

This report will be made public on 7 November 2016

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report Number **C/16/78**

To: Cabinet
Date: 20 December 2016
Status: Key Decision
Head of Service: Pat Main, Head of Finance
Portfolio Holder: Councillor Miss Susan Carey, Cabinet Member for Finance

SUBJECT: COUNCIL TAX REDUCTION SCHEME 2017/18

SUMMARY:

The existing scheme for Council Tax Reduction runs until 31 March 2017. The Council is required by law to approve a scheme for the year ahead by 31 January 2017 at the latest, which has been subject to consultation. This report presents the consultation results to look for recommendations for a Shepway scheme for the next 3 years.

RECOMMENDATIONS:

Cabinet is asked to:

1. To receive and note Report C/16/78
2. Consider the following officer and KCC recommendations for the CTRS scheme from April 2017:
 - a. To agree to introduce options 2, 3, 5, 12 and 13 to align the scheme to Housing Benefit legislation.
 - b. Remove Second Adult rebate (option 11)
 - c. To introduce a standard non-dependant deduction of £10.00 (option 7).
 - d. To introduce a banding cap of C or D to CTR cases (option 10).
 - e. To introduce a hardship scheme (option 14).
3. Consider reducing the maximum level of support for working age applicants (option 1)

1. Introduction

- 1.1 On 25 May 2016 Cabinet considered and approved Report C/16/04 Council Tax Reduction Scheme Consultation 2017/18. It resolved to:
 1. To receive and note report C/16/04.
 2. To agree for the options to be put forward for the public consultation.
 3. To agree the proposed public consultation.
- 1.2 Following approval by Cabinet a full public consultation exercise was undertaken over a 12 week period from 6 June to 28 August 2016.
- 1.3 In summary the consultation was carried out on a 25% reduction to all working age claimants' Council Tax net liability used to calculate and award Council Tax Reduction and a further 13 options to make changes to the existing scheme.
- 1.4 The final proposed scheme will need to go to Cabinet and Full Council for approval, but Cabinet will first have the opportunity to consider the options for the scheme and the results of the consultation.
- 1.5 As part of its introduction, Central Government set out a number of key elements:
 - The duty to create a local scheme for **Working Age** applicants was placed with Billing Authorities;
 - Funding was reduced by the equivalent of 10% from the levels paid through benefit subsidy to authorities under the previous Council Tax Benefit scheme; and
 - Persons of **Pension Age**, although allowed to apply for Council Tax Reduction, would be dealt with under regulations prescribed by Central Government and not the authorities' local scheme. Pension Age applicants are 'protected' and will therefore not be considered further in this report.

2. Scope of Review

- 2.1 A group of Finance Officers from the Kent districts and major precepting authorities have been working closely together in setting the objectives of the review, and maintaining a common approach to the design of the local schemes. A consultant has been appointed by Ashford Borough Council on behalf of the Kent districts and major precepting authorities, and the costs are being shared. Thus far, the consultant has been assisting in the evaluation of alternative scheme models and will, in due course, assist us with the public consultation process
- 2.2 The objectives collectively agreed are:
 - 1) Having regard to the reductions in grant and the financial pressures faced, to make the scheme(s) less costly (if possible) and more efficient in terms of its operation; and

2) To have regard to the impact such changes may have on vulnerable residents.

2.3 It has been recognised by the Kent Finance Officers' group that the contributions that the major precepting authorities pay towards the administration of the scheme are essential. Changes to the local scheme could potentially lead to a need to collect even more Council Tax from individuals who may find it difficult to pay; as well as those individuals finding the resultant changes difficult to comprehend.

2.4 Therefore, in parallel with the review of the local schemes, representatives from the Kent district councils are working with the major precepting authorities to formulate a new funding 'model' for assistance towards the administrative costs. At the time of writing this report the work is at an early stage, but it is likely that the model will include a smaller 'flat rate' grant topped up by a share of any additional proceeds as a result of our taxbase increasing.

3. The Consultation

3.1 The consultation was conducted over the 12 weeks 6 June 28 August 2016. 5000 Council Tax payers were contacted. 359 responses were received, which is a response rate of 7.2% with nearly half (44%) from people aged 55+.

