

CHANGING THE COUNCIL TAX REDUCTION SCHEME

Key Decision No: FCR Q46

CABINET

20th January 2020

COUNCIL

22 January 2020

CLASSIFICATION:

Open

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

WARD(S) AFFECTED

All wards

CABINET MEMBER

Cllr Rebecca Rennison

KEY DECISION

Yes

REASON

Spending/or saving

GROUP DIRECTOR

Ian Williams Finance and Corporate Resources

1. CABINET MEMBER'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 the local scheme was provided by way of a grant by the Department for Communities and Local Government (DCLG), with the level of funding based on the previous Council Tax Benefit expenditure but with a considerable 10% cut; this meant the Council was required to tailor its provision accordingly or absorb the cut elsewhere.
- 1.3. This change in 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. At the time the estimated shortfall between the funding provided and cost of the scheme was £3.2m and this has continued to rise steeply ever since.
- 1.4. 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. It should be noted that the council were legally prescribed from adjusting Council Tax Support for pension age applicants within the provision of the new scheme.
- 1.5. When first introduced, the scheme required all Council Tax Benefit claimants of working age to pay at least 15% of their weekly Council Tax charge to offset the initial shortfall in funding from Central Government. However, the continuing attack on local Government finances and the huge reduction in funding Hackney Council was required to manage made it necessary to increase this minimum contribution to 17% of the weekly charge in April 2018, alongside this the Council decided to exempt our Care Leavers from Council Tax until the age of 25.
- 1.6. At the time of this decision, it was agreed to monitor and report two years on from implementation on the impact of the additional costs to households on collection rates, administration of the hardship fund and the work undertaken to promote this to residents.
- 1.7. The subsequent review has identified that the current level of a maximum 83% award has not materially impacted on collection rates and that the calls for assistance from the hardship fund (which we continue to actively promote) remain very small.
- 1.8. However, the review has also taken into account changes in external circumstances; the continued impact of welfare reform on some of our poorest communities means that households with the least financial resources have been hardest hit by government cuts, changes to benefits, and increases in everyday living costs such as food, rent, and utilities. As a result some of our poorest residents are facing financial hardship and will find it difficult to pay contributions towards their Council Tax going forward.

- 1.9. It is therefore proposed that the minimum contribution required from working age households be reduced from 17% back to 15%. The proposal follows on from an analytical assessment and modelling undertaken by an external consultant (Policy in Practice), and represents a balance between continuing to support low income households whilst in a position to fund vital council services.
- 1.10. Whilst the move to a 100% maximum award is the political aim of the administration, given the Council's current and future uncertain financial position this is not something we could contemplate immediately. The administration and the Council has committed to further reduce the maximum contribution to 10% by 2025/26 at the latest and move to a fully funded scheme by 2030 and will be taking forward scoping work on achieving this in the course of 2020.
- 1.11. A consultation exercise with Hackney residents and other stakeholders and partners on this proposed change to the scheme identified that the majority of the respondents were very supportive of the proposed changes to the Council Tax Reduction Scheme (73% in favour).
- 1.12. 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 the level of Council Tax Support for pension age applicants was not to be reduced as a result of the introduction of the new scheme
- 2.3. 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 provided by central Government.
- 2.4. However, the continuing reduction in funding to the Council meant it became extremely difficult to protect the CTRS and those receiving assistance without requiring cuts to other services.
- 2.5. Subsequently, the minimum contribution was increased to 17% and the change delivered a saving to the Council of £0.5m at a time when the Council's budget gap was projected to reach £31m by 2021/22. At the time of that decision we committed to reviewing the impact of the change in minimum contribution on residents two years on from implementation and this report sets out the impact on collection rates, administration of the hardship fund and the work undertaken to promote this to residents.

