. At present, any household earning up to £6,420 a year can claim the full amount of tax credit. People who earn more than this figure can still get tax credits, but the amount reduces as their income rises. This threshold is almost being halved to £3,850 a year from April 2016. Any reduction on the amount of tax credit in payment to a household will mean a possible increase in the amount of CTS payable.
- 3.5 As this change has the impact of reducing household income it follows that those families affected will receive more CTS from the Council. Whilst it is difficult to estimate the full financial impact of this as at September 2015 we have approximately 600 cases that may be affected by this change and it is estimated that these households could see an average annual increase in their Council Tax Support of around £250. This may increase our Council Tax expenditure by around £150K. Members will appreciate that until further details are confirmed by central government this is only an estimate of the possible impact. This has been taken into consideration in the financial modelling detailed in Appendix A.
- 3.6 Earnings calculations – align the period earnings are taken into account in the calculation of the awards for CTS and Housing Benefit; this is a technical change only.
- 3.7 Universal Credit – amend how reductions in Universal Credit are treated so that the Council doesn't give more help to Universal Credit claimants who are repaying debt. At present, a person paying off debt through a reduction in their Universal Credit payment may receive more CTS.
- 3.8 It is proposed that the changes detailed in 3.2, 3.3, 3.6 and 3.7 are reflected in the Council's 2016/17 CTS scheme. This would offer simplicity in terms of the schemes being aligned, prevent an increase in scheme administration costs and a reduction in CTS expenditure.

#### **4.0 CTS scheme 2016/17 - options**

- 4.1 Appendix A demonstrates various options for a CTS scheme for 2016/17 onwards and the estimated financial effects.
- 4.2 The options in Appendix A are based on the following assumptions:
- Grant funding will continue to reduce by 10% per year
  - CTS expenditure will stay the same
  - CTS caseload will stay the same
  - Council Tax will increase by 1.99% per year
  - Council Tax collection rates will stay the same
  - Changes to Tax Credit awards are implemented from April 2016
- 4.3 The table below summarises the percentage reduction required each year for the CTS scheme to be cost neutral.

Financial year	2016/17	2017/18	2018/19	2019/20
% Reduction	23%	31%	37%	41%

- 4.4 **Option 1 – Status Quo**  
**No change to the percentage reduction in the current CTS scheme and amending the Regulations for changes announced in the Budget.**
- 4.5 This would mean retaining the current CTS scheme based on reduced support for working age people who would be required to pay at least 12.5% of their Council Tax liability. The only amendments required would be to the Regulations to reflect the changes announced in the Budget (see 3.8).
- 4.6 This would present a funding gap of around £289K (ENC element £24K) for 2016/17. Options to consider to meet the funding gap are:
- Increase the level of Council Tax by around 0.66%
  - Reduce funding available for ENC services.
  - Use the Council's reserves.
- 4.7 **Option 2 – Breakeven**  
**Increasing the percentage reduction in the current CTS scheme and amending the Regulations for the changes announced in the Budget.**
- 4.8 To enable the CTS scheme to be cost neutral, working age people would be required to pay at least 23% of their Council Tax liability. The Regulations would also need amending to reflect the changes announced in the Budget (see 3.8).
- 4.9 **Option 3 – Step change**  
**Increasing the percentage reduction in the current CTS scheme using a planned two year, medium term, step change approach and amending the Regulations for the changes announced in the Budget.**
- 4.10 This means that working age people would be required to pay at least 20% of their Council Tax liability in 2016/17 and at least 30% in 2017/18, the Regulations would also need amending to reflect the changes announced in the Budget (see 3.8).
- 4.11 This would present a funding gap of around £89K (ENC element £7K) for 2016/17. Options to consider to meet the funding gap are detailed in 4.6, the increase in Council Tax would be around 0.19%.
- 4.12 **Option 4 – Four year approach**  
**Increasing the percentage reduction in the current CTS scheme at the same rate for the next four years and amending the Regulations for the changes announced in the Budget.**
- 4.13 Based on current forecasts for the CTS scheme to be self financing in 2019/20 a 41% reduction would need to be applied. This option proposes that working age customers would be required to pay at least 40% of their Council Tax liability for the next four years.
- 4.14 This would result in a surplus of £1.2m (ENC element £104K) over the four year period.

- 4.15 *Summary.* This table shows the minimum amount of council tax a household would have to pay each week depending on their property band and the % of liability that is subject to means-testing.

