

County Council

31 October 2018

Local Council Tax Reduction Scheme 2019/20



Report of Corporate Management Team

John Hewitt, Corporate Director of Resources

Councillor Alan Napier, Portfolio Holder for Finance

Purpose of the Report

- 1 To seek Council approval for the continuation of the current Local Council Tax Reduction Scheme (LCTRS) for a further year into 2019/20, which would continue to protect all claimants in line with what their entitlement would have been under the Council Tax Benefit System, as agreed by Cabinet at their meeting on 11 July 2018.

Background

- 2 The Government abolished the national Council Tax Benefits System on 31 March 2013, replacing it with a requirement for local authorities to work with their precepting bodies to establish a Local Council Tax Reduction Scheme (LCTRS) with effect from 1 April 2013. The LCTRS provides a 'discount' against the Council Tax charge, rather than a benefit entitlement.
- 3 The Council Tax Reduction Scheme Grant replaced Council Tax Benefit subsidy and from April 2013 is paid directly to the Council and the major precepting bodies (Police and Fire).
- 4 Government funding towards council tax support was reduced by 10 per cent nationally in 2013/14. By so doing, the Government also transferred the risk of any growth in the system through more council taxpayers becoming eligible for support with their council tax to local authorities as the government grant was a fixed amount.
- 5 The funding made available to support the Local Council Tax Support Schemes in 2013/14 (90% of the previous funding available under the Council Tax Benefit System) now forms part of the Council's formula funding arrangements. Whilst separate figures were published for this in 2013/14, there is no longer any visibility over what level of funding is actually contained within the formula now for Council Tax Reduction Schemes.
- 6 The Council's formula grant includes an element relating to Town and Parish (T&P) Councils and whilst the Council passed the grant on to the Town and Parish Councils in the last three years, there is no statutory requirement to do so.

- 7 Following discussions with the Town and Parish Councils' Working Group, and in the spirit of partnership working, recognising the important role Town and Parish Councils play in providing local services to communities, it is proposed to continue to pass on the Town and Parish element of the formula grant in 2019/20. In doing so, it is proposed that the Council continues to apply pro-rata reductions in the Council Tax Support Grant paid to Town and Parish Councils 2019/20 in line with reductions in the overall formula funding made available to the Council and this is reflected in the updated MTFP model.
- 8 Formula grant has been subject to significant ongoing year on year reductions since 2010/11 and the latest MTFP includes a forecast c£14.239 million reduction in Revenue Support Grant in 2019/20, partially offset by retail price index inflation (RPI) increases in the local share of business rates and top up grant under the localisation of Business Rates. Overall, funding from a combination of formula grant and business rates top up is forecast to reduce by c5.87% in 2019/20. This is the reduction that will be applied against the Council Tax Support Grant paid to Town and Parish Councils in 2018/19.
- 9 Local Council Tax Support Grant payments to Town and Parish Councils is forecast to be £1.311 million in 2019/20, a circa £90,000 reduction on the amount paid in 2018/19.

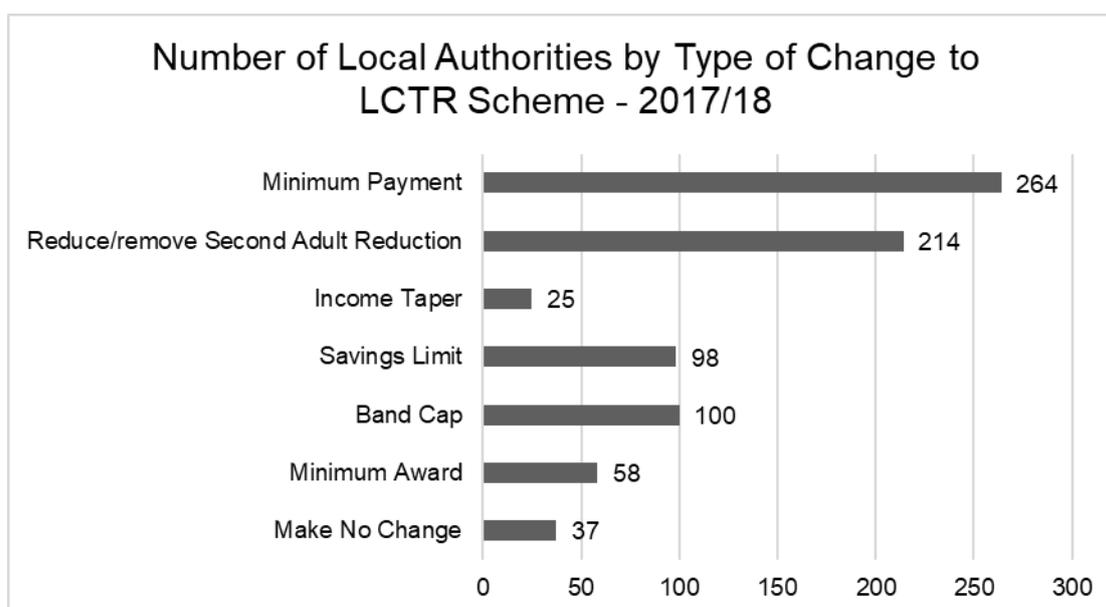
Review of the Local Council Tax Support Scheme

