

**Council**

11 December 2014

**Agenda Item 52**

Brighton &amp; Hove City Council

<b>Subject:</b>	<b>Council Tax Reduction Scheme 2015</b>		
<b>Date of Meeting:</b>	<b>11 December 2014</b> 4 December 2014 - Policy & Resources Committee		
<b>Report of:</b>	<b>Executive Director of Finance and Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>John Francis</b>	<b>Tel: 291913</b>
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<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 The council introduced a local Council Tax Reduction (CTR) scheme from 1<sup>st</sup> April 2013 as a result of national changes localising the previous Council Tax Benefits (CTB) system. Under legislation the local Council Tax Reduction scheme must be reviewed each year. The purpose of this report is to set out that review and the resulting recommendations.
- 1.2 When CTR was introduced the funding for the scheme was reduced by 10% compared with the cost of the previous CTB scheme. The funding has continued to reduce year on year and the gap between the current cost of the scheme and the funding available for 2015/16 is forecast to be £4.1million.
- 1.3 The council has a choice to manage this by either; reducing the cost of CTR through increasing the minimum amount CTR recipients are expected to pay and other measures; reduce funding for other general fund services; or, increasing council tax.
- 1.4 In the current financial year the council is absorbing approximately £1.3million of the scheme costs within its General Fund budget and people of working age in receipt of CTR have to pay 8.5% of their council tax before any CTR is paid.
- 1.5 CTR for people of pensionable age is set according to national rules which mean there is no minimum contribution to be made. Councils are given no power to alter the way the scheme works for pensioners, despite the fact that funding is being reduced for this group too.

**2. RECOMMENDATIONS:**

- 2.1 Note that the council undertook informal and formal consultation as a part of this review and that as a part of the formal consultation a draft scheme was published and people were invited to give their views on that draft scheme.
- 2.2 Note the outcome of that consultation as set out in section 5

- 2.3 Note that an Equality Impact Assessment (EIA) has been undertaken on the proposed changes in the draft scheme (appendix 1) which has been summarised in section 7
- 2.4 Notes that the Executive Director Finance & Resources will, prior to 1<sup>st</sup> April 2015, exercise her delegated powers to increase the appropriate calculative elements of the scheme, to give effect to national changes.
- 2.5 That Policy & Resources Committee recommends to Council that:
- 2.5.1 That the changes set out in section 3.17 are made to The Council Tax Reduction Scheme (Persons who are not Pensioners)(Brighton & Hove City Council) 2013 to take effect from 1<sup>st</sup> April 2015.
- 2.5.2 Council note the consequence of the decision in 2.5.1 will mean the option to generate £1.7million through a more widely revised scheme included within the savings proposals elsewhere on this agenda cannot form part of the package for setting the 2015/16 budget and therefore alternative savings proposals will need to be identified. There is no further opportunity to revisit this scheme to support setting the 2015/16 budget.

### **3. CONTEXT/ BACKGROUND INFORMATION**

#### **Background**

- 3.1 The government abolished CTB from April 2013 and required councils to create their own schemes with a reduction in funding of 10% in the first year.
- 3.2 The council agreed its CTR scheme in December 2012. The council set the contribution for working age people at 8.5% of their Council Tax, increased the amount that is ignored from single people's earnings before it is counted for CTR purposes and introduced a discretionary scheme for vulnerable people. At the point of introduction and for a period of a year transitional protection was put in place to make sure no one would have to pay more than £3 a week extra as a result of these changes.
- 3.3 With the exception of some calculative elements of the scheme, which were updated in accordance with national figures under the delegated powers of the Executive Director of Finance and Resources, no changes were made to the scheme for 2014/15.
- 3.4 To support the introduction of the scheme in 2013 the Revenues and Benefits team formed a debt prevention team to help and work with people who had not paid Council Tax before; a discretionary fund was established to support people in exceptional circumstances; and Money Advice and Community Support (MACS) were commissioned to provide financial and budgeting support to customers.
- 3.5 For each financial year, the council must consider whether to revise its scheme or to replace it with another scheme. Any revision the council makes to its

scheme must be made no later than 31<sup>st</sup> January in the financial year preceding that in which the revision is due to have effect.

