

Meeting:	Cabinet
Meeting date:	3 December 2015
Title of report:	Revisions to the council tax reduction scheme
Report by:	Director of resources

Classification

Open

Key Decision

This is a key decision because it is likely to be significant in terms of its effect on communities living or working in an area comprising one or more wards in the county.

NOTICE has been served in accordance with Part 3, Section 9 (Publicity in Connection with Key Decisions) of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

Wards Affected

Countywide

Purpose

To recommend the revisions to the current council tax reduction (CTR) scheme for approval by Council in December.

Recommendation(s)

It is recommended to Council that:

- a) the following revisions to the CTR scheme be approved:
 - i. reduce the maximum level of CTR subsidy from 84% to 80% for certain claimants;
 - ii. protect CTR at 84% where the claimant is in receipt of either severe disability premium or carers allowance, or households with a child under the age of five;
 - iii. a claimant who lives in a property above band C would have their CTR capped at 80% of a band C equivalent property in their parish; and
 - iv. the amount of capital, excluding property, above which claimants cannot claim CTR be reduced from £16k to £6k and

- b) the revised CTR scheme is implemented for the financial years 2016/17 and 2017/18.**

Alternative options

- 1 To reject the proposed changes to the current CTR scheme; this is possible but would require alternative compensatory savings to be identified.
- 2 To reduce the level of CTR from 84% to 80% with no other scheme changes. This would deliver the required savings however would not protect the most vulnerable citizens in receipt of CTR therefore this is not recommended.

Reasons for recommendations

- 3 To recommend the proposed reductions to the current level of council tax subsidy provided through the CTR scheme to secure the delivery of the required budget savings.

Key considerations

Background

- 4 The national council tax benefit system was abolished with effect from 1 April 2013. It was replaced with a localised council tax reduction (CTR) system. The council received a 10% reduction in its previous central government funding towards CTR. This funding is contained within the revenue support grant which has been reducing every year and is expected to continue to reduce in 2016/17.
- 5 National CTR support continues to protect pensioner discounts. The council has discretion on CTR for working age claimants only. In 2013/14, following one-off funding support from government, Herefordshire's CTR subsidy for working age claimants was capped at 91.5%.
- 6 The CTR scheme for 2014/15 reduced working age claimants CTR subsidy to 84% of the applicant's council tax charge. This meant that at least 16% of the council tax bill due was payable by the CTR claimant. In addition subsidy was restricted to a band D property which meant that any working age CTR claimant who lived in a property banded above band D had their CTR subsidy capped at 84% of a band D equivalent property.
- 7 The CTR scheme for 2015/16 remained the same as 2014/15, with the council giving £4.9m in council tax subsidy to working age claimants.
- 8 Public consultation on the proposed changes for 2016/17 has taken place, the results are summarised in the consultees section of this report and detailed in appendix 3. The views of the general overview and scrutiny committee were sought on 30 September who commented that individuals with either severe disability premium or carers allowance, or households with a child under the age of five are protected and the proposed changes should remain in place for both 2016/17 and 2017/18.
- 9 This report proposes changes to the CTR scheme would become effective from 1 April 2016 and continue until 31 March 2018, years four and five of the local scheme.

Profile of CTR working age claimants

10 Working age claimants of CTR include single parents, single people and couples who could be unemployed, have limited capability for work on the grounds of ill health including disability, or are working but on a low income. The current CTR caseload profile is:

**4,500 (approximately) working age claimants are in receipt of CTR at full subsidy of 84%, and therefore, have to pay 16% of their council tax liability. These claimants have an income which is at a level that entitles them to the maximum subsidy. The remaining claimants qualify for partial subsidy.*

11 The collection rates for council tax for the last three years are shown below:

- a) 2012/13 – 98.63% (prior to scheme)
- b) 2013/14 – 98.40% (based on CTR support of 91.5%)
- c) 2014/15 – 98.10% (based on CTR support of 84%)

In 2014/15 a collection rate of 82.5% was achieved for claimants in receipt of CTR.

12 The council tax liability for working age claimants is £6.8m, of which £4.9m of CTR subsidy was awarded in 2014/15. This left a total council tax charge of £1.9m.