- 10 On 1 November 2017 Council agreed the current Local Council Tax Reduction Scheme for 2018/19, which mirrors the previous entitlement under the Council Tax Benefit System for all claimants. No council tax support claimants have therefore been worse off in the last six years than they would have been under the previous national scheme.
- 11 The Council has been mindful of the continuing impacts of the wider welfare reforms which are having a detrimental impact on many low income households and the fact that the additional Council Tax liabilities for working age households could have a significant impact on affected household budgets by around £100 a year based on a scheme whereby entitlement for working age claimants is set at a maximum of 90% entitlement. This would make collection of council tax more difficult and costly to recover from these low income households.
- 12 In approving the scheme for 2018/19, the Council (1 November 2017) gave a commitment to review it on the grounds of medium term financial plan (MTFP) affordability and on-going austerity.
- 13 In the North East region, Durham and Northumberland currently have schemes that continue to mirror entitlement under the former Council Tax Benefit (CTB) system, whilst the other ten Councils have schemes that cap the maximum entitlement to working age claimants. The table below summarises the key features of the schemes in place across the North East in 2018/19 and how their in-year council tax collection rates have changed between 2012/13 and 2017/18 (which is the latest published data available):

Local Authority	Basis of Scheme	Minimum Payment	Second Adult Reduction Offered?	Change in in-year council tax collection rate between 2012-13 and 2017-18
Durham	CTB	No	Yes	+1.80%points
Darlington	CTB	20%	No	-0.30%points
Gateshead	CTB	8.5%	No	-0.70%points
Hartlepool	CTB	12%	No	-1.30%points
Middlesbrough	CTB	15%	No	-3.20%points
Newcastle	Income Banded	10%	No	-0.20%points
North Tyneside	CTB	15%	No	-0.70%points
Northumberland*	CTB	No	Yes	+0.30%points
South Tyneside	CTB	30% or 15% if vulnerable	Yes	-1.50%points
Stockton	CTB	20%	No	-2.40%points
Sunderland	CTB	8.5%	Yes	-1.30%points

* Northumberland County Council are currently consulting on changes to their LCTRS for 2019/20, which if implemented, will result in a cap on the maximum amount of support working age claimants could receive.

