

Cabinet

11 August 2015

**Name of Cabinet Member:**

Cabinet Member for Strategic Finance and Resources – Councillor Gannon

**Director Approving Submission of the report:**

Executive Director of Resources

**Ward(s) affected:**

City-wide

**Title:**

Public Consultation – Local Council Tax Support Scheme

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**Is this a key decision?**

No – although this matter affects all wards, as the proposals are for a period of consultation, the matter is not deemed to be a key decision.

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**Executive Summary:**

Council Tax Support (CTS) is a means tested discount to help low income households with the cost of council tax payments. The Council awarded over £27.6 million in council tax support in 2014/15 to approximately 33,500 households in the City.

Since the Government announced that Council Tax Benefit (CTB) was to be localised from April 2013 every council has had the responsibility for designing its own scheme of support. In localising support, the Department for Communities and Local Government (DCLG) also cut funding by 10 per cent in 2013/14. The funding received from the Government is no longer separately identified, making it very difficult to quantify exactly the level of cost to the Council now. However, if the amount included notionally for CTS within the Council's overall Government funding has reduced in line with headline funding cuts this would mean that the amount of local CTS funding will fall to below £22m for 2015/16. Hence, the existing scheme is already costing the Council up to £5 million per annum more than the level of government resource that has been allocated to fund the responsibility.

The Council faces significant funding pressures for 2016/17 and beyond. Assuming all savings are delivered in 2015/16, there is still a £13.1 million shortfall in the budget for 2016/17. Given this level of funding pressure, the 2015/16 Budget Report included a £3 million saving target for CTS from 2016/17. This formed part of the Council's 2015/16 budget consultation process. This report recommends that the Council should undertake a public consultation on a draft scheme of support to replace the current Council Tax Support scheme which will deliver savings of £3 million by reducing the level of discount awarded to recipients.

## **Recommendations:**

Cabinet is requested to:

- 1) Approve a ten week public consultation on a draft council tax support scheme and options
- 2) Approve the publication of a draft scheme based on the preferred option (including the removal of the 'second adult rebate') in accordance with The Local Government Finance Act 1992 (as substituted by the 2012 Act)
- 3) Delegate authority to the Director of Resources to approve the contents of the public consultation document.
- 4) Refer the issue to the Finance and Corporate Services Scrutiny Board (1) as part of the consultation process.
- 5) Receive a further report Cabinet detailing the results of the consultation and the equality consultation assessment for consideration of a final decision on a new scheme and it's publication.

## **List of Appendices included:**

Equalities and Consultation Analysis

## **Background papers:**

None

## **Other useful papers:**

***Localising support for council tax in England* consultation – Department for Communities and Local Government**

<https://www.gov.uk/government/consultations/localising-support-for-council-tax>

Local Government Finance Act 2012

<http://www.legislation.gov.uk/ukpga/2012/17/contents/enacted>

Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012

<http://www.legislation.gov.uk/uksi/2012/2885/contents/made>

New Policy Institute – national review of all council tax support schemes

<http://counciltaxsupport.org/>

## **Has it or will it be considered by Scrutiny?**

Yes – it will go to the Finance and Corporate Services Scrutiny Board (1) as part of the consultation.

