

<b>Body:</b>	Cabinet
<b>Date:</b>	21 October 2015
<b>Subject:</b>	Local Council Tax Reduction Scheme 2016/17
<b>Report Of:</b>	Ian Fitzpatrick, Senior Head of Community
<b>Ward(s)</b>	All
<b>Purpose</b>	To consider options for the 2016/17 Local Council Tax Reduction scheme.
<b>Recommendations:</b>	<ol style="list-style-type: none"> <li>1. That Cabinet recommend to Council that the following changes are made to the current Council Tax Reduction scheme: <ul style="list-style-type: none"> <li>- To limit the maximum amount of Council Tax Reduction to 80% of the claimant's Council Tax liability</li> <li>- To introduce a minimum income floor for self-employed claimants</li> </ul> </li> <li>2. To delegate to the Senior Head of Community in consultation with the Deputy Chief Executive/S151officer to make minor amendments to the text of the final scheme</li> <li>3. That the Exceptional Hardship scheme is adopted.</li> </ol>
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## **1.0      Introduction**

- 1.1 The coalition government abolished the national Council Tax Benefit scheme from April 2013 and required local authorities to develop and adopt their own scheme of support for working age claimants. This change came with a 10% cut in funding, for the Council this was c£1m.
- 1.2 To protect pensioners from any reduction in support, the government put in place a national scheme that local authorities had to adopt. Therefore, any reduction in support had to come from those of working age.
- 1.3 The Council, on 16 January 2013, adopted a local scheme of support for 2013/14 which, in the main, followed the rules of the Council Tax Benefit scheme, as well as agreeing changes to certain council tax discounts and exemptions. The Council further agreed, on 20 November 2013, that the 2013/14 scheme be adopted as the scheme for 2014/15 and on 19 November 2014 that the 2014/15 scheme be adopted as the scheme for

2015/16.

- 1.4 The Council is under a duty to review its local scheme each year and any changes to the scheme must be adopted by 31 January preceding the start of the new financial year. If it fails to do this the current year's scheme will remain in force.

## **2.0 The current local scheme 2015/16**

- 2.1 The current scheme, which was also adopted by the other East Sussex districts and boroughs, followed the principles of protecting the most vulnerable, incentivising individuals into work and takes into account and responding to the requirement of government to reduce the cost by 10% of the previous Council Tax Benefit scheme.
- 2.2 The local scheme follows the rules of the Council Tax Benefit scheme in that it is means-tested, with the following main changes:
- Removal of second adult rebate
  - A minimum award of £5.00 so that a claimant who qualifies for less than this will not receive any support
  - A reasonable increase in non-dependant deductions

## **3.0 Options for the 2016/17 local scheme**

- 3.1 A project team of senior officers from the East Sussex Districts and Boroughs and the County Council has been looking at options for the 2016/17 scheme. A series of reports were presented to Chief Executives and Leaders outlining what options were available. Several options were rejected for a variety of reasons. They are detailed below:

### **3.2 Council Tax Band Cap**

The principle of this option is to only pay CTR to an agreed level of Council Tax. Primarily designed not to disadvantage applicants who live in smaller or lesser value premises. The level of banding restrictions is normally determined by each authority taking into account the typical banding levels within the area and number of premises within each band. It does, however, add a great deal of complexity and administrative burden to areas with town and parish councils

### **3.3 Limitation to Dependents Allowances**

The limiting of dependant additions within the CTR calculation is one of the newer options being considered by many authorities, although it should be noted that at the current time (including 2015/16 schemes), this has not been implemented within any CTR scheme. By generally limiting the amount 'added into the calculation' for dependants, savings can be made. Within the UK the average number of dependants within a family is around 1.7. By restricting the additions to just above the average per household, the change would have no effect on an average family or applicants with no dependants but would limit the CTR payments to any family who have more than the

average.

### 3.4 Inclusion of Child Benefit and Child Maintenance as income

Within all CTR schemes in East Sussex certain incomes are disregarded in full, which means that they will have no effect on any entitlement to support. Of particular interest are incomes which up until recently were counted in full as income within benefits schemes but which have subsequently been disregarded; these are Child Benefit and Child Maintenance. Twenty-two authorities nationally have decided, with the implementation of CTR, to include either, or both, incomes within the calculation. The effect has been to create a CTR scheme that closely resembles CTB schemes from pre- 2009. The inclusion of child benefit and maintenance is likely to attract criticism due to the child poverty considerations.