13 A total of 8,672 summonses were issued in 2014/15. A sample of 500 shows that 38% (190) have been issued to tax payers who are in receipt of CTR. Assuming the sample is representative of the total then of the 8,672 summons issued, 3,300 were issued to people who receive CTR, 49% of working age claimants receiving a summons. This would also suggest that for council tax payers not in receipt of CTR approximately 7% receive a summons. Following the issuing of a summons the usual debt collection process is followed which includes debt collection via deductions from benefits and/or earnings, or the referral to debt recovery enforcement agencies.

14 Where debt enforcement is required the cost of chasing the debt, staff, postage and issuing the summonses (£85) is added to the claimants' debt. In advance of this assistance is provided to those who fall behind in making payments by signposting to agencies, an online personal budget planning tool and repayment options. A breakdown of the circumstances of the 190 sample CTR cases receiving a summons is detailed in the table below:

Circumstances	Sample Number	%
In receipt of Employment & Support Allowance*	100	53
In receipt of Income Support – with no other details known	32	17
In receipt of Jobseekers Allowance	25	13
Families with children (lone parents or couples) with low earnings and receiving tax credits	21	11
Single claimants working, with low earnings	8	4
Others	4	2
Total	190	100%

**Employment & Support Allowance (ESA) replaced Incapacity Benefit and is for claimants who, through illness or disability, are unable to play a full part in the labour market which prevents them from claiming Jobseekers Allowance. 39% of our working age caseload are made up of claimants in receipt of ESA, based on the sample 66% of these claimants are at risk of receiving a summons.*

Hardship relief

- 15 Financial assistance is available under Herefordshire’s discretionary hardship policy. Assistance is subject to meeting the following criteria:
- The taxpayer is facing exceptional and temporary hardship and they do not have access to other funds or assets that could be used to meet their council tax liability.
 - Any reduction made in accordance with this policy is short term assistance.
 - The applicant’s eligibility to council tax reduction and all other statutory reductions has been determined.
 - There are unusual and unforeseen circumstances which prevent the property from being occupied and this situation cannot be rectified within a reasonable period of time, for example because of flooding.
 - The applicant has taken reasonable steps to resolve their situation prior to making their application.
 - The applicant can demonstrate that their current circumstances are unlikely to improve in the following six months.
- 16 A meeting with representatives from the Children’s Society discussed the effects of enforcement on the family unit, especially those with children. It was agreed that Herefordshire would consider the issues raised both in the review of the recovery policy and in future decisions relating to the CTR scheme, including the review of the discretionary hardship policy to include consideration for persons with disability,

families with children and children leaving care.

- 17 National statistics released for 2015/16 CTR schemes in the table below demonstrates the number of hardship schemes currently in place nationally, across unitary authorities and neighbouring authorities including Worcestershire and Gloucestershire.

Hardship schemes	National	Unitary	Local
Total LA's	326	56	12
Number with hardship schemes	123	28	4
%	38%	50%	33%

- 18 In recognition of the review of the discretionary hardship policy being likely to assist more tax payers, this has been reflected in the approximate net savings from the proposed CTR changes.

Proposed CTR for 2016/17 and 2017/18 - reducing the level of CTR from 84% to 80% but also increase restrictions to CTR and protect CTR at 84% for certain claimants.

- 19 Overall this proposal is expected to deliver a net saving of approximately £240k per annum (£199k retained by Herefordshire Council).
- 20 This proposal would see CTR reduced to 80%. There would be increased restrictions to CTR depending on the claimants property banding and savings. In addition certain claimants would continue to receive CTR of 84%. This is expected to deliver a net saving of approximately £144k per annum. CTR would be protected at 84% where the claimant is either in receipt of severe disability premium, carers allowance or families with a child under the age of five.
- 21 National statistics released for 2015/16 CTR schemes shown in the table below demonstrates the level of discount being applied nationally, across unitary authorities and neighbouring authorities including Worcestershire and Gloucestershire:

Minimum CTR subsidy	Neighbouring authorities	All unitary authorities	All councils
70%	0	3	9
Between 70% and 80%	0	16	44
80%	3	19	76
Between 80% and 91.5%	1	7	66
91.50%	1	2	46
Between 91.5% and 100%	0	0	9
100%	7	9	76
Total	12	56	326

- 22 **Band C restriction.** The proposal would amend CTR from a band D restriction to a band C property restriction. Any claimant who lives in a property above a band C would have their CTR capped at 80% of a band C equivalent property in their parish. This would generate a net saving of approximately £48k per annum. This would impact 8% of working age claimants who reside in a property band D and above.