- 2.6. It is important that the review of the CTRS is considered against the backdrop of £140m funding cuts since 2010 and the need to make further savings, plus the financial uncertainties that lie ahead, in particular the introduction of Fair Funding in 2021/22.
- 2.7. The Council has expressed an ambition to move to a fully funded scheme by 2030 to provide additional financial support to our poorest residents, but funding cuts means the options available at this time are limited. It is expected that Government funding will have decreased from £310 million to £140 million by 2022. The Council therefore needs to strike a balance between the need to provide extra support to residents who we think need it, while maintaining a scheme that is financially sustainable for the Council's wider budget and limits the impact on our ability to deliver essential front line services that residents depend on.
- 2.8. The Council is seeking to further reduce the maximum contribution to 10% by 2025/26 and move to a fully funded scheme by 2030 bearing in mind the financial uncertainties that lie ahead. As a first step, we will examine the time period over which we could move to a 100% maximum award scheme in an affordable manner, after we have certainty about the impact of Fair Funding on our financial position in 2021/22 and beyond.

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 reducing the minimum contribution which all working age CTRS claimants have to pay from 17% to 15% of their Council Tax liability.
- 3.3. That Cabinet and full Council commit to campaigning for the return to a fully funded benefit, paid for by Central government.
- 3.4. That Cabinet and full council note the ambition that we further reduce the maximum contribution to 10% by 2025/26 and move to a fully funded scheme by 2030.

4. REASONS FOR DECISION

- 4.1. When the Council agreed to amend the Council Tax Reduction Scheme in 2017 it also committed officers to undertake a review of the revised scheme in 2019.
- 4.2. The Council has recognised the continued impact of welfare reform on some of our poorest communities. Some households with the least financial resources have been hardest hit by government cuts, changes to benefits, and increases in everyday living costs such as food, rent, and utilities. As a result some of our

poorest residents are facing financial hardship and have found it difficult to pay contributions towards their Council Tax.

- 4.3. Whilst seeking to provide additional financial support to low income households the scope for amending the scheme is constrained by the need to manage ongoing cuts in Central Government funding with the expectation that funding to Hackney Council from the Government will have decreased from £310 million to £140 million by 2022.
- 4.4. The option of decreasing minimum contributions from 17% to 15% balances both the increasing financial pressures that our low income households face, against the ongoing cuts in government funding. The change will affect working age households only as the Council is legally prevented from making any changes to the scheme that will reduce the level of support payable to a pensioner household.

5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 5.1. As part of the review process, the Benefits & Housing Needs Service commissioned an external consultant, Policy in Practice, to carry out the analytical assessment of the revised scheme and to model the financial impact on the Council and on residents of four options for 2020/21 to 2021/22. These options were:
 - 5.1.1. Rolling forward the current scheme (with the maximum award of 83% of liability) in both years;
 - 5.1.2. Changing the scheme to provide a maximum award of 100% of liability in both years. This is equivalent to the award maximum prior to the Government's introduction of the localised system in 2013/14;
 - 5.1.3. Changing the scheme to provide a maximum award of 85% of liability in both years. This is equivalent to the award maximum in Hackney from 2013/14 to 2017/18;
 - 5.1.4. Changing the scheme to provide a maximum award of 70% of liability in both years;
- 5.2. The initial modelling demonstrated that reducing the maximum award to 70% of the liability was significantly punitive to low income households and no further development of this option was undertaken.
- 5.3. Additional analysis was undertaken with regard to changes to improve the parity between the Council Tax Reduction scheme and Universal Credit and to align the scheme with the default regulations:
 - 5.3.1. Introduce the Employment and Support Allowance for the Work Related Activity Group (claimants who are disabled but capable of work) for all those in receipt of Universal Credit with Limited

Access to Work. There will be a very small number of these claimants (c. 100) in 2020/21 but they will benefit.

- 5.3.2. align non-dependent deductions with the default scheme.
- 5.3.3. use Universal Credit as the maximum award for Universal Credit claims. Universal Credit uses slightly different applicable amounts to existing legacy benefits. The difference is very small, often only a couple of pence a week. Currently Hackney uses legacy applicable amounts to calculate Council Tax Reduction. But as more Council Tax Reduction claimants receive Universal Credit, this mismatch is causing confusion and becoming costly to administer. Mirroring our Council Tax Reduction Scheme to match the applicable amounts used in Universal Credit, makes the scheme more transparent, easier for claimants to understand, and simpler for the Council to administer. Any cost in aligning the applicable amounts in increased entitlement, is more than offset by the administrative saving achieved by aligning the two schemes)

5.4. In carrying out the modelling, a 4% Council Tax increase in both 2020/21 and 2021/22 is assumed together with an estimation of the number of residents who will change from legacy benefits to Universal Credit as part of natural migration as their circumstances change. In addition, the modelling also includes probable changes to welfare reform support rates, minimum wages, tax allowances, Local Housing Allowance rates and known regulatory changes. Full migration to Universal Credit is currently forecast for 2023.

