

**Meeting of the Cabinet – 19th July 2017**

**Report of Chief Officer Finance and Legal Services**

**Localised Council Tax Reduction Scheme 2018/19**

**Purpose of Report**

1. To provide an update on our revised localised Council Tax Reduction (CTR) Scheme that has been in place since 2013.
2. To update members on the timetable for approving our CTR scheme for the financial year 2018/19.
3. To seek approval to undertake consultation on scheme proposals for 2018/19 in advance of final decision-making by Full Council later in the municipal year.

**Background**

4. 326 *localised* CTR schemes replaced the *national* Council Tax Benefit (CTB) scheme in England from April 2013. This also came with a reduction in central government funding to support the schemes. Under CTB all payments were fully subsidised (regardless of the economic climate) but from 1<sup>st</sup> April 2013, Councils and major precepting authorities were given a fixed annual grant to compensate for reductions in council tax bills as a result of their own CTR schemes.
5. In the financial year 2013/14 the fixed annual funding for Dudley and its preceptors (i.e. Fire and Police) was set at £21.3million, approximately 10% less than the total value of payments granted under the old CTB scheme, with an extra 'transitional' payment of £0.6m in year 1 of CTR only. Councils' local schemes are now in their fifth year of operation and although funding levels for previous years can be used as a guide to the true cost of the scheme to the council (and preceptors), the amounts are no longer separately identifiable in the Revenue Support Grant.
6. Dudley Metropolitan Borough Council's Revenue and Benefit Services administer our local CTR scheme. Under this scheme, the income of low income households is subjected to a means test and can result in a reduction to their council tax liability of up to 100%. Currently, just under **28,000** households in the borough receive a council tax reduction, the average amounting to **£12.88** per week (**£671** per year).

7. Although local CTR schemes can vary significantly from the CTB rules there are a number of limitations on the design of a “local” scheme:
- The rules for pensioners (just under **50%** of our caseload) are prescribed and mirror CTB
  - All financial implications of a Dudley scheme also affect preceptors (i.e. Fire and Police)
  - No scheme should provide a disincentive to work
  - Vulnerable groups (to be defined by Local Authority (LA)) can be protected from scheme changes
  - Consultation is required for any scheme changes
  - Schemes must be within options supported by software suppliers
  - Schemes cannot be changed mid-financial year and must be approved by Full Council before 31 January each year
  - Less generous schemes increase the council tax to be collected from low-income households and the potential collection issues need to be factors in a scheme design
  - When making scheme changes potential transitional arrangements should be considered.

In addition to the factors listed above, local authorities received a letter from Department for Communities and Local Government (DCLG) in December 2016 advising them of the need to embed a culture of corporate parenting regarding care leavers and reminding them of the flexibility to support such groups in managing their council tax liabilities.

8. In CTR year 1 (2013/14), Dudley protected all of its low income households by adopting the Government’s default CTR scheme which mirrored CTB.
9. In CTR year 2 (2014/15), Dudley introduced a scheme that protected a wide range of vulnerable groups from changes but for the remainder (approx 7,000) there was an 8.5% cut in the level of their CTR.
10. In CTR year 3 (2015/16), Dudley introduced the 20% cut in CTR to all non-protected groups. The range of protected groups remained the same as year 2.
11. In CTR year 4 (2016/17), Dudley expanded the 20% cut in CTR to everyone except pensioners.
12. In CTR year 5 (2017/18), Dudley increased the cut in CTR to 22% to everyone except pensioners.
13. The table in Appendix 1 shows the financial implications of the final year of the CTB scheme and the CTR schemes to-date.

14. Each year local CTR schemes around the country become more diversified - see Appendix 2 for further detail. The following table summarises the schemes adopted by neighbouring West Midlands LAs, however even within this small comparison range, a number of calculation methods have emerged which have different financial impacts to the claimants.

<b>LA</b>	<b>Main scheme conditions</b>
<b>Dudley</b>	22% Minimum Payment applied to all working age claimants. Calculation at the end.
<b>Birmingham</b>	20% Minimum Payment applied to all working age claimants except protected groups who receive 100% protection: disabled adults, disabled children, carers, war pensioners, households with a child under 6. Removed 2 <sup>nd</sup> adult rebate <sup>1</sup> . Calculation done at start.
<b>Coventry</b>	15% Minimum Payment applied to all working age claimants. Removed 2 <sup>nd</sup> adult rebate. Calculation at the end.
<b>Sandwell</b>	Removed 2 <sup>nd</sup> adult rebate. Removed CTR of less than £1 pw. Maximum CTR capped at band C liability. Capital (savings) limit reduced from £16k to £6k. Change to non-dependants charges <sup>2</sup> (£10 in full-time work, £5 otherwise). £25 standard earning disregard <sup>3</sup>
<b>Solihull</b>	15% Minimum Payment applied to all working age claimants. Calculation done at start.

<sup>1</sup> This is a little used element of benefit that was introduced to ensure that a council tax payer receiving a single person discount was not financially worse off if an adult joined the household with no or low income. The removal of this rebate would generate little additional income and remove this safety net.

<sup>2</sup> These charges are a contribution toward CT by those who live in the household but isn't the claimant or partner.

<sup>3</sup> This is the amount ignored from wages of either the claimant or their partner when calculating income.

<b>Walsall</b>	30% Minimum Payment applied to all working age claimants except single and under the age of 35 who receive 75% protection. Maximum CTR capped at band C liability. Capital (savings) limit reduced from £16k to £6k (unless on passport benefit). Child benefit for second or subsequent children counted as income (unless on passport benefit), applicants with children will be entitled to the family premium, no additional dependants allowance in the award calculation for third or subsequent children born after April 2017. Removed 2 <sup>nd</sup> adult rebate. Calculation at the end.
<b>Wolverhampton</b>	22% Minimum Payment applied to all working age claimants except protected groups who receive 88% protection: severely disabled adults, disabled children, single under 25s with no dependants. Child benefit ignored for 1st child only. Capital limit reduced from 16k to 6k. Earning taper increased to 23%. Maximum CTR capped to band C liability. Backdating limited to 1 month. Removed 2 <sup>nd</sup> adult rebate. Calculation done at start.

15. Dudley's approach is to perform the calculation of CTR in line with the government default scheme (i.e. the same as the former CTB scheme) and apply a percentage adjustment at the end of the calculation. A number of councils take a different approach:
- Sandwell, Walsall and Wolverhampton do not perform the basic calculation in line with the government default scheme. They have made a number of changes to the details of calculations set out in the table above.
  - Birmingham, Solihull and Wolverhampton apply a percentage adjustment to the CTR at the beginning of the calculation. This makes no difference to individuals who would otherwise be entitled to full benefit, but makes it less generous to people on partial benefit.
16. Any move away from Dudley's current approach would have systems and training implications. It would also add complexity from the perspective of claimants and make the system more difficult to explain. Proposals set out in paragraph 22 below therefore retain the same structure of our current calculations but simply change the percentage of the cut.
17. Currently the number of households to which the 22% CTR cut applies is **14,974**.

18. Collecting relatively small amounts of council tax from low-income households (who previously may have not paid any council tax) has resulted in a lower collection rate from those households compared to the overall collection rate. We have identified a collection rate target of 80% for these households and remain confident that we will achieve and possibly surpass these rates over time. We do however acknowledge that as the scheme becomes less generous, collection rates may reduce further. Whilst difficult to predict, collection rates may also be negatively affected by the ongoing cumulative impact of existing and forthcoming welfare reform measures, e.g. the launch of universal credit full service.
19. Appendix 2 contains an externally produced summary on CTR scheme changes adopted by English LAs over the last five years. Please note that in this appendix, reference is made to CTS – this is CTR.
20. If Dudley wishes to amend its CTR scheme for 2018/19 it must undertake consultation with its precepting authorities and the public on the proposed scheme and have the new scheme approved by a full council meeting before the end of January 2018. The following timetable is therefore proposed:

Cabinet approve the timetable / basis for consultation	Jul 2017
Consultation commences with Fire / Police	Jul 2017
Public Consultation & Equality Impact Assessment	Jul – Sept 2017
Corporate Scrutiny Committee	26th Sept 2017
Cabinet reviews consultation results and, Equality Impact Assessments & proposes scheme for submission to Full Council	26th Oct 2017
Full Council approves scheme	4th Dec 2017