## **Has it, or will it be considered by any other Council Committee, Advisory Panel or other body?**

No

## **Will this report go to Council?**

No

**Report title:**

Public consultation – Local Council Tax Support Scheme

**1. Context (or background)**

- 1.1 Council Tax Support (CTS) is a means tested discount to help low income households with the cost of Council Tax payments. The existing CTS scheme in Coventry, broadly mirrors the Council Tax Benefit (CTB) scheme, previously administered under the framework from the Department for Work and Pensions (DWP).
- 1.2 Since the Government announced that CTB was to be localised from April 2013 every council has had the responsibility for designing its own scheme of support. In localising support, the DCLG also cut funding by 10 per cent in 2013/14. Notwithstanding this reduction in funding, the Council initially made the decision to implement a new Council Tax Support scheme which effectively mirrored the previous CTB scheme meaning no change in the level of financial assistance received by recipients. Due to the 10% reduction in funding from central government, this meant that the Council had to find approximately £3 million of additional resources to maintain the equivalent level of support under the CTS scheme.
- 1.3 The Council awarded over £27.6 million in council tax support in 2014/15 to approximately 33,500 households in the City. This has steadily reduced from a level of around £29.3 million two years ago.
- 1.4 The funding received from Government to provide CTS schemes is no longer separately identified making it very difficult to quantify exactly the level of cost to the Council now. However, if the amount included notionally for (CTS) within the Council's overall Government funding has reduced in line with headline funding cuts this would mean that the amount of local CTS funding will fall to below £22m for 2015/16. Hence, the existing scheme is now costing the Council up to £5 million per annum more than the level of funding notionally allocated by government to meet this responsibility.
- 1.5 The Council faces significant funding pressures for 2016/17 and beyond. Assuming all savings are delivered in 2015/16, there is still a £13.1 million shortfall in the budget for 2016/17. Given this level of funding pressure, the 2015/16 Budget Report included a £3 million saving target for CTS from 2016/17. This formed part of the Council's 2015/16 budget consultation process. Reducing the CTS scheme is only one of a number of difficult and challenging decisions that the Council will need to take as it reduces and redesigns services to ensure that the Council maintains a sustainable financial position in the wake of unprecedented reductions in funding. Additional cuts to services in other areas (to make up the £3 million savings) would cause significant impacts across the Council when all service areas are looking at ways of reducing cost.
- 1.6 In proposing to now revise its CTS scheme, the Council will be following the majority of English councils who have now similarly reduces the levels of discounts offered under local schemes than were funded under CTB. In 2015/16 only 42 out of 326 councils have protected all recipients from a cut in support. On average, councils in England have cut scheme discounts compared with levels of benefits previously provided, by 20%.
- 1.7 The rules governing support for pensioners, who comprise approximately 39 per cent of the caseload in Coventry, will continue to be prescribed nationally. People of pension age do not receive any reduction in entitlement (compared to the previous CTB scheme) under a local scheme. Pension age is defined as the age at which an individual can

qualify for state pension credit (the pensionable age for a woman). This means that pensioners will not be impacted by any proposals to revise the local CTS scheme although this inevitably has the impact of loading the impact of the weight of a cut onto people of working age.

- 1.8 There are approximately 20,650 households in Coventry with working age recipients of CTS. Approximately 16,000 of this number do not currently pay any council tax as they receive maximum benefit.
- 1.9 The Local Government Finance Act 1992 (as substituted by the 2012 Act) places a statutory duty upon Local Authorities to design and implement local schemes of support for council tax and for those schemes to be agreed by 31 January in the financial year prior to that in which the changes are intended to be implemented.
- 1.10 In designing local schemes, councils are reminded of their responsibilities in relation to vulnerable groups and individuals. The Equalities Consultation Assessment (ECA) attached as Appendix 1, considers these issues. In addition to vulnerable groups, councils are also encouraged to consider work incentives when designing local support schemes.

## **2. Options considered and recommended proposal**

- 2.1 Officers have considered various models for revising the CTS conscious of the impact this may have on vulnerable groups and also conscious of the need to consider the impact on incentives to work. Some of this work has been informed by the experiences of other Local Authorities who have revised their schemes previously. .
- 2.2 It is also recognised that to begin collecting relatively small amounts particularly from those people who are not used to paying Council Tax will be challenging and potentially costly. Many of the same people will also be affected by other welfare reforms.
- 2.3 The following options are the main ones that have been considered.

### **Option 1 – no change**

- 2.4 Officers have considered the option of the Council not changing the current scheme. This would add significant additional funding pressures for the 2016/17 budget and beyond. Assuming all savings are delivered in 2015/16, there is still a £13.1 million shortfall in the budget. The Council has already implemented a large number of proposal to make cuts across a wide range of services and will need to continue to do this as part of its on-going and future Budget Setting.
- 2.5 There have been tight Government imposed limits on the amount that the Council has been able to raise through Council Tax and the Council has approved rises very near to the maximum allowed in the last two years. It is not viable for the Council to use reserves to fund Council Tax Support costs because reserves represent a one-off resource and all the Council's reserve balances are already earmarked for existing purposes. Neither is it possible to fund Council Tax Support costs from the sale of City Council assets because CT Support represent on-going revenue costs and asset sales generates one-off capital receipts which cannot be used for such purposes.
- 2.6 Given this combination of circumstances, the 2015/16 Budget Report included a £3 million saving target for CTS from 2016/17 onwards which formed part of the Council's 2015/16 budget consultation process.

## **Option 2 – exclusion of vulnerable groups**

- 2.7 Officers have also considered whether a scheme should exclude certain (potentially) more vulnerable groups, for example, the disabled. Clearly by excluding one part of the working age population, the burden of additional cost (council tax liability) increases for all other low income households. For example, to raise £2.4 million by making a straight cut across all working age people would result in a 15 per cent reduction in CTS. If disabled people, for example, are excluded from the calculation, the reduction rises to 20 per cent for everyone else on low income.