- 3.6 In July 2014 Policy and Resources committee agreed the recommendation in the Budget and Corporate Plan Preparation report to review the CTR scheme including consideration of the minimum liability level (also referred to as minimum contribution) to be presented at the December Policy and Resources committee and then Full Council. This is the first review of the scheme the council has carried out where it has access to a full year's data on the scheme's operation.

### **Funding**

- 3.7 Since April 2014, funding for the scheme has been incorporated into the Revenue Support Grant and the Business Rates baseline. Accordingly the funding available for CTR is proportional to these incomes. The Revenue Support Grant income is forecast to significantly reduce over the next six years which means the funding for CTR is reducing in turn. The council has submitted information to the Government via the Independent Commission on Local Government Finance over this issue and a copy of the information presented and the details of the forecast reduction in funding over time is included in appendix 2.
- 3.8 The current forecast estimates that the shortfall between the current CTR scheme and the funding available in 2015/16 will be £4.084million for Brighton & Hove City Council. The shortfall between the previous CTB scheme where no minimum contribution was required and the funding for 2015/16 would be £5.4million.

### **Context**

- 3.9 The Government does not prescribe how schemes should be set for working age people but protects people of pensionable age at equivalent levels of entitlement to that which they would have been entitled to under the old CTB scheme.
- 3.10 In April 2013 when the CTR scheme was introduced there was a total of 27,809 claimant households, 10,421 of whom were of pensionable age and 17,388 were of working age. As at September 2014 the total number of CTR claims was 25,478 with 9,431 claims for people of pensionable age and 16,047 claims for people of working age. The reduction in caseload reflects national trends and the reduction in pension age claims confirms findings from the 2011 census that the demographic of the city is becoming younger.
- 3.11 The collection rate of the amounts owing from people who had any entitlement to CTR during the first year of the scheme shows that 76% of the amount owed was paid in year; by September 2014 this amount had risen to 82%. This suggests the ultimate collection rate is likely to be 85-90%. The overall collection rate for Council Tax as at October 2014 was 98.57% for 2012/13 and 97.38% for 2013/14 after the introduction of council tax reduction. Collection is still ongoing and ultimate collection will not be known for a number of years. This is broadly in line with the experience seen in other local authorities.

- 3.12 The introduction of CTR has led to higher administrative burdens in terms of volumes of customer contacts, due to the numbers of households that it now collects council tax from. Dealing with these contacts can distract from some of the core business of collection. Extra resources were allocated to the Revenues service to manage this change however this increase has still led to pressures on the service
- 3.13 The council has undertaken an analysis of what other local authorities' CTR schemes are and what they are consulting on for 2015/16. A full breakdown is in appendix 3. Of other unitary authorities; 18 have a minimum contribution of between 20% and 35%; 23 have a minimum contribution of between 11% - 20%; 6 have a minimum contribution of between 5% - 10%, 5 have schemes which make deductions in ways other than a minimum contribution and 4 have no minimum contribution.
- 3.14 Following the July budget report, informal consultation was undertaken during August and September which set out a series of options and asked for feedback on those options. In terms of the minimum contribution respondents felt people on CTR should pay, the responses were as follows:
- 17.5% people thought there should be no minimum amount that people on CTR have to pay and the council should make up the full £5.4million gap in funding;
  - 26% of people thought that people on CTR should pay a minimum of 8.5% of their Council Tax and that the council should make up £4.1 million of the gap in funding ;
  - 27% of people thought that people on CTR should pay a minimum of 25% of their Council Tax and that the council should make up £1.6million of the gap in funding; and
  - 28% of people thought that people on CTR should pay a minimum of 35% of their Council Tax and that the council should not make up any of the shortfall in CTR funding

(these figures were based on gross amounts and did not account for fire and police contributions or collection rate)

- 3.15 The changes to CTR are one element of the government's welfare reform programme which relates specifically to Council Tax. However, issues of affordability, household income, the cost of living, other areas of welfare reform, the performance of the economy and availability of local work opportunities are all related.
- 3.16 In accordance with legislative requirements, the council published a draft scheme for the purpose of consultation in September 2014. The consultation was open for anyone to respond to but all recipients of CTR were invited to respond to the consultation on the draft scheme. Customers who are tenants of the council were sent copies of the Homing In magazine which contained the details and other CTR customers were written to.

## **Proposed Scheme for 2015/16**

3.17 It is recommended that the following changes are made to the CTR scheme for 2015/16:

- that the maximum amount of capital a person can hold and still be able to claim CTR be reduced from £16,000 to £6,000
- that the amounts for non-dependant deductions, which are the amounts non-dependants are expected to contribute to the Council Tax, are doubled
- that Second Adult Rebate for working age people is ended

(These changes are described and set out in detail in the draft scheme, appendix 4).

3.18 It is recommended that no further changes are made to the council's CTR Scheme, in particular to the minimum contribution %, because of the impact it would have on those households in the city which are the least well off, particularly given the cumulative impact of welfare reforms, the cost of housing in the city and the wider cost of living. This would be funded through an increase of 5.9% in Council Tax (triggering a referendum) as proposed by the Administration.

3.19 The decision on CTR will be taken by Council in December 2014 in advance of the budget setting process. This means that the Substitute budget which must be put forward alongside a budget triggering a referendum cannot then include further changes to CTR in 2015/16. This means an alternative for approximately £1.7m of savings will need to be identified. This also impacts on any budget proposals with a threshold increase in Council Tax or a council tax freeze.

## **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

4.1 There are a series of requirements prescribed by legislation which must be undertaken in order for a council to make changes to its CTR scheme. These requirements are:

- To consult any major precepting authority which has the power to issue a precept to it.
- Publish a draft scheme in such a manner as it sees fit; and
- Consult such other persons as it considers are likely to have an interest in the operation of the scheme.

4.2 A council may not make changes to its scheme unless these measures have been undertaken. Therefore, following the July 2014 Policy & Resources Budget and Corporate Plan preparation report, a programme of work was commenced to meet these requirements in order to enable members to make a decision about whether to make changes to the scheme.

4.3 One of the requirements listed above is to publish a draft scheme. Further to the funding position, the analysis of other authorities' schemes (appendix 3) and the responses to the informal consultation held in July and September, the council

published a draft scheme in September and ran formal consultation on the scheme, as per the last requirement in 4.1, until the end of October 2014.

4.4 A copy of the draft scheme is included in appendix 4

4.5 The key features of the draft scheme were:

- Changing the minimum contribution people of working age have to pay towards their Council Tax from 8.5% to 25% of their liability.
- Minimising the maximum detriment any household faces as a result of the first change to £5 per week for a year or until a change in circumstances.
- Changing the maximum amount of savings a person could hold from £16,000 to £6,000.
- Doubling the amount non-dependants are expected to contribute towards the Council Tax before CTR is paid.
- Removing Second Adult Rebate.
- Counting Child Benefit as an income when calculating CTR.
- To increase the earnings disregard for some Disabled people and carers by £10 per week.

4.6 Information received from the consultation and analysed as part of the EIA means the proposal to count Child Benefit as an income would no longer be recommended. This is because the proposal could only be implemented in such a way that a proportion of people who receive Child Benefit would be affected which would result in those people being more adversely affected by the changes when compared to people in similar circumstances.

4.7 A series of alternative options are set out in the table below which also sets out the level of savings each combination would result in and the remaining subsidy the council would have to supplement the scheme by after taking into account reductions in funding by government. These figures vary from those in the informal consultation because they exclude the fire and police precept elements of Council Tax and make allowances for collections rates. The figures also exclude the provision relating to Child Benefit for the reasons set out in 4.6.

(table 4.8)

alternative proposals			additional resources generated for BHCC			total additional resources generated for BHCC	remaining subsidy required
minimum contribution	transitional protection minimising increases inclusive of CT rises to:	recommendation level of discretionary fund	from minimum contribution	max cost of transitional protection (dependent on CT rise)	cost of increase to discretionary fund		
8.5%			£0	£0	£0	£0	£3,864,000 *
15.0%	£2.50 pw	£150,000	£727,000	-£2,530	-£50,000	£674,470	£3,189,530
25.0%	£5 pw	£200,000	£1,847,000	-£23,250	-£100,000	£1,723,750	£2,140,250 #

