

**TITLE OF REPORT : Review of Council Tax Reduction Scheme 2018-20**

**KEY DECISION NO. FCR O65**

**CABINET MEETING DATE 2017/2018**

**22 January 2018**

**FULL COUNCIL MEETING**

**24 January 2018**

**CLASSIFICATION:**

**Open**

**If exempt, the reason will be listed in the main body of this report.**

**WARD(S) AFFECTED**

**All Wards**

**CABINET MEMBER**

**Mayor Glanville**

**KEY DECISION**

**Yes**

**REASON**

**Spending or Savings**

**GROUP DIRECTOR**

**Ian Williams Finance and Corporate Resources**



## 1. MAYOR'S INTRODUCTION

- 1.1. In April 2013, Hackney Council put in place a local Council Tax Reduction Scheme (CTRS) to provide financial assistance to those Taxpayers on a low income who had difficulty with paying their Council Tax. This scheme replaced Council Tax Benefit which was a national scheme administered by the Department for Work and Pensions (DWP).
- 1.2. Funding for this local scheme was provided by the Department for Communities and Local Government (DCLG) by way of a grant with the level of funding was based on the previous Council Tax Benefit expenditure but with a considerable 10% cut; this meant the Council would be required to tailor its provision accordingly or absorb the cut elsewhere.
- 1.3. After considerable deliberation and following a full consultation, the Council agreed that the fairest way to deal with the government's reduction was by spreading it across the claims of Hackney's 27,000 working-age claimants. Specifically, the scheme proposed that all Council Tax Benefit claimants of working age pay at least 15% of their weekly Council Tax charge.
- 1.4. The scheme also covers pensioners, and while they were protected by national government in the new scheme, the funding to support them was not. At the adoption of the scheme in 2013 the council received £23.2m to fund it. Subsequently the amount of funding has not been separately identified and overall each and every subsequent year has seen the Council's funding from the DCLG reduced further. The Council however, has chosen not to amend the CTRS, opting to absorb the costs and protect the most vulnerable over the past few years.
- 1.5. However, in light of the continuing attack on local Government finances and the huge reduction in funding Hackney Council has been required to manage, this approach is no longer sustainable. Over the last seven years, Hackney has lost almost 40% of its funding. To put this into context, in 2010/11 the Council received £310m in core funding. This year the Council received £184m, and by 2019/20, it is estimated it will be just £171m.
- 1.6. I recognise that those in receipt of Council Tax Support are being disproportionately impacted by austerity and we have made some steps to mitigate that impact for those most affected by introducing exemptions for Local Care Leavers and those fleeing domestic abuse will not have to pay it for a second property.
- 1.7. As a result of the overall cuts in funding faced by the council, we have sought and delivered savings and efficiencies across all services to meet the shortfall whilst CTRS has been maintained. Most of these services directly benefit those residents that also receive Council Tax Reduction. Without addressing the cost of CTRS the council may need to make further savings elsewhere which impact on the very residents we are seeking to protect.
- 1.8. Based on the overall reduction in funding it is estimated that the actual funding for CTRS has reduced proportionately from the original £23.2m to a miserly £8.6m whilst the cost of the scheme remains in excess of £25m
- 1.9. Currently, the Council supports the CTRS to the amount of £16.9m; with further cuts to our overall funding in the pipeline, and with expenditure expected to increase by a further £500k next year, was now time to review the scheme itself.

- 1.10. There are also non-financial grounds for amending the current scheme. Since our scheme was introduced, the Government has changed other national Welfare Benefits, and the Hackney scheme no longer aligns with other social security means tested benefits.
- 1.11. Our current Council Tax Reduction scheme was not designed to interact with the government's Universal Credit Scheme. As Universal Credit coverage expands it is important that the scheme is adapted to fairly and equitably process Universal Credit awards as part of the household income. Without change it is likely that the roll out of Universal Credit in October 2018 will place significant financial burden on the scheme.
- 1.12. In the light of these facts we as a Council cannot continue to substitute for cuts made by central government, it is necessary for the Council to revise the current Council Tax Reduction Scheme as recommended.
- 1.13. We recently consulted residents on increasing the minimum contribution a working age household would have to pay from 15 to 20%. Before and during the consultation period, we met with charities and organisations to gain their views, and we received around 150 responses to the consultation. These understandably raised concerns about the impact the increase would have on those in receipt of CTRS, while these are concerns we of course share, none of the decisions we have to take around the Council's budget are easy.
- 1.14. Throughout this process we have of course considered other options which would not require us to increase the minimum contribution, but we want to ensure that we can have a scheme that supports the most vulnerable, is sustainable and doesn't lead to cuts to other services - so doing nothing is a not an option.
- 1.15. Other Councils have sought to absorb all these costs themselves and return to a fully funded scheme, to do this in Hackney would cost an additional £2.8 million, funding we don't have, given the numbers of residents we have to support. In addition we have sought to maintain additional safeguards such as backdating payments for those who apply for support already in debt, something other boroughs have been increasingly restricting.
- 1.16. We have also recently introduced a scheme that means young people leaving care do not have to pay council tax and those fleeing domestic abuse will not have to pay it for a second property improving the support for some of the most vulnerable..
- 1.17. However, in the proposals set out in this paper we can show we have listened and revised our proposal, recommending a two per cent increase in the minimum contribution working age people will be required pay, meaning we will continue to support those on benefits or a low incomes by reducing their council tax bill by up to 83 per cent.
- 1.18. This two per cent increase will cover the predicted £500,000 increase in providing the scheme. While other boroughs continue to review their schemes, we also in the recommendations commit to maintaining the scheme at this level for at least two years.
- 1.19. We further commit to increasing the awareness and use of the CTRS hardship fund, actively promoting it to those that still face difficulties and monitor the impact of these changes to help shape the scheme's development in the future.