### 3.5 Inclusion of Disability Living Allowance and personal Independence Payments as income

Certain disability benefits such as Disability Living Allowance (DLA) and Personal Independence Payments (PIP) are not currently included as income within the calculation of Housing Benefit or CTR. It should be noted that when calculating Discretionary Housing Payments (DHP) for Housing Benefit claimants, DLA and PIP are taken into account as 'available income. Again due to the potential impact on a vulnerable group this option has been discounted.

## 4.0 Options to be considered

### 4.1 The project team has proposed that the following options are considered for inclusion in the 2016/17 scheme:

- Limiting CTR to a percentage of the Council Tax liability
- Assumption of a minimum income for self-employed claimants
- Reduction of the capital limit to £6,000

### 4.2 Limiting CTR to a percentage of Council Tax liability

This option, if adopted, would require claimants to pay at least a certain percentage of their Council Tax irrespective of their circumstances. It is, in effect, a return to the principles of the Community Charge. It should be noted that 244 of the 336 authorities have adopted some level of minimum payment, many at over 20%.

### 4.3 The team has modelled the effects of a 10%, 15% and 20% limit to liability. The savings against the current costs of the scheme would be:

	Savings	EBC share	Nos affected
10%	£ 609,146	£ 82,411	5,672
15%	£ 904,561	£122,378	5,672
20%	£1,216,857	£164,629	5,672

### 4.4 A 10% limit would mean a Band D claimant having to pay at least £3.19 per week; 15% would mean paying at least £4.78 per week; and 20% would

mean paying at least £6.18 per week.

#### 4.5 Assumption of a minimum income for self-employed claimants

This option, if adopted, would introduce an assumed minimum income for self-employed claimants of 35 hours x the minimum wage (currently £6.70). This is in line with the government's proposal for those claiming Universal Credit.

A grace period of 12months from the start-up of a business would be allowed before the assumed minimum income would come into affect.

This proposal would result in savings to the cost of the scheme of £300,000 (EBC £41,000) and would affect c300 claimants

#### 4.6 Reduction in capital limit

This option, if adopted, would reduce the limit that people can have in savings and still qualify for support. The current scheme has a limit of £16,000. The proposal is to reduce this to £6,000.

This would result in savings to the cost of the scheme of c£51,000 (EBC c£7,000) and affect at least 59 claimants. We do not currently hold the capital details of those claimants in receipt of Jobseeker's Allowance or Income Support and if this proposal is adopted we would need to contact approximately 3,500 claimants to get details of their capital.

### **5.0 Exceptional Hardship Fund**

5.1 Whichever changes are adopted, it is proposed that a separate hardship fund is created to assist those applicants suffering exceptional hardship. Applications would be accepted where applicants have qualified for CTR but are still experiencing severe financial hardship. (Other taxpayers may also apply, however the Council would normally expect the taxpayer to apply for Council Tax Reduction in any case). As part of the process of applying for additional support, it is proposed all applicants must be willing to provide sufficient personal information to allow officers to make the necessary decision.

5.2 The financing of such a fund is to be shared between the major precepting authorities in proportion to their share of the Council Tax. In Eastbourne's case the proposed fund would be c£47,000, which is 0.5% of the estimated cost of the scheme, with the cost to the Council being c£6,000.

5.3 An Exceptional Hardship scheme would mitigate the impact of any changes to the current local scheme that severely affects someone's ability to pay the tax due. A draft Exceptional Hardship scheme is attached at appendix A.

### **6.0 Alternatives to reducing the amount of help provided by the CTRS**

6.1 The project team has also thought about other ways to make the spending cuts needed to make and maintain the amount of financial support provided by the CTRS which is currently in place. These have not been completely

rejected and need consideration. The options are :

- Increase the level of Council Tax
- Reduce funding available for other services
- Use Council reserves

## **7.0 Collection Rates, Scheme Administration and targeted intervention**

7.1 It is likely that there will be an impact on Council Tax collection rates if the CTR scheme is changed, with all claimants having to pay part of their Council Tax. Measures to reduce the impact are discussed below, but to give an indication of the potential financial effect, two scenarios have been modelled, based on a 0.25% and 0.75% reduction on the amount of Council Tax collectable in 2014/15:

	Net collectable debt	Impact of an additional 0.25% loss on collection	Impact of an additional 0.75% loss on collection
Eastbourne BC	£53,823,455	£134,560	£403,680

7.2 To help minimise the losses on collection, experience from work undertaken within other areas where similar schemes are in operation suggest substantial pre work is required to educate and support claimants in understanding the impact on them of the changes to the scheme. It is also essential that early intervention with claimants falling into arrears is undertaken in order to ensure continued recovery of income owed. Based on similar schemes across the country it is likely that up to 2 FTEs would be required plus a further 0.5FTE to administer the hardship fund. It is proposed that the funding for this is met by both Precepting and Billing Authorities in direct proportion to their share of the Council Tax.

7.3 County have indicated that they would be prepared to contribute to the additional staffing costs, based on costs incurred, impact on collection rates and on overall financial impact of the adopted scheme(s). Further work will be carried out under the direction of ESFOA into the effects and mitigation measures required to minimise any fall in collection rates.

## **8.0 Transitional Relief**

8.1 Paragraph 5 (4) of Schedule 1A to the Local Finance Act 1992 requires local authorities who are revising or replacing a scheme which has the effect of reducing or removing a reduction to which any class of persons is entitled that the revision or replacement must include such transitional provision relating to that reduction or removal as the authority thinks fit.

8.2 This means that the authority must consider easing the financial impact on those affected by any change by, for example only applying the change to new claimants or by limiting the impact of any change to say £5.00 per week.

8.3 There is no requirement to introduce such transitional relief; rather the

authority must just consider it.

## **9.0 Consultation**

- 9.1 Before making a new scheme, or before making changes to the scheme, the Council must consult with the major preceptors and other interested parties.
- 9.2 East Sussex County Council has been involved throughout in the discussions and project work of the East Sussex Collaboration Project. They have also made a written response to the consultation. East Sussex Fire Authority and the Sussex Police and Crime Commissioner have also been consulted on the proposals via the East Sussex Finance Officers group. A copy of East Sussex County Council's formal response is attached at appendix B.
- 9.3 A public consultation was carried out on options for the 2016/17 scheme. The consultation ran from 27 July to 18 September and there were a total of 114 responses, although not every respondent answered every question. The results from the consultation are at appendix C. Comments on the consultation are at appendix D.
- 9.4 In brief, 80% of the people who answered the question, 'Do you agree with the principle of every working age person having to make a minimum payment towards their council tax?' answered 'Yes'.
- 9.5 42% of those who agreed said the level of payment should be 10% of the council tax, 20% preferred 15%, whilst 38% opted for a 20% minimum payment.
- 9.6 74% of those who answered the question about setting a minimum income for self-employed persons agreed with the proposal, 23% disagreed and 3% didn't know.
- 9.7 54% agreed with the proposal to reduce the capital limit from £16,000 to £6,000, 41% disagreed and 5% didn't know.
- 9.8 80% were in agreement with the proposal to establish an Exceptional Hardship fund.

## **10.0 Resource implications**

- 10.1 Financial
- 10.2 The Scheme is a discount scheme rather than a benefit scheme. Entitlement to Council Tax Reduction is applied to council tax accounts as a discount. This has the effect of reducing the Council Tax Base. The grant funding for local council tax support is contained within the Revenue Support Grant (RSG) and retained Business Rates and is distributed to County, Fire, Police and the Borough.
- 10.3 For the first year of the scheme (2013/14), the previous Council Tax Benefit grant was transferred to the Department for Communities and Local Government (DCLG) and became part of their 'Department Expenditure Limit' which meant it was fixed for the Spending Review period. The

transferred grant was reduced by 10%, c£1m for Eastbourne Council, so that the Treasury guaranteed their savings target.

