

# **REPORT FOR: CABINET**

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<b>Date of Meeting:</b>	26 June 2014
<b>Subject:</b>	Review of the Council Tax Support (CTS) Scheme
<b>Key Decision:</b>	Yes
<b>Responsible Officer:</b>	Tom Whiting, Corporate Director of Resources
<b>Portfolio Holder:</b>	Councillor Sachin Shah, Portfolio Holder for Finance and Major Contracts
<b>Exempt:</b>	No
<b>Decision subject to Call-in:</b>	Yes
<b>Wards affected:</b>	All
<b>Enclosures:</b>	No

## **Section 1 – Summary and Recommendations**

This report informs Members of the requirement to consider a review of the localised Council Tax Support Scheme which was introduced on 1/4/2013. Paragraph 5 of Schedule 1A to the Local Government Finance Act 1992, as amended by schedule 4 of the Local Government Act 2012, requires the council to consider whether, for 2015-16, the scheme is to be revised or replaced.

### **Recommendations:**

Cabinet is requested to make the following decision:

1. Agree, after considering whether to review the local scheme, that due to

the requirement to make savings to the scheme, that there is a need to change the CTS scheme based on the options set out in paragraph 2.16.

2. Authorise the Corporate Director of Resources, in consultation with the relevant Portfolio Holder, to consult with the GLA, finalise the details and publish a draft scheme and consult with interested parties as set out in the report.
3. Agree to a report being brought back to Cabinet in the Autumn with a proposed scheme to enable Cabinet to make a recommendation to full Council to agree a scheme before 31 January 2015.

**Reason: (For recommendation)**

The localised council tax support (CTS) scheme was determined by Full Council and implemented on the 1/4/2013 after extensive consultation designed to ensure that residents within Harrow were given the opportunity to comment and help shape the final scheme provisions.

The Scheme design and consultation process were based upon retaining the provisions, including pre-defined changes, for two consecutive financial years, 2013/14 & 2014/15, so long as key conditions remained unchanged. On the 21<sup>st</sup> of November 2013, Cabinet considered whether a review was appropriate for the financial year 2014/15. At that time it was agreed that no review should take place and the original two year scheme remained in place.

However, since that time there has been significant change to the Council's funding streams; specifically Government grants have reduced. The MTFS, agreed by Council in February 2014, shows a budget gap of £24.7m and £20.7m for 2015/16 and 2016/17 respectively.

This significant change in income from grants, together with growth pressures on certain key services that the Council must deliver, means that there are significant savings to be made across council services, which require the Council to consider reviewing or replacing the scheme as determined by Full Council.

## **Section 2 – Report**

### **Background**

- 2.1 Council Tax Benefit (CTB) was previously funded by Central Government via grant, with the Council being responsible for the administration of it alongside Housing Benefit (HB).

- 2.2 From April 2013, this system changed with the introduction of a locally determined system of council tax support (CTS). There is no longer a nationally governed CTB scheme, although certain aspects of the localised scheme are prescribed by regulations. This is part of the Government's wider policy of localisation, giving councils increased financial autonomy and a greater stake in the economic future of their local area.
- 2.3 Pensioners (of state pensionable age) are still protected under these new arrangements. CTS for them is still controlled nationally. This means CTS can still cover up to 100% of their Council Tax bill if the individual meets certain prescribed criteria.
- 2.4 From 1/4/2013, local authorities receive only 90% of the 2012/13 allocated funding to deliver the new scheme and no provision was made for increasing funding to offset growth due to inflation or additional case load. Harrows' local scheme was originally designed to ensure that the funding gap was fully met from within the scheme which resulted in working age recipients receiving less support from 1/4/2013, thereby having to pay some or more of their council tax.

## **Council Tax Support Scheme Review**

- 2.5 Legislation requires the Council to consider whether, for 2015-16, the Council's CTS scheme is to be revised or replaced. The Council must consider whether the scheme requires changing and must do this in time to ensure it has sufficient time to consult and determine the scheme prior to the deadline set out in the legislation.
- 2.6 Full Council determined on the 21 January 2013 to introduce a two year CTS scheme. The scheme set out the reductions which were to apply in Harrow to specified classes of persons whom the authority considers to be in financial need. The scheme took effect for the financial year commencing 1 April 2013.
- 2.7 The design of the scheme took into account a level of expenditure accounting for the national economic situation and the uncertainty facing local government funding in the medium term as there could be no guarantee that the Council would be able to continue to financially afford to maintain the CTS scheme budget at the original levels first determined. The CTS scheme was also designed to address the first two years of localised support with a view to allowing the Council to take stock once data was available on the actual impacts and effects of the scheme.
- 2.8 Modelling the current CTS caseload commitments and estimating 2015/16 expenditure would suggest future demand for support is likely to reduce due to improvements in both the economy and employment opportunities that this brings. A fundamental principle of both council tax localised support and welfare reforms in general is to incentivise residents back into work. It is therefore appropriate,

considering the changing economy, that the Council further supports the drive to self-sufficiency through further changes to the CTS scheme and simultaneously addresses the need to cut expenditure in view of the changing financial environment.