#### Proposals for Dudley CTR year 6 scheme

21. In the proposals modelled below, the additional collectable debit is the estimated increase in the council tax debt raised by granting reduced CTR. As indicated in paragraph 17 above this debt still needs to be collected. Of all collected debt, the council retains 87.5% (the remainder collected on behalf of the fire and police). Combining an estimated 80% collection rate with the 87.5% retention by the council gives a potential extra income of around **70%** of the additional collectable debit raised.
22. There are two proposals:
  - Increase the cut in CTR from 22% to 23%. This would increase the collectable debit by £108k (with real gain of £76k allowing for collection losses and share to police and fire). Appendix 3 shows the weekly effect of this proposal by band.

- Introduce a new “vulnerable category” for Care Leavers aged between 18 to 24. The effect of this would be that where a Care Leaver lives alone or is jointly liable for council tax they would not attract the cut in CTR. Therefore if the single or joint financial circumstances of the claimant/s resulted in their CTR award being calculated to be 100%, they would receive 100% and not have to pay council tax. The financial impact of this measure will vary over time based on numbers of care leavers who are liable for Council Tax. Based on information held by Children’s Services and comparisons with similar local authorities, the cost in terms of reduced income is likely to be less than £20,000 per year.

## **Finance**

23. In 2017/18 it is estimated that £18.7m in council tax reductions will be granted under our current scheme for low-income families. The Council meets 87.5% of the cost of the scheme (£16.36m) and the remainder is met by the precepting authorities (i.e. Fire and Police). It is estimated that the proposals here would make a small net contribution to other budget pressures.

## **Law**

24. The Local Government Finance Act 2012 introduced local council tax reduction schemes to replace council tax benefit from April 2013.
25. The Council Tax Reduction Scheme (Prescribed Requirements) (England) Regulations 2012 (Statutory Instrument 2012 / 2885) contains the mandatory elements for any local scheme and details the scheme that must be adopted for pensioners.
26. The Council Tax Reduction Scheme (Default Scheme) (England) Regulations 2012 (Statutory Instrument 2012 / 2886) contains the default council tax reduction scheme that could be adopted by authorities either by choice or it was imposed in the event that no local scheme was set by 31<sup>st</sup> January 2013.

## **Equality Impact**

27. The Government has stated that local schemes should provide support for the most vulnerable. The Government has not prescribed the protection that local authorities should provide for vulnerable groups other than pensioners. Guidance was however issued in May 2012 regarding the existing duties local authorities must take into account in relation to vulnerable groups in designing their schemes. These cover the following:
- the public sector equality duty set out in section 149 of the Equality Act 2010
  - the duty to mitigate child poverty under the Child Poverty Act 2010, and
  - the duty to prevent homelessness under the Housing Act 1996.

The guidance does not tell local authorities what they must do in their schemes to be compliant with these duties, but states that this needs to be tailored to their own specific circumstances.

28. There are equality implications that will need to be considered and integrated into the consultation and decision making process for a revised local scheme. This will include the completion of equality impact assessments and we will also use these to identify any unintended consequences to ensure that our local scheme is fair and equitable.
29. There has been no specific involvement of children and young people in developing the proposals in this report.

### **Recommendations**

30. It is recommended that:-

- Cabinet note the timetable required to develop a revised CTR scheme for 2018/19 (see paragraph 20 above).
- Cabinet approve the proposals set out in paragraph 22 above as a basis for consultation.



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### **Links to Background Information**

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[Local Government Finance Act 2012](#)

[The Council Tax Reduction Scheme \(Prescribed Requirements\) \(England\) Regulations 2012](#)

[The Council Tax Reduction Scheme \(Default Scheme\) \(England\) Regulations 2012](#)

[The Council Tax Reduction Schemes \(Prescribed Requirements and Default Scheme\) \(England\) \(Amendment\) Regulations 2012](#)

Background to the independent research included in the Appendix is also available on the following website:

<http://counciltaxsupport.org/>