\* current position

# draft scheme

- 4.8 The draft scheme also proposed changes which would have meant that some people in work would have been entitled to a greater amount of CTR than they would otherwise. When the CTR scheme was initially introduced the council increased the amount ignored from single people's earnings before it is counted for CTR. The proposals in section 4.5 proposed to extend these measures to disabled people and carers to provide some support from the change in minimum contribution. As such they have not now been included in the main recommendations but would be recommended should the minimum contribution have been increased. The cost of this provision would be approximately £17,000.
- 4.9 In changing a CTR scheme the council must consider whether transitional protection should be applied to people affected by the changes. Should a change to the minimum contribution have been recommended then transitional protection at the rates set out in table 4.8 would also have been recommended. It is not considered that this level of transitional protection is required for people affected by the changes set out in paragraph 3.17 because of the smaller number of people affected. This means that those individuals can be referred to and supported by the discretionary fund where they meet the criteria and as such transitional protection will be provided via this fund. Everyone affected by the changes will be written to and invited to apply so individual circumstances can be taken into account.
- 4.10 The informal consultation asked for opinions on whether the proposals which mean people in work would be better off should be extended to all groups including single people, couples and parents but there was not strong support for this. Other proposed measures to extend run on periods for people moving from benefits to work were not strongly supported and did not form a part of the proposals.

## **5. COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 The council is currently running a cross-cutting programme to understand and plan for the impacts of wider welfare reform led by the Head of City Services. The programme maintains ongoing links, and shares information with community and advice services and organisations. It also holds regular cross city meetings with a broader set of representatives, including private landlords.
- 5.2 As major precepting authorities the East Sussex Fire Authority and the Office of the Sussex Police and Crime Commissioner were consulted with prior to the draft scheme being published. East Sussex Fire Authority have expressed that the funding position they face is also difficult and has necessitated making some difficult choices and that any increase in the council taxbase would help mitigate reductions in grant funding, the need for further savings and therefore the impact this has on the services they provide. The Office of the Police & Crime Commissioner's response has been taken into account and there are no specific issues that need to be drawn to members' attention as part of this decision.
- 5.3 Informal consultation was undertaken following the commitment made in the July Policy and Resources budget report and although it was open to anyone to

respond members of the community and voluntary sector and advice sector were specifically contacted and invited to respond.

5.4 Formal consultation was undertaken between 25<sup>th</sup> September and 31<sup>st</sup> October. Tenants of the council were all sent a copy of Homing In magazine which directed people towards the consultation, other CTR recipients were written to and invited to apply. The respondents were invited to reply online but a phone number was provided which people could use to request paper versions of the consultation papers.

5.5 A summary of findings from the consultation is included in appendix 5, the main findings from consultation were:

- A significant majority of respondents disagreed with the proposals to increase the minimum contribution from 8.5% to 25% and to count Child Benefit in the assessment of CTR.
- 51% of people agreed that no one should face an increase of more than £5 per week as a result of a change to the minimum percentage
- A small majority of respondents disagreed with the proposals to end Second Adult Rebate; to double the amount of non-dependant deductions; and to reduce the amount of capital a person can hold and still claim CTR from £16,000 to £6,000
- A significant majority of people agreed that increasing earnings disregards for disabled people and carers would support them into or in work.

## **6. CONCLUSION**

6.1 The recommendations in the report are formed on the basis of:

- Information from the first full year's operation of the scheme which show that the amounts being charged to recipients of CTR are being collected in line with planning expectations and that the vast majority of customers are engaging with the council about their Council Tax issues
- The council has ensured CTR recipients are supported in a number of ways, including the provision of budgeting support; pre-emptive help from the debt prevention team within Revenues and Benefits and the availability of a discretionary fund for people in exceptional circumstances. The council is continuing to provide finance and budgeting support through the recent commission of the community banking partnership – Moneyworks Brighton & Hove
- The informal consultation, which suggested that the majority of respondents felt it was reasonable that people in receipt of CTR make some contribution to their Council Tax.
- The formal consultation, which suggested that the majority of respondents felt the increase to 25% minimum contribution from 8.5% in one step was excessive.



