

<b>Subject:</b>	<b>Council Tax Reduction Review</b>		
<b>Date of Meeting:</b>	<b>3 December 2015 - Policy and Resources Committee</b> 17 December 2015 - Council		
<b>Report of:</b>	<b>Interim Executive Director of Finance and Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>John Francis</b>	<b>Tel:</b> 29-1913
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<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 The council introduced a local Council Tax Reduction (CTR) scheme from 1<sup>st</sup> April 2013 as a result of national changes localising the previous Council Tax Benefit (CTB) system. Under legislation the local Council Tax Reduction Scheme must be reviewed each year. The purpose of this report is to set out that review and the resulting recommendations.
- 1.2 When CTR was introduced the funding for the scheme was reduced by 10% when compared with the costs of the previous CTB scheme. The funding has continued to reduce year on year and the gap between the cost of the current scheme and the estimated funding available for 2016/17 is forecast to be a £3.6million shortfall.
- 1.3 The council has a choice to manage this by either, reducing the cost of CTR through increasing the minimum amount CTR recipients are expected to pay and other measures; reduce funding for other general fund services; or, increasing council tax.
- 1.4 In the current financial year the council is absorbing approximately £1.529million of the scheme costs within its General Fund budget and people of working age in receipt of CTR receive up to 85% discount on their Council Tax..
- 1.5 CTR for people of pensionable age is set according to national rules which means there is no minimum contribution to be made. Councils are given no power to alter the way the scheme works for pensioners, despite the fact that funding is being reduced for this group too.

## **2. RECOMMENDATIONS:**

### **That the Committee:**

- 2.1 Notes that the Council undertook formal consultation as a part of this review and that as part of the formal consultation a draft scheme was published and people were invited to give their views on that scheme.
- 2.2 Notes the outcome of that consultation (appendix 1) which has been summarised in section 5.4.
- 2.3 Notes that an Equalities Impact Assessment (EIA) (appendix 2) has been undertaken on the proposed changes in the draft scheme and the recommendations set out in 2.9.2 – 2.9.4 in this report. The committee should further note that, to meet their Public Sector Equality Duty, members must give conscientious consideration to the findings of this assessment when making a decision on the recommendations in 2.9.1 – 2.9.4. The actions which will be undertaken as a result of this EIA are set out in section 7.4.
- 2.4 Notes that the Chief Finance Officer (s151) will, prior to 1<sup>st</sup> April 2016, exercise delegated powers to increase the appropriate calculative elements of the scheme to give effect to national changes.

### **That the Committee recommends to Council that:**

- 2.5 It notes that the Council undertook formal consultation as a part of this review and that as part of the formal consultation a draft scheme was published and people were invited to give their views on that scheme.
- 2.6 It notes the outcome of that consultation (appendix 1) which has been summarised in section 5.4.
- 2.7 It notes that an Equalities Impact Assessment (EIA) (appendix 2) has been undertaken on the proposed changes in the draft scheme and the recommendations in this report. It should further note that, to meet their Public Sector Equality Duty, members must give conscientious consideration to the findings of this assessment when making a decision on the recommendations in 2.9.1 – 2.9.4. The actions which will be undertaken as a result of this EIA are set out in section 7.4.
- 2.8 It notes that the Chief Finance Officer (s151) will, prior to 1<sup>st</sup> April 2016, exercise delegated powers to increase the appropriate calculative elements of the scheme to give effect to national changes.

### **Proposed scheme from 1<sup>st</sup> April 2016**

- 2.9.1 The changes set out in 2.9.2 and 2.9.3 are made to the Council Tax Reduction Scheme (Persons who are not Pensioners)(Brighton & Hove City Council) 2013 to take effect from 1<sup>st</sup> April 2016.

- 2.9.2 That people on CTR will receive up to an 80% discount on their Council Tax meaning the minimum contribution people of working age pay towards their Council Tax be changed from 15% to 20%.
- 2.9.3 For customers entitled to CTR on 31<sup>st</sup> March 2016 transitional protection be provided until either the claim ends; the customer moves property; or 31<sup>st</sup> March 2017 (which ever occurs first) to minimise the increase paid by any household to £1.65 per week inclusive of the separately agreed Council Tax rise as a result of the change set out in 2.9.2 only.
- 2.9.4 The discretionary fund used to support the CTR scheme be set at a minimum of £0.1m and maintained at the 2015/16 level of £0.15m through the use of up to £0.05m from the Welfare Reform reserve.

