

TITLE OF REPORT: COUNCIL TAX REDUCTION SCHEME 2016/2017

REPORT OF THE HEAD OF REVENUES, BENEFITS & INFORMATION TECHNOLOGY
PORTFOLIO HOLDER: COUNCILLOR T. W. HONE

1. SUMMARY

- 1.1 To provide Cabinet with an update on how the scheme has operated during its first two and a half years.
- 1.2 To consider whether any changes should be made to the Council Tax Reduction Scheme for year four (2016/2017), prior to public consultation and a final recommendation being made to Council later in the financial year.

2. RECOMMENDATIONS

- 2.1 That Cabinet notes the current position relating to this and previous financial years.
- 2.2 That there be no substantive changes to the Council Tax Reduction Scheme for 2016/2017.
- 2.3 That Cabinet notes that the level of Scheme funding to be allocated to the Parish, Town and Community Councils will be reduced in line with the reduction in Government Support unless Members wish to revisit this approach.
- 2.4 That Cabinet recommends a preferred option of a reduction from 25% to 15% in the level of across the board reduction to awards for 2016/2017 for the purposes of consultation.
- 2.5 That Cabinet authorises the Head of Revenues, Benefits and Information Technology to consult with the Major Precepting Authorities and the public on the proposed Scheme for 2016/2017 including any changes proposed by Cabinet to the across the board reduction to awards.
- 2.6 That the Executive Member for Finance & IT is consulted on the content of the consultation questionnaire.

3. REASONS FOR RECOMMENDATIONS

- 3.1 To decide on whether any changes are proposed to the Council Tax Reduction Scheme for 2016/2017 and enable the required consultation to be carried out.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The purpose of this report is to consider whether the scheme as it stands meets the needs of providing support where required and is affordable. Other options can be considered as part of this process.

5. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS

- 5.1 This report is recommending that there be no substantive changes to the Council Tax Reduction Scheme for 2016/2017 and is seeking the views of Cabinet on this. Consultation with the Major and Local Precepting Authorities and the public will be required, prior to Cabinet considering its final recommendations to Council in December 2015, taking into consideration the outcome of the consultation.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 22 July 2015.

7. BACKGROUND

- 7.1 Council Tax Benefit was abolished from 1 April 2013 and was replaced by locally defined Council Tax Reduction Schemes.

- 7.2 Council Tax Benefit was a national, demand led scheme funded by the Department for Works and Pensions (DWP) and administered by each Local Authority. Expenditure was subsidised on a pound for pound basis.

- 7.3 Council Tax Reduction Schemes are now designed by each Local Authority. There were four stipulations to the schemes:

- Those who have reached the Pension Credit age are to be protected so that they are no worse off than they would have been, had Council Tax Benefit continued
- Funding is capped at 90% of what the Office for Budget Responsibility estimated Council Tax Benefit expenditure would have been in 2013/2014, had it continued
- Schemes should provide an incentive to work
- Payment was to be made in the form of a Discount, rather than a Benefit, thus requiring an adjustment to the Council's Tax Base and those of each Parish, Town and Community Council

- 7.4 These stipulations continue.

- 7.5 Funding is now administered by the Department for Communities and Local Government (DCLG) and is incorporated into the Revenue Support Grant rather than being subject to a specific claim and external Audit.

- 7.6 When designing its scheme for 2013/2014, the Council opted not to provide any additional funding to support the scheme because this would be unsustainable in the long term and would lead to further cuts in scheme funding in future years. The other Major Precepting Authorities, the County Council and the Police & Crime Commissioner for Hertfordshire also supported this view and were unwilling to support the scheme with any extra funding.

- 7.7 This approach was confirmed when setting the Scheme for 2014/2015 (year 2) and 2015/2016 (year 3) and is likely to continue for 2016/2017 (year 4).

- 7.8 The Council did opt to protect those with disabilities and also as an incentive to work, agreed to increase the earnings disregards by 50%, thereby ensuring that for those in work, more of their earnings were retained before support was withdrawn.
- 7.9 The Council also decided not to accept the Government's Transitional Funding for two reasons:
- The requirement to ensure that nobody was more than 8.5% worse off could not be met without the Council providing substantial additional funding for the scheme
 - It was made clear that the funding would be for one year only, meaning that further substantial cuts to support would have to be made in year 2 and subsequent years
- 7.10 The Council's final scheme was based on a calculation following the old Council Tax Benefit rules. An across the board percentage reduction was applied to the final figure to ensure that all claimants apart from the protected groups of Pensioners and those with disabilities, received the same percentage reduction in support.
- 7.11 Because the Council did not provide any additional funding for the scheme and opted to protect those with disabilities, the percentage reduction applied to the non-protected groups was 33.13%.
- 7.12 By not providing any additional funding and not taking the Transitional Grant, the Council ensured, unlike those that took those options that although the percentage reduction was high, there should not be a need for any large increases in this figure in future, provided the DCLG Funding remains fairly constant.
- 7.13 Because of the reduction in caseload, the Council was able to reduce the 33.13% reduction in the awards to the non-protected claimants to 25% in 2015/2016.

8. ISSUES

- 8.1 When implementing this scheme, there were three areas of concern:
- Would there be public support for the scheme?
 - Would the scheme meet the financial constraints placed on it?
 - Would there be a significantly detrimental effect on Council Tax collection rates because of the number of households that would now have to pay some Council Tax?
- 8.2 To mitigate against the first concern, the Council carried out extensive publicity, including contacting directly each claimant likely to be affected by the scheme to explain the consequences of it. Most of those affected by the scheme were therefore well informed in advance, which lessened the impact when Council Tax bills with the new award were delivered.
- 8.3 A high number of queries were received following the issue of the bills in 2013; however there appeared to be an acceptance of the scheme from the vast majority of those affected by it.
- 8.4 The number of enquiries received in each subsequent year has been minimal and the scheme now seems to be well embedded.
- 8.5 Appendix 1 shows the number of claims by category active at the end of each month together with the expenditure for the scheme for the year. Unfortunately monitoring in

year one did not begin until May and there are no figures available for April, but the figures do show that claim numbers are steadily reducing from 9,065 in May 2013 to 8,213 in August 2015.

- 8.6 Appendix 1 also shows that expenditure for the scheme has steadily reduced from £7,120,053 in May 2013 to £6,733,720 in August 2015 and that for the current year there is a projected underspend of £515,526 even with the reduction in the amount withdrawn from each non-protected award from 33.13% to 25%.
- 8.7 Provided there is not a sudden increase in the number of claimants, the scheme should come in under budget in 2015/2016.
- 8.8 There was a high risk that Council Tax collection rates would be significantly reduced as a result of the Council Tax Reduction Scheme. For 2013/2014 the final in-year collection rate was slightly down at 97.81% compared with 98.18% for the previous year. There was a slight improvement in the in-year collection rate for 2014/2015 to 97.84%. However this reduction could not just be down to the Council Tax Reduction Scheme and there may be other contributory factors such as the change to twelve instalments delaying recovery at the end of the financial year. In addition, there is evidence to support the conclusion that a number of those who did not previously pay any Council Tax as it was all subject to Council Tax Benefit, now have so many changes of circumstances that they will not be subject to recovery until very late in the financial year or even into the next year.
- 8.9 The ultimate effect on collection rates will not be known for some time as recovery continues against any arrears well after the end of the financial year.
- 8.10 Relative collection rates at the end of each month, for this year and the last three years are as follows:

<u>Month</u>	<u>2012/2013</u>	<u>2013/2014</u>	<u>2014/2015</u>	<u>2015/2016</u>
April	10.88%	10.95%	10.78%	10.97%
May	20.45%	20.57%	20.35%	20.23%
June	29.72%	29.75%	29.61%	29.59%
July	39.20%	39.23%	38.93%	38.89%
August	48.99%	48.40%	48.04%	48.04%

- 8.11 Collection rates are generally slightly down compared with those at the corresponding time last year. This is a trend that ideally needs to be reversed and changes to the recovery process are being introduced to bring this about. It is encouraging that the collection rate for August 2015 has “caught up” with the corresponding time in 2014.
- 8.12 In summary, the scheme has met with seeming acceptance, is projected to be within budget and so far there is only a small detrimental effect on Council Tax collection rates.