	Option	1	2	3	4
Average Band	Number of customers affected	12.5% Reduction £	23% Reduction £	20% Reduction £	40% Reduction £
A	1330	2.31	4.24	3.69	7.38
B	799	2.69	4.95	4.30	8.61
C	190	3.08	5.66	4.92	9.84
D	87	3.46	6.36	5.53	11.07
E	28	4.23	7.78	6.76	13.53
F	26	5.00	9.19	7.99	15.99
G	3	5.77	10.61	9.22	18.45
H	0	6.92	12.73	11.07	22.14

## 5.0 Issues to consider

- 5.1 As previously mentioned, a number of announcements were made in the budget regarding welfare reform changes from April 2016 onwards; a high proportion of these changes will result in a reduction in disposable income and in turn may lead to customers defaulting on their Council Tax payments.
- 5.2 The impacts of the 2013/14, 2014/15 and 2015/16 CTS scheme and changes to Council Tax discounts and exemptions need to be considered when reviewing the scheme for 2016/17.
- 5.3 The table below details the number of reminders and summonses issued

Financial Year	Total number of reminders	CTS cases as a % of total reminders	Total number of summonses	CTS cases as a % of total summonses
2012/13	11958	N/A	3096	N/A
2013/14	15809	36%	4025	23%
2014/15	14896	18%	4341	24%
2015/16 @31/08/15	7607	25%	2244	35%

- 5.4 An in year Council Tax collection rate of 97.83% for all Council Tax payers was achieved for 2013/14; this increased to 97.98% for 2014/15 and we are on target for 2015/16.
- 5.5 However, the in year collection rate for Council Tax Support customers has fallen, 91.3% was achieved in 2013/14, 88.2% for 2014/15 and 26.7% for the first quarter of 2015/16 which is 7% down at the same point last year.
- 5.6 The percentage CTS claimants are required to pay didn't change from 2014/15 to 2015/16 therefore other financial pressures may be contributing towards their inability to pay. This could become more significant, particularly in light of the other Welfare Reforms announced in the Budget.
- 5.7 The Council is currently limited to an increase in Council Tax of 2% which is set by Central Government. The current Medium Term Financial Plan assumes a 1.99% increase in 2016/17. A local referendum would be required if we were to propose any

further increases in Council Tax.

5.8 If the Council Tax increase is set below the current forecast of 1.99% or the Council agrees to a further Council Tax freeze in 2016/17 then the CTS percentage reduction would need to be even higher.

5.9 The table below details the current percentage reduction rates for the other LA's in the County:

LA	BCW	CBC	DDC	KBC	NBC	SNC
% Reduction	20%	8.5%	20%	25%	21%	8.5%

Neighbouring authorities have not seen a decrease in their overall collection rate as a consequence of increasing the percentage reduction in 2015/16.

5.10 Analysis of countrywide data suggests that an increase in the CTS scheme percentage to 25% or more may lead to a drop in collection rates due to non payment from CTS customers.

## 6.0 Consultation

6.1 Public consultation will only be required if Members propose changes to the scheme.

6.2 Consultation would take place for a four week period from 26 October 2015 to 23 November 2015.

6.3 Following analysis of the consultation responses, this sub-committee would be asked to make a recommendation on the 2016/17 scheme on 7 January 2016. At this point, details of the spending review and Local Government Finance Settlement will also be known.

6.4 It is proposed that the scheme will be recommended for approval by full Council on 25 January 2016.

## 7.0 Equality and Diversity Implications

7.1 A full Equality Impact Assessment was carried out for the current scheme; this will be reviewed if Members propose to consult on changing the scheme.

## 8.0 Legal

8.4 Adopting a scheme by 31 January 2016 after appropriate consultation will be complying with the legislation.

## 9.0 Risk Management

Risk	Consequence	Likelihood	Controls
An increase in the amount payable by CTS customers could result in reduced Council Tax collection rates	Loss of income. Increased Council Tax arrears.	Likely	The council tax base calculation assumes a lower collection rate from CTS customers
Increase in recovery activity and costs	Additional recovery staff required	Likely	Close and regular monitoring of collection performance.

Section 13A decision challenged at Valuation Tribunal	Impact on revenue budget if the appeal is successful	Unlikely	The principles established following the tribunal decision in the case of SC & CW v East Riding Council are included in our CTS scheme and S13A procedure.
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## 10.0 Resource and Financial Implications

10.1 The financial implications are set out in the body of the report above and Appendix A.

## 11.0 Constitutional Implications

11.1 There are no constitutional implications.

## 12.0 Corporate Outcomes

12.1 Value For Money – the scheme is designed to minimise the impact on local tax payers overall.

Prosperous – the scheme is designed to provide an appropriate level of support to people on low incomes.


Effective Management – The council is required to review the CTS scheme annually.

## 13.0 Recommendation

13.1 Members are recommended to

- 1) Approve consultation on a new Council Tax Support scheme for 2016/17 with Option 3 as the preferred option.
- 2) Agree that the WRSC meet on the 7 January 2016 to consider the consultation responses and recommend a Council Tax Support Scheme 2016/17 to Council on the 25 January 2016.

*(Reason – to deliver a Council Tax Support Scheme for 2016/17 that meets all the statutory requirements).*

<b>Legal</b>	Power: Local Government Finance Act 2012 Welfare Reform Act 2013				
	Other considerations:				
<b>Background Papers:</b>					
<b>Person Originating Report:</b> Lucy Hogston, Benefits Manager 01832 742194, lhogston@east-northamptonshire.gov.uk					
<b>Date:</b> 30/09/15					
<b>DCFO</b> 2/10/15		<b>MO</b>		<b>CX</b>	

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