- 6.2 The EIA and the formal consultation identified issues relating to inherent difficulties in the way the proposals for the treatment of Child Benefit included in the draft scheme would work.
- 6.3 The reduction in funding for CTR should not be seen in isolation. On the one hand for the council it is fundamentally related to broader budget decisions and priorities; and, on the other hand for recipients of CTR it is fundamentally related to the government's other welfare reforms, the cost of living, the performance of the economy and the availability of work.
- 6.4 Under the recommendations listed the council is meeting part of the cost of the reduction of CTR, which in practice means it is being supported by Council Tax and Business Rate payers in part, in addition to the remaining shortfall in funding being made up by working age recipients of CTR themselves.

## **7. FINANCIAL & OTHER IMPLICATIONS:**

- 7.1 The proposed changes to the scheme set out in paragraph 3.17 will generate an additional £0.222 million resource through an increase in the Council Tax Base and this increase will be reflected in the Tax Base estimate for 2015/16, which will be reported to Policy & Resources Committee on the 22<sup>nd</sup> January 2015 and contribute towards the council's funding gap.
- 7.2 The council will maintain a discretionary fund of £0.1 million to support people in exceptional circumstances.
- 7.3 After allowing for this change the council will continue to subsidise the scheme by an estimated £3.9 million in 2015/16 when compared to the ongoing level of central government funding and this therefore contributes to the council's budget gap.
- 7.4 This is because 60% of the remaining funding for the CTR scheme (after allowing for an initial national 10% reduction) was transferred into Revenue Support Grant which was reduced by 18% in 2014/15 and will be reduced by a further 28% in 2015/16. The remaining 40% funding was transferred into Business Rates Retention funding and this will only increase by an estimated 3%.
- 7.5 Part of the costs of the scheme have been mitigated by falling numbers of claimants from approximately 27,300 in April 2013 to 25,400 in October 2014 however this has not kept pace with the scale of funding reductions.
- 7.6 The Budget Update and Savings report included on this agenda includes an option to increase the minimum contribution rate to 25% generating an additional £1.724 million, after allowing for an increase of £0.1 million to the discretionary fund. If the recommendation at paragraph 2.5.1 is agreed this option cannot form part of the budget proposals for 2015/16.

*Finance Officer Consulted: James Hengeveld*

*Date: 13/11/14*

### Legal Implications:

- 7.7 The recommendations at paragraph 2 of this report are consistent with the legal requirements governing the revision of its CTR scheme ('Scheme'), as set out in paragraph 4.1 above (reflecting the duties specified in paragraphs 3 and 5 of Schedule 1A to the Local Government Finance Act 1992).
- 7.8 Any revision to the Scheme, for implementation in 2015/16, must be made by 31 January 2015.
- 7.9 By section 67 of the 1992 Act, approval of the revised Scheme is reserved to full Council. It is appropriate for the draft Scheme to be considered first by Policy & Resources Committee, given its remit in relation to Council Tax and corporate budgetary matters, and to refer its recommendations on the revised Scheme to full Council.

*Lawyer Consulted: Oliver Dixon Date: 04/11/14*

### Equalities Implications:

- 7.10 An EIA was undertaken on the changes in policy proposed in the draft scheme. A copy of this assessment is included in appendix 1
- 7.11 There is a current EIA which is in place for the scheme in its current form. This is a live document which is updated when new information is provided.
- 7.12 The findings from the EIA mean the council will:
- continue to provide clear and targeted information to community and voluntary sector organisations that support groups with protected characteristics.
  - Continue to provide a discretionary fund and to signpost customers to this fund, including promoting its availability
  - Ensure there is advice available in the city for people on CTR who need assistance with budgeting and finance.
  - Provide training to providers of advice on the availability of other Council Tax discounts and exemptions.

### Sustainability Implications:

- 7.13 No sustainability implications have been identified relating to this area.

### Any Other Significant Implications:

- 7.14 No other significant implications have been identified relating to this area.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Equalities Impact Assessment
2. Submission to the Independent Commission on Local Government Finance
3. Information about other Local Authority CTR schemes
4. Draft CTR scheme
5. Summary of formal consultation

### **Documents in Members' Rooms**

1. None

### **Background Documents**

1. None