Considerations for 2016/2017

Funding

- 8.13 For 2013/2014 (year one) DCLG made specific funding available to each Major Precepting Authority (in the case of North Hertfordshire, the County & District Councils and the Police & Crime Commissioner for Hertfordshire) to support their schemes. This included, where appropriate a specific amount intended to compensate Parish, Town

and Community Councils for the reduction in their Tax Bases as a result of the new scheme. This was paid direct to District Councils, who were expected to consult with their Parish, Town and Community Councils on how this should be distributed.

- 8.14 The District Council's allocated funding in year one from the Major Precepting Authorities was £7,249,246 with an additional £90,850 being made available for distribution to the Parish, Town and Community Councils, the formula for distribution of which was agreed at a meeting with those Councils in January 2013.
- 8.15 For 2014/2015 (year two) onwards DCLG has decided that Council Tax Reduction Scheme funding will not be separately identified in the 2014/2015 and beyond Revenue Support Grant Settlement and it will be down to each Major Precepting Authority to decide how much it is prepared to fund each scheme and allocate to its Parish, Town and Community Councils.
- 8.16 The Council has assumed the same level of funding as that for 2013/2014 for each subsequent year of the Scheme.
- 8.17 For 2013/2014 the Council opted to distribute the full allocated amount of £90,850 to its Parish, Town and Community Councils, although there was no requirement to do so. In fact a small number of Councils opted not to allocate any of its funding at all and retained the allocation themselves.
- 8.18 For each subsequent year the Council has decided following consultation with the Parish, Town and Community Councils to reduce the amount of funding to them by the same percentage as its own Government Support was reduced. It would seem reasonable for the Council to take a similar approach for 2016/2017 and this will be assumed in the draft budget for 2016/17.
- 8.19 Any reduction in funding to the Parish, Town and Community Councils will mean that they will have to increase their Council Tax charges to retain the same amount of total income; provided Parish, Town and Community Councils are informed of any such decision as quickly as possible following final settlement, this will enable them to take account of these changes in setting their own levels of precept for 2016/2017.

The Scheme itself

- 8.20 The North Hertfordshire Scheme is very simple in concept in that it takes the previous Council Tax Benefit Scheme and applies an across the board reduction to awards to the non-protected groups to fit in with the available funding.
- 8.21 The decisions taken not to provide additional funding nor accept the Government's Transitional Grant means that claimants in North Herts need not be subjected to any further reductions in Council Tax support, unless the caseload was to significantly rise. In fact, as caseloads are reducing, the Council was able to make the scheme more generous for those not in the protected groups. Those Councils that do additionally fund their Schemes will have to decide to either continue funding their Schemes from their own General Fund or make them less generous.
- 8.22 With a projected underspend of around £500K there would seem to be further scope to reduce the 25% withdrawal of award for the non-protected group.
- 8.23 There is however an additional factor to take into consideration this year when estimating the expected spend on the scheme for 2016/2017. This relates to the changes to Welfare Benefits announced by the Chancellor of the Exchequer in the

Budget on 8 July 2015 and in particular the reduction in Working Tax Credits due to be implemented from 1 April 2016.

8.24 There are currently around 1,500 Council Tax Reduction Scheme claimants who are in receipt of Working Tax Credits and any reduction in the level of these Tax Credits will result in an increase in Council Tax Support.