- 2.9 This report also takes into account recent research by the Citizens Advice Bureau, (CAB), that shows that generally there has been an increase of 17% in council tax payers who have fallen into arrears and that council tax arrears are now a serious problem for in-work households. The analysis carried out by the charity found that people coming in with council tax issues are struggling with other debts too. Consumer debts like credit cards and personal loans, which have traditionally been the most common debt problems that the CAB dealt with, have now been overtaken by council tax debt issues, the increase being clearly linked to the introduction of council tax support schemes which, without exception, have been less generous than the Council Tax Benefit scheme they replaced.
- 2.10 That said, whilst council tax affordability remains a risk for recipients of CTS, it must be noted that in year council tax collection rates in Harrow for 2013/14 were excellent and above the 70% figure budgeted for.
- 2.11 Whilst it is right for members to consider the above, it must also be noted that currently (as @ May 2014) the CTS forecast expenditure for 2014/15 is approximately £15.5m. Although this is around £0.8m or 5% below the 2013/14 expenditure, the Council's overall financial position still requires significant savings from all services and it is therefore appropriate that the scheme is reviewed and options consulted upon. This will provide Cabinet the option of adopting a revised scheme later on, benefitting from the input of current data as well as taking into account the feedback from a new public consultation whilst ensuring it can deliver savings if required.
- . 2.12 In reviewing the operation of the current scheme, it is considered that the existing scheme, agreed by Full Council on 21<sup>st</sup> January 2013, is no longer fit for purpose or appropriate for future years. Whilst it would be desirable to retain a scheme with funding levels similar to those made available for the financial year 2013/14 or even 2014/15, the reality is that the Council is facing a severe funding gap over the coming years and as such must review the budget funding the CTS scheme for 2015/16 in the same way that it has to review all other service expenditure taking into account what the Council can afford. In view of the current financial position, it is therefore recommended that as part of this consideration to review, the scheme is revised to ensure a reduction in scheme costs over 2 to 4 years commencing in 2015/16.

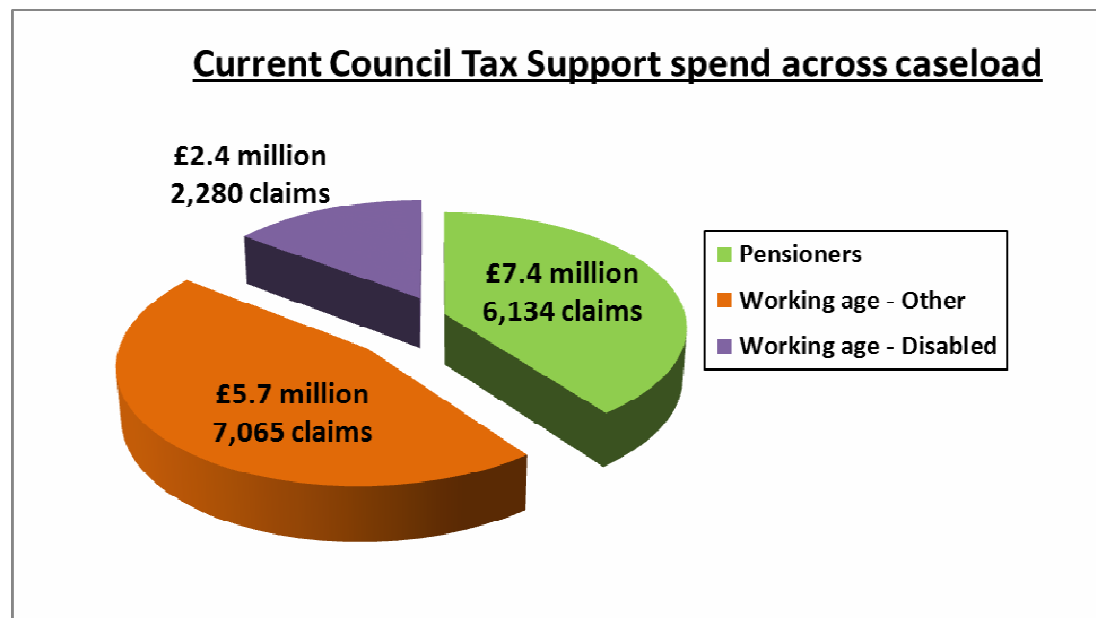
## Options to be considered via Consultation