3.2 The consultation sought views on proposed changes to the scheme and amendments to the reduction rules.

3.3 Appendix 2 shows the details of each option. This document was shared as part of the consultation process.

3.4 A full analysis of the consultation results and comments is attached (Appendix 1). The highlights of each response are listed below:

Table 1

Option	Proposed changes	Consultation overview
1	Reducing the maximum level of support for working age applicants from 81.5% to 80% or 75%.	57% agreed.
2	Removing the Family Premium for all new working age applicants. This will mirror Housing Benefit.	46% agreed, while 40% disagreed.
3	Reducing backdated applications to a maximum of 1 month (currently 6 months). This will mirror Housing Benefit.	66% agreed.
4	Use a set income for self employed earners after 1 year's work. In order to align Council Tax Reduction with Universal Credit, the Council proposes to use a minimum level of income for those who are self-employed. This would be in line with the National Living Wage for 35	53% agreed.

	<p>hours worked per week. Any income above this amount would be taken into account based on the actual amount earned. The income would not apply for a designated start-up period of one year from the start of the business.</p>	
5	<p>Reducing the period for which a person can be absent from Great Britain and still receive Council Tax Reduction to 4 weeks. This will mirror Housing Benefit.</p>	81% agreed.
6	<p>Reducing the capital limit from the existing £16,000 to £6,000. At present, residents with savings, capital and investments of more than £16,000 are not entitled to any Council Tax Reduction. Under the proposed change; this limit would be reduced to £6,000.</p>	56% agreed.
7	<p>To introduce a standard level of non dependant deduction of £10 for all applicants who have non-dependents resident with them. Within the current scheme a deduction is made from Council Tax Reduction for people other than the applicant's partner who are 18 years old or over, That person would be expected to contribute towards payment of Council Tax. At present the weekly deductions range from £0.00 to £11.45 per week according to weekly income. The deductions would be replaced by £10.00.</p>	66% agreed.
8	<p>To take any Child Maintenance paid to a claimant or partner into account in full in the calculation of Council Tax Reduction. Currently any payments of Child Maintenance paid to either an applicant or their partner does not count when working out their income for Council Tax Reduction. This proposal would allow the Council to include any Child Maintenance in the calculation. This income is not currently recorded by the Council so cases would need to be reviewed.</p>	56% agreed.
9	<p>To take any Child Benefit paid to a claimant or partner into account in full in the calculation of Council Tax Reduction. Currently any payments of Child Benefit paid to either a claimant or their partner does not count when working out their</p>	54% agreed.

	income for Council Tax Reduction. This proposal would allow the Council to include any Child Benefit in the calculation.	
10	<p>To restrict the maximum level of Council Tax Reduction payable to the equivalent of a Band D charge.</p> <p>The current Council Tax Reduction scheme uses the full amount of Council Tax charge irrespective of the band of the property. There are eight Council Tax Bands A to H with Band D being the national average. It is proposed that where an applicant lives in a property which is Band E, F, G or H then the Council Tax Reduction will be calculated on the basis of a Band D charge.</p>	55% agreed.
11	<p>To Remove Second Adult Reduction from the scheme.</p> <p>The current Council Tax Reduction scheme can grant a reduction up to 25% in certain cases where the income of a 'second adult' (not the applicant's partner) who resides with the applicant is unemployed or has a low income, this would be removed as an option for applicants.</p>	49% agreed , while 34% disagreed
12	<p>To remove the element of a Work Related Activity Component in the calculation of the current scheme for new Employment and Support Allowance applicants.</p> <p>This will mirror Housing Benefit.</p>	55% agreed.
13	<p>To limit the number of dependant children within the calculation for Council Tax Reduction to a maximum of two.</p> <p>This will mirror Housing Benefit.</p>	65% agreed.
14	<p>To introduce a scheme, in addition to Council Tax Reduction, to help applicants suffering exceptional hardship.</p> <p>The option would introduce a scheme whereby, individual cases would be looked at on their own merit; a scheme would need to be produced should this be agreed. It should be noted that KCC funding details are not known at time of writing and that the Council would look to operate a scheme similar to that of Discretionary Housing Payments that will relate to Council Tax.</p>	80% agreed.

3.5 Appendix 3 shows the Kent County Council response to the consultation that is to be considered before any final is to be made. Highlights from this report are:

