



**WARDS AFFECTED: ALL WARDS**

**COUNCIL**

**24 November 2016**

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**COUNCIL TAX REDUCTION SCHEME**

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**REPORT OF THE DIRECTOR OF FINANCE**

**1. Purpose of Report**

- 1.1 The purpose of this report is to ask the Council to adopt a council tax reduction scheme (CTRS) for 2017/18.
- 1.2 The Council may decide to leave the current scheme unchanged, or adopt an alternative scheme. Two alternative options are described in this report, which would be less generous than the current scheme. These options have been the subject of public consultation.
- 1.3 Alternatively, the Council may wish to leave the current scheme unchanged, and agree to consult on options again next year (after Government cuts have bitten further).

**2. Summary**

- 2.1 The CTRS is a scheme of discounts for council taxpayers on low incomes. The cost of these (estimated to be £21m in 2017/18, if the current scheme remains unchanged) is met from the Council's General Fund budget. Around 35,000 taxpayers receive such a discount.
- 2.2 Since 2013/14, each local authority has been required to adopt its own CTRS (a national scheme of council tax benefit applied before that year). The Council's scheme was approved in January 2013. In order to make any material changes to the approved scheme, legislation requires that a full public consultation must be conducted.
- 2.3 The council has faced, and continues to face, unprecedented cuts to its grant funding. When the budget for 2016/17 was approved, there was a forecast gap between current spending plans and estimated income in 2019/20, amounting to £55m per year. The Council is systematically reviewing its spending (the "spending review programme") with a view to achieving

savings. A less generous CTRS would contribute to the savings the council has to make.

- 2.4 Changes to the CTRS are not the only ways in which we can increase council tax income. Since April 2013, we have used the flexibility given by the Government to charge more tax on empty dwellings. These measures included removal of the discount on second homes (previously 10%) and the exemption on vacant dwellings subject to major repair works or structural alterations. In addition, the exemption on vacant and substantially unfurnished properties was reduced from six months to one month and a premium of 50% is charged on properties that are empty (and unfurnished) for two years or more. This has helped raise additional revenue to manage financial pressures and supported the council's empty homes strategy, to potentially increase housing supply.
- 2.5 The council must approve a council tax reduction scheme by 31 January 2017 for implementation in 2017/18.

### **3 Recommendations**

- 3.1 The Executive is asked to recommend a scheme to the Council.
- 3.2 The Executive is asked to include in its recommendation to the Council an appropriate amount for discretionary relief, being:

If Option One is recommended	£500,000
If Option Two is recommended	£625,000
If Option Three is recommended	£750,000

- 3.3 Dependent on the decision of the Council, the Executive is asked to include the appropriate amount for discretionary relief in the proposed 2017/18 budget in due course.
- 3.4 The Council is asked to consider the recommendation of the Executive, and to adopt a scheme.
- 3.5 The Council is asked to state that it is minded to approve the appropriate level of funding for discretionary relief when it considers the budget.

### **4 Background**

- 4.1 The Welfare Reform Act 2012 imposed a duty on billing authorities to design and introduce CTRS schemes for working age households.
- 4.2 At the same time as local authorities were placed under a duty to design schemes, the Government cut the available funding.

- 4.3 The legislation requires the Council to adequately protect vulnerable groups. The Council has a discretionary relief fund of £500,000 per annum, operating in tandem with the pre-existing Discretionary Housing Payment scheme.
- 4.4 Following public consultation, the Council chose to adopt a scheme in 2013/14 with the following features:
- A maximum award of 80% of the full tax, meaning that all working-age tax payers need to pay a minimum of 20% of their bill;
  - No second adult rebate for working-age customers;
  - Capped awards for claimants with properties in tax band C or above, at the amounts which would be awarded if the property had been in band B;
  - A de minimis award, with no CTRS being awarded if entitlement is below this level (currently £3.70 per week);
  - No awards to those with capital (savings) in excess of £6,000.
- 4.5 This scheme was considerably less generous than the previous national scheme, under which claimants could receive 100% of the full tax in benefit.
- 4.6 Those of pension age were protected from the changes by law, retaining the same assessment and 100% maximum award as before. In 2015/16, 38% of our caseload was pension age.

## 5 Options

- 5.1 In partnership with Leicestershire County Council and the district councils, an exercise was carried out to consult the public on possible changes to the CTRS scheme. The options we consulted on were as follows:

**Option 1:** No change to the current scheme. The scheme adopted would continue to have the features described above.

**Option 2:** Working age charge payers will receive a maximum award of 75% of their council tax liability. All other features of the current system would remain unchanged (and pensioners would not be affected). This option will save an estimated £0.7m per year compared to the current scheme, assuming the Council tax increases in 2017/18 in line with the budget strategy.