5.5. If we roll forward the current scheme into 2020/21, it will increase the cost of discounts payable to CTRS recipients by £1m which is largely the result of the assumed 4% increase in Council Tax. However, in all Council Tax income modelling undertaken by Finance and Corporate Resources such as that presented in Finance Update reports and the Budget, the Council's cost in terms of discount awards to CTRS claimants of a 4% increase is netted off by the increased Council Tax income totals. It follows that the key comparisons here are the cost of the 100% and 85% maximum awards in 2020/21 compared to the cost of the current scheme rolled forward into 2020/21. The comparisons are shown below:

	£m	Change in Cost £m
Cost of Current Scheme in 2020/21	27.7	n/a
Cost of Model 1: 100% Maximum Award	31.7	4.0
Cost of Model 2: 85% Maximum Award	28.2	0.5

5.6. So, if we introduced a 100% maximum award in 2020/21, it would cost the Council an estimated £4m more than if the current scheme was rolled forward into 2020/21. If instead we introduced an 85% maximum award, the equivalent cost increase would be an estimated £0.5m.

5.7. The comparative costs for 2021/22 as follows:

	£m	Change in Cost £m
Cost of Current Scheme in 2021/22	28.9	n/a
Cost of Model 1: 100% Maximum Award	33.1	4.2
Cost of Model 2: 85% Maximum Award	29.5	0.6

5.8. If we introduced a 100% maximum award it would cost the Council £4.2m more than the current CTRS scheme would cost for 2021/22. If instead we introduced an 85% maximum award, the equivalent cost increase would be £0.6m.

5.9. Impact on Average Awards 2020/21

5.10. If awards were based on 100% of Council Tax liability in 2020/21, the average working-age award would increase by £3.50/week compared to the roll forward of the current scheme - an increase of 22%.

5.11. If awards were based on 85% of Council Tax liability in 2020/21, the average working-age award would increase by £0.41/week compared to the roll forward of the current scheme - an increase of 2.6%.

5.12. Distributional Impact 2020/21

5.13. If awards were based on 100% of liability in 2020/21, 6,020 households would see support increase by more than £5/week from current levels. If awards were based on 85% of liability 100 households would see support increase by more than £5/week from current levels

5.14. Both the 100% and 85% options have a slightly greater impact on private tenants as these tend to be in higher Council Tax bands than social tenants. Both options see private tenants gain more support than social tenants.

5.15. Couples with children gain the most and lose the most as the maximum award changes. This reflects the greater likelihood of work, and higher Council Tax bands of these households. For households in work, changes in the maximum award are proportionally greater compared to the amount of support received.

5.16. In general, working households have lower awards of CTRS and so a scheme change based on amended maximum award leads to a proportionally greater change. Employed and self-employed households gain more than households in receipt of out of work benefits under both the 100% and 85% schemes.

5.17. Under both the 100% and 85% maximum award options, support increases with the Council Tax Band.

6. BACKGROUND

6.1. Policy Context

- 6.2. 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.
- 6.3. The Council's Council Tax Reduction Scheme (CTRS) that was launched 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.
- 6.4. In 2017, the scheme was amended to increase the minimum contribution from 15% to 17%, due to the scheme becoming too costly to administer as a consequence of reduced Central Government funding and increased costs.
- 6.5. The CTRS scheme is 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 are normally referred to as applicable amounts.
- 6.6. The applicable amounts used in the calculation initially mirrored those used when calculating Council Tax Benefit, but from 2017, following the introduction and rollout of Universal Credit, the parameters of the scheme were changed to ensure that the applicable amount rates tracked and matched those used in the Universal Credit calculation.
- 6.7. When the government handed responsibility for administering CTRS 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 those entitled to support has reduced significantly. The CTRS is not funded on actual expenditure, instead the Council receives a fixed grant as part of the Revenue Support Grant (RSG).
- 6.8. It should be noted that there is indicative evidence that the current level of a maximum 83% award has not materially impacted on collection rates and that the calls for assistance from the hardship fund remain very small. The collection rates for working age claimants has increased consistently since 2013/14. In order to mitigate the impact of restrictions to Council Tax Reduction on our most vulnerable households. Hackney Council put in place a Discretionary Hardship Scheme. This would help those residents who had difficulty paying their Council Tax due to the impact of minimum contributions.
- 6.9. Under Hackney's Council Tax Reduction Discretionary Hardship Scheme each case is considered on its individual merits, with additional awards focused on