- a) In light of the financial challenge to local authorities through funding reductions KCC cannot support protecting existing schemes and some changes are needed to reduce the cost of council tax support discounts and/or increase the council tax base.
- b) KCC supports the principle of reducing CTR discounts although it is difficult to conclude precisely what % should apply.
- c) KCC fully supports the proposals on a minimum income level for self-employed and the changes to Work-Related Activity in ESA (option 12).
- d) KCC would support the principle of changing CTR schemes to be consistent with changes in Housing Benefit, Universal Credit and other welfare benefits in future (options 2, 3, 5, 12 and 13).
- e) KCC would support more research being undertaken into the impact of including child maintenance in household income. KCC does not agree that child maintenance be included until this research has been fully evaluated (option 8).
- f) KCC fully supports standardising deductions for non-dependent adults (option 7).
- g) KCC's supports abolishing Second Adult Rebate (option 11).
- h) KCC supports capping CTR discounts but proposes that the cap should generally be applied to all properties above band C (option 10).
- i) KCC supports the principle of a hardship fund to help families that face exceptional financial difficulties. However, KCC would need to see further proposals from districts over how such a scheme would operate e.g. which circumstances would trigger support, how the scheme would be funded, and financial modelling of the number of households which may receive financial assistance, before we could agree to the inclusion of any scheme (option 14).

3.6 The consultant working with Kent authorities will be drafting up the detail of local schemes with each authority including their agreed principals as required.

Funding

- 4.1 It has been recognised by the Kent Finance Officers' group that the contributions which the major precepting authorities pay towards the administration of the scheme are essential. Changes to the local scheme could potentially lead to a need to collect even more council tax from individuals who may find it difficult to pay as well as those individuals finding the resultant changes difficult to comprehend.
- 4.2 Therefore, in parallel with the review of the local schemes, representatives from the Kent district councils are working with the major precepting authorities to formulate a new funding 'model' for assistance towards the administrative costs.
- 4.3 At the time of writing KCC have indicated that they would expect as an absolute minimum that schemes are kept up to date to reflect housing benefit and other welfare reforms. Therefore, KCC is willing to maintain the same overall administration contribution (For Kent £1.25m out of a total of £1.5m) providing districts agree to make the necessary changes consistent with this principle. This includes:

- Removing the work related activity within ESA for new applicants
- Reduce backdating from 6 months to 1 month
- Limit council tax discounts to 4 weeks for eligible applicants absent from UK
- Remove the family premium

Limit dependent children additions to the first 2 children only

This is reflected in officer recommendations in paragraph 6.2.

- 4.4 KCC have stated that they do expect that the latest scheme proposals for administration and incentive payments would be another time-limited agreement (as with the original scheme). It is envisaged that this would be 3 years with further consideration of renewal during the second 18 months.

5. Potential financial impacts of options

- 5.1 Table 2 lists each option and the potential cost of the option to the scheme. Details are as at 1 April 2016. Please note that for some options the data is either not held by the Council or it is not possible to extract the financial impact.

- 5.2 The total cost of the current scheme is £8,652,858 per year, savings in table 1 demonstrate estimated total savings and the Shepway share of these funds.

Table 2

Option	Estimated number of claims affected	Estimated saving to Shepway District Council	Estimated saving to Kent CC, Police and Fire	Estimated total saving
Option 1 (maximum support 75%)	5386	£57,090	£323,508	£380,598
Option 2 (remove family premium)	279*	£7,616*	£43,156*	£50,772*
Option 3 (reduce backdating)	130*	£2,112*	£11,965*	£14,077*
Option 4 (self employed minimum income)	22	£1,734	£9,824	£11,558
Option 5 (reduce temporary absence)	Unknown	Unknown	Unknown	Unknown
Option 6 (limit capital)	63	£6,505	£36,860	£43,365
Option 7 (ND deduction £10.00)	200	£7,469	£42,322	£49,791
Option 8 (include child maintenance as income)	Not currently recorded	Not currently recorded	Not currently recorded	Not currently recorded
Option 9 (include Child Benefit)	1,166	£57,483	£325,734	£383,217
Option 10 (restrict CTR to Band D)	126	£38,938	£220,647	£38,938

Option 11 (remove Second Adult Rebate)	45	£2,109	£11,950	£14,059
Option 12 (remove ESA element)	4*	£182*	£1,030*	£1,212*
Option 13 (limit number of dependent children)	65*	£6,213*	£35,204*	£41,417*
Option 14 (hardship scheme)	Unknown	Unknown	Unknown	Unknown

* These figures have been based on estimates from new cases declared in 2015/16.

5.3 The proposed changes to the Council Tax Reduction Scheme are in main increasing the amount that council tax payers will be required to pay. The effect of this may have an adverse effect on the level of bad debt that the system will generate.

6. Officer recommendations

6.1 The following comments are a summary of feedback from an operational perspective considering the administration impact of each option. It should be noted that this does not take into account the political view.

6.2 Considering KCC support (paragraph 3.5 (d)) officers would recommend introducing options 2, 3, 5, 12 and 13 to align the scheme to Housing Benefit legislation. This will make decisions more consistent for those applying for Housing Benefit and Council Tax reduction and make decisions easier to explain to customers.