### **3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 The current CTR scheme for working age people contains the following measures which are different from CTB. Working age people on CTR receive up to an 85% discount of their Council Tax; the maximum amount of capital a person may hold is £6,000 (reduced from £16,000); an element of the scheme called second adult rebate has been ended; the amounts adult children who live in their parents home are expected to contribute has been increased; and the amount of earnings which are ignored when a person works has been increased for single people, disabled people and carers.
- 3.2 The calculative elements of the scheme are updated each year in line with national amounts under the delegated powers of the Executive Director of Finance and Resources.
- 3.3 To support people who are in receipt of CTR; the Revenues and Benefits team has formed a debt prevention team to help people pay their council tax before they fall into arrears; a discretionary fund has been established to support people in exceptional circumstances; and, budgeting and financial advice has been provided initially through a dedicated contract and subsequently through the financial inclusion commission.
- 3.4 For each year, the council must consider whether to revise its scheme or to replace it with another scheme. Any revision the council makes to its scheme must be made no later than 31<sup>st</sup> January in the financial year preceding that in which the revision is due to take place.

#### **Funding**

- 3.5 Since April 2014, funding for the scheme has been incorporated into the Revenue Support Grant and the Business Rates baseline. Accordingly the funding available for CTR is proportional to those incomes. The Revenue Support Grant income is forecast to significantly reduce over the next four years which means the funding for CTR is reducing in turn.

- 3.6 The current forecast estimates that the shortfall between the current CTR scheme and the funding available in 2016/17 is £3.6m, an increase of £2.1m when compared with the estimated shortfall in 2015/16.
- 3.7 This means that unless the council increased the minimum contribution to a rate of approximately 35% the amount of subsidy it pays next year will increase. The minimum contribution rate would have to be 47% if the council were not to subsidise the scheme at all. In practical terms any subsidy paid to the scheme by the council is made up in part by Council Tax and Business rate payers.
- 3.8 The council collects Council Tax on behalf of the East Sussex Fire Authority and the Police and Crime Commissioner for Sussex; any decisions the council makes relating to the CTR scheme affects the council tax base and in turn the resources these precepting authorities can generate.
- 3.9 There are a number of other elements which could impact on the cost of the scheme over the next year.
- 3.9.1 The changes announced to welfare benefits, and tax credits in particular, in the July 2015 budget were forecast to have increased the cost of the CTR scheme by £500,000 to £700,000. These plans have now been delayed and may be in part changed, and, as such the impact on the CTR scheme is not presently clear.
- 3.9.2 The caseload numbers have declined over the last two and a half years by approximately 5% a year. This has been dependent on a number of factors including improving economic conditions. It is not possible to accurately forecast whether these conditions will continue, or when a baseline of customers who are not able to benefit from improving economic conditions will form the majority of CTR recipients. However if this trend were to continue then it could reduce the cost of the scheme by up to £450,000 over the next year.
- 3.9.3 Increases in the minimum wage may reduce the cost of CTR although it is unclear by how much. There are 4,364 cases where a household's claim is based on their earnings. Of these 1,818 are self-employed so there will be no impact but 2,546 are employed. A portion of this group may see increased earnings which could in turn reduce the cost of the scheme.

## **Context**

- 3.10 With few exceptions the Government does not prescribe how schemes should be set for working age people but protects people of pensionable age at equivalent levels of entitlement to that which they would have been entitled to under the old CTB scheme.
- 3.11 In April 2013 when CTR was introduced there was a total of 27,809 claimant households, 10,421 of whom were of pensionable age and 17,388 were of working age. As at October 2015 the total number of CTR claims was 23,804 with 8,920 claims from people of pensionable age and 14,884 for people of working age. The reduction in caseload reflects in part, the change in the minimum contribution level introduced in April 2015, broader economic conditions

and confirms the findings of the 2011 census that the demographic of the city is becoming younger.