- 23 The table below details the percentage of working age CTR claimants by property band.

Property band	Working age claimants in receipt of CTR	%
Band A	2,683	40%
Band B	2,486	37%
Band C	1,017	15%
Band D	327	5%
Band E	155	2%
Band F	57	1%
Band G	13	0
Band H	0	0
Total	6,738	100%

- 24 The 327 band D claimants, if entitled to the maximum CTR discount, would see their council tax charge increase by £204 a year from the current charge of £254 in 2015/16 to £458 per annum. Appendix 1 provides a table to show an estimate of CTR claimants' amounts payable with a 20% liability and a band C restriction.
- 25 Property band restrictions applied nationally, across unitary authorities and neighbouring authorities including Worcestershire and Gloucestershire are shown in the table below.

Property band restrictions	Neighbouring authorities	Unitary authorities	All authorities
Total local authorities (LA's)	12	56	326
Number - Restricted	3	15	75
% LA's using restriction	25%	27%	23%
Breakdown of band restricted			
Band A	0	1	5
Band B	0	2	4
Band C	0	2	6
Band D	2	8	52
Band E	1	2	8

- 26 **Reduce the capital limit to £6k.** Currently the CTR capital limit is £16k, this is recommended to be reduced to £6k. This would mean that claimants with capital above the limit would not receive CTR regardless of any other circumstances. Capital is defined as savings or property the claimant owns but does not include the property they live in or any personal possessions.
- 27 Reducing this limit to £6k would mean that approximately 110 claimants currently receiving CTR would cease to receive CTR. This would provide net savings of £48k per annum. 110 claimants currently receiving CTR for 2015/16 will become liable for full council tax charge in 2016/17.
- 28 The take up of reducing the capital limit applied nationally, across unitary authorities

and neighbouring authorities including Worcestershire and Gloucestershire is shown below.

Capital limit restriction	Neighbouring authorities	Unitary authorities	All authorities
Total LA's	12	56	326
Number reduced £16k capital limit	3	20	72
% LA's using this reduction	25%	36%	22%
Breakdown of restriction			
Limit £12k	0	0	1
Limit £10k	0	5	12
Limit £9k	0	0	1
Limit £8k	0	1	9
Limit £6k	3	14	49
Total	3	20	72

Community impact

- 29 The corporate plan, agreed by Council in November 2012, has two broad priorities; supporting the development of a successful economy and improving quality of life for the people of Herefordshire. The council remains committed to ensuring public services are prioritised to meet the needs of the most vulnerable. However, the proposals in this report will have an impact on some residents, but there continues to be regard to support the elderly and vulnerable, with access to support such as council tax discretionary reduction funding.
- 30 The lowest earners in Herefordshire, approximately 4,500 individuals, currently pay 16% of their total council tax bill. This report supports a reduction in the discount awarded for some council tax payers in receipt of welfare benefits. Pensioners will continue to receive additional discounts and the vulnerable will continue to have access to welfare support to mitigate these changes.
- 31 The decisions in this report links to key elements of the council's corporate plan and demonstrate the effective management of resources to help secure a balanced budget. The proposed changes could result in increasing individuals financial difficulties, this is being mitigated by providing options and support as detailed in this report.

Equality duty

- 32 A full equality impact assessment (EIA) was carried out on the initial and subsequent revisions to the scheme and has been reviewed in the light of the revised proposals. The latest version is attached at Appendix 2.
- 33 The proposals set out in this report will have an impact on working age benefit claimants. In addition, there is likely to be an increase in the level of non-payment and requests for debt advice.

Financial implications

- 34 Approving the proposed changes will secure the delivery of the savings target of £200k in 2016/17. The proposed changes, if adopted, are not considered to result in a significant change to the cost of administering the scheme.
- 35 The table below shows the potential net savings from the CTR changes proposed. The net savings includes assumptions from the implementation of a revised hardship scheme and claimants' changes expected from the summer budget welfare reforms.