**Option 3:** Working age charge payers will receive a maximum award of 70% of their council tax liability. All other features of the current system would remain unchanged (and pensioners would not be affected). This option will save an estimated £1.5m compared to the current scheme.

- 5.2 Respondents were also asked to provide their opinion on other ways the Council could achieve savings.
- 5.3 The district councils posed the same questions, with additional questions particular to each.

## 6 Consultation outcomes

- 6.1 Consultation took place from 4th August to 28th September, a period of eight weeks. Questionnaires were available for completion online, at libraries, at customer service centres and at a number of participating local community and advice agencies. Council staff attended numerous awareness events across the city to explain and encourage participation. There was a press release, and information was included in council tax reminders and notifications issued during the consultation period (directly reaching approximately 37,000 households).
- 6.2 In total, there were 570 responses to the consultation. This is relatively strong in comparison with other participating councils – which ranged from 21 for North West Leicestershire to 436 for Blaby. However, it amounts to only 0.4% of households in the city.
- 6.3 Of the 570 responses received:
- 532 were from city residents;
  - 23 were from local voluntary and community organisations;
  - 11 were from local businesses;
  - 4 were from non-city residents.
- 6.4 Of the 532 city resident responses:
- 516 provided a home postcode in Leicester;
  - 253 also provided a work postcode in Leicester;
  - 145 (25% of respondents) stated they were members of households currently receiving a CTRS award – representing just 0.4% of all claimants
  - 304 (55% of respondents) stated they were members of households currently paying the full council tax charge.
- 6.5 In summary, from a low response rate, 50% of local residents supported option one (no change). The other 50% were split more or less evenly between option 2 and option 3. Perhaps unsurprisingly, there was a significant difference of opinion between households receiving CTRS, and those who did not. 71% of those responding from the former group supported option one; this fell to 42% in the second group. 50% of local businesses and organisations also supported option one. A fuller analysis is provided at Appendix 1A.
- 6.6 It is not known at this point which option(s) other districts will adopt.
- 6.7 Appendix 1B provides more information about authorities requiring a minimum contribution of more than 20%, which may assist the Executive in considering options 2 and 3.
- 6.8 An Equality Impact Assessment (EIA) has been completed and can be found at Appendix 1C. This assesses the impact in conjunction with other changes arising from the Government's welfare reform agenda. The EIA identifies these households most likely to suffer hardship as predominantly lone parents, the disabled, and those on welfare benefits.

- 6.9 In 2013/14, the council introduced a discretionary relief fund of £0.5m to support vulnerable households contributing to their council tax for the first time, and who would struggle to pay their council tax. If options 2 or 3 are adopted, the Executive may wish to increase the sum available.
- 6.10 If the Council decides to adopt option one, we may wish to adopt this as a temporary (holding) position, and review in 12 months' time. The budget for 2017/18 will be balanced (although any saving made in 17/18 will be held in reserves and used to reduce the cuts burden in a later year). Government funding is, however, being progressively reduced, and the outlook beyond 2017/18 is increasingly severe. This course of action would require a further public consultation, and we are unable to decide on the likely shape of any new scheme prior to this.

## **7. Details of Scrutiny**

- 7.1 The recommendation by the Executive will be presented to the Neighbourhood Service and Community Involvement Scrutiny Commission on 16 November 2016. The Commission's comments will be represented at Full Council on the 24 November 2016 alongside the report.

## **8. CTRS Equality implications (Irene Kszyk)**

- 8.1 An Equality Impact Assessment (EIA) has been completed and can be found at Appendix 1C. This assesses the impact in conjunction with other changes affecting household finances. In summary, the main impact will fall on those who are (and will continue to be) most reliant on state welfare support. These households will see their finances squeezed through a combination of the increase in council tax payable, anticipated inflation for basic household items (particularly food), and the continuing impact of the Government's welfare reforms.
- 8.2 There are two main factors for consideration when considering equalities: the deprivation experienced in the city (Leicester is ranked 21<sup>st</sup> in England in terms of indices of multiple deprivation); and diversity in terms of protected characteristics – age, disability, sex, race, religion or belief, pregnancy or maternity, sexual orientation, and gender reassignment (as well as responsibilities of carers which need to be taken into consideration).
- 8.3 Of the city's 134,000 households, 35,000 receive CTRS support on the basis of their assessed need. Around one third of these are pensioner households who are eligible for 100% support; and two thirds are of working age, who must contribute at least 20% of their council tax bill.
- 8.4 These working age households will be either in low paid work or out of work, and will also be reliant upon social security benefits which in turn are subject to various welfare reforms introduced by the Government resulting in reduced household discretionary income over time.

