



**LEADER OF THE COUNCIL CABINET  
MEMBER MEETING  
15 OCTOBER 2015**

# **ITEM 6**

Report of the Director of Finance

## **Changes to the Council Tax Support Scheme**

### **SUMMARY**

- 1.1 On 1 April 2013 Central Government abolished the national Council Tax Benefit (CTB) scheme. In its place the Local Government Finance Act 2012 provided for the introduction of localised Council Tax Reduction schemes for those of working age. At the same time, the funding that was provided to local authorities to administer these local schemes was reduced from previous CTB administration levels. This reduction in funding for Derby was around 12%, which equated to approximately £2.2m.
- 1.2 Council Cabinet approved the Council's Council Tax Support (CTS) scheme on 23 January 2013. Broadly, this was aligned to the CTB scheme, but with some local adjustments made to ensure that the Council would be able to administer it in line with the reduced funding arrangements. Pensioners are protected under separate legislation, and are not affected by the CTS scheme. Other than annual inflationary increases, the Council's CTS scheme has stayed the same since its introduction.
- 1.3 The introduction of a number of welfare reforms since 2013 now requires the CTS scheme to be amended. These reforms are set out in 4.1.
- 1.4 Following a meeting of PCCM on 16 September 2015, it is proposed that the majority of local adjustments made in the original CTS scheme should remain in place. The additional proposed amendments for 2016/17 are necessary to provide continuing fairness and equity for CTS claimants, whilst ensuring that the scheme remains affordable and administratively manageable for the Council going forward with the available resources at its disposal.
- 1.5 The proposed amendments to the scheme are set out in 4.2.
- 1.6 To amend the scheme, the Council must consult with the Major Precepting Authorities (MPAs) (Fire and Police) and also engage in a full public consultation. Due to the tight timescales involved in getting the revised Scheme in place for the start of April 2016, the full consultation will run for eight weeks and will be mainly done online, which is the format in which the vast majority of CTS claims are lodged and processed. Officers are fairly satisfied therefore that no stakeholder will be disadvantaged by consulting via this medium. Nevertheless, reasonable adjustments will be made for disabled

people and those unable to engage with us on-line to access the consultation material via alternative means. Those most likely to be affected by the proposed changes – those of working age currently receiving CTS – will receive a letter advising them about the consultation. There will be a cost element for the printing, production and postage of these letters which is set out in the financial implications in Appendix 1 of this report. An Equalities Impact Assessment on the impact of the Scheme amendments on stakeholders will also be done during the consultation period. A final decision on the amended scheme will need to be made by Council Cabinet no later than 20 January 2016, for it to take effect from 1 April 2016. The proposed timeline for the consultation is at Appendix 2.

## **RECOMMENDATION**

- 2.1 To approve the consultation arrangements and the specified areas to be consulted on as set out in paragraph 4.2 of this report.
- 2.2 To delegate authority to the Director of Finance to finalise and approve the arrangements to manage the consultation including the detail of the consultation documentation.
- 2.3 To delegate authority to the Director of Finance to go out to consultation on the proposed changes to our Council Tax Support Scheme.
- 2.4 To delegate authority to the Director of Finance for consultation responses to be collated, analysed and final proposals for adoption to be put forward for adoption by the Council.

## **REASONS FOR RECOMMENDATION**

3.1 These are as follows:

- (a) To ensure equitable treatment within the CTS Scheme for people receiving Personal Independence Payments (PIP) and Universal Credit (UC).
- (b) To remove the need for consultation with the MPAs and the public each time the Government changes particular information in the Housing Benefit (HB) Regulations. This ensures that in many respects the scheme mirrors the HB Regulations which are adjusted each year to reflect the cost of living and therefore ensures the CTS means test remains fair year on year.
- (c) To safeguard families' entitlement to CTS by retaining the family premium in the calculation. The family premium is due to be abolished in the HB scheme from April 2016 as part of Central Government's continuing welfare reforms.
- (d) To reduce the cost of the CTS scheme by limiting the amount of CTS awarded for backdated claims. This will contribute to offsetting the potential increases in CTS expenditure caused by increased demand due to a number of welfare reforms which may reduce claimants' overall income.

- (e) To ensure that the Scheme remains affordable and administratively manageable for the Council going forward within the available resources at its disposal.

<b>SUPPORTING INFORMATION</b>
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4.1 The relevant welfare reforms introduced since 2013, and which have an impact on the CTS scheme in terms of how it is administered and could impact on how much it costs, are:

- (a) The introduction of PIP, which is replacing Disability Living Allowance (DLA).
- (b) The introduction of UC which is replacing six benefits for those at working age, including HB.

In addition, amending regulations are expected soon for a number of other welfare reforms announced in the Emergency Budget on 8 July 2015, which will also impact on the CTS Scheme. As part of this, the Welfare Reform and Work Bill is currently being considered by Parliament. Anticipated changes, to take effect from April 2016 are:

- (c) Four year freeze on many working age benefits, including some calculation elements contained in the HB scheme.
- (d) Changes to the Tax Credits regime, which will reduce the levels of Tax Credits that claimants will receive if their income increases. As their Tax Credit income reduces they will become entitled to more CTS – this will increase the cost of the CTS scheme.
- (e) Removal of the family premium in the HB scheme.
- (f) Reduction in the backdating time limit in the HB scheme from six months for working age people to four weeks.
- (g) Upcoming changes to the UC scheme, which will reduce claimants' entitlement to UC; as their income is less they will become entitled to more CTS – this will increase the cost of the CTS scheme. UC will be introduced to Derby from 25 January 2016.

4.2 The proposed changes to be put forward for public consultation are as follows:

	Proposed amendment	Reasons for the amendments
1	To reduce the capital limit. Currently capital held in excess of £6,000 prevents an award of CTS. The two options to be put forward within	To deliver a saving from 2016/17 that contributes towards addressing the Council's financial shortfall position.

	the consultation for consideration will be to reduce the capital limit to either £3,000 or £1,000.	
2	<p>To align the scheme to the Government's Council Tax Reduction Schemes (Default Scheme) (England) Regulations 2012, unless otherwise provided for within the Council's scheme.</p> <p>The Government's Default Scheme was provided as a standard scheme that local authorities could use when adopting their own schemes.</p>	<p>(a) To ensure that PIP awards are treated in the same manner as DLA awards – for example, not counted as being income in the CTS means test calculation. If the scheme was not changed, claimants on PIP would have this income counted in full in their means test calculation. This would mean that they would be entitled to less / no CTS awards.</p> <p>(b) To ensure that those in receipt of UC have their income treated equitably in the CTS means test calculation. That is, to ensure that any award of UC paid for housing costs is not counted as being available income – because it is to be used for paying rent.</p> <p>This ensures that UC claimants receiving housing costs and who have no earned income will receive the maximum CTS award available.</p> <p>UC claimants receiving housing costs and who do have earned income will be subject to the same means test calculations as other claimants at working age.</p>
3	In our calculations for CTS awards we will annually increase the amounts that the Government says people need to live on, as set out in the HB Regulations, by following the Government's annual uprating changes.	<p>(a) To remove the need for further consultation each time the Government changes the applicable amount rates. This ensures that the scheme mirrors the HB Regulations which are adjusted each year to reflect the cost of living and therefore ensures the CTS means test remains fair year on year.</p> <p>(b) Simpler to administer and minimises risk of error as identical rates and rules are being used for both HB and CTS.</p>
4	In our calculations for CTS awards we will annually increase the earnings levels and deductions for other adults living in the household – such as grown up sons and daughters – as set out in the HB	(a) To remove the need for consultation each time the Government changes these elements. This ensures that the scheme mirrors the HB Regulations which are adjusted each year to reflect the cost of living