Detail	CTR 80% with protections and restrictions £000 per annum
CTR subsidy reduced to 80%	144
CTR capped at property band C	48
CTR removed if capital limit £6k or above	48
Total net saving per annum	240
Herefordshire's share of net saving pa (83%)	199
Savings target 2016/17	200

- 36 Savings will also benefit preceptors; parish and town councils, West Mercia Police and Hereford & Worcester Fire and Rescue Service. Approximately 83% of the council tax bill paid is retained by Herefordshire Council.

Legal implications

- 37 The CTR scheme is locally determined by each billing authority under section 13A and Schedule 1A of the Local Government Finance Act 1992.
- 38 For each financial year, each billing authority must consider whether to revise its scheme or to replace it with another scheme and this must take place no later than 31 January in the financial year preceding that for which the revision or replacement scheme is to have effect. If any revision has the effect of reducing or removing a reduction to which any class of persons is entitled, the revision or replacement must include such transitional provision relating to that reduction or removal as the authority thinks fit.
- 39 A statutory procedure is provided for under Paragraph 3 of Schedule 1A which a billing authority must follow when revising its scheme:
- "3(1) Before making a scheme, the authority must (in the following order) –
- (a) consult any major precepting authority which has power to issue a precept to it,
 - (b) publish a draft scheme in such manner as it thinks fit, and
 - (c) consult such other persons as it considers are likely to have an interest in the operation of the scheme
- 40 As well as complying with the statutory consultation scheme the process must also be fair. There are four basic requirements namely –
- (i) be undertaken when proposals are at a formative stage;
 - (ii) include sufficient reasons for particular proposals to allow those consulted to give intelligent consideration and an intelligent response;
 - (iii) give consultees sufficient time to make a response; and
 - (iv) be conscientiously taken into account when the ultimate decision is taken.

Risk management

- 41 Approximately 40% of our current summons relate to CTR claimants. There is a risk that the claimants may not pay their council tax and move further into debt because of summons charges. This may eventually affect the collection statistics and place the households concerned into further financial hardship. This is to be mitigated through revisions to the hardship scheme. 2015/16 has seen a reduction in the number of CTR claimants due to increases in earnings from employment.
- 42 Welfare reform announced in the summer budget will impact the current CTR scheme. Working age applicants in receipt of CTR will be subject to a reduction in working tax credits due to the earnings threshold being reduced. This is expected to increase CTR claimants from 1 April 2016. Estimates suggest that the effect of the changes to the working tax credit calculation will mean approximately £200 additional CTR payments per customer per year. In Herefordshire there are approximately 1,000 working age citizens in receipt of working tax credit therefore this could result in additional CTR payments of £200k. This impact has been reflected in the approximate net savings detailed in this report.

Consultees

- 43 Consultation with Herefordshire residents on the proposals for the CTR scheme commenced on 6 July 2015 for a period of six weeks and concluded on 16 August 2015, which resulted in 68 responses. Prior to our consultation we met with the Children's Society and incorporated their views and recommendations into our proposals. The consultation document was published online on Herefordshire Council's website and included an online calculator to give an instance indicator of how the changes would affect the individual depending on their circumstances. In addition approximately 6,500 letters were issued to the current recipients of CTR who are most likely to be affected. During this period a meeting with welfare rights groups and third sector organisations took place in order to capture the views of their service users. Consultation responses are attached as Appendix 3. A summary of responses is provided below:

	Strongly Agree / Agree	Strongly Disagree / Disagree
Proposal 1		
Financial support reduced to 80% with protections	51%	42%
CTR capped at property band C	45%	47%
Capital limit reduced to £6k	48%	47%
Total %	48%	45%
Proposal 2		
CTR reduced to 80% with no other changes	48%	45%

The results show no preference for either proposal.

- 44 The results of the public budget consultation are attached at appendix 4. Consultation on the budget proposals included the proposed changes to the CTR scheme. Consultation commenced on 23 July and completed on 9 October, 1,979 responses were received. 30 per cent of respondents ranked reductions to the current CTR scheme as their first, second or third preference.

45 The general overview and scrutiny committee considered the proposed scheme changes at their meeting on 30 September. Following this meeting retaining the discount for protected individuals is proposed and the proposed changes are recommended to be in place for both 2016/17 and 2017/18.

Appendices

Appendix 1 – Financial impact of 80% CTR and band C restriction

Appendix 2 - Equality impact assessment

Appendix 3 – CTR proposals consultation results

Appendix 4 – Budget consultation responses

Background papers

None identified.