- 3.12 The ultimate collection rate for people who had any entitlement to CTR in 2014/15 is likely to be between 85 to 90%. The overall ultimate collection rate for Council Tax in 2014/15 is expected to be 98.48%.
- 3.13 A breakdown of other local authorities 2015/16 schemes are included in appendix 3. Of other unitary authorities; 19 have a minimum contribution between 21% and 30%; 20 have a minimum contribution between 16% and 20%; 8 have a minimum contribution between 8.5% and 15%; 4 have no contribution; and, 5 have schemes which make reductions in other ways.
- 3.14 CTR has led to higher administrative burdens because of increased customer contacts due to the extra number of households it now collects Council Tax from. Dealing with these contacts has meant the business model of the revenues service has changed to include dealing with discretionary funds, greater extended repayment arrangements alongside the increase in customer contacts.
- 3.15 The change from CTB to CTR is one element of the government's welfare reform programme which relates specifically to Council Tax. However, issues of other welfare reforms, affordability (particularly related to housing), household income, the cost of living, the performance of the economy and local employment issues are all related. A further series of welfare reforms were announced in the summer 2015 budget.
- 3.16 In accordance with legislation the council published a draft scheme (appendix 4) for the purposes of consultation in September 2015. The consultation was open to anyone to respond to but all working age recipients of CTR were written to and invited to respond to the consultation on the draft scheme.

#### **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 There are a series of requirements prescribed by legislation which must be undertaken in order for a council to make changes to its CTR scheme. These requirements are:
- To consult any major precepting authority which has the power to issue a precept to it;
  - Publish a draft scheme in such a manner as it sees fit; and
  - Consult such other persons as it considers are likely to have an interest in the operation of the scheme.
- 4.2 Further to the forecast funding position and following initial consultation with major precepting authorities the council published a draft scheme in September and ran formal consultation until 20<sup>th</sup> October.
- 4.3 The key features of the draft scheme were:
- Changing the discount people on CTR can receive from up to 85% of Council Tax to up to 75% of Council Tax meaning the minimum contribution

working age people in receipt of CTR would have to pay changing from 15% to 25% of their liability;

- Minimising the maximum detriment any household faces as a result of the first change to £3.50 per week for a year or until a change of circumstances;
- Removing the Family Premium for new claims and new births from April 2016; and
- Increasing the period Extended Payments are made for from four weeks to six weeks.

(It should be noted that the first two items of the draft scheme have been changed in the formal recommendations in this report and that the last two items of the draft scheme do not form part of the formal recommendations in this report).

- 4.4 The consultation also contained a range of other options set out as alternatives to these proposals. The responses to consultation are set in 5.4.

## **5. COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 The council is currently running a cross-cutting programme to understand and plan for the impacts of wider welfare reform. The programme maintains ongoing links, and shares information with community and advice services and organisations. It also holds regular cross city meetings with a broader set of representatives, including private landlords.

- 5.2 As major precepting authorities, the East Sussex Fire Authority and the Office of the Police and Crime Commissioner were consulted prior to the draft scheme being published and as a part of the main consultation.

- 5.3 Formal consultation was undertaken between 2<sup>nd</sup> September and the 20<sup>th</sup> October. The consultation was open to anyone to respond to but all working age recipients of CTR were written to and invited to respond to the consultation on the draft scheme. The consultation was promoted through community and voluntary sector and advice agency networks; on social media; through the Homing In magazine for council tenants; through press releases; and, via front line staff who work with people who claim CTR.

- 5.4 A summary of findings from consultation is attached in appendix 1, the main finding from consultation to which there were 227 responses were:

- That the majority of people who commented on how the current scheme operates were critical of the scheme or set out issues that they felt it caused.
- A significant majority of people disagreed with the proposal to increase the minimum contribution from 15% to 25%.
- 34% of people agreed that no one should face an increase of more than £3.50 per week as a result of this change.

- A significant majority of people disagreed with the proposals to remove the family premium; to reduce the amounts that are disregarded from earnings before they are counted for CTR; and, to restrict the amounts of CTR to that of a family with two children. 30% of people agreed that CTR should be withdrawn at a higher rate when people start to earn.
- 56% of people agreed that Extended Payments should be paid for 6 weeks rather than 4 weeks; 35% of people agreed that the council should provide employment support information to CTR recipients; and, 43% agreed that the council should increase earnings disregards for people on CTR.