- 1.20. Finally we will be starting a thorough review, including with key stakeholders, of how the Council approaches those in financial difficulty and including our approach to debt, advice and support.
- 1.21. I recommend this report to Cabinet and Council.

## **2. GROUP DIRECTOR'S INTRODUCTION**

- 2.1. The Local Government Finance Act 2012 required local authorities in England to design and implement their own localised Council Tax Support Schemes from April 2013. These local schemes replaced Council Tax Benefit, a national social security benefit administered for the DWP by local councils.
- 2.2. Local authorities were nominally given the freedom to design their own schemes, however there were a number of conditions placed on councils including the requirement to ensure that level of Council Tax Support for pensioners was not to be reduced as a result of the introduction of the new scheme.
- 2.3. Funding for the new schemes was to be by way of a grant, allocated in line with Council Tax base shares and previous administrative support costs, subject to a 10% cut in 2013/14. Since then funding has been cut significantly. This change in the funding arrangements represented a fundamental move away from a demand-led benefit (met by 100% subsidy) to a fixed budget scheme. The management of financial risk was effectively shifted to the council and at the time, the estimated shortfall between the funding to be provided and the expected cost of the scheme in 2013/14 was £3.2m and this has continued to rise steeply ever since.
- 2.4. When introduced in 2013/14, our scheme required that all current Council Tax Benefit claimants of working age paid at least 15% of their weekly Council Tax Charge to offset, at least in part, the shortfall in funding provide by central Government.
- 2.5. Since its implementation, the scheme has never been updated or amended. This has had two consequences; firstly, the effective level of funding the Council has received to support claimants has been radically cut and therefore the cost of the scheme to the Borough has increased significantly, and secondly, as we have made no changes to the system parameters (such as applicable amounts, income tapers and non-dependent deductions), the scheme is significantly out of sync with other means tested benefits and, over time, working households have become disadvantaged in comparison to non-working households.
- 2.6. It is important that the cost of the CTRS is considered against the backdrop of £110m funding cuts over the period 2010/11 to 2016/17 and the need to make further savings to offset the £29m funding losses and the additional cost pressures we will experience over the period 2017/18 to 2019/20. Not addressing the increasing costs associated with the CTRS at this time must, as a consequence, result in the depletion or even withdrawal of services elsewhere in the Council.
- 2.7. It should also be recognised that the costs of administering the current CTRS scheme are relatively minimal, as the processing is subsidised by being "piggy-backed" on the administration of Housing Benefit (HB). While the CTRS assessment process remains similar to that for HB, the same software packages can be used, with the DWP largely funding the software and benefit processing systems. However, this means there is little or no scope for savings being found by way of improved efficiency

and/or rationalization. It also means that the design of the scheme cannot stray too far from that applied to HB without additional investment in specialised software and new IT platforms being required.

- 2.8. In light of this and following discussions with Officers, we examined how the wider cuts to local government funding and the increasing cost to the Council of CTRS have made it extremely difficult to protect the CTRS and those receiving assistance without requiring cuts to other services.
- 2.9. In order to help shape the design of any new scheme, informal consultation was undertaken with members and with representatives from local stakeholder agencies, including the Child Poverty Action Group, Z2K and Toynbee Hall. These stakeholders were also invited to participate formally in the consultation on the finalised changes and their responses are included within the report.
- 2.10. On this basis, this report sets out the full range of options that have been considered and consulted upon, the implications of each scheme and the feedback from the consultation. For each financial year, the Council is required to consider whether to revise its scheme or to replace it with a different scheme. Any revision or replacement must be made by 11 March in the financial year preceding that for which the scheme is to take effect.

