

Agenda Item No: 9
Report To: CABINET
Date: 3 DECEMBER 2015



Report Title: Council Tax support scheme for 2016/17
Report Author: Peter Budden, Revenues & Benefits Operations Manager
on behalf of the Council Tax and Welfare Reform Task Group
Portfolio Holder: Cllr Neil Shorter

Summary: The Council has a statutory duty to consider annually whether to revise its Council Tax Support local scheme (complete details of the current scheme are published on the council's website¹) or replace it with another scheme and consult with interested parties if it wishes to revise or replace it.

An agreement has been reached in principle by all Kent districts and the precepting authorities to recommend the extension of current schemes for one further year. It is therefore recommended that we consult on retaining the current scheme that Cabinet approved last year, with some slight amendments based on changes to Housing Benefit from April 2016. Our financial, operational and customer service performance based on the current local scheme allows us the opportunity not to pass on further reductions in council tax support to claimants. This recommendation has been made by the Council Tax and Welfare Reform Task Group, chaired by Councillor Shorter.

Following the period of public consultation, the final scheme for 2016/17 must be finalised by 31 January 2016. For this purpose the report recommends a delegation to agree any final amendments to the proposed scheme.

Key Decision: YES

Affected Wards: All

Recommendations: The Cabinet be asked to:-

- (i) **Agree the proposed local scheme for 2016/17 as set out in the conclusions to this report – there are no major changes to the existing scheme, but some minor changes are proposed.**
- (ii) **Agree that public consultation on the proposals should run until 11th January 2016.**

¹ Website link: <http://www.ashford.gov.uk/counciltaxsupport>

- (iii) **Agree that delegated authority be issued to the Deputy Chief Executive, in consultation with the Portfolio Holder and the Leader, to make any adjustments to the final scheme by 31st January 2016, in relation to the level of grant notified by central government in December 2015 and following consideration of consultation responses**

Policy Overview:

From April 2013 all billing councils were required to implement localised council tax support schemes, and review these annually and formally adopt schemes for each subsequent year. The government's conditions remain that grant funding is less than under the previous council tax benefit scheme (which ended on 31 March 2013) but that protection from reductions in council tax support be mandatory for all pensioner claimants. This report brings forward the third annual review and proposals for the 2016/17 scheme.

Financial Implications:

The scheme as designed limits the financial risks directly to the council's budget and to the council tax payer as a whole. This meets one of the principles agreed by Cabinet in December 2012. As council tax support operates as a discount and affects the council tax base, the largest financial risks are with the precepting authorities. It is for this reason that the Kent precepting authorities and district councils developed the basis for a county-wide agreement that provides districts with important guarantees to limit districts' and preceptors' risks. This agreement was adopted for three years and is continue for one more year at least. The first year scheme was adopted following wide-spread public consultation; it required working-age claimant contributions of 8.5% to their council tax liability (in those cases where claimants had previously had all of their liability met by benefit) and a 5% contribution for disabled claimants and their carers. These levels of contribution were made possible by the government's one-off transition grant and extra council tax achieved through the council deciding to vary some council tax exemptions and discounts. With the government funding removed the contribution rate would default to 17.5% unless extra income were possible in 2014/15 and 2015/16. A review two years ago showed that the added yield from changes made to other council tax discounts was sufficient to cover the government grant loss and allowed for a more modest rise, to 10%, in the working age claimant contribution. This remains the case and the 10% contribution is still sufficient for 2016/17.

Risk Assessment

A full risk assessment was carried out as part of the introduction of the first year scheme. Now that the scheme has operated for over 2 years the council has some real experience of the risks. The scheme designed for the first year including all the publicity and direct communication, and in particular the help afforded to first-time council tax payers has helped to contain risks of escalating arrears levels.

Equalities Impact Assessment

A full impact assessment for the scheme was submitted to cabinet in 2012. It is considered the conclusions from that

assessment remain valid for this review.

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Report Title: Council Tax Support (CTS) scheme for 2016/17

Strategy agreed across Kent

An agreement has been reached by all Kent districts and Kent County Council to recommend the extension of current schemes for one further year. This would include maintaining the existing contribution levels for claimants (for Ashford this means 10% for working-age claimants, with the exception of disabled and carers who have a 5% contribution), as well as maintaining the existing discounts in council tax – for Ashford this means the 50% long-term empty property premium, the removal of the second home discount, and the 6 week exemption period for unoccupied properties.

The reason for this agreement is because a fundamental review of the scheme is needed as a result of the impact of welfare reform changes - but as these changes are not yet fully implemented or understood, then an additional 12 months to review the impact of these changes is needed in order to allow a more robust scheme to be devised.

There are a significant number of welfare reform changes about to be introduced (as well as those already introduced), and these changes will have an effect on local council tax reduction schemes. The most notable change is the reform to tax credits – at the moment it is not clear when these changes will be implemented – more detail is expected shortly. But reductions in tax credit incomes will result in an increase in council tax support entitlements – though the extent of this impact is not fully known, given the added introduction of higher tax thresholds and the national living wage. As such, it is considered prudent to allow more detail on these changes to be understood before fundamentally changing our local scheme – hence the agreement across Kent to continue with our schemes for one further year.

Whilst the working-age welfare reforms are expected to produce some financial pressures in 2016/17 - both on claimants and also on the Council - these pressures will be financially compensated by an expected continued reduction in the CTS caseload (see section later in the report), resulting in a reduction in cost of the CTS scheme which reflects in a higher taxbase calculation.

Whilst a one year extension has been agreed, there is a commitment across Kent districts that a fundamental review of all local schemes will take place over the next six months, in readiness for an entirely new scheme from April 2017. The outcome of this review may lead to a higher contribution level for working-age claimants.

Background

1. The key points of the Council's current scheme and its funding for 2015/16 are (unless highlighted with a note in italics, these form part of the Kent standard scheme):
 - All pensioner claimants entitled to council tax benefit are protected (by central government) from any reduction in support.
 - Disabled claimants (those receiving disability allowances) and carers are afforded a 95% protection (*not part of the Kent standard scheme*).
 - Working-age claimants' reduction in support is limited to 10% of their council tax liability.
 - otherwise the adoption of all the detailed parameters and 'protections' within the former national scheme of council tax benefit, including a commitment to uprate allowances in line with the annual uprating of allowances to housing benefit.
2. To fund the scheme beyond the core grant available from DCLG, the following was adopted:
 - Removal of the 10% second home council tax discount
 - Short term empty property council tax exemption period reduced from 6 months to 6 weeks, but the income from the reduction to 3 months is all to be paid over to the major precepting councils in return for their guarantees (see below) (***so the added reduction from 3 months to 6 weeks is not part of the Kent standard scheme***).
 - Long term (over 2 years) empty property council tax premium of 50% (***not part of the Kent standard scheme***).

Major preceptors' guarantees (for 3 years from 1 April 2013):

3. If a district incurs a cost on new council tax discounts (other than as a result of local decisions to increase Council Tax) from the local scheme that is higher than their share of the grant from government, then major precepting authorities (jointly) will reimburse the district the difference.
4. Major Precepting Authorities (jointly) will pay £125,000 to each district each year as a contribution to the increased administrative, collection and recovery costs of the new scheme.
5. Major Precepting Authorities (jointly) will reimburse each district reasonable increased administrative costs necessarily incurred if the case load on the local scheme (during the period of this agreement) exceeds the case load of the council tax benefit scheme (as at 31 March 2013) by more than 15%.

Preceptors Agreement

6. The existing 3 year agreement with the preceptors comes to an end on 31 March 2016. However, discussions with the preceptors have led to an agreement that

the terms set out above will be extended for one more year, i.e. for 2016/17. This allows us to continue with our existing local scheme for 2016/17.

7. However, an agreement has also been made that there will be a fundamental review of the CTS local scheme in readiness for 2017/18 - this may mean a move away from a means-tested 'benefit-type' scheme, to a more 'discount-type' scheme, where income bands are used as opposed to using specific income amounts. This would be administratively more simple and be less resource intensive.
8. The reason for the need for this fundamental review is because of the impact of the welfare reform changes being made by central government. In particular, the impact of certain changes - most notably tax credit reductions – may have a significant financial effect on the cost of local CTS schemes and therefore a review is needed. In addition, the continued roll-out of Universal Credit will have an impact, although at this stage it remains unclear how quick this roll-out will be.
9. This issue was set out in the The Medium Term Financial Plan 2016-21 report that went to Cabinet on 8 October 2015, specifically paragraphs 58-60 of that report.

Local scheme impacts to date and estimates for 2016/17

Payments

10. As at 16 October 2015, CTS awarded so far in 2015/16 is £7,029,795 (this compares to £7,164,852 in 2014/15; £7,436,901 in 2013/14; and £7,897,983 in respect of CTB in 2012/13), so there continues to be an ongoing reduction year-on-year.
11. This reduction in expenditure is due to a fall in the caseload, as well as the implementation of the CTS local scheme (where working-age claimants had to pay 8.5% of their liability in 2013/14, and 10% of their liability in 2014/15 and 2015/16. The exception to this is working-age disabled and carers, who had to pay 5% of their liability in all three years).

Caseload

12. CTS caseload – which in October 2013 stood at 8,833 and in October 2014 stood at 8,521 - currently stands at 8,204, so if this trend continues then the forecasted CTS expenditure for the whole year should be around the £7 million mark. This would be better than the original forecast.

Principles

13. The Council's principles for the scheme are (as set in the cabinet report of 6 December 2012):
 - Cost neutrality
 - All working age claimants to contribute something toward the cut

- Preserving current principles of protection (from previous CTB scheme)
- Preserving work incentives
- Fairness
- Transparency and avoidance of complex and disproportionate administration

14. All of the above principles have been followed, in 2013/14 and subsequent years, without any general negative consequences, and therefore there is little need to amend them for 2016/17. Indeed the main focus of the scheme has been supporting people back to work, and this seems to be working.

Collection

15. In terms of council tax collection rates, in 2013/14 (the first year of the CTS scheme), collection rates were maintained – at year-end it was 98.34%. This was better than expected, bearing in mind the new changes and in particular asking 2,500 claimants to pay council tax for the first time. In 2014/15 this collection rate was maintained at 98.27%. So far in 2015/16, as at 30 September 2015, collection continues to hold up; it is currently just 0.12% lower than at the same time last year.

16. In terms of collection specifically for CTS claimants, it continues to be the case that recovery action against CTS claimants is not disproportionately higher than for non-CTS accounts. This shows that, in general terms, the local scheme is not causing undue hardship or ill-feeling. Where there are individual cases of hardship then these are being referred to the Welfare Intervention Officers. But again the focus has been on supporting people back to work.

Funding

17. The cabinet report of 4 December 2014 outlined the scheme for 2015/16 and the financial estimates. £7.2 million was estimated for CTS expenditure for 2015/16, and as stated earlier, we currently expect to pay about £7 million, so we are well under the budgeted forecast. However, it should be remembered that this benefit (of lower expenditure) is shared between preceptors and we only receive 10% of the benefit. But the lower expenditure does help ease any pressures regarding the number of new builds estimated in the budget in terms of New Homes Bonus income.

18. As well as CTS, the other elements of our scheme affect the tax base calculations, those being removal of second home discounts, the implementation of long-term empty property premiums, and the reduction of empty home exemptions (formerly 'class C') from 6 months to 6 weeks. The income generated from these policies helps to support the CTS scheme and there is no evidence to support the need for any changes to these. In particular, the 'class C' exemption of 6 weeks is now bedded-in and seems to cause few issues, either administratively or with landlords.

Options

19. Whilst there are always options to increase or decrease support for claimants (such as changing the contribution level from 10% / 5%, or by changing some of the individual elements of the entitlement calculation), as previously set out in this report it is recommended that our current scheme is extended by one year. This is because an agreement has been reached across Kent to do this, because of the unknown impacts of the welfare reform changes to be introduced - most notably around tax credits & Universal Credit roll-out.
20. By retaining the core elements of our current scheme for 2016/17 then we will be fulfilling our part in this agreement. There are a few minor amendments recommended for 2016/17 for working-age claimants, in order to mirror Housing Benefit from April 2016, as set out below:
21. **Uprating of working-age allowances frozen, i.e. applicable amounts used in the calculation of entitlement are frozen** (*as it happens it is unlikely the allowances would have been uprated next year in any case, due to the current CPI calculation*).
22. **Backdating of working-age claims reduced from 6 months to 1 month**** (*this would mean any new claim for council tax support could only be backdated for a maximum of 1 month if good cause was shown. This is forecasted to affect in the region of 50-100 claims and result in a reduction in CTS expenditure of approximately £10,000*).

*** Whilst the 1 month maximum period is recommended for the majority of cases, it is recommended that a discretion to extend this maximum period to a maximum of 3 months is available for particular cases that meet an 'exceptional circumstances' test.*

Each case would be decided on its own merit - but if it is decided that there are exceptional circumstances as to why a claim was prevented from being made at the appropriate time, and that continuous good cause is shown throughout, then the maximum period can be extended beyond the 1 month.

Examples of such exceptional circumstances may include:

- *Long-term hospitalisation of member of household*
- *Bereavement of member of household*
- *Domestic violence*
- *Terminal illness*

This list is not exhaustive – other cases of exceptional circumstances may apply.

Any backdating request beyond the 1 month period will firstly be considered by an Officer. If the Officer recommends that an exceptional award beyond the 1 month be made, then this recommendation will be passed to the Head of Service for approval. Any such awards will be recorded in order that they can be monitored.

23. **Removal of the 'family premium' from the applicable amount for new CTS claims** (*this will have the effect of reducing – by £3.50 per week - the entitlement to CTS for families making a new claim from April 2016. It will not*

affect existing CTS claimants. The number of new claims next year from families is difficult to forecast, but this measure would likely affect in the region of 250 claims).

Financial implications

24. In considering the preferred option of no major changes to the scheme for 2016/17, the task group reviewed the following financial indicators:
 - Council Tax Base calculation
 - and collection fund performance.
25. In terms of the tax base, the draft tax base calculation (reported elsewhere on this agenda) has been prepared assuming that there are no major changes to the scheme and for 2016/17 shows that an allowance for 5,623 band D-equivalent properties has been made for Council Tax Support. At this year's tax levels and with a 10% reduction level for CTS this means a total discount for CTS of £7.2 million. As previously stated, we are currently forecasting to spend less than that (£7 million) so this 10% level can be maintained for 2016/17. This has then been used to construct the draft budget; the council tax yield with an unchanged scheme is in line with that estimated in the Medium Term Financial Plan.
26. Council tax collection rate. For 2013/14, we exceeded our collection target of 98%, by 0.34%. For 2014/15, we exceeded it by 0.27%. We should slightly exceed this target once again in 2015/16.
27. However, with funding announcement still outstanding there is a risk that the government will further reduce funding on welfare support for 2016/17. However, the government has not yet informed us of the level of potential grant reduction and any announcement is likely to be in December. As a final scheme must be decided by 31 January 2016 it is recommended that delegated authority is given to the Deputy Chief Executive, in consultation with the Portfolio Holder and the Leader, for any amendments to the recommended scheme to be made, except if there is a material need in which case a further report would be submitted to the January meeting.

Consultation

28. The public consultation that took place in 2012 (in relation to the 2013/14 scheme) stated that the proposed scheme for 2013/14 was a 17.5% contribution to council tax liability for working-age claimants (with disabled and carer claimants' contribution level protected at 5%). Subsequently the government special grant meant that the actual contribution level could be restricted to 8.5% - the level needed to qualify for the transition grant. The scheme for 2014/15 and 2015/16 was less of an increase than that originally proposed (10% rather than 17.5%).
29. Subject to Cabinet agreeing the recommendation in this report, the contribution will remain at 10% for 2016/17, which remains less than the amount previously consulted on. However, public consultation is still

considered necessary, particularly as there will be some first time claimants who have come into council tax support since the consultation carried out last year. Accordingly it is appropriate to advertise on the council's website the proposed scheme for 2016/17, including details of the minor amendments detailed above, and invite comments relating to the proposal. It is advisable that consultation should run for a period of six weeks from the publication of this report until 11th January 2016.

Conclusion

30. Retaining the contribution of CTS claimants at 10% for 2016/17 will be possible. This unchanged scheme has been used in the draft tax base calculation and is sufficient to generate the Council Tax income assumed in the Medium Term Financial Plan. However, this advice may be altered once the Government announces the funding arrangements for 2016/17 in December.
31. Retaining the 10% level will assist Council Tax collection rates and maintain a lower level of arrears.
32. The 10% level can be easily associated with the Government funding cut of 10%. The 5% contribution for those in receipt of a disability benefit or carers allowance may be more acceptable if seen as half of the standard contribution.
33. The freezing of allowances and the amendments to the Housing Benefit scheme for 2016/17 should be replicated in the CTS scheme to assist the processing of claims and understanding of the scheme.
34. A period of public consultation to run until 11th January 2016.

Portfolio Holder's Views

35. As chair of the Council Tax and Welfare Reform Task Group I have been fully involved in the monitoring of the progress of the scheme during the year and in the development of the proposals contained in this report. I will comment further on the report at the meeting.

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