6.3 The changes to the scheme in paragraph 6.2 are intended to align Council Tax Reduction with the administration of Housing Benefit. At the present time the following changes have yet to be made within Housing Benefit but regulations are expected before the 1st April 2017:

(Option 13) The limitation of dependents additions to two dependants where a third or subsequent child is born on or after 1st April 2017 (HB and Tax Credits are due to be changed from April 2017); and

(Option 12) The removal of the Work Related Activity Component for all new Employment and Support Allowance applicants on or after 1st April 2017

Members are advised that in the unlikely event that these changes are not affected by Central Government by 1st April 2017, that the Council's Council Tax Reduction scheme will not be amended for 2017 but will be amended from 2018.

6.4 Considering KCC support (paragraph 3.5 (f)) officers would recommend introducing standard level of non dependant deduction of £10.00 (maintaining current zero deductions for those exempt).

6.5 Considering KCC support (paragraph 3.5 (g)) officers would recommend removing Second Adult Rebate. It should be noted that this has already been removed by many Council's in England.

6.6 KCC have shown support to a banding cap to CTR cases but would prefer a band C restriction. It should be noted that the Council consulted on a band D as this was

deemed a local average that has been replicated in a number of authorities nationally. A lower banding would increase savings but would impact on a much larger number of vulnerable residents.

- 6.7 Officers would support a hardship fund to be introduced. It should be noted that a policy would need to be drawn up if agreed and each case would need to be reviewed on its own merit. This would require extra administration and resource to consider each application appropriately.

7. Timelines

- 7.1 The scheme must be agreed by Council and published by 31 January 2017. Table 3 shows the projected timeline to ensure that the scheme is delivered on schedule:

Table 3

Date	Action
15 November 2016	Present results and scheme to Overview & Scrutiny
	Present results and scheme to Informal Cabinet
6 December 2016	Present results and scheme to Cabinet
21 December 2016	Present results and scheme to Council
31 January 2017	Deadline for publishing agreed scheme for 2017/18
January 2017	Update systems/letters Print bills
March 2017	Train staff
1 April 2017	New scheme live

7. Equality Impact Assessment

- 7.1 A full Equality Impact Assessment, together with the results of the consultation, will be presented to Cabinet once the agreed options have been selected. Once the recommendations are made the EIA will reflect this decision.
- 7.2 Could members please note that the scheme, together with all supporting papers, Equality Impact Assessments etc. must be considered before making any decision on the scheme.

8. Risk Management Issues

- 8.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Council not able to recover increase in arrears	Medium	Medium	Subject to Kent Finance renegotiation major preceptors to a sum towards collection and recovery costs. Collection rate will be reviewed for the tax base setting.
Negative public reaction to proposals	Medium	Medium	Response from consultation will be taken into consideration when the final Scheme is recommended.

Fluctuations to cost of Council Tax Reduction scheme	Medium	High	Dependent on the Kent wide agreement renegotiation the major preceptors had previously agreed to meet additional costs over 3 years.
Future government funding changes	High	High	Dependent on the Kent wide agreement renegotiation the major preceptors had previously agreed to meet additional costs over 3 years.
Potential legal challenge to 2017/18 CTRS	Medium	Medium	Ensure full consultation has taken place with genuine options and that a proper equality impact assessment has been undertaken.

9. Implications

9.1 Legal Officer's Comments (DK) – The Local Government Finance Act 1992 gives local authorities the power to make council tax reduction schemes and requires the authorities to operate schemes which specify the council tax reductions available to certain persons or classes of person in financial need. The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012 (as amended) set out in more detail the requirements of such schemes.

CMT must take into account that it is key to ensure that proper consultation and decision-making procedures are followed. Adequate time must be given to consideration of responses to the consultation and the demands of fairness are likely to be somewhat higher when an authority contemplates depriving someone of any existing benefit or advantage.

9.2 Finance Officer's Comments (AK) – The financial implications of the proposals are in the main set out in the report. However given the time limits on finalising the scheme and the required level of consultation between the relevant authorities involved there has to be concern that the full implications will not be properly considered. The finalisation process must be afforded the required levels of input to ensure that, as far as possible the financial implications are fully quantified and documented.

Andrew Hatcher
Revenues & Benefits Strategic Manager

Appendices:

Appendix 1 – Public consultation results and analysis

Appendix 2 – Background Information

Appendix 3 – KCC consultation response

Appendix 4 – Equality Impact Assessment