8.25 A financial modelling exercise has been carried out to evaluate the potential Welfare Reform changes expected in April 2016 and various options for reducing the 25% across the board reduction. Where assumptions have been made, these have been taken on a “worst case” basis. The results can be summarised as follows:

<u>% Reduction</u>	<u>Additional Cost</u>	<u>Remaining Underspend</u>
20%	£229,104	£286,422
15%	£376,135	£139,391
12%	£464,725	£50,801
10%	£523,944	-£8,418

8.26 The effect on the average additional amount of Council Tax Support available to those in the non-protected groups would be:

<u>% Reduction</u>	<u>Average Annual Increase</u>	<u>Average Weekly Increase</u>
20%	£78.22	£1.50
15%	£128.42	£2.46
12%	£158.66	£3.04
10%	£178.88	£3.43

8.27 With further Welfare Reforms due in 2017, it would be unwise at this stage to absorb all the available underspend as further funding will be required to offset these. A reduction to 15% would leave a sufficient contingency available based on current caseload, which is likely to increase if caseloads continue to reduce.

8.28 More up-to-date figures can be provided at the December Cabinet Meeting before the final recommendation is made to Council, however for the purposes of the consultation exercise, it is recommended that all options are considered and the Council’s preferred option at this stage is for a 15% reduction.

8.29 When the Scheme was first introduced in April 2013, this Council’s reduction of 33.13% in the award to the non-protected groups was amongst the highest in the Country and the reduction in this year to 25% and the further recommended reduction to 15% for next year will mean that the Council’s Scheme will now be more generous than many even in Hertfordshire and at no extra cost to the Council’s General Fund.

8.30 Known deductions in Hertfordshire for this year are:

<u>Council</u>	<u>Deduction</u>
Broxbourne	20.0%
Dacorum	25.0%
East Hertfordshire	8.5%
St Albans	0.0%
Stevenage	8.5%
Welwyn Hatfield	25.0%

- 8.31 None of the above Councils are proposing any changes for 2016/2017.
- 8.32 Any changes brought about by the Budget and the decision on the level of the across the board reduction from the basic award do not constitute changes to the Council's substantive Council Tax Reduction Scheme as the Council's ability to change these are built into the basic Scheme. Any Budget changes will be changes to a claimant's total income on which their entitlement to Council Tax Support is based and therefore there would be no need for any consultation on that as it will be a matter of fact brought about by legislation. However, in light of recent case law around consultation, it would be wise to consult with the Major Precepting Authorities and the public on any proposed changes to the across the board reduction to awards from 25%.
- 8.33 For the reasons detailed in 8.12 above, it is recommended that the substantive scheme for 2016/2017 remains the same as for the current year.
- 8.34 The Government is committed to reviewing the future of Council Tax Reduction Schemes within three years of their inception, which will be by the end of this financial year and is a further incentive not to make substantial changes at this point in time.

9. LEGAL IMPLICATIONS

- 9.1 Section 5(2) of Schedule 4 of the Local Government Finance Act 2012, which inserts Schedule 1A to the Local Government Finance Act 1992 requires the Council to set its Council Tax Reduction Scheme by 31 January preceding the start of the financial year in which it is to apply.
- 9.2 Full Council's terms of reference include at 4.4.1 (z) "approving the Council Tax Reduction Scheme". Cabinet's terms of reference include at 5.6.38 recommending to Full Council "The Council Tax Reduction Scheme".
- 9.3 Section 3(1) of Schedule 4 of the Local Government Finance Act 2012, which inserts Schedule 1A to the Local Government Finance Act 1992 requires the Council to consult on any changes to its scheme as follows:
- Consult any Major Precepting Authority which has power to issue a precept to it
 - Publish a draft scheme in such manner as it thinks fit
 - Consult such other persons as it considers are likely to have an interest in the operation of the scheme
- 9.4 For the original scheme implemented for 2013/2014, it was necessary to carry out comprehensive consultation to ensure that the Council complied with the legal requirement to consult and did not leave itself open to challenge. Very minor changes were made to the Scheme in year two and a restricted consultation exercise was carried inviting members of the public to comment on the Council's web site. There were no changes proposed to the Scheme for year three and the practice at that time was that no further consultation was required.
- 9.5 There has however been recent case law, which suggests that consultation should be carried out regardless of whether any changes are proposed or not and the consultation should set out options and the financial implications to the Council of these options.
- 9.6 Cabinet should note that changes to the Scheme cannot be made later in the financial year due to the need to consult before any changes can be implemented.