2.13 The current Council Tax Support scheme has three groups of claimants:

1. *Pensioners – who are not affected by these changes*
2. *Working Age Disabled and War Widows Pensioners – which consists of households where the customer, a partner or a dependent child is physically or mentally disabled and receives one of the following: Disability Living Allowance, Employment Support Allowance (Support group), Incapacity Benefit, Mobility Supplement, Severe Disablement Allowance; people who are registered blind; people who live in a property which has been granted a disabled band reduction; or anyone who receives War Disablement Pension or War Widows Pension.*
3. *All other working age – this group is for people who do not fall into either of the above categories*

2.14 There are many different rules within the Council Tax Support scheme. The level of savings being considered can only be made by changing certain rules. Amending the rules will have a different effect on different groups, although this will only affect working age claimant households.

2.15 Chart 1 shows the proportion of the total Council Tax Support fund that is spent on each of these groups.



2.16 As the scheme for pensioners is legislated for, changes can only be made from other claimants groups. This means any reductions in scheme funding will come directly from the £8.1m currently awarded to the working age claimants which will result in much higher reductions for working age claimants than the 12.9% to 16% cost reduction Harrow is trying to achieve. The consultation will provide options on several schemes based on the fact

that although all categories of working age recipients will need to pay more, different models will propose:

- Changing the scheme parameters to ensure awards are more proportionate to the council tax charged for all working age claimants;
- Changing the scheme parameters to ensure that working Age Disabled claimants (and possibly War Widows Pensioners) receive slightly more generous awards with less impact on other working age groups of claimants.

2.17 The options proposed on possible schemes will, to differing extents, meet with the Government's wider policy objectives of work incentives and protecting the vulnerable. The proposed future consultation on potential schemes therefore takes into account the following principles:

- *Consideration to the Council's statutory duties and requirements to protect vulnerable residents; and*
- *Local schemes should support work incentives, and in particular avoid disincentives to move into work and;*
- *Local schemes must adhere to the nationally set prescribed requirements which include a pensioner scheme that the local authority cannot alter.*

2.18 When thinking about how different groups are affected by the Council Tax Support scheme, it is important to remember that they will have different levels of income and expenses, depending on their circumstance. Some households receive additional income because it is known they have additional costs, for example because of a disability.

2.19 When changing the Council Tax Support scheme the Council must also consider how much people can realistically afford to pay towards the Council Tax they are charged. Some households have additional incomes because of their circumstances. However, others who do not have additional income may be asked to pay proportionately more toward their council tax.

## **Conclusion / Recommendation**

2.20 Taking into account the Council's financial position, the fact that there are signs of economic recovery and more employment opportunities for those looking for work, this report recommends that the CTS scheme budget of £15.5m is reduced by up to £2.5m over a period of two to four years commencing in the financial year 2015/16. Phasing the reductions over time would allow time for claimants to adjust by receiving incremental reductions in support, in effect allowing a transitional period by reducing awards over time. As such, it is additionally recommended that members agree, after considering

whether to review the local scheme, that there is a need to review and revise the CTS scheme in place, and to authorise consultation on options for changes, so the Council can agree a revised scheme before the 31st of January 2015 .

- 2.21 The original EqIA undertaken in 2013 for the scheme and carried out at the time of consultation, highlighted the impacts on residents and provided the data on which mitigation packages were previously developed and implemented. The existing scheme supports the most vulnerable members of our community as it contains more generous provisions for protecting disabled residents. The EqIA will be updated to reflect the impact of any proposed future changes and this will be brought to Cabinet's attention when a report is brought back to Cabinet for agreement of any proposed revised schemes later in the year.

## **Consultation**

- 2.22 Should a decision be taken to make changes to the scheme, consultation will be required, both with the GLA as preceptors and the community. If a decision is taken to keep the status quo then consultation will not be carried out.
- 2.23 The process to create a revised scheme will involve complex decisions and judgements regarding which groups of claimants will face reduced support. The consultation will seek approval of the changes from the GLA (which Harrow is legally obliged to consult with) and other interested parties to ensure a revised scheme is designed and ready for implementation if subsequently agreed, commencing on 1/4/2015. The legislation requires consultation with the GLA, followed by publication of a draft scheme, followed by consultation with such interested parties as the Council sees fit. During the previous consultation to develop the scheme, the Council consulted widely with existing recipients of support and the wