

Cherwell District Council
Budget Planning Committee

8 September 2015

Council Tax Reduction Scheme 2016-2017

Report of the Head of Finance and Procurement

This report is public

Purpose of report

To provide members with an update on the implications of the current Council Tax Reduction Scheme and to provide options for a scheme to consult upon for 2016-2017.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of the report and any financial implications for the Council.
- 1.2 To recommend to Executive which option(s) should be considered for the Council Tax Reduction Scheme for 2016-2017 so that consultation may be undertaken.

2.0 Introduction

- 2.1 Council Tax Benefit was abolished on 31 March 2013. Since 1 April 2013 local authorities have had to operate local schemes for Council Tax Reduction to support Council Tax payers. These schemes have to be reviewed and approved by members annually.
- 2.2 The scheme for pension age claimants is set nationally and Cherwell has no discretion in this matter. However, Cherwell District Council is free, subject to some nationally prescribed rules around eligibility, to design its own scheme for working age claimants.
- 2.3 For 2013-14 the government also offered a transitional grant to those authorities whose schemes met certain criteria. The key criterion was that the maximum amount of Council Tax eligible for support should not be reduced by more than 8.5%.

No grant has been available for subsequent years.

- 2.4 For 2013-14 the Council decided to approve a scheme that replicated Council Tax Benefit. Consequently, the Council qualified for the transitional grant.
- 2.5 On 16 December 2013 members approved a Council Tax Reduction Scheme (CTRS) for Cherwell District Council for the financial year 2014-2015. The scheme remained the same as in 2013-2014 and included only minor changes reflecting changes to national legislation and uprating of applicable amounts in line with national legislation. The same approach was taken in respect of the scheme for 2015-16 at the Council meeting held on 15 December 2014.
- 2.6 The cost of the Council Tax Reduction Scheme is largely met through a fixed grant from the Department for Communities and Local Government (DCLG) based on approximately 90% of the Council Tax Benefit subsidy previously paid.

3.0 Report Details

Position so far

Council Tax Reduction Scheme

- 3.1 For 2015-16 Cherwell's share of the shortfall between the reductions awarded and the grant is approximately £55,000. The remainder of the shortfall falls on the major preceptors and the parishes.
- 3.2 The funding shortfall is partly offset by the changes to Council Tax discounts and exemptions.
- 3.3 As the funding for CTRS is a fixed cash grant the cost of any increase in the level of demand will be borne by the Council. The Council Tax Reduction caseload has been monitored and, between 1 April 2014 and 1 April 2015, there has been a small decrease in the number of live cases from 7,754 to 7,513. Expenditure on the scheme for 2014-15 was £6,866,686. Projected expenditure for 2015-16 is currently £6,868,180. The slight increase in expenditure, despite the reduced caseload, is principally due to the increase in the precepts.

Impact on Parish Councils

- 3.4 Members will recall that the regulations for calculating the Council Tax Base were amended to reflect the Council Tax Reduction Scheme and had the effect of reducing the tax base for the billing authority, major preceptors and the Police and Crime Commissioner for Thames Valley and local preceptors. This is because Council Tax Reduction is a discount rather than a benefit and therefore we do not collect the full amount of Council Tax from tax payers who qualify for Council Tax Reduction. The impact of the reduced tax base was mitigated in part by changes made to discounts and exemptions. As this will be the fourth year of a Council Tax Reduction Scheme parish councils should now have a clear understanding of the impact of CTRS on their parish tax base.

Impact of Council Tax Reduction Scheme on collection rates

- 3.5 A council tax collection rate of 98.49% was achieved for 2014-2015, above the target for the year (98.25%). Collection rates for the first three months of the 2015-2016 financial year are currently a little above target. In making a decision with

regard to the CTRS for 2016-2017 members should be mindful that any changes to the scheme could have an adverse impact on collection rates.

Council Tax Reduction Scheme 2016-2017

- 3.6 The government has not yet confirmed the level of funding for local CTRS for 2016-2017.
- 3.7 It is likely that there will be a reduction in the formula grant funding received by the Council in 2016-2017. A similar reduction may be made to the CTRS grant but this detail is as yet unknown.
- 3.8 Financial modelling on some options for a new scheme for 2016-2017 has been undertaken as shown below:

Options

Option 1 – No change to current local Council Tax Reduction Scheme

The 'change nothing' approach would mean retaining the current Council Tax Reduction Scheme. The only change required would be the annual uprating of benefit rates by CPI. The shortfall between the cost of the scheme and the grant from DCLG would be similar to or a little higher than that for 2015-16.

Option 2 – Revised Council Tax Reduction scheme with a reduction in the maximum Council Tax eligible for support

This option would mean that all working age claimants would have to pay a percentage of their council tax liability regardless of income or circumstances.

Percentage reductions of 5%, 8.5%, 10%, 15% and 20% have been modelled. Projected savings based on these percentages would be approximately £18,000, £30,600, £35,000, £52,000 and £69,000 respectively.

The cost is distributed equally across all working age claimants, though it is possible that those in receipt of a maximum award would find it more difficult to pay the residual liability. A small number of claimants (those who already have a small entitlement) would cease to be entitled.

Option 3: Restrict the Council Tax eligible for CTR to a specified Council Tax band

This option would mean households that are in a higher band would have their entitlement assessed as if their property was in the specified band. The projected gross savings from a restriction to Band E would be £500, whilst a restriction to Band C would generate potential savings of £7,700. The cost would be spread across all categories of working age claimants with a small number losing all their entitlement.

Option 4: End the disregard of Child Benefit income

Currently Child Benefit is fully disregarded when assessing a claimant's income. Ending this disregard would increase the income taken into account in assessing entitlement. However, this would only apply to those households who are not in

receipt of a “passported” benefit (Income Support, income-based Jobseekers Allowance and income-related Employment Support Allowance).

The projected gross savings from this option would be £21,200. The cost would fall on those households with children. Over 200 households would lose all their entitlement including some who currently qualify for the maximum award.

Option 5: Increase non-dependant deductions

If there are other adults aged 18 or over in the household (usually adult children but can be other relatives or friends) they are expected to contribute towards the household’s costs. This is reflected in the current scheme by making a deduction from the claimant’s entitlement in respect of each non-dependent. The level of the deduction is linked to the non-dependent’s income.

The projected gross savings from increasing the deductions by £1.00 per week would be £1,600. Increasing the deductions by £5.00 per week could generate savings of £7,800. A small number of households would lose all their entitlement.

Option 6: Introduction of greater work incentives to mitigate the impact of changes in the CTR scheme

The current scheme could be amended to introduce greater incentives for households to move into work or otherwise increase their income. Examples of such incentives could be to reduce the taper (the rate at which CTR entitlement is withdrawn as household income increases) from the current 20% to 15%, to increase the earnings disregards by £5.00 per week, or to increase the “extended payment” period from four weeks to eight weeks. (An extended payment period is a period during which a person who has previously been unemployed for over 26 weeks and in receipt of a specified benefit but has now started working for at least 16 hours per week continues to receive the same level of CTR support as they received prior to starting employment.)

The costs of providing these incentives in isolation have been projected as £12,200, £3,700, and £6,000. This represents the additional entitlement that some existing claimants would receive. There would be a small increase in the number of households entitled to the maximum support. The cost to the authority could be higher as some households who currently do not qualify for support could become entitled. On the other hand some households currently in receipt of the maximum support could move into employment and their entitlement would fall reducing the cost of CTR to the authority.

If these incentives were introduced in combination with some of the options set out above for reducing the cost of the CTR scheme the effect would be to mitigate the impact of cost-saving options.

An example would be a scheme that restricted the maximum eligible Council Tax to 90% or 80% (see Option 2 above) but combined this with a taper of 15% and an increase of £5.00 per week in the earnings disregards. Such a scheme is projected to achieve a saving in the order of £18,000 or £56,000 based on a 90% and 80% restriction respectively. An 80% restriction would result in a reduction for all working age claimants. However, a 90% restriction would result in some households receiving more support than they currently do.

4.0 Consultation

- 4.1 There is a requirement to consult with the public, major preceptors and other parties who may have an interest in the Council Tax Reduction Scheme. A robust consultation exercise would be particularly important if the intention were to change the current scheme in order to minimize the risk of a legal challenge.

The consultation should ask consultees for their views on the Council's preferred option. However, it must also make reference to alternatives such as increasing Council Tax, reducing services, or drawing on reserves and explain why those options are not recommended.

- 4.2 Any change to the existing scheme would also require an Equalities Impact Assessment to be undertaken.

5.0 Conclusion and Reasons for Recommendations

- 5.1 Option 1 (continuing with the existing scheme) provides a good level of support to low income households. There is a cost to the authority but the risks associated with implementing an alternative scheme are avoided.
- 5.2 Option 2 (a percentage reduction in the maximum Council Tax eligible for support) would be relatively easy to implement and would spread the burden fairly across all working age claimants.
- 5.3 Options 3, 4 and 5 would achieve negligible savings whilst impacting on specific groups of claimants. Consequently, they are more likely to be subject to challenge under equalities legislation.
- 5.4 Option 6 (greater work incentives) would increase the cost of the scheme.
- 5.5 In conclusion the report recommends that the Council adopts either option 1 or option 2 as its preferred option for a Council Tax Reduction Scheme for 2016-17.

6.0 Implications

Financial and Resource Implications

- 6.1 The current scheme does result in a small cost to the Council. A revised scheme may reduce costs but increase customer dissatisfaction and recovery risks.

Comments checked by:

Paul Sutton, Head of Finance and Procurement, 0300 003 0106

paul.sutton@cherwellandsouthnorthants.gov.uk

Legal Implications

- 6.2 The Council is required to approve a Council Tax Reduction Scheme on an annual basis. Failure to do so will affect the reputation of the Council and will have a financial implication for residents.

Comments checked by:
Kevin Lane, Head of Law and Governance 0300 003 0107
kevin.lane@cherwellandsouthnorthants.gov.uk

Equality and Diversity

- 6.3 Impact assessments will be carried out if the decision is taken to recommend a change to the existing scheme.

7.0 Decision Information

Wards Affected

All

Links to Corporate Plan and Policy Framework

This links to the Council's priorities of a district of opportunity and sound budgets and a customer focused council.

Lead Councillor

Councillor Ken Atack, Lead Member for Financial Management

Document Information

Appendix No	Title
None	
Background Papers	
None	
Report Author	Ryszard Filipiak, Service Assurance Team Leader
Contact Information	Ryszard Filipiak: 01295 227067 Ryszard.Filipiak@cherwell-dc.gov.uk