## **6. CONCLUSION**

6.1 The recommendations in this report are formed on the basis of:

- Information from the operation of the scheme so far which shows that the amounts being charged to people on CTR are being collected in line with planning expectations and that the vast majority of customers are engaging with the council about their Council Tax issues.
- The vote of the House of Lords on 26<sup>th</sup> October which has meant the situation and timing regarding future tax credit changes and the impact on CTR is unclear.
- Feedback from consultation which suggested most people thought an increase to 25% at this time is too high.
- The overall financial position of the local authority which means that assuming a 2% increase in Council Tax per year that the council is facing a £68m budget gap over the following four years
- The estimated shortfall between the cost of the current scheme and the funding transferred to the council is expected to increase to £3.6m in 2016/17. The scheme as proposed will go some way to meet that reduction in funding but will still mean that the council increases its subsidy to the scheme by £1.6m. In practice this means the scheme is being supported by Council Tax and Business Rate payers in part in addition to the remaining shortfall being made up by CTR recipients themselves.
- The council will continue to ensure that CTR recipients are supported in a number of ways including pre-emptive support from the debt prevention team; the use of discretionary funds to help vulnerable people in difficult situations; and, the financial inclusion commission Moneyworks Brighton and Hove

## **7. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

7.1 The projected budget gap over the next 4 years is estimated to be £68m and this incorporates the reduction in funding for CTR and assumes the 2015/16 CTR scheme is maintained throughout the 4 year period. Therefore any changes to the scheme that generate additional resources to the council contribute to meeting the budget gap.

- 7.2 The proposed change to the discount people on CTR can receive from up to 85% of Council Tax to up to 80% of Council Tax is estimated to generate £0.540m additional resources for the council, £0.058m for the Police and Crime Commissioner for Sussex, and £0.034m for the East Sussex Fire Authority.
- 7.3 These changes mean the forecast subsidy the council will pay towards the CTR scheme in 2016/17 will increase to £3.060m from £1.529m in 2015/16.
- 7.4 The estimated cost of the CTR scheme is reflected in the council tax base. The Council Tax base report to Policy and Resources Committee on the 21st January 2016 will incorporate the approved 2016/17 scheme and estimates for changes that are outside the councils direct control as outlined in paragraph 3.9 of this report.
- 7.5 The discretionary fund will be maintained at a minimum of £0.1m supplemented by one off resources set aside within the Welfare Reform reserve of upto £0.05m. This will release £0.05m to support the 2016/17 budget.

*Finance Officer Consulted: Name James Hengeveld Date: 10/11/15*

Legal Implications:

- 7.6 The consultation undertaken on revisions to the Council Tax Reduction Scheme followed the statutory requirements of paragraphs 3 and 5 of Schedule 1A to the Local Government Finance Act 1992). These requirements are set out in paragraph 4.1 of the report.
- 7.7 Any revision to the Scheme, for implementation in 2015/16, must be made by 31 January 2016.
- 7.8 By section 67 (2) (aa) of the 1992 Act, approval of the revised Scheme is reserved to full Council. It is appropriate for the draft Scheme to be considered first by the Policy & Resources Committee, given its remit in relation to Council Tax corporate budgetary matters, and to refer its recommendations on the revised Scheme to full Council.
- 7.9 Under section 149 of the Equality Act 2010 a public authority such as the council must in the exercise of its functions have due regard to the need to eliminate discrimination, harassment, victimisation; advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and foster good relations between persons who share a relevant protected characteristic and persons who do not share it. This duty is known as the Public Sector Equality Duty (PSED). The EIA is attached to the report as Appendix 2 for Members' consideration. In a recent High Court case, R on the application of Logan v London Borough of Havering, the High Court found that there had been a failure by the full council to have due regard to the PSED because not every member of the council had been provided with a report and accompanying equality impact assessment looking at the possible adverse impact of the changes.

*Lawyer Consulted: Name Liz Woodley Date: 10/11/15*

#### Equalities Implications:

7.10 An EIA was undertaken on the changes in the policy proposed in the draft scheme and the recommendations in this report. A copy of this assessment is included in appendix 2

7.11 The findings from the EIA mean the council will:

- Provide clear information to people in receipt of CTR about the scheme and any changes to the scheme.
- Ensure clear information about the scheme and the changes are provided to community groups, advice agencies and any other organisations that support people with protected characteristics on CTR.
- Continue to provide a discretionary fund and to refresh training within the revenues and benefits service about the use of this fund and to promote it to advice and support agencies
- To continue to ensure that provision for advice is available in the City through the Moneyworks – Brighton and Hove, financial inclusion commission.

#### Sustainability Implications:

7.12 There are no sustainability implications relating to this issues

#### Any Other Significant Implications:

7.13 No other significant implications have been identified relating to this issue

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Consultation summary
2. Equalities Impact Assessment
3. Other Authorities Schemes
4. 2016/17 draft scheme