### **3. RECOMMENDATION(S)**

- 3.1. That Cabinet and full council note the contents of the report and the financial implications attached to each of the options outlined within the report and that the report be referred to full Council.
- 3.2. That Cabinet recommend to full Council that Members, recognising the financial constraints placed on the Council, agree to revise the Council's current Council Tax Reduction Scheme by:
  - 3.2.1. Updating the cost of living parameters and other related cost comparators to bring them into line with the 2018 Council Tax Reduction Default Scheme;
  - 3.2.2. Introducing a means test to CTRS claimants in receipt of Universal Credit so they will receive the same entitlement as other non-Universal Credit claimants with the same income;
  - 3.2.3. Increasing the minimum contribution which all working age CTRS claimants have to pay from 15% to **17%** of their Council Tax liability.
- 3.3. That Cabinet and Members note that the Council will additionally seek to ensure that those taxpayers in the greatest financial hardship are able to access additional support by:
  - 3.3.1. The implementation of a comprehensive campaign to promote the Council's Discretionary Council Tax Hardship Scheme throughout the borough;
  - 3.3.2. Continuing to work with stakeholders and partners in the development of a corporate debt approach as part of the Council's wider work on financial inclusion;
  - 3.3.3. Continuing to monitor and report on the impact of the scheme on Hackney residents;

- 3.4. That in order to safeguard the changes to the scheme, Cabinet and Members agree that no further changes are made to the Council Tax Reduction Scheme until April 2020 (with the exception of annual uprating of the scheme parameters to match those in the Government default scheme), unless statutorily required.
- 3.5. That full Council, recognising the financial constraints placed on the Council, agrees to revise the Council's current Council Tax Reduction Scheme by making the revisions to the current Council Tax Reduction Scheme as set out in paragraphs 3.2.1 to 3.2.3 above, and that full Council also agrees to the actions set out in 3.3.1 to 3.4 above.

#### **4. REASONS FOR DECISION**

- 4.1. Hackney's Council Tax Reduction Scheme has remained unchanged since it was introduced in April 2013, and has now become out of date:
- 4.2. Since Hackney's Council Tax Reduction Scheme was introduced, the government has changed some other national Welfare Benefits and, because of these changes, the Hackney scheme no longer aligns with other social security means tested benefits. The scheme has also become inefficient to administer, and more complicated for residents to understand.
- 4.3. The scheme has become too costly to administer in its current form. The cost of the scheme is predicted to rise by half a million pounds in 2018/19, with further increases in costs expected in 2019/20. An increase in the minimum contribution from 15% to 17% partly addresses the affordability issue and will offset the half a million pound cost increase in 2018/19.
- 4.4. The current Council Tax Reduction scheme is not designed to interact with the government's Universal Credit scheme. As Universal Credit coverage expands it is important that the scheme is adapted to fairly and equitably process Universal Credit awards as part of the household income
- 4.5. For these reasons it is an appropriate time for the Council to review the arrangements and come up with a long term scheme that is affordable and fair to both Council Tax Payers and to those who also benefit from the support. It is intended that these changes take effect from 1 April 2018.

#### **5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

- 5.1. The Council has considered a range of alternative options, including making no changes to the scheme.
- 5.2. If we do nothing, then CTRS for working households will continue to be misaligned with DWP Welfare Benefits resulting in less benefit being awarded. Also, the current scheme does not account fairly for Universal Credit and we will not be addressing the affordability issue noted above and, the £0.5m cost increase projected for 2018/19.
- 5.3. As a consequence of the applicable amounts not being adjusted in line with other welfare benefits working households and those households who have had an increase in their accountable income and who have seen the value of their CTRS award decrease both in real and relative terms in comparison to a household with no non-benefit income. If the scheme remains unchanged relief from the Council Tax

burden becomes less accessible to working families. In addition, those at the margin of CTRS are more likely to fall out of entitlement to the scheme entirely.

5.4. With regard to alternative options for addressing the funding concerns associated with the provision of the Council Tax Reduction Scheme, these are considered below.

#### 5.5. **Other funding options**

5.6. As the cost of administering the CTRS scheme falls on the Council, this would require the Council to find other ways of funding the shortfall, such as;

5.7. **Increasing Council Tax** – Raising Council Tax might seem like an easy option but the Council has to balance this against the impact on **all** Hackney residents. It should be noted that increasing Council Tax also increases the cost of the CTRS, and in effect we would have to increase the Council Tax charge even more in order to compensate. This would impact on all Hackney households, including pensioners, and in particular those working households whose income is low but not low enough to qualify for support;

5.8. It should also be remembered that Councils can only increase the Council Tax charge by up to 3% (plus 2 or 3% for social care) before triggering a referendum, which again significantly adds to the costs; based on the cost of undertaking a local election, the estimated cost is around £550,000. Therefore, raising the charge to pay for the additional costs of the CTRS would mean that the Council could not raise funding for other areas.

5.9. **Cut funding in other areas** - Cuts in other areas would impact other budgets which are equally as stretched due to the reduction in support from the government, potentially resulting in direct cuts to front line services. This would disproportionately affect our poorest and most vulnerable residents who access our front line services most and who we are trying to protect.

5.10. **Increasing fees** - Further increasing fees and charges would place additional costs on our residents and service users. They would also raise limited income, as too high fees would discourage individuals from using Council services.

5.11. **Funding the shortfall from reserves** - Use of reserves is only a short term solution, as once reserves are spent, the savings would still need to be found. Use of reserves would at best only allow us to postpone the decision, and not resolve it for an ongoing period. The Council is legally required to maintain a level of reserves in case of unforeseen service costs and emergencies. Many of the Council's reserves are already earmarked for important projects, which could not go ahead if the reserves were used for other purposes.

#### 5.12. **Other changes to the scheme**

5.13. At the outset of the review and in discussion with the then Cabinet Member for Finance and Resources, Officers also examined and subsequently rejected a number of other changes to the scheme, either because they were ineffective (with the savings generated offset by the additional administration costs required to implement the change), or because the proposed changes ran counter to the Council's wider priorities. These rejected proposed changes included;

5.14. **Reducing backdating to 1 month** - Currently claims for support from working age applicants can be backdated for up to 3 months. This differs from Housing Benefit which has had backdating restricted to a maximum of 1 month by central government.



However, such a change to the CTRS has very little impact on the overall spend but does have a potentially devastating impact on those households that lose out. This is especially true when you factor in the upcoming rollout of Universal Credit; with the Council no longer processing HB claims, we will have less opportunity to identify potential CTRS recipients and prompt them into an application. Anecdotal evidence from other boroughs already in UC full service indicates that the UC application and assessment process delays have resulted in more late applications for help with the Council Tax charge.

- 5.15. **Assessing applications from self-employed applicants using a minimum income** - This aligns the CTRS with Universal Credit, which assumes a minimum level of income for those who are self-employed. This is a controversial proposal and because of the limited roll out of UC the impact has not been fully tested or experienced. However, this approach does look counter to the Councils wider objective of getting Hackney residents into work as a route out of poverty.
- 5.16. Taking this approach makes self-employment a less attractive option and an important opportunity that could have led to highly productive future employment has been lost. Even some of the most successful businesses have had start up difficulties and the withdrawal of support for this group could stifle entrepreneurship.
- 5.17. Hackney has a significant number of residents employed in the “gig economy” which is largely based on self-employment. Employment can be sporadic and the self-employed are vulnerable to periods of low income as a result of inactivity due to illness/injury. A minimum income floor is a significant disadvantage to these residents.
- 5.18. **Reducing the maximum amount of savings a claimant can have before losing entitlement to £10,000** - Savings from this change would be minimal as there are few applicants who declare capital above the £10,000 suggested, additional savings could be accrued by reducing the threshold, to perhaps £8,000 or even £6,000 but again when considered against the overall cost of the scheme the savings are insignificant. The increased cost of administering and policing the scheme should also be factored in. In addition it would mean the scheme differs to the existing HB and UC schemes adding a further level of confusion for residents. In the end, it is likely to provoke perverse behaviour; where applicants would dispose of the excess capital to bring themselves back into entitlement, when we should encourage residents to make appropriate plans for their future.
- 5.19. **Introducing a standard level of non-dependant deduction for all claimants who have non-dependants resident with them** - this option assumes that working age residents sharing a property would be able to make this contribution **and** are willing to do so. It is the bill payer who applies for CTRS and it is regrettably often the case that the non-dependant makes no contribution to the council tax. Non-dep deductions can often be a source of household friction, and enforcement can lead to homelessness.

## 6. BACKGROUND

- 6.1. The Local Government Finance Act 2012 required local authorities in England to design and implement their own localised Council Tax Support Schemes from April 2013. These local schemes replaced Council Tax Benefit, a national social security benefit administered for the DWP by local councils.

- 6.2. Local authorities were nominally given the freedom to design their own schemes, however there were a number of conditions placed on councils including the requirement to ensure that level of Council Tax Support for pensioners was not to be reduced as a result of the introduction of the new scheme.
- 6.3. Funding for the new schemes was to be by way of a grant, allocated in line with Council Tax base shares and previous administrative support costs, subject to a 10% cut in 2013/14. Since then funding has been cut significantly. This change in the funding arrangements represented a fundamental move away from a demand-led benefit (met by 100% subsidy) to a fixed budget scheme. The management of financial risk was effectively shifted to the council and at the time, the estimated shortfall between the funding to be provided and the expected cost of the scheme in 2013/14 was £3.2m and this has continued to rise steeply ever since.
- 6.4. When introducing the scheme in 2013/14, a number of options for CTRS, including adopting the Council Tax Benefit scheme and absorbing the shortfall either by increasing Council Tax or by cutting services. However, we decided, after due deliberation and after full consultation, that the fairest way to deal with the government's reduction was by spreading it across the claims of Hackney's 27,000 working-age claimants. Specifically, the scheme proposed that all current Council Tax Benefit claimants of working age, plus all new applicants of working age, paid at least 15% of their weekly Council Tax bill. The scheme as currently set out was launched in April 2013 and largely mirrored the previous national Council Tax Benefit (CTB) scheme it replaced, except that all claimants of working age were required to pay a minimum payment equal to 15% of their tax liability. Since its implementation, the scheme has not been updated or amended.
- 6.5. The introduction of localised Council Tax Support schemes by central government, has had two significant consequences; firstly, the effective level of funding the Council has received to support claimants has been radically cut and therefore the cost of the scheme to the Borough has increased significantly, and secondly, as we have made no changes to the system parameters (such as applicable amounts, income tapers and non-dependent deductions), the scheme is significantly out of sync with other means tested benefits and, over time, working households have become disadvantaged in comparison to non-working household.

#### **6.6. Policy Context**

- 6.7. As previously highlighted, the Council's Council Tax Reduction Scheme was launched in April 2013 and largely mirrored the previous national Council Tax Benefit (CTB) scheme it replaced, except that all claimants of working age were required to pay a minimum payment equal to 15% of their tax liability. Since its implementation, the scheme has never been updated or amended.
- 6.8. Since our scheme was introduced, the government has changed other national Welfare Benefits, and because of these changes, the Hackney scheme no longer aligns with other social security means tested benefits. This has made the current scheme unfair as it has become less beneficial for working households in comparison to non-working households.
- 6.9. As we know, the CTRS scheme is at its heart a means tested benefit: any award of financial support is calculated by comparing the needs of the household with the

actual income received. Where there is a shortfall between the income and the established needs, additional support is provided; a discount is made in respect of the household Council Tax charge. To establish the needs of a household a number of factors related to living costs are identified to establish how much money the household reasonably requires to live on and whether they have the means to pay their Council Tax liability. Within the CTRS scheme, these parameters normally referred to as applicable amounts and were copied from those used by the DWP when calculating a Housing Benefit (HB) award. However, within the HB scheme these applicable amounts are updated each year in line with inflation (although they have been frozen since April 2016) to ensure that the real value of the award does not decrease. This annual adjustment has not been made to the Hackney CTRS scheme and so those households who have an increase in their accountable income will have seen the value of their CTRS award decrease both in real and relative terms in comparison to a household with no non-benefit income.

- 6.10. Also, our current Council Tax Reduction scheme was not designed to interact with the Government's Universal Credit Scheme. As Universal Credit coverage expands it is important that the scheme is adapted to fairly and equitably process Universal Credit awards as part of the household income. Currently, Universal Credit is treated as a passporting benefit; this means that recipients automatically qualify for the maximum level of support. However, when the roll out of the full UC service begins in Hackney, working households who currently claim Working Tax Credit, will move onto UC. Unless the scheme is changed to treat UC as an income, these households will all receive maximum support, when in fact their financial circumstances are such that they should receive a limited reduction in their Council Tax, if any reduction at all.
- 6.11. As noted above the Council's external funding situation has worsened considerably in recent years and so we have had to find savings across the council of £152m. In making these savings, emphasis has been placed on initiatives that have resulted in greater efficiency. These include;
  - 6.11.1. a rationalising of the management structure throughout the Council; management de-layering throughout the organization; and investing, re-engineering and restructuring services to reduce costs in long term e.g. Children's Social Care (in particular the 1CYPS initiative), Adult Social Care (in particular, Day Care), bringing services in-house and recycling-mingling;
  - 6.11.2. Streamlining the procurement function, performance management of staff with the aim of increasing productivity, improved Corporate Estate Asset Management and the rationalisation of directorate support services;
  - 6.11.3. reducing costs through a series of internal efficiency initiatives and service reviews, contract renegotiation, streamlining back office functions and bringing services back-in-house (ICT and Audit for example);
- 6.12. It is also worth noting that earlier in the year, the LGA announced, at its annual conference, that Local Government will have a funding gap of £5.8bn by 2020/21. In the light of these cuts, future cuts and uncertainty about how local government will be funded post 2020, we will continue to maintain an ongoing review of the operation, expenditure and performance of all services, including CTRS.

- 6.13. When the government handed responsibility for administering Council Tax-related support to local government, it did so with a significant funding shortfall, on top of a huge reduction in overall funding for councils. And since 2013, the effective level of funding the Council has received to support claimants has reduced significantly. CTRS is not funded on actual expenditure, instead the Council receives a fixed grant as part of the Revenue Support Grant (RSG). In 2013/14, the fixed grant was £23.2 million, but since then a CTRS grant figure has not been separately identified within RSG. Over the period 2013/14 to 2017/18 our RSG has reduced by 63% and given that our fixed grant is part of this, it is reasonable to assume that the fixed grant has also reduced by the same percentage.
- 6.14. The table below shows the cost of the scheme, the estimated funding received by way of the fixed grant and the shortfall, in each year over the period 2013/14 to 2017/18. Whilst the claimant payment makes a contribution to this, this has stayed fairly static over time which means that more and more of the shortfall has had to be funded by the Council. This has been achieved primarily from savings from other services over the whole period, but increased council tax receipts did make a small contribution in 2016/17 and 2017/18.

<i>Financial Year</i>	<i>Cost of CTRS Scheme £M</i>	<i>Estimated Funding received via RSG £M</i>	<i>Shortfall £M</i>
<b>2013-14</b>	<b>28.9</b>	<b>23.2</b>	<b>5.7</b>
<b>2014-15</b>	<b>27.6</b>	<b>19.0</b>	<b>8.6</b>
<b>2015-16</b>	<b>26.4</b>	<b>13.3</b>	<b>13.1</b>
<b>2016-17</b>	<b>25.5</b>	<b>10.8</b>	<b>14.7</b>
<b>2017-18</b>	<b>25.5 *</b>	<b>8.6</b>	<b>16.9</b>

- 6.15. As can be seen the cost to the council of funding the scheme has increased significantly. Moreover, the cost of the scheme is predicted to rise by £0.5m in 2018/19 if we do nothing and by a further £0.5m in 2019/20. This cost increase comes at a time when the Council faces significant financial pressures due to reduced funding from central government as noted above, and increasing cost pressures in many areas including social care and homelessness.
- 6.16. Considering the above and following on from the CTRS review, the Council proposed to amend the scheme by;
- 6.16.1. Uprating the parameters used within the calculation (the applicable amounts and non-dependent deductions) to match the amounts used in the calculation of Housing Benefit,
  - 6.16.2. Start treating Universal Credit as an income,
  - 6.16.3. Increasing the minimum contribution by working age families from 15% to 20%.
- 6.17. These changes were subsequently put out for wider public consultation.

## 6.18. **Consultations**

- 6.19. When initially drawing up potential changes to the CTRS, the Council made significant efforts on an informal level to canvas the views of members, leading advice agencies and charitable organisations. It was these early discussions that were used to shape the initial modelling. It was always intended that this be followed by a formal consultation as required by the Local Government Finance Act.
- 6.20. The Council's formal consultation process began in August 2017 and ran for 12 weeks through to November 2017. Hackney residents were invited to complete an online survey form and hard copies were made available at Council Offices and by post on request (**see appendix 1**).
- 6.21. By the end of the consultation period, the Council had received 153 responses. The results of the consultation identified that an overwhelming majority of those who responded indicated that they disagree with the proposed changes. A full consultation response report has been published (**see appendix 2**)
- 6.22. This placed the Council in the position of deciding how to proceed in the light of the consultation response. Recognising the significant rejection of the planned 20% minimum contribution, further consideration has been given to the design of the scheme.
- 6.23. The council cannot ignore the context of significantly reduced funding for CTRS; which will continue to go down as RSG is reduced in the next two years, the increasing costs of administration of the scheme over the next two years and possibly beyond; the huge reduction in total external funding since 2011/12; and the significant additional cost pressures across many services.
- 6.24. Nor should it overlook the necessity to uprate the scheme to ensure the applicable amounts used to calculate how much a household needs to live on is aligned to DWP Welfare Benefits now and uprated annually in accordance with the benefit system going forward. It will also amend the way UC is dealt with within the scheme by moving to recognising it as an income. This tackles the fairness/balance inherent in the original scheme, future proofs the scheme to reduce the possibility of the scheme becoming unbalanced going forward and insulates the scheme against potential future legal challenges on equality grounds.
- 6.25. To address the affordability issue, a 2% increase in the Working Age contribution is now proposed with active monitoring of the impact and a commitment to protecting the scheme for at least two years. It therefore, takes into account the consultation responses and makes some movement to making the scheme more affordable to the council. This option will fully offset the additional £0.5m cost of moving the scheme forward one year.
- 6.26. Taking into account the consultation responses, representations from pressure groups, the affordability and budgetary issues; this is the preferred option. Failure to make any adjustment to the contribution will make the affordability issue more acute going forward and may require a much steeper increase in future years.

6.27. We will continue to provide extra support for the most vulnerable people. The Council has put in a place a discretionary hardship scheme for those households who are experiencing financial hardship and have difficulty meeting the shortfall on their Council Tax. This scheme can provide assistance to help households who are vulnerable or under particular financial stress towards the amount of Council Tax owed. Local care leavers are also now exempt from paying Council Tax and those fleeing domestic abuse will not have to pay it for a second property.

**Table 1 below shows the Minimum Contribution (or average CTRS receipt) under the 17% and 20% Minimum Contribution Options**

Council Tax Band	Estimated Council Tax Charge for 2018/19*	Minimum Weekly Contribution required in 2018/19 @ 17%	Minimum Weekly Contribution required in 2018/19 @ 20%
A	£912.57	£2.98	£3.51
B	£1064.66	£3.48	£4.09
C	£1216.77	£3.98	£4.68
D	£1368.86	£4.48	£5.26
E	£1673.05	£5.47	£6.43
F	£1977.24	£6.46	£7.60
G	£2281.43	£7.46	£8.77
H	£2732.72	£8.93	£10.53

\* This figure is based on the assumption of a 3% increase in the Council Tax Charge.

6.28. To enable a more informed comparison of the impact of increasing the minimum contribution (as outlined in options 3 and 4), we have undertaken some additional modelling

6.29. The tables below (**tables 2 and 3**) reflect the difference in costs of the new scheme assuming that the applicable amounts and non-dependent deductions have been updated to 2017/18 levels and the family premium is removed for claims made after May 2016. Also assumed is a 3% Council Tax rise, the changes to minimum wage, welfare benefit changes, and Universal Credit roll out.

6.30. The tables demonstrate the different impact on vulnerable and non-vulnerable households. Vulnerable households are defined as any household where the claimant or partner is in receipt of Disability Living Allowance (DLA) – care or mobility component, Disability Living Allowance (child), Employment Support Allowance (ESA) – Work Related Activity Group or Support Group and/or Carer’s Allowance :

**Table 2 - increasing the minimum contribution to 17%**

Band	Non Vulnerable Households		Vulnerable Households	
	Average CTRS weekly award	Change compared to current scheme (2017/18)	Average CTRS weekly award	Change compared to current scheme (2017/18)
A	£8.92	-£0.08	£10.95	-£0.14

<b>B</b>	£10.72	<b>-£0.05</b>	£13.04	<b>-£0.21</b>
<b>C</b>	£12.57	<b>£0.02</b>	£15.22	<b>-£0.53</b>
<b>D</b>	£14.81	<b>£0.16</b>	£17.26	<b>-£0.96</b>
<b>EFGH</b>	£21.77	<b>£0.12</b>	£23.29	<b>-£1.33</b>
<b>Average</b>	£12.98	<b>£0.02</b>	£14.88	<b>-£0.49</b>

**Table 3 - increasing the minimum contribution to 20%**

<b>Band</b>	<b>Non Vulnerable Households</b>		<b>Vulnerable Households</b>	
	Average CTRS weekly award	Change compared to current scheme (2017/18)	Average CTRS weekly award	Change compared to current scheme (2017/18)
<b>A</b>	£8.55	<b>-£0.45</b>	£10.54	<b>-£0.55</b>
<b>B</b>	£10.26	<b>-£0.51</b>	£12.55	<b>-£0.70</b>
<b>C</b>	£12.02	<b>-£0.53</b>	£14.65	<b>-£1.10</b>
<b>D</b>	£14.23	<b>-£0.42</b>	£16.61	<b>-£1.61</b>
<b>EFGH</b>	£20.92	<b>-£0.72</b>	£22.32	<b>-£2.30</b>
<b>Average</b>	£12.44	<b>-£0.53</b>	£14.30	<b>-£1.07</b>

### 6.31. Financial Inclusion

6.32. In recognition that Universal Credit is now set to go live October 2018 rather than June 2018, and to support vulnerable households paying Council Tax, the Revenues Service continues to review its approach to debt collection. Like many other councils we are considering how households can be prevented from falling deeper into debt, lessen the requirement to incur additional court costs that lead to eviction/homelessness, but maintain collection.

6.33. In terms of the 15% minimum CTRS payment which has applied since 2013/14, this has not had an adverse impact on overall council tax arrears. At the end of 2012/13, the last year before CTRS was introduced, the in-year gross arrears total was £5.4m. At the end of 2016/17, the in-year arrears total was only marginally higher at £5.6m.

6.34. It is worth noting that since 2012/13 our tax base has increased significantly by £19m (25%) and our tax rate increased by 2% in 2016/17. These two factors have increased the amount of council tax collectible considerably from 2012/13 to 2016/17, which has put pressure on collection. The net collectible debit has in fact increased from £74.7m in 2012/13 to £92.3m 2016/17. Further, since the introduction of the minimum CTRS payment our council collection rate has not fallen. In fact, since 2012/13, it has increased. On a QRC basis (QRC is an official government NNDR and Council Tax return), our collection rate has increased from 93.5% in 2012/13 to 94.5% in 2016/17.

6.35. We are also able to note that collection of Council Tax broken down by working age and non- working age is showing a percentage decrease in the number of cases that are being issued with a final notice or summons as the Service encourages households to get in touch and make arrangements. Moreover

collection from working age chargepayers compares well against overall collection of Council Tax.

	16/17 Final Notice	17/18 Final Notice	16/17 Summons	17/18 Summons
Working age	26%	25%	18%	16%
Non -working age	5%	1%	1%	1%

Overall Collection comparison @ 1 Nov 17	Working Age	Overall C/Tax collection
17/18	56.9%	58.0%
16/17	56.1%	58.2%

Annual Collection	WA	All CT Payers
16/17	86.6%	94.5%
15/16	84.3%	94.1%

6.36. When considering the proposed changes to the CTRS scheme, the additional support we are introducing throughout the recovery process, the comparison of collection since the start of the scheme, we should see overall collection maintained albeit at a slower rate as more arrangements over a longer period are made.

### 6.37. Equality Impact Assessment

6.38. There are currently around 32,000 households in Hackney receiving some level of support through the current CTRS. Equalities data on CTRS recipients is extremely limited; we are able to derive the age, and, to a certain extent, disability of those getting assistance from the application process, but no record is made of marital/civil partnership status, sexual orientation, religion, gender reassignment or pregnancy. Some data is available on household gender but this is fragmented. There is an option for applicants to record their ethnicity, but so few complete the field, the data recorded is considered unreliable.

6.39. We have therefore undertaken a full EIA (see appendix 3) to assess the impact of the updated changes on Hackney residents.

6.40. Having taking into account the outcome of the EIA and the mitigation put in place to address concerns raised, it is recommended that Cabinet approve the proposed adjustments to the Council Tax Reduction Scheme.

6.41. It is important that the cost of the CTRS is considered against the backdrop of £110m funding cuts since 2010/11 and the need to make further savings to offset the £29m funding losses and the additional cost pressures we will experience over the period 2017/18 to 2019/20. Not addressing the increasing costs associated with the CTRS at this time must as a consequence result in the depletion or even withdrawal of services elsewhere in the Council.



6.42. The Council will also;

- 6.42.1. commence implementation of a comprehensive campaign to promote the Council's Discretionary Council Tax Hardship Scheme throughout the borough;
- 6.42.2. Continue to work with stakeholders and partners in the development of a corporate debt approach as part of the Council's wider work on financial inclusion;
- 6.42.3. Continuing to monitor and report on the impact of the scheme on Hackney residents.

#### **6.43. Risk Assessment**

6.44. The primary risks relate to not making the changes. If we do nothing we do not address the unfairness as the scheme has become less beneficial for working households in comparison to non-working households; the inefficiencies associated with its administration; and the complications which has made it more difficult for residents to understand. Moreover, doing nothing does not address the affordability issues noted above

### **7. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES**

7.1. Group Director of Finance and Corporate Resource's comments are included throughout the report

### **8. COMMENTS OF THE DIRECTOR OF LEGAL**

8.1 The requirement to make a Council Tax Reduction Scheme was introduced by Local Government Finance Act 2012 sections 9 to 16 which made amendments to the Local Government Finance Act 1992 (LGFA 92).

8.2 Each billing authority in England must make a scheme specifying the reductions which are to apply to amounts of council tax payable, in respect of dwellings situated in its area, by—

(a) persons whom the authority considers to be in financial need, or

(b) persons in classes consisting of persons whom the authority considers to be, in general, in financial need (LGFA 92 s13A(2)).

8.3 The Council made such a scheme with effect from financial year 2013/2014.

8.4 LGFA 92 schedule 1A regulation 5(1) provides that, for each financial year, each billing authority must consider whether to revise its scheme or to replace it with another scheme.

8.5 The authority must make any revision to its scheme, or any replacement scheme, no later than 11 March in the financial year preceding that for which the revision or replacement scheme is to have effect (LGFA 92 schedule 1A regulation 5(2) as amended with effect from 12 January 2018).

- 8.6 If any revision to a scheme, or any replacement scheme, has the effect of reducing or removing a reduction to which any class of persons is entitled, the revision or replacement must include such transitional provision relating to that reduction or removal as the authority thinks fit.
- 8.7 LGFA 92 schedule 1A and regulations made thereunder (as subsequently amended) set out particular matters that must be included in a scheme.
- 8.8 When revising a scheme the authority must (in the following order)—
- (a) consult any major precepting authority which has power to issue a precept to it,
  - (b) publish a draft scheme in such manner as it thinks fit, and
  - (c) consult such other persons as it considers are likely to have an interest in the operation of the scheme.
- 8.9 The function of revising the Council Tax Reduction Scheme can only be carried out by full Council (LGFA 92 s67(2)(aa)).

## APPENDICES

**Appendix 1 – Consultation Document**

**Appendix 2 – Consultation Report**

**Appendix 3 – Equalities Impact Assessment**

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