- 8.5 Sheffield Hallam University in their March 2016 study on welfare reform has estimated that these reforms will, by 2020-21, result in an average compound loss of £490 per annum for each working age adult in Leicester. Their study indicates that different types of households will experience disproportionate impacts: those worst affected are likely to be couples with 2 or more children (with a total loss of £1,450 per annum by 2020-21), couples with 1 child (with a loss of £900 per annum), lone parents with children (with a loss of between £1,750-£1,400 per annum), and single persons of working age (£250 per annum). Therefore, over the next 4 years, there will be increased pressure on low income household incomes in the city as a result of the Government's welfare reforms. Disabled people reliant on benefits have had their incomes substantially reduced as a result of welfare reforms already introduced, and will continue to be affected by the next tranche of reforms.
- 8.6 While the economic climate has been relatively stable with virtually no inflation over the past year, the EU referendum decision in June has created some economic uncertainty in the country. Inflation has risen to 1.0% (CPI September 2016) following the fall in value of the pound, and is anticipated to increase to around 3% over the next year, adding further pressures to household incomes and their ability to purchase essential household utilities and items such as food.
- 8.7 As social security benefits get further squeezed and households with low incomes become more vulnerable to short-term financial crises, the importance of the local welfare safety net provided by local authorities in the form of discretionary support payments becomes more critical as the Government has in effect devolved this function to them.
- 8.8 The January 2016 House of Commons Works and Pensions Committee report on 'The local welfare safety net' is critical of the Government's approach and calls for a more robust and co-ordinated approach to sufficiently protect services, including crisis welfare in deprived areas, that can cope with future economic downturns. Therefore, locally it is important to consider the value of the council's available discretionary funds (Discretionary Housing Payments, Council Tax Discretionary Relief and the Community Support Grant) as a key mitigating action to help households experiencing financial crises (used together holistically as a safety net with a supportive advice, personal budgeting support and signposting provision for claimants).
- 8.9 Our Public Sector Equality Duty requires us to consider the impact of our proposals and their effect on different protected characteristics.
- 8.10 In regard to those who receive CTRS support, pensioners (protected characteristic of age) eligible for support are not required to make the minimum contribution of 20% as set out by Government guidelines. Therefore working age claimants are disproportionately affected by any changes.
- 8.11 There is a disproportionate take up of CTRS by white people (60%) compared to the city's population (51%), indicating that race is another equalities consideration.

- 8.12 Disabled residents have their disability benefits disregarded as a source of income when calculating DHP and CTDR support, which therefore lowers their actual income threshold and potential requirement for contribution.
- 8.13 Single person households are disproportionately represented in their take up of CTR. Moving into work/increasing their working hours would mitigate the increased demand on their incomes with the introduction of Option 2 or 3.
- 8.14 Low income families and lone parents are less able to make up any household income shortfalls arising from the introduction of Options 2 or 3 because of the increased costs they have to bear for raising children and the decreased flexibility they have, particularly mothers, in moving into work/increasing their working hours, and would be disadvantaged by reductions in their household incomes by the introduction of these two options.
- 8.15 As mentioned above, discretionary funding (DHP, CTDR and CSG) mitigates some economic hardship experienced by residents – which is the only welfare safety net available to them. Disabled residents; carers and lone parents; those affected by the bedroom tax, local housing allowance levels, and benefit cap, have all been supported through the discretionary funding which is available to the council.

## 9. Financial Implications (Mark Noble)

- 9.1 Council tax is a major source of income to the Council, for which £94m was budgeted in 2016/17. This is broadly calculated as follows:

	£m
Dwellings – full charge	134
Exemptions – mainly students	(9)
Single Persons' Discounts	(10)
Council Tax Reduction Scheme	(21)
<b>TOTAL</b>	<b>94</b>

- 9.2 Prior to 2013/14, council tax benefits were payable to low income householders, and could amount to 100% of the tax due. In effect, council tax was paid on their behalf by the DWP.
- 9.3 In 2013/14, local council tax reduction schemes replaced council tax benefit. The way in which awards are reflected in the tax charge also changed – instead of making a full charge which is paid by the DWP, council tax charges are now discounted. Thus, the council receives less council tax income than it used to do. In 2017/18, assuming the Council increases tax by 4% as indicated in the budget strategy, council tax discounts will reduce tax income by an estimated £21m if the current scheme remains unchanged. Similarly, the police and fire authorities receive less income.
- 9.4 Money was included in the council's finance settlement for 2013/14 to reflect the loss of income, but the amount provided was £3m less than would have been required to maintain the former scheme. Since that time, funding for

discounts has been an integral part of the council's revenue support grant, which has itself been subject to substantial reductions. It is no longer meaningful to seek to identify a level of support from the Government for council tax reduction schemes: schemes are best perceived as simply one of the council's obligations for which we receive (ever reducing) general government support.