households that are vulnerable or under particular financial stress. The payment can cover up to full loss caused by minimum contributions.

- 6.10. Since the minimum which claimants had to pay increased to 17%, the hardship scheme has been extensively promoted, including articles in Hackney Today, information in the annual Council Tax booklets sent to every bill payer, leaflets and other communication materials shared with Hackney residents and through the Council's webpages.
- 6.11. In addition, where residents are eligible our revenues collection staff make sure vulnerable bill payers are aware of and know how to access the hardship scheme before proceeding with summons and recovery.
- 6.12. In 2018/19, the Council made awards totalling £7,800 out of the fund; officers will also always consider Council Tax relief when someone is awarded a discretionary housing payment to assist with their rent. Following the concerted effort to raise awareness the rate of spend has increased and as of October 2019 we have made awards totalling £9884.00. Increasing awareness of the discretionary scheme and improving take up remains a priority in addressing hardship. This is identified as an action in the Equality Impact Assessment

6.13. How residents are likely to be impacted

- 6.14. The table below illustrates how working age claimants will be impacted by a decrease to 15% minimum Council Tax Reduction contributions in 2020/21. To enable comparison an indicative annual increase of 4% in Council Tax has been used.

<i>Unemployed couple with 1 non dependant working 35 hours per week earning £350.00 per week living in a band E property, includes an assumed increase in non dependant deductions of 2.6%</i>			
Estimated weekly household income	Estimated weekly Council Tax Charge 2019/20	How much they pay per week 2019/20 (17% contribution)	How much they pay per week in 20/21 (15% contribution)
£114.85 per week	£34.01 per week	£13.88 per week	£13.62 per week
<i>Couple with 2 school age children, one working, living in a Band D property; Includes tax credits, earnings of 246.30 and child benefit</i>			
Estimated weekly household income	Estimated weekly Council Tax Charge 2019/20	How much they pay per week 2019/20 (17% contribution)	How much they pay per week in 20/21 (15% contribution)
£439.31 per week	£27.83 per week	£24.91 per week	£24.54 per week

Unemployed Lone parent with 4 children living on Universal Credit, living in a band E property			
Estimated weekly household income	Estimated weekly Council Tax Charge 2019/20	How much they pay per week 2019/20 (17% contribution)	How much they pay per week in 20/21 (15% contribution)
£252.27 per week	£25.51 per week	£4.34 per week	£3.99 per week
Single person over 35, no dependants, working 16 hours a week (minimum wage) in a band B property.			
Estimated weekly household income	Estimated weekly Council Tax Charge 2019/20	How much they pay per week 2019/20 (17% contribution)	How much they pay per week in 20/21 (15% contribution)
£131.36 per week	£16.23 per week	£13.41 per week	£13.19 per week
A disabled Couple with no children, whose partner is the main career, receives ESA(IR),high rate PIP & Carers Allowance in a Band C property.			
Estimated weekly household income	Estimated weekly Council Tax Charge 2019/20	How much they pay per week 2019/20 (17% contribution)	How much they pay per week in 20/21 (15% contribution)
£363.20 per week	£24.73 per week	£4.20 per week	£3.87 per week

6.15. The table below shows how each Council Tax Band payment is affected by the 15% option (assuming a Council Tax Increase of 4%).

Ctax Band	Current Annual Ctax 19/20	Minimum Weekly Contribution 19/20 (17%)	Estimated Annual Ctax 20/21	Minimum Weekly Contribution 20/21 (17%)	Minimum Weekly Contribution 20/21 (15%)
A	£969.90	£3.15	£1008.70	£3.29	£2.90
B	£1131.56	£3.68	£1176.82	£3.84	£3.39
C	£1293.21	£4.20	£1344.94	£4.38	£3.87
D	£1454.86	£4.73	£1513.05	£4.93	£4.34
E	£1778.16	£5.78	£1849.29	£6.03	£5.32
F	£2101.47	£6.83	£2185.53	£7.12	£6.29
G	£2424.76	£7.88	£2521.75	£8.22	£7.25
H	£2909.72	£9.46	£3026.11	£9.87	£8.70

6.16. The table below shows the maximum Council Tax reduction awards for other London boroughs in 2019/20:

Borough	Max CTRS	Comments
Barking and Dagenham	75%	
Barnet	100%	
Bexley	80%	
Brent	80%	100% for vulnerable households
Bromley	75%	
Camden	100%	
City of London	100%	
Croydon	85%	
Ealing	75%	100% for vulnerable households
Enfield	73.50%	100% for those entitled to a disability/carers premium
Greenwich	85%	
Hackney	83%	100% for care leavers
Hammersmith and Fulham	100%	
Haringey	80.20%	100% if a child is in the household
Harrow	70%	86% vulnerable
Havering	75%	80% for those entitled to disability/carers premium
Hillingdon	75%	90% for those entitled to a disability premium
Hounslow	100%	
Islington	91.50%	
Kensington and Chelsea	100%	
Kingston upon Thames	100%	
Lambeth	80%	100% for protected (Disabled / Ben cap / War widows / carers)
Lewisham	75%	
Merton	100%	
Newham	80%	
Redbridge	75%	85% where the claimant or partner is getting DLA/PIP/AFIP/AA
Richmond upon Thames	100%	
Southwark	85%	

Sutton	80%	
Tower Hamlets	100%	
Waltham Forest	76%	
Wandsworth	70%	
Westminster	100%	

6.17. Equality Impact Assessment

6.18. In July 2019 there were around 30,600 households in Hackney receiving some level of support through the current CTRS, this fluctuates through the year and we have experienced a reduction in caseload over recent months. 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.

6.19. A full EIA has been undertaken and has been attached at appendix 1

6.20. Sustainability

6.21. There is no impact on the physical and social environment as a consequence of this proposal.

6.22. Consultations

6.23. The Council is required by legislation to consult with the GLA (as a precepting authority) on any proposed changes to the Council Tax Reduction Scheme. We contacted the GLA formally in October 2019.

6.24. The GLA response was received 12 November and confirmed “The GLA supports the Council’s proposal to decrease the minimum contribution level from 17% to 15%;”.

6.25. The Council is also required to consult with residents. The public consultation ran from 28 October to 8 December 2019. The consultation featured on the Council’s consultation and engagement platform, for the duration of the consultation period.

6.26. The public consultation received 459 responses in total via the online and paper completion surveys. The majority of responses were received via paper completions, with just a small proportion received via online completions.

6.27. The majority of respondents, 73%, agreed with the Council’s preferred option of updating the current scheme and decreasing the minimum contribution required from working age recipients from 17% to 15%.

6.28. A more comprehensive consultation report has been attached as appendix 2. We have also attached a copy of the consultation form for information as appendix 3.

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, LEGAL & GOVERNANCE SERVICES

- 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;
- 8.2.1. persons whom the authority considers to be in financial need, or
 - 8.2.2. 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 the 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);
- 8.8.1. consult any major precepting authority which has power to issue a precept to it,
 - 8.8.2. publish a draft scheme in such manner as it thinks fit, and
 - 8.8.3. 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 – Equalities Impact Assessment

Appendix 2 – Consultation Report

Appendix 3 – Consultation Document

Report Author	Ian Jones 020 8356 4023 ian.jones@hackney.gov.uk
Comments for and on behalf of the Group Director of Finance and Resources	Russell Harvey 020 8356 2739 Financial Management Finance and Resources Directorate
Comments for and on behalf of the Interim Director of Legal & Governance	Chima Obichukwu 020 8356 4538 Senior Lawyer