## **Option 3 – increased taper**

- 2.8 Some Local Authorities have sought to revise schemes in part based on household income. An approach to doing this would be to increase the taper which is applied to excess income. At present, the Government prescribes notional income levels which individuals and families are deemed to require in order to meet basic needs. If household income is below this prescribed amount then maximum benefit is payable. Any income above the notional amount is known as excess income and benefit entitlement is reduced by a percentage of the excess income amount. Under the current CTS scheme this taper amount is set at 20 per cent (20 pence for each additional pound of excess income). Under a local scheme the Council could increase this rate to generate additional income.
- 2.9 The taper rate for housing benefit is 65 per cent and the taper rate for universal credit is expected to be 65 per cent. If council tax support was based on a taper rate of 40 per cent it is estimated that this would reduce expenditure by approximately £990,000 per annum. The balance of £1.31 million would need to be found by applying a 10% 'minimum contribution' from all working age people.
- 2.10 The benefits of this approach are that reductions are targeted at households with higher incomes rather than a blanket percentage reduction. In the vast majority of working cases the customer will already be making some level of contribution towards their council tax bill. The obvious disadvantage of this approach would be the potential impact on work incentives. An increased taper rate would result in benefit being withdrawn more quickly when a person starts work or earns more – and they would also be 'hit' by the overall 10 per cent reduction.
- 2.11 It is estimated that the taper reduction would affect approximately 3,800 customers. All working age people (around 20,600 – including those affected by the taper reduction) would also be subject to the minimum contribution (10%) in order to raise the balance of the required £2.4 million.
- 2.12 This option is certainly feasible notwithstanding the potential impact on incentives to work given that some excess income earned will be reduced through a lower level of Council Tax discount.

## **Option 4 – minimum contribution**

- 2.13 A minimum contribution approach would be to pass on a 15 per cent cut in support for all working age people. This approach would apply a blanket reduction regardless of individual circumstances or the type or level of income of the customer. The advantage of this approach would be to disperse the cut across the widest possible section of customers to minimise the average impact. The average weekly award of £20.09 (in a

Band A property) would reduce by £3.01 to £17.08, leaving the Council to collect the annual balance of around £156.52 from each of these households (around £2.4 million additional charges if applied equally to all working age residents).

- 2.14 The table below provides an indication of the approximate contribution people will have to make, according to their council tax property band. Single households will receive a 25% discount on these figures:

Council Tax 2016	15% (weekly payment)	Annual additional payment
A £1044.89	£3.01	£156.73
B £1219.04	£3.52	£182.85
C £1393.20	£4.01	£208.98
D £1567.34	£4.52	£235.04
E £1915.64	£5.53	£287.35
F £2263.94	£6.53	£339.56
G £2612.25	£7.53	£391.56

- 2.15 This approach spreads the burden of the cut most widely. It is recommended that this option is included for consultation and marked as the 'preferred option' for revising the scheme.

#### **Additional option - Second Adult Rebate**

- 2.16 A further consideration when changing the scheme is Second Adult rebate. This is complicated to administer, difficult to understand, but gives a relatively small additional saving if it is removed (for working age people) of around £43,000 pa.
- 2.17 Second adult rebate is a rebate that customers can get on their council tax if they live with a second adult who isn't their partner. It is awarded if the customer who is the council tax payer does not qualify for main council tax support in their own right – because their income is too high, but the second adult in the property is on a low income. Second Adult Rebate is awarded to those who either have sufficient income to pay their Council Tax bill, or where they would be better off receiving second adult rebate.
- 2.18 Where second adult rebate is awarded the amount of council tax a customer has to pay is reduced by a certain amount. (25%, 15%, 7.5%) The amount it's reduced by will depend on the income of the adult who is living there. To calculate entitlement to second adult rebate, the local authority will work out how much income the second adult has. The less income a second adult has, the higher the rebate will be.
- Excluding Second Adult Rebate does not take support away from the poorest. In the main, Second Adult Rebate supports those who have already been deemed to have enough income / capital of their own to pay their bill.
  - Those who would have qualified for main Council Tax Support, but would be better off receiving second adult rebate will still be able to claim Council Tax Support under the new scheme. Their entitlement will be assessed in line with everybody else.

## **Consultation**

- 2.19 Before making a new scheme the City Council must undertake a public consultation on the options for change. In designing local schemes, councils are reminded of their responsibilities in relation to vulnerable groups and individuals:
- 2.20 In addition to vulnerable groups, councils are also encouraged to consider work incentives when designing local support schemes.
- 2.21 The Council is required to undertake consultation in the following order:
- 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.
- 2.22 To this end the Council will need to write to major precepting authorities (fire and police) to invite responses on the proposed options for a local scheme. A full consultation exercise will then be undertaken.
- 2.23 A pre-consultation engagement event was held with support agencies. They have agreed to collaborate to ensure that the consultation reaches those affected. The potential to link this to other pending changes in welfare reform through pop-up shops and other local events is being considered. The group has already suggested a number of ways the Council could work with them to limit the impact of the changes. Once the responses to the consultation have been evaluated and a final equality impact assessment has been completed, a further report will be presented to Cabinet and Council with a formal recommendation for a local scheme.
- 2.24 It is recommended that the consultation is initiated on 17 August 2015 for a period of ten weeks closing on 25 October 2015. This timescale will enable responses to the consultation to be collated and analysed in detail with a view to formalising a final scheme for recommendation to Cabinet and Council in January 2016. The timescale also enables the Council to fulfil the requirement to consult with precepting authorities before the publication of a draft scheme and allow sufficient time for responses to be provided and considered.
- 2.25 The ten week consultation period, running from August to October, is considered to provide suitable opportunity for responses to the consultation.

