

Scrutiny Committee Report



Report of Head of Finance

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To: SCRUTINY COMMITTEE

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Council tax reduction scheme 2014/15

Recommendation(s)

that the committee reviews

the proposed council tax reduction scheme commencing 2014/15 following a public consultation and makes any recommendations to the Cabinet member for Finance

Purpose of Report

1. The purpose of this report is to allow the committee to review the proposed council tax reduction scheme that will be adopted for the financial year 2014/15, until such time as members wish to change the scheme and, invites the committee to make any recommendations it may have to the Cabinet member for Finance.

Strategic Objectives

2. The council is required by statute to adopt a scheme to help those on low incomes to meet their council tax liability. In accordance with the strategic objective "excellent delivery of key services", by having a scheme, we should achieve the corporate priority of delivering a high quality value for money service which takes into account the views of residents, service users and other stakeholders.

Background

3. Prior to April 2013 there was a national scheme of financial assistance called “council tax benefit” which was available to taxpayers on low incomes to help them meet their council tax liability. This scheme had been in operation since 1993.
4. Following changes introduced by the Local Government Finance Act 2012, this council adopted its own local “council tax reduction scheme” to take effect from 1 April 2013. This was against a backdrop of reduced Government funding of approximately ten per cent compared to the funding given for the previous council tax benefit scheme.
5. In common with the other district councils in Oxfordshire, the local scheme more or less mirrored the previous council tax benefit scheme which meant that no residents saw a reduction in their entitlement.
6. The ten per cent reduction in Government funding was counteracted by our implementation of technical reforms to the council tax system whereby more council tax was charged on empty properties and second homes.
7. The final scheme that was adopted was for one year only therefore the council is required to formally adopt a scheme for 2014/15. This formal adoption must be undertaken by full Council before 31 January 2014.

Proposal for 2014/15 onwards

8. It is proposed that the scheme adopted for 2014/15 should require everyone (excluding those of Pension Age and certain protected groups - people with disabilities, war widows and war disabled pension recipients) to pay at least 8.5 per cent of their council tax (around £129.00 per year, based on a Band D property). This would mean that the maximum reduction that anyone could receive would be 91.5 per cent of their council tax liability.
9. As set out in the consultation document, the Cabinet Member for Finance believes that the reduction in Government funding mentioned in 6. above should be spread fairly across all council tax payers (apart from the protected groups mentioned above), not just those who aren't claiming a reduction. The Cabinet Member for Finance's rationale being that the proposed reduction scheme should encourage unemployed people to seek work - which was a stated Government policy intention for localising council tax support.
10. It should be noted that for the 2013/14 schemes the Government offered additional “transitional funding” to councils who did not reduce council tax reduction entitlement by more than 8.5 per cent. This council was one of 20 per cent of authorities who made no changes to their scheme in 2013/14, but a further 60 per cent modified their schemes to take advantage of the grant. Although the grant is not being made available in 2014/15, the Cabinet Member for Finance believes that a scheme proposing an 8.5 per cent reduction is clearly regarded as a fair compromise by the Government.
11. In addition to a flat 8.5 per cent reduction across the board, the Cabinet Member for Finance is also recommending that some modifications should be made to entitlement in respect of some specific categories of claimant. This has the effect

of further reducing entitlement for some claimants whilst increasing entitlement for those who are prepared to find work. Presently, when an unemployed claimant takes up a new job, we continue to give a reduction for four weeks after the new job begins, at the same rate they were on before starting work. This is so that they are not faced with having to pay a full council tax bill immediately. Under the new proposal we will continue to give the same level of reduction for **thirteen weeks** which will help people even more.

12. The effects of the new proposals (based on current data) can be seen in the following table:

Group	Numbers affected	(Saving)/Cost
Reducing maximum entitlement to 91.5 per cent (i.e. 8.5 per cent reduction)	2,050	(£18,425)
People who have more than £6,000 capital	62	(£3,757)
People who receive a reduction because they live with another adult who is on a low income	27	(£525)
People who will no longer have their child maintenance disregarded	125	(£6,546)
People who will have their entitlement capped to a band E rate	43	(£1,237)
People who move into work and continue to receive the same level of reduction	214	£2,427
	NET SAVING	£28,063
There could be some overlap between these different groups i.e. someone could be affected by more than one of the proposed changes		

The financial effect on claimants in band C (the band in which most claimants are affected) can be seen in the following table:

Group	Average annual reduction/(increase)	Highest annual reduction/(increase)
Reducing maximum entitlement to 91.5 per cent (i.e. 8.5 per cent reduction)	£80.54	£152.53
People who have more than £6,000 capital	£785.64	£1,387.36
People who receive a reduction because they live with another adult who is on a low income	£236.67	£346.81
People who will no longer have their child maintenance disregarded	£635.88	£1,387.36
People who will have their entitlement capped to a band E rate	£266.40	£346.84
People who move into work and continue to receive the same level of reduction	(£154.68)	(£236.07)
There could be some overlap between these different groups i.e. someone could be affected by more than one of the proposed changes		

13. Within the scheme for 2014/15 the Cabinet Member for Finance is also recommending a clause for uprating. This will ensure personal allowances increase each year so that residents will see an increase in their entitlement and conversely it will also ensure that non-dependents (adult children for example) increase their household contributions. The recommendation is to **uprate by 1 per cent** each year, starting in 2014/15. This is in line with the uprating for national welfare benefits announced by the Chancellor of the Exchequer in his December 2012 autumn statement.
14. Finally, when council tax support fell under benefits legislation, the council could use the Discretionary Housing Payment (DHP) fund to temporarily increase entitlement where claimants were experiencing financial hardship. Now that the scheme falls under council tax legislation, the DHP fund cannot be utilised in this way. Therefore, the Cabinet Member for Finance is considering a discretionary fund to be set at **10 per cent** of the total expenditure reduction achieved (which would be approximately **£30,000** if all the modifications above are implemented). This will be funded by the Vale and the major precepting authorities i.e. County Council and the Police and Crime Commissioner (Thames Valley).

Consultation on the proposed scheme

15. An eight week public consultation was undertaken between 27 August and 18 October. It chose random samples of 500 current council tax reduction scheme recipients and 500 council tax payers not currently receiving a reduction. Additionally, all members of the council's Resident's Panel who have an email address (approximately 400 members) were invited to take part in the consultation. Local stakeholders (advice agencies and registered housing providers) and town and parish councils were also invited to take part in the consultation.
16. A total of 412 responses were received; 253 on line and 159 postal returns. 95 of the respondents were existing council tax reduction scheme recipients; 300 were non recipients; 10 were stakeholder organisations; and seven were unclassified.
17. The consultation document (which the Chairman of Scrutiny Committee helped to design) asked questions, not only on the general proposal requiring everyone to pay at least 8.5 per cent of council liability (apart from pensioners and other protected groups) but also in respect of a number of other changes, The following table shows the response to the six proposals, split between council tax reduction scheme recipients and non recipients.

Summary of agreement with proposed changes to the Council Tax Reduction Scheme for 2014/15

		<i>Reduction recipients</i>	<i>Full Council Tax Payers</i>
Proposal:			
To reduce the maximum entitlement to 91.5%	<i>% agree</i>	34%	67%
	<i>% disagree</i>	43%	22%
To reduce the upper capital limit to £6,000	<i>% agree</i>	49%	55%

	<i>% disagree</i>	34%	32%
To remove the second adult rebate	<i>% agree</i>	43%	63%
	<i>% disagree</i>	44%	24%
To treat child maintenance as income	<i>% agree</i>	35%	54%
	<i>% disagree</i>	59%	38%
To cap entitlement for properties in bands F, G and H	<i>% agree</i>	59%	76%
	<i>% disagree</i>	18%	14%
To extend entitlement to 13 weeks when a claimant moves into work	<i>% agree</i>	65%	60%
	<i>% disagree</i>	23%	27%

As this table shows, the consultation found:

- General support for..
 - Capping entitlement for properties in bands F, G and H
 - Extending entitlement to 13 weeks when a claimant moves into work
- Recipients of Council Tax reduction are more likely to disagree than agree with three of the six proposals. The strongest disagreement is with the proposal to treat child maintenance as income. The most marginal is proposal to remove the second adult rebate.
- Full Council Tax payers are more likely to agree than disagree with all proposals. The most marginal is the proposal to treat child maintenance as income where more than a third disagree.

Comments included:

- Reservations about how proposals might impact single parents.
- That exceptions for carers should be considered.
- That child maintenance is for the support of the child and not intended for use in payment of household bills.

A full report on the consultation findings including charts showing the **responses** to the questions and general comments can be found at **Appendix 1**.

Alternative option(s)

18. When considering the principles of an amended scheme, it should be noted that most authorities that changed their scheme in 2013/14 opted for some level of blanket reduction (meaning that all working age claimants pay some council tax) and, as the criteria for council tax reduction schemes are at the council's discretion, various alternatives and options are open to the council.

19. Like some other councils in the county, the council could opt for continuing with the current scheme, which replicates the old council tax benefit scheme. However, this would not share the council tax burden or incentivise work, which is the rationale for the proposed change.

20. Alternatively, the council could contemplate a reduction of 20 per cent, which is the level opted by the majority of councils that changed their schemes in 2013/14 or, a variety of other reductions. However, the council would have further consult if it was minded to further reduce entitlement.

Financial Implications

21. Initial modelling work undertaken has shown that reducing entitlement by 8.5 per cent would be likely to save the council approximately **£18,425** (which rises to **£28,063** when applying the additional modifications **in 12 above**).
22. On a countywide basis, whilst the final savings figure will be dependent on the final scheme design, at present the savings to the County Council and the Police and Crime Commissioner (Thames Valley) are estimated to be at least £240,000 and £32,000 respectively.
23. There may be additional costs of recovering council tax from those affected by reducing the entitlement in council tax reduction. There could be around **2,050** households having to pay council tax for the first time and feedback from other authorities confirm that more time and effort is having to be made with this new tranche of payers, to collect new liabilities and maintain collection rates.
24. The Government has however, awarded the council further “new burdens” grant for 2014/15, totalling **£68,392** to recognise the work required to implement a local council tax reduction scheme. In addition, the County Council and the Police and Crime Commissioner (Thames Valley) have agreed to contribute to additional costs, as they will both be benefiting from changes to the scheme. So, if the council does change the scheme, it should have adequate funds to deal with any additional administrative tasks.

Legal Implications

25. The current council tax reduction scheme was adopted for 2013/14 only. There is a statutory duty to adopt a 2014/15 scheme by 31 January 2014. If this deadline is not adhered to, the council’s 2013/14 will automatically be rolled over as a consequence.

Risks

26. There is a risk that benefit caseload could increase significantly, resulting in expenditure exceeding current estimates. However, we have recently seen a stabilisation in the caseload and in fact a reduction in some months – which has not been seen since the start of the economic downturn in 2008.
27. The development of a council tax reduction scheme that reduces benefit expenditure, without being supported by robust principles and consultation, could be open to legal challenge on equalities grounds. However, to mitigate this, the council has ensured that it has complied with the necessary consultation and equality requirements.
28. Council tax collection rates could fall and, collection and recovery costs (including the cost of write-offs) could increase as a result of creating additional and, relatively small, council tax liabilities. However, the council does have new burdens funding at its disposal and pledges of financial contributions from the County

Council and the Police and Crime Commissioner (Thames Valley) to counteract these possible effects.

Equality Implications

29. The council has conducted an equalities impact assessment (EIA) in accordance with its statutory obligations. The EIA is attached at **Appendix 2**.
30. The proposed council tax reduction scheme intends to support residents on a low income with help towards paying their council tax, with the proviso that all working age claimants should pay some council tax. As well as reducing entitlement by 8.5 per cent, it also proposes changes to elements of the scheme, further reducing entitlement to some groups, but also incentivising moving into work.
31. The biggest impact will be felt by single parent families, particularly through treating child maintenance as income. Single parents may also have another young adult who is on a low income living with them, which would result in a further reduction in entitlement.

Conclusion

32. The council must adopt a local council tax reduction scheme for 2014/15 by 31 January 2014 and it is proposed that this be based on a scheme which intends to support residents on low incomes with help towards paying their council tax. The rationale of the scheme, as proposed by the Cabinet Member for Finance, is to introduce a scheme that is fair on all residents; protects the vulnerable; and, encourages residents back to work by the inclusion of work incentives

Background Papers

- Consultation papers
- EIA