- 10.4 For 2013/14 Transitional Grant funding of £100million was made available by the Government to authorities whose support schemes limited the financial impact on applicants. The East Sussex area claimed some £1.136m grant funding for 2013/14. Transitional funding has not been made available since.
- 10.5 The then Secretary of State for Communities and Local Government stated in 2014 that the funding for the Scheme is protected in the RSG and within the Localisation of Business Rates arrangements. However, it is not possible to identify any specific amount of grant funding within these funding streams and in practice the allocation to councils has and continues to reduce.
- 10.6 In addition to the government abolishing the Council tax Benefit scheme they also allowed local authorities some flexibility around council tax discounts and exemptions. The Council decided, at the same time as adopting the 2014/15 scheme to make changes to some discounts and exemptions which would have the affect of increasing the council tax due on those properties affected.
- 10.7 The changes made were:
- To set the discount for second homes at 0%
  - To set the discount exemption for dwellings in Class A at 50%;
  - To set the exemption for dwellings in Class C at a discount of 100% for a period of one month; and
  - To set a premium of 50% for dwellings empty and unfurnished for more than two years which are not being actively marketed for sale or rent.
- 10.8 These changes increase income to the Council by c£94k, which helps to offset the cost of the support scheme.
- 10.9 Expenditure on the CTR scheme in 2016/17 is expected to be c£9.3m; £5.3m on working age and £4.0m on pension age claimants. The Council's share of this cost is £1.3m (13.5%).
- 10.10 The estimated cost to the Council, without making any changes and after taking into account the additional income raised from changes to discounts and exemptions, and assuming that the government grant is at the 2013/14 levels of £1,188,000, is £18,000. However, if we apply the cut in RSG, estimated to be in the region of 28%, to the government grant, the cost to the Council is £351,000 (see below).

If the LCTR grant at 2013/14 levels:

	<b>2016/17 Scheme</b>
	£(000s)
EBC share of cost of scheme	1,300
Govt. funding	(1,188)
Disc & Exempts.	(94)
<b>Cost</b>	<b>18</b>

If the LCTR grant is reduced by 28%:

	<b>2016/17 Scheme</b>
	£(000s)
EBC share of cost of scheme	1,300
Govt. funding	(855)
Disc & Exempts.	(94)
<b>Cost</b>	<b>351</b>

## 10.11 Staffing

If the scheme adopted means that all working age recipients of CTR have to pay a minimum amount this will have two major impacts.

- An increase in activity around billing and collection
- An increase in customer contact

There is recognition by the major precepting authorities of the increased workload that billing authorities will see and have agreed to contribute to any additional staffing costs incurred. The amount of the contribution will depend on the scheme adopted.

The introduction of an Exceptional Hardship fund will also mean an increase demand on staff resources. As above, the major preceptors have agreed to contribute to the additional cost.

## 11.0 Legal implications

- 11.1 These are explained within the body of the report:  
Para 1.4 above- statutory duty to review scheme annually and make any revision no later than 31 January in each financial year
- 11.2 Para 8.1 above – in the event that any revision to a scheme has the effect of reducing or removing a reduction to which any class of persons is entitled,

the revision “must include such transitional provision relating to that reduction or removal as the authority thinks fit”.

- 11.3 Para 9.1 above – statutory duty to consult major precepting authorities and other persons considered likely to have an interest.  
There is also a statutory obligation upon the Council to publish its draft scheme, which includes any draft revised scheme, in such manner as it thinks fit, before it proceeds to *make* its scheme.
- 11.4 The law gives the Council discretion to determine the detail of its scheme, but legislation sets out those matters which are to be included in any scheme. Any scheme must state the classes of person who are to be entitled to a reduction, the reduction to which persons in each class are to be entitled, the procedure by which a person may apply for a reduction, the procedure by which a person can make an appeal (Local Government Finance Act 1992 as amended by Local Government Finance Act 2012)

## **12.0 Equalities**

- 11.1 An Equality and Fairness Analysis (appendix E) has been carried out on the options proposed for the 2016/17 scheme.
- 11.2 Cabinet need to consider the findings of the Equality and Fairness Analysis in conjunction with the Public Sector Equality duties in deciding on the scheme to be adopted.

## **12.0 Recommendations**

- 1) That Cabinet recommend to Council that the following changes are made to the current CTR scheme:
  - To limit the maximum amount of Council Tax Reduction to 80% of a claimant’s Council Tax liability; and
  - To introduce a minimum income floor for self-employed claimants.
- 2) That the Exceptional Hardship Scheme is adopted.

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**Background Papers:**

The Background Papers used in compiling this report were as follows:

Eastbourne Borough Council 2015/16 Council Tax Reduction Scheme

To inspect or obtain copies of background papers please refer to the contact officer listed above.

Appendix A – Exceptional Hardship scheme

Appendix B – East Sussex County Council response to the consultation

Appendix C – Consultation results

Appendix D – Consultation comments

Appendix E – Equality and Fairness Analysis