## **3. Results of consultation undertaken**

- 3.1 This report seeks approval to undertake consultation.

## **4. Timetable for implementing this decision**

- 4.1 The public consultation will be initiated on 17 August 2015 for a period of ten weeks.

## **5. Comments from Executive Director of Resources**

### **5.1 Financial Implications**

- 5.1.1 The 2015/16 Budget Report included a saving in the cost of Coventry's Council Tax Support payments of £3m to take effect from 2016/17. The changes to the scheme

recommended in this report will deliver this saving by increasing the city's Council Tax-Base, which has the effect of increasing the amount of Council Tax that can be collected. This change to the Council Tax-Base will also deliver associated increase in income, through their precept, for the West Midlands Police (around £200,000) and the West Midlands Fire Authority ( around £100,000). Taking this into account and assuming an eventual collection rate of the additional element of 90%, this requires a total gross increase to the amount of collectable Council Tax of £3.7million.

5.1.2 Since the 2015/16 Budget was set, Council Tax Support payments have fallen by around £1.3 million. This reduces the target amount of collectable Council Tax required through changes to the CTS Scheme to £2.4 million.

5.1.3 If the Council chooses to reduce the level of overall Council Tax Support this will affect individual Council Tax Support recipients as described elsewhere within this report. It will also affect overall collection. Reductions in Support will mean that people who have never paid Council Tax will become liable and it is very likely that collection will prove very challenging in some instances. This impact is difficult to predict but the estimated eventual collection rate of 90% referenced above, applied to the scheme changes within this report, will ensure that the Council meets its financial targets in this area.

## 5.2 Legal Implications

5.2.1 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.

## 6. Other implications

### 6.1 How will this contribute to achievement of the Council's Plan?

The council tax support scheme will continue to provide financial assistance to low income households to meet the costs of council tax payments albeit at a reduced level.

### 6.2 How is risk being managed?

A council tax support project board meets fortnightly and a project risk register has been established for council tax support. The Corporate and Directorate risk registers include a risk for welfare reform.

### 6.3 What is the impact on the organisation?

The Council is required to make any changes and agree a local scheme of support by 31 January 2016. The localisation of council tax support represents a significant financial risk to the Council in terms of both meeting the cost of the scheme but also potentially of collecting council tax from low income households which could result in increased administrative costs to the authority. Reducing the support available to low income households also has potential impacts on demand for other Council service areas.



## **6.4 Equalities / ECA**

A comprehensive equality and consultation analysis (ECA) will be produced before formal consultation begins, and will be updated using feedback received during the consultation period. The ECA will then be finalised and made available for consideration at the Full Council meeting to approve the new Scheme. From initial analysis, it has been possible to identify some areas of impact under each of the 3 scenarios, as follows:

Scenario 1 – excluding disabled residents from any reduction in council tax support and introducing a 20% reduction in support for the rest of the working age population in the city. This scenario would result in more of an impact across the board for all residents than the other scenarios, in particular for those in work, couples, those with children (especially larger households) and those benefit capped.

Scenario 2 – introducing a minimum 10% reduction in support with a taper of 40% on excess income. This scenario would have less of an impact on those out of work and those already subject to the benefit cap and a greater impact on couples, working claimants and working claimants with children.

Scenario 3 – introducing a universal 15% reduction in support for all working age people. This scenario would have a fairly even impact across all equality groups, with a slightly higher reduction for couples and larger families.

All three scenarios impact more on single women than on single men.

Once implemented, the effects of the final scheme will need to be carefully monitored in order to track the longer term impact on key protected groups in the city.

See Appendix 1 – this will be reviewed and updated regularly.

## **6.5 Implications for (or impact on) the environment**

None

## **6.6 Implications for partner organisations?**

Reducing entitlement to benefit has potentially significant impacts on partner organisations, particularly for advice agencies and other third sector organisations. The Council is in regular contact with partner organisations to ensure they are kept informed of potential changes and it is expected that these organisations will respond to the public consultation on a draft scheme.

There are implications for major precepting authorities and the Council has initiated consultation with West Midlands Police and the West Midlands Fire and Civil Defence Authority in respect these implications.

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