- 9.5 The current scheme requires all taxpayers to pay at least 20% of their charge. This offsets the overall loss of council tax income.
- 9.6 At the time the budget was approved in February 2016, it was estimated that the Council would need to save £55m per year, by 2019/20, to balance the budget in that year. This figure has been reduced by spending review savings achieved since February, 2016, and at the time of writing the budget for 2017/18 is being prepared. It is too soon to provide an updated estimate, but it is inevitable that a significant gap between current levels of spending and estimated resources in 2019/20 will continue to exist by the time the Council sets the budget for 2017/18. On current estimates, even if we make the maximum savings expected from the spending review programme and from a review of employees' terms and conditions, it is believed that there will still be a deficit of £10m to £20m per year to close by 2019/20.
- 9.7 A decision to change the scheme will need to balance the inevitable difficulties which would be caused by requiring the city's poorest taxpayers to pay more, with the need for additional savings to balance the council's budget.
- 9.8 It is difficult to estimate how much the Council would save by adopting options two or three, because this depends on how many people are entitled to support at any one time. Over the last few years, the cost of the CTRS has been falling. Future demand will depend on the strength of the economy and any changes to individual eligibility arising from the Government's welfare reforms. The financial impact will also depend on the level of our council tax at any one time. However, based on a snapshot of the caseload at the beginning of November, and assuming this remains constant, the saving in 2017/18 is estimated to be as follows (also assuming council tax increases by 4% in line with the budget strategy):
- (a) Option 2: £0.7m;
  - (b) Option 3: £1.5m.
- 9.9 Savings will also be achieved by the police and fire authorities, but at much lower amounts.
- 9.10 The Council sets aside £0.5m in the budget each year for discretionary relief. Should a decision be made to increase this amount, it will offset the additional income in the table above.
- 9.11 In setting its budgets, the Council assumes that a certain amount of council tax will not get collected, and will eventually be written off. In 2016/17, 2.25% was set aside for this: the allowance applies to all debt, including that which has been reduced by CTRS awards. The figures above implicitly assume that



2.25% of any extra debt raised as a consequence of changing the CTRS scheme will not be collectable. Whilst common sense suggests that a higher percentage is more likely, experience of CTRS to date does not provide evidence for this. In practice, debt reduced by awards is more likely to be in arrears, but continues to be collected (albeit it at a slower pace). Council tax arrears can be collected for many years after the year to which they relate, and the CTRS scheme is too new to assess where we will eventually end up in terms of collection. There is also a relationship between arrears and discretionary relief. Nonetheless, it would be sensible to assume that some of the additional income from options 2 and 3 will in due course be written off (over and above the assumed 2.25%).

## **10. Legal Implications (Kamal Adatia)**

- 10.1 The actual making or revising of the Council Tax Reduction Scheme is a matter for Full Council, in accordance with the Local Government Finance Act 1992 (as revised by the 2012 Act). The Scheme in Leicester needs to be re-made before 31 January 2017.
- 10.2 The Council has a duty under the Equality Act 2010 to have “due regard” to the need to eliminate unlawful discrimination of people sharing protected characteristics which are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, or sexual orientation. There is also a duty to promote equality of opportunity and foster good relations between those sharing a relevant protected characteristic and those who do not do so. This is commonly referred to as the “Public Sector Equality Duty” (PSED). Members must therefore bear in mind this duty to have “due regard” when deciding upon which option to pursue, and will be guided by the attached Equality Impact Assessment in this task. It is important to bear in mind that compliance with the PSED does not of itself entail an obligation to avoid or eliminate any negative impacts of any of the proposals. Negative impacts may (or may not) be inevitable, if, for example, the proposals to decrease the maximum award are endorsed. Some consideration of available mitigating measures would assist in demonstrating both a “regard” for the relevant impacts, and a conscientious grappling with the impacts that a less generous scheme entails.
- 10.3 If Option 1 is pursued with an express promise to reconsider the scheme for 2018/19 then this will create a binding duty to re-consult and re-make a Scheme by 31 January 2018.

## **11. Environmental Implications (Mark Jeffcote)**

- 11.1 A reduction in the disposable income of low income households in the city could result in an increase in fuel poverty. An increase in fuel poverty can result in households using less fuel but it also reduces the ability of households to invest in energy conservation measures.
- 11.2 The Home Energy Team can advise and support vulnerable households through initiatives such as Health Through Warmth.

11.3 Food poverty is met through the Council's Community Support Grant scheme. The Council's Food Bank, as part of this scheme, diverts food being sent to landfill.

## **12. Other Implications**

12.1 None

## **13. Appendices**

**Appendix 1A – CTRS Consultation Response (Summary)**

**Appendix 1B – Current national and local data on CTR schemes**

**Appendix 1C – CTRS and wider welfare reform Impact Assessment**

**14. Report Author: Alison Greenhill**

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