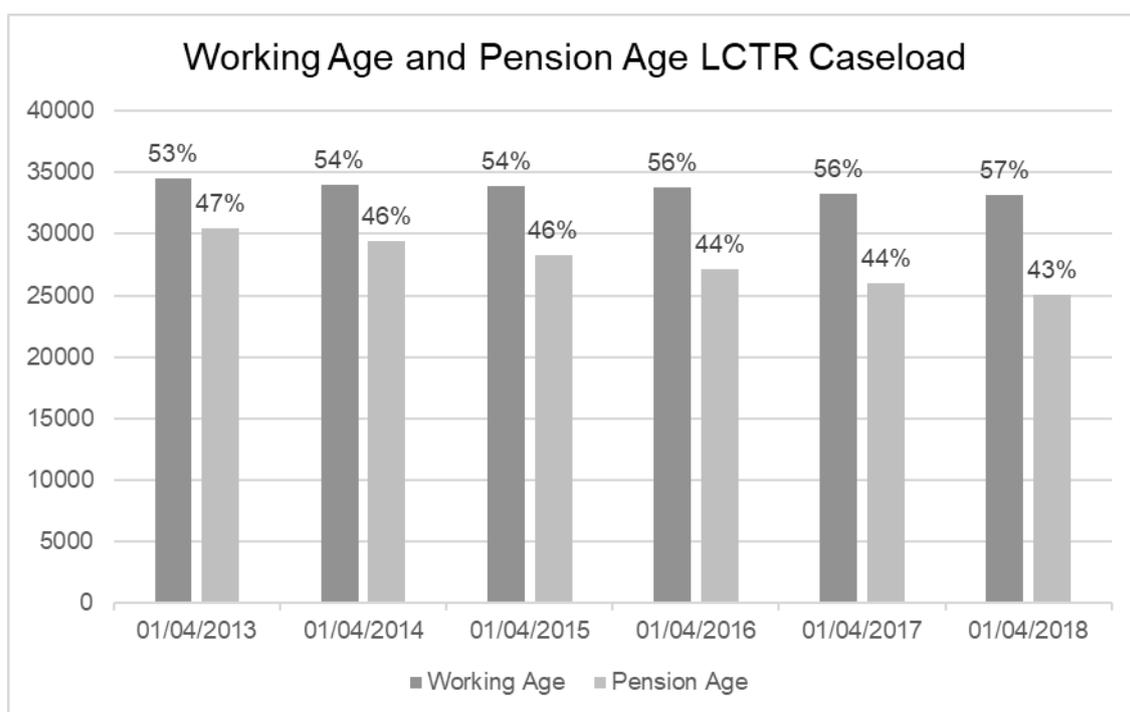
- 14 In 2017/18, Durham County Council was one of just thirty seven nationally who continued to mirror entitlement under the former Council Tax Benefit system (11%), with 277 out of 326 (89%) having cut the amount of support available to claimants. The latest published data available shows the most common changes to have been implemented elsewhere have been the introduction of a minimum payment level and reducing or removing the Second Adult Reduction. The chart below shows the most common types of changes / restrictions implemented to schemes across the country:



- 15 In some local authorities, like Durham, low-income households continue to be exempt from paying Council Tax whilst in others they are required pay up to

50% of their bill. There is therefore a wide disparity of support available across the Country.

- 16 In 2017/18, around two million families across the Country were being adversely affected by the change from Council Tax Benefit. On average these families were paying £191 additional Council Tax in 2017/18 in comparison to what they would have paid under the national CTB scheme. The number of LCTRS claimants paying £200 or more had increased to 825,000 in 2017/18.
- 17 There are currently 58,007 LCTRS claimants in County Durham, of which 23,709 (41%) are pensioners and 34,298 (59%) are working age claimants. with 18,748 working age claimants on 'passported' benefits i.e. also in receipt of either Job Seekers Allowance, Employment Support Allowance or Income Support. 27,151 (79.16%) of all claimants currently receive 100% LCTRS discount, with LCTRS support forecast to be circa £55.4million in 2018/19.
- 18 The LCTRS caseload in Durham has reduced by 8.76% between 2013/14 (when there was circa 64,000 LCTRS claimants) and 2017/18 (when there was circa 58,000 LCTRS claimants), reflecting a national trend which is in part attributed to improved economic conditions (reduced unemployment) across this period and the increase in the state pension age. The reduction in LCTRS caseloads nationally has been 16.49% over the same period, which will reflect the fact that many local authorities have made their schemes less accessible, meaning fewer applicants now qualify for support.
- 19 In Durham, there are now over 4,000 claimants currently classed as working age that would have been treated as pensionable age claimants prior to 2010, when the process of moving state pension credit age from 60 to 66 began. This process is expected to be completed in 2020 with a further move up to 67 between 2026 and 2028, then to 68 between 2044 and 2046. As the chart below shows, over the last five years there has been a four percentage point increase in the proportion of working age applicants within Durham:

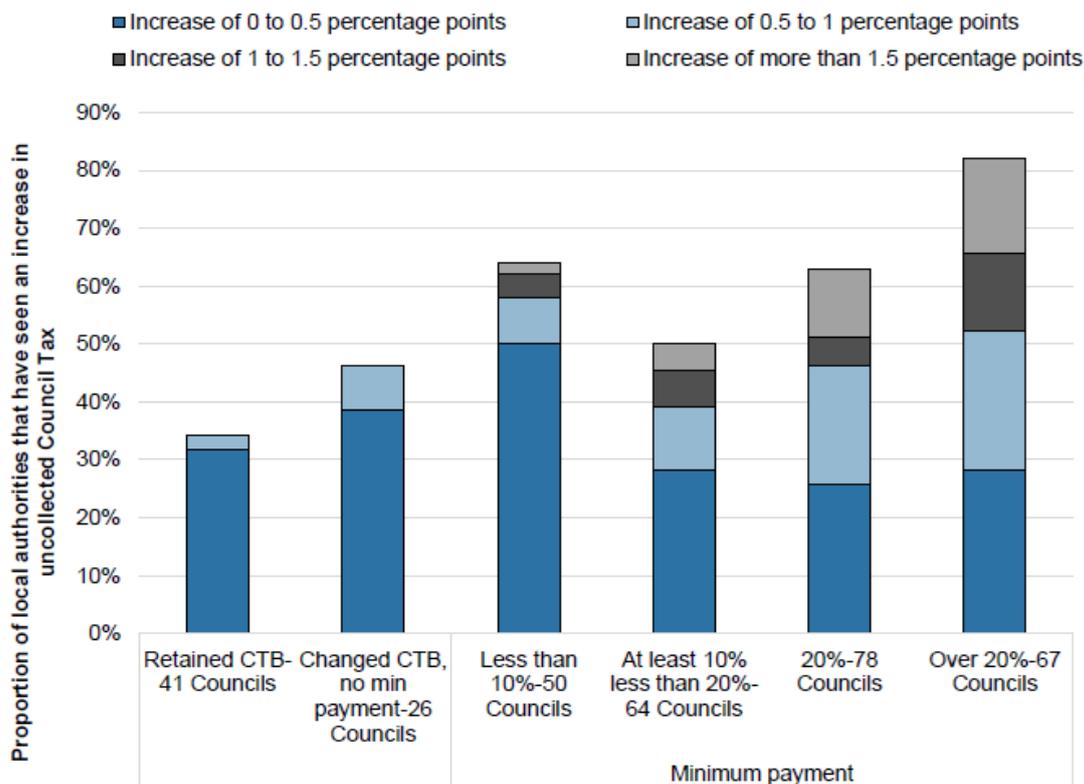


- 20 This means a higher proportion of our caseload is coming under the part of the LCTRS scheme that the Council has control over. Working age customers also carry a greater administrative workload as they have more frequent changes in their circumstances, particularly when they are in receipt of Universal Credit.
- 21 As Members will be aware, if any changes are made to the scheme, these must be consulted on and be subject to an equality impact assessment. Councils are required to review and approve their schemes annually and have this agreed by a Council Meeting before 11 March each year (previously it was 31 January, but has recently been changed).
- 22 Statutorily, pensioners have to be protected from any changes, therefore any reductions can only be applied to working age claimants.
- 23 Six years after the Government abolished the national Council Tax Benefits System the Council continues to have a Local Council Tax Support Scheme which mirrors the previous entitlement under the Council Tax Benefit System for all claimants. No council tax support claimants have therefore been financially worse off in the last six years (including the current year) than they would have been under the previous national scheme.
- 24 The Council has been mindful of the continuing impacts of the wider welfare reforms which are having a detrimental impact on many low income households and the fact that the additional Council Tax liabilities for working age households could have a significant impact on affected household budgets by around £100 to £130 a year based on a scheme whereby entitlement for working age claimants is set at a maximum of 90% entitlement. This would make collection of council tax more difficult and costly to recover from these low income households.
- 25 To give a national context, analysis from the National Policy Institute published in August 2017 (available at npi.org.uk/publications/council-tax/are-cuts-council-tax-support-england-false-economy-councils/), concluded that councils with higher minimum payments generally continued to have higher overall arrears than in 2012/13 and that:

This could be seen as evidence that some councils have raised taxes beyond sustainable levels for low-income households. Minimum payments that are set too high may result in an increase in uncollected taxes and increasing administration and court costs (for both the claimants and the local authority) as councils seek to recover the taxes.

- 26 The same report contained the chart below, illustrating that those authorities with higher minimum payment levels were more likely to see an increase in uncollected council tax:

Proportion of Local Authorities that have seen an increase in uncollected tax in 2016/17 compared with 2012/13



Source: NPI analysis of collection rates and receipts of council tax and non-domestic rates in England, DCLG; the data is a comparison of 2016-17 with 2012-13.

- 27 Based on Taxbase assumptions, the estimated net cost of retaining the scheme is circa £5.1m – this reflects the reduction in Government Grant support towards maintaining these schemes in the first year. To recover the full £5.1m cost by reducing the benefit awarded to working age claimants, which currently totals circa £31.5million, and factoring in a prudent collection rate of 80%, would require the maximum entitlement to be reduced from 100% to 79.8%.
- 28 Should the Council review its scheme and reduce maximum entitlement to working age claimants, depending on the forecasted council tax collection from affected low income households, there would be scope to increase Council Tax revenues by between £2.52million (based on a scheme that awarded maximum entitlement to working age households of 90% with a prudent collection rate of 80%) and £5.1million (based on a scheme that awarded maximum entitlement of 79.8% with a prudent collection rate of 80%). This would impact circa 34,300 working age households across County Durham, where 7,157 (21%) are actually in low paid jobs rather than being unemployed.

Conclusions

- 29 There is a statutory requirement for Full Council to approve the Local Council Tax Reduction Scheme (LCTRS) to be operated in 2019/20 before 11 March 2019.
- 30 The Council will need to continue to review the national situation and track what is happening in local authorities that have introduced Local Council Tax

Reduction Schemes that have reduced entitlement to their working age claimants in terms of impacts and performance in terms of recovery of the council tax due.

- 31 Following careful consideration of the current financial position of the Council and in light of further cuts to the Welfare Budget planned by Government, including the roll out of Universal Credit Full Service, which was completed in in County Durham in July 2018; Cabinet (July 2018) resolved to recommend to Council that the current scheme should be extended for a further year into 2019/20 and, therefore, that no additional council tax revenues or pressures are built into the MTFP projections from a review of the LCTRS at this stage.
- 32 The reasons for extending the current scheme are due to the current scheme remaining within existing cost parameters for the Council. In addition, whilst the full impacts of the Government's Welfare Reforms are complex and difficult to track, demand for Discretionary Housing Payments; Social Fund Applications and Rent Arrears statistics in County Durham compared to others across the region, would suggest that the council tax benefit protection afforded to working age claimants, in addition to the wide ranging proactive support that has been put in place, is continuing to have a positive impact on these households.
- 33 The Council will need to continue to review the national situation and track what is happening in local authorities that have introduced Local Council Tax Reduction Schemes that have reduced entitlement to their working age claimants in terms of impacts and performance in terms of recovery of the council tax due.
- 34 The Council will also need to keep track of the impact of the roll out of Universal Credit (UC). This presents new challenges for the administration of LCTRS as it results in a much higher number of changes in circumstances (experience is that the UC earned income element changes frequently as the person moves through the claimant commitment with their Work Coach) and removes the administrative economies of scale currently achieved by administering Housing Benefit and LCTRS claims side by side.
- 35 More significantly however, UC changes results in multiple reworking and changes to LCTRS entitlement throughout the year and multiple bills being issued to individual households resulting in numerous changes to their net liability and instalment plans for any Council Tax balance they are responsible for. In areas where UC Full Service has been fully rolled out and has been in place for some time there has been reports of significant reductions in in-year recovery rates in 2017/18 as a consequence, though the data is not yet available to examine in detail.
- 36 To counter this local authorities are increasingly looking to introduce banded schemes, though the majority have a cap on the maximum amount of support that can be gained. Officers will be modelling options in terms of a potential banded scheme for consideration for 2020/21, whereby a banded scheme for UC claimants could run alongside the existing scheme for non-UC claimants, with no restriction on the maximum support that can be claimed. The existing scheme needs to be maintained for pensioners in any event.

- 37 Any proposed changes to the LCTRS for 2020/21 would need to be consulted upon and, should any changes be proposed, a report would need be brought to Cabinet in spring / summer 2019 before embarking on a consultation process thereafter.