10. FINANCIAL IMPLICATIONS

- 10.1 The financial implications have been covered elsewhere in the report.
- 10.2 The projected underspend on the Scheme may give the Council scope to reduce the 25% reduction applied to non-protected claims and a final decision on this can be taken later in the year, when there is a more definite expectation on the cost of the Scheme and the implications of the Budget changes will be clearer. The requirement to set this figure each year is already built into the Scheme and so can be changed for any year.
- 10.3 The intention would be to report to Cabinet in December on the expenditure on the Scheme at that time with a recommendation on the % reduction to be applied for 2016/2017. Cabinet can then make its final recommendation to the Council in January.
- 10.4 There is no statutory requirement for the council to provide funding to Parish, Town and Community Councils, but it may choose to do so. In 2015/2016 this Council passed on £67,238. The current estimated cost of funding to Parish, Town and Community Councils in 2016/17 is approx. £56k, based on an estimated reduction in Government Support of 17%.

11. RISK IMPLICATIONS

- 11.1 There will be financial risks associated with the Scheme, which will be evaluated when the next report is prepared for consideration by Cabinet.
- 11.2 The indications so far for this current year is that the Scheme is under budget, which does provide a contingency in the unlikely event of an increase in claims later in the year.
- 11.3 There is a risk that there may be an increase in caseload. At this stage, Cabinet is only considering the criteria on which to consult and no final decision needs to be made until the December Cabinet Meeting, by which time there will be further, more up-to-date data on which to make that decision.
- 11.4 At this stage of the process for determining the scheme for 2016/2017, the main risk is that the Council decides to make changes to the Scheme and does not follow the correct consultation process and therefore leaves itself open to challenge. This is why the Council needs to consider whether it wishes to make any fundamental changes to the scheme for 2016/2017 at this early stage.

12. EQUALITIES IMPLICATIONS

- 12.1 The Equality Act 2010 came into force on the 1 October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5 April 2011. There is a General duty, described in 12.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.
- 12.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to
 - Eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Act.

- Advance equality of opportunity between people who share a protected characteristic (age, disability, gender re-assignment, marriage or civil partnership, race, religion and belief, sex, sexual orientation and pregnancy and maternity) and those who do not (this can mean removing or minimising disadvantage; meeting people's needs; taking account of disabilities; encouraging participation in public life).
- Foster good relations between those people who share a protected characteristic and those who do not (such as tackling prejudice and promoting understanding).

12.3 The duty is not however, to achieve in full the three equality aims but to demonstrate the Council has taken them into account when making a final decision. Therefore the duty does not stop difficult, but justifiable, decisions being made. By conducting extensive consultation when the scheme was first implemented, the Council sought to collect information from those who may be potentially affected by these proposals. The public consultation showed broad support for the scheme. By retaining the same scheme for 2016/2017, it is reasonable to assume that the Council continues to meet its obligations under the Equality Act, but pertinent guidance notes and any changes to equalities legislation will be checked following decision by Council in January to ensure this remains the case.

13. SOCIAL VALUE IMPLICATIONS

13.1 As the recommendations made in this report do not constitute a public service contract, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section at Paragraph 12.

14. HUMAN RESOURCE IMPLICATIONS

14.1 There are no Human Resource implications to this report.

15. APPENDICES

15.1 Appendix 1 - Council Tax Reduction Scheme Values by Category.

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17. BACKGROUND PAPERS

- 17.1 North Hertfordshire District Council, Council Tax Reduction Scheme 2013/2014.
- 17.2 North Hertfordshire District Council, Council Tax Reduction Scheme 2014/2015.
- 17.3 North Hertfordshire District Council, Council Tax Reduction Scheme 2015/2016.