	<p>Regulations.</p> <p>We will also align the deduction arrangements for other adults living in the household – such as grown up sons and daughters – to those set out in the HB Regulations, where the non-dependent is on UC.</p> <p>The claimant may have an amount deducted from their CTS entitlement, depending on what income the other adult is deemed to have available to contribute to the claimant's housing costs.</p>	<p>and therefore ensures the CTS means test remains fair year on year.</p> <p>(b) Simpler to administer and minimises risk of error as identical rates and rules are being used for both HB and CTS.</p> <p>(c) Where a CTS claimant has another adult in the household – such as a grown up son or daughter - who is under 25 on UC with no earned income in their household, this change would mean the Council would not make a deduction from the claimant's CTS entitlement. If the scheme was not changed, we would count all the UC income in the means test and the claimant would receive less/no CTS as a result.</p>
5	<p>We will align the two family premium rates to the Default Scheme rules for these premiums only.</p>	<p>The family premiums are due to be abolished in the HB Regulations from April 2016 for new claims. This will reduce the amount of HB that affected families will receive.</p> <p>By continuing to use the family premium arrangements set out in the Default Scheme for CTS, this ensures that the Council will continue to use these premiums for families when calculating the CTS means test, even when these premiums have been abolished for HB. This will ensure that awards for CTS remain at the same levels and families in Derby continue to receive support.</p>
6	<p>We will align the maximum period of time that CTS can be backdated for, to the limit in the HB Regulations - that is, from six months to four weeks.</p>	<p>(a) To remove the need for consultation each time the Government changes this element.</p> <p>(b) Simpler to administer and minimises risk of error as identical rules are being used for both HB and CTS.</p> <p>(c) Reducing the period that backdating can be paid for will contribute to reducing the cost of CTS administration.</p>

#### OTHER OPTIONS CONSIDERED

5.1 Do nothing. This has been rejected because it would result in:

- (a) A scheme which does not adequately contribute towards addressing the Council's financial shortfall position.
- (b) Inequitable outcomes for CTS claimants receiving PIP and UC.
- (c) A scheme which does not reflect year on year changes to the cost of living, and which would be more difficult to administer as a result.
- (d) A more expensive scheme to administer, because it would not have been adjusted to mitigate for anticipated increased demand for CTS during 2016/17 due to the impacts of other welfare reform changes.

**This report has been approved by the following officers:**

<b>Financial officer</b> <b>Legal officer</b> <b>Equalities officer</b> <b>Service Director(s)</b>	Toni Nash, Head of Finance Olu Idowu, Head of Legal Services Ann Webster, Equality and Diversity Lead John Massey, Head of Revenues, Benefits and Exchequer Services
<b>For more information contact:</b> <b>Background papers:</b> <b>List of appendices:</b>	John Massey, Head of Revenues, Benefits and Exchequer Services  Appendix 1 – Implications Appendix 2 – Proposed consultation timeline

## IMPLICATIONS

### 1. Financial and Value for Money

- 1.1 If the CTS scheme becomes more expensive to administer for 2016/17, this will increase the financial pressure on the Council. In addition, if it remains cost neutral it will not contribute towards addressing the Council's financial shortfall position.
- 1.2 CTS is shown as a Council Tax discount. Therefore increasing the amount of discounts given through CTS will reduce the Council's tax base and therefore reduce the amount the Council can raise through Council Tax.
- 1.3 When the CTS scheme was originally modelled for 2013/14 the following elements were introduced to deliver a £2.6M saving to address the anticipated budget gap at the time, plus also allowing for the possibility of the caseload increasing and thereby inflating the cost of the scheme. These elements were:
- A minimum Council Tax contribution would be required of 20%
  - Capital limit of £6,000
  - Support capped to Council Tax band B level
  - Minimum award limit of £4 a week set.

In the absence of a working modelling tool to provide us with best estimates on the savings that might be made by making the changes proposed in 4.2, some broad assumptions have been made to estimate the potential impacts of the proposed changes when developing the options for change.

- 1.4 Financial modelling to illustrate the impact of the welfare reforms and the proposed changes to the CTS scheme is also complex and difficult to estimate accurately. It is anticipated that these proposals will be cost neutral during 2016/17 but at this stage this cannot be guaranteed. It is proposed future analysis will take place for increased demand for CTS due to the impacts of welfare reform changes which will be outlined in the Council's on-going Medium term Financial Plan.