Recommendations

- 38 Council is recommended to:
- (a) continue the current Local Council Tax Reduction Scheme into 2019/20, which will retain the same level of support to all working age council tax payers on low incomes;
 - (b) agree that the extension to the Scheme be initially for a further year only and be kept under continuous review with a further decision on the scheme to apply in 2020/21 to be considered by Cabinet in spring / summer 2019 and Full Council by 11 March 2020.

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Background Papers

- Local Government Finance Act 1992 (section 13A)
- Welfare Reform Act 2012
- The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012
- Medium Term Financial Plan (9), 2019/20-2022/23 and Review of the Local Council Tax Reduction Scheme, Council Tax Discounts and Business Discretionary Rate Reliefs – Report to Cabinet 11 July 2018
- Forecast of Revenue and Capital Outturn 2018/19: Quarter 2 – report to Cabinet 14 November 2018

Appendix 1: Implications

Finance

The funding made available to support the Local Council Tax Reduction Schemes in 2013/14 (90% of the previous funding available under the Council Tax Benefit System) now forms part of the Council's formula funding arrangements.

Following discussions with Town and Parish Councils, Cabinet resolved on 11 July 2018 to continue to pass on the Town and Parish element of its formula grant in 2019/20 but in doing so continue to apply pro-rata reductions in the Council Tax Support Grant paid to Town and Parish Councils in 2018/19 in line with reductions in the overall formula funding made available to the Council. Estimated Grant paid to Town and Parish Councils will be circa £1.311 million in 2019/20 compared to £1.401 million in 2018/19 a reduction of circa £90,000 year on year.

The Council introduced a Local Council Tax Reduction Scheme in 2013/14 which ensured that entitlement to the new discount for all claimants would be in line with the level of Council Tax Benefit that would otherwise have been granted had the Council Tax Benefit system continued. This was subsequently extended into 2014/15, 2015/16, 2016/17, 2017/18 and 2018/19.

The Council is responsible for the costs of any increase in caseload as the level of Government support is fixed within formula grant.

Prudent estimates and provisions were built into the tax base forecasts at budget setting, and whilst the Council is subject to greater financial risk now, the current scheme remains within the budget provisions.

Based on Taxbase assumptions, the estimated net cost of retaining the scheme in 2018/19 is circa £5.1m – this reflects the reduction in Government Grant support towards maintaining these schemes in the first year. To recover the full £5.1m cost by reducing the benefit awarded to working age claimants, which currently totals circa £31.5million, and factoring in a prudent collection rate of 80%, would require us to reduce the maximum entitlement from 100% to 79.8%.

Should the Council review its scheme and reduce maximum entitlement to working age claimants, depending on the forecasted council tax collection from affected low income households, there would be scope to increase Council Tax revenues by between £2.52million (based on a scheme that awarded maximum entitlement to working age households of 90% with a prudent collection rate of 80%) and £5.1million (based on a scheme that awarded maximum entitlement of 79.8% with a prudent collection rate of 80%). This would impact circa 34,300 working age households across County Durham, where 7,157 (21%) are actually in low paid jobs rather than being unemployed.

Staffing

None.

Risk

The report outlines a range of financial risks surrounding the Local Council Tax Reduction Scheme. These are being effectively managed at this time. Given that the proposal is to extend the current arrangements into 2019/20 there are no system

development issues or risk associated with these proposals as the systems were amended in advance of 2013/14.

The Council will need to keep track of the impact of the roll out of Universal Credit (UC). This presents new challenges for the administration of LCTRS as it results in a much higher number of changes in circumstances (experience is that the UC earned income element changes frequently as the person moves through the claimant commitment with their Work Coach) and removes the administrative economies of scale currently achieved by administering Housing Benefit and LCTRS claims side by side.

More significantly however, UC changes results in multiple reworking and changes to LCTRS entitlement throughout the year and multiple bills being issued to individual households resulting in numerous changes to their net liability and instalment plans for any Council Tax balance they are responsible for. In areas where UC Full Service has been fully rolled out and has been in place for some time there has been reports of significant reductions in in-year recovery rates in 2017/18 as a consequence, though the data is not yet available to examine in detail.

To counter this local authorities are increasingly looking to introduce banded schemes, though the majority have a cap on the maximum amount of support that can be gained. Officers will be modelling options in terms of a potential banded scheme for consideration for 2020/21, whereby a banded scheme for UC claimants could run alongside the existing scheme for non-UC claimants, with no restriction on the maximum support that can be claimed. The existing scheme needs to be maintained for pensioners in any event

Equality and Diversity / Public Sector Equality Duty

The Equality Act 2010 aims to advance equality of opportunity and provide protection from discrimination for people based on their 'protected characteristics'. We are legally required under the public sector equality duty (PSED) to have due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act;
- advance equality of opportunity between people who share a relevant protected characteristic and those who do not; and
- foster good relations between those who share a relevant protected characteristic and those who do not.

In relation to the LCTRS, this means that the Council needs to take account of the available data and broader evidence to actively consider how the scheme might affect people who share a relevant protected characteristic and people who do not share it. The PSED does not prevent public authorities making difficult decisions but we must ensure that the decision making process is fully informed by equality impacts and, where there is potential for negative impact, full consideration is given to mitigating actions and implementation of the final decision can be clearly justified.

Given the proposals are to extend the current LCTRS into 2019/20, thereby continuing to protect current entitlement, there will be no negative equalities impact, with the financial position of claimants protected in 2019/20.

This will need to be revisited next year if proposals are subsequently brought forward to change the scheme in 2020/21.

Should the Council decide against extending the current scheme into 2019/20, and elect instead to pass on reductions to working age claimants, there would be a range of potential negative equalities impacts. These include financial impact for working age claimants and possible additional impacts in relation to health and wellbeing, housing and the consequences of debt or legal action. These impacts are most likely in relation to gender, age and disability with limited impacts for race and sexual orientation and no evidence of impact on transgender status, religion or belief.

Accommodation

None.

Crime and Disorder

Any reduction in Council Tax support, alongside other welfare changes could see an increase in crime if customers seek to increase their income to make up for the benefits lost. The proposals set out in this seek to protect current entitlement in 2019/20 and as such have no implications, though the impact of the wider welfare reforms agenda will need to be kept under constant review.

Human Rights

None

Consultation

Towns and Parish Councils were consulted on the proposals to continue to passport an element of the Councils formula grant, equivalent to the Town and Parish share of the Local Council Tax Reduction Scheme grant funding within formula grant for 2019/20.

No further consultation has been undertaken as Cabinet resolved on 11 July 2018 to recommend to Council that it extends and continues the current Local Council Tax Reduction Scheme into 2019/20, thereby retaining the same level of support to all working age council tax payers as the previous Council Tax Benefit Scheme, which was abolished on 1 April 2013.

Procurement

None

Disability Discrimination Act

See above.

Legal Implications

The Welfare Reform Act 2012 abolished the national council tax benefits system (CTB), paving the way for new Local Council Tax Reduction Schemes (LCTRS) to be introduced under the auspices of the Local Government Finance Act 1992.

Section 13A of the Local Government Finance Act 1992 ("the 1992 Act") requires each billing authority in England to make a scheme specifying the reductions which are to apply to amounts of council tax payable by persons, or classes of person, whom the authority considers are in financial need ("a council tax reduction scheme").

The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012 (“the 2012 Regulations”) prescribe matters which must be included in such a scheme in addition to matters set out in paragraph 2 of Schedule 1A to the 1992 Act.

Each year regulations amending the 2012 Regulations are made in November/December. The majority of the amendments are to ensure consistency with changes to social security legislation and these are subsequently included in our local scheme.

The LCTRS provides a ‘discount’ against the Council Tax charge, rather than a benefit entitlement and as such impacts on the Councils tax base.

Regulations made under the Local Government Finance Act 1992 (The Local Authorities (Calculation of Council Tax Base) Regulations 1992 (as amended) the Council to calculate a council tax base for each financial year.

The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 which came into force on 30 November 2012 and applies to the financial years beginning 1 April 2013 onwards contains the rules which require the Council to calculate the Council Tax Base.

A key element of the tax base calculation is the Councils policy in terms of its LCTRS.

There is a statutory requirement for the Council to adopt a local council tax support scheme for the ensuing financial year by 11 March each year (previously the statutory requirement was to have the LCTS scheme approved by 31 January each year). Where the Council is proposing any changes to its scheme, there is a statutory requirement to consult on these proposals in advance of making any changes. Pensioners, have to be protected from any changes, with any reductions applied to working age claimants only.