With regard to the number of claims potentially affected by the changes to the Tax Credits regime, there are currently 167 claimants receiving Working Tax Credits, 197 claimants receiving Child Tax Credits and 225 claimants receiving both. This makes a total of around 589 claimants who could see their income decrease during next year, and therefore require more CTS as a result. This would make the CTS scheme more costly to administer if the scheme remains unchanged.

With regard to the impact of limiting the backdating period that CTS can be claimed for, estimates show that:

- Based on claims that were backdated during 2014/15, 560 claimants received awards, receiving on average £11.53 a week. If they had all received the maximum backdated awards possible - over 26 weeks - this would have resulted in a total cost of around £167,877. Had the proposed one month limit change been applied instead, the cost of backdating these claims would have reduced to about £27,980, making a saving of **£139,897**.
- Based on claims backdated so far during 2015/16 - up to 6 September 2015 - 130 claimants have received awards, receiving on average £11.74 a week. If they had all received the maximum backdated awards possible (over 26 weeks), this would have resulted in a total cost of around £39,682. Had the proposed one month limit change been applied instead, the cost of backdating these claims would have reduced to about £6,614, making a saving of £33,068, which would be estimated as about **£66,136** for the year.

1.5 Writing out to all current working age CTS claimants as part of the consultation process will have a cost element. This has been estimated as likely to cost around £6,440. This will be met from the Resources budget.

## **2. Legal**

2.1 The legal requirement to consult before a local authority can amend its Council Tax Reduction scheme is contained in the Local Government Finance Act 2012, Schedule 4.

2.2 The principles of effective consultation require that:

- consultation must be at a stage when proposals are still at a formative stage
- the proposer must give sufficient reasons for it so as to 'permit intelligent consideration and response'
- adequate time must be given for consideration and response
- the product of consultation 'must be conscientiously taken into account in finalising any statutory proposals'.

2.3 It is therefore essential that the consultation exercise is conducted in a comprehensive way and considered fully before a final decision is made by cabinet in January 2016. The report to Cabinet must include the outcome of the exercise and the justifications for the decisions made, in light of those outcomes.

2.4 Similarly, cabinet must have available to it when it makes that decision, an equality impact assessment that demonstrates the extent to which recipients who fall into the equality strands and who may be impacted by the proposal, have had their interests taken account of, so far as it is reasonably possible to do.

## **3 Personnel**

None



**4 IT**

None

**5 Equalities Impact**

An Equalities Impact Assessment will be done as part of the consultation on the proposed changes to identify the impacts on affected claimants. Members from our Diversity Forums will be invited to the equality impact assessment meeting to assess the equality implications. The final scheme will take account of the findings from the assessment.

**6 Health and Safety**

None

**7 Environmental Sustainability**

None

**8 Property and Asset Management**

None

**9 Risk Management**

None

**10 Corporate objectives and priorities for change**

None

**Appendix 2****Proposed consultation timeline**

<b>Time frame</b>	<b>Task</b>
4 August 2015 – 8 September 2015	Basic scheme design and financial modelling
9 September 2015	Report to COG
10 - 15 September 2015	Report updated for PCCM and additional options modelled
16 September 2015	PCCM
17 – 27 September 2015	Prepare and sign off MPA consultation material
28 September 2015 – 9 October 2015	Consult major preceptors PCCM review of arrangements Start drafting public consultation documentation Draft report for Leader of the Council Cabinet Member Meeting
w/c 12 October 2015	Leader of the Council Cabinet Member Meeting to seek formal approval to consult on options
w/c 12 October 2015	Start consultation (8 weeks)
12 October – 6 December 2015	Write to all CTS claimants affected
12 October – 6 December 2015	Equalities Impact Assessment
w/c 7 December 2015	End consultation
w/c 7 December 2015	Compile results from consultation
14 December 2015	Deadline for putting item on Forward Plan
14 December 2015 – 11 January 2016	Review consultation results Finalise scheme Update members Brief DMT Brief COG Prepare Cabinet report
12 January 2016	Deadline for Cabinet report
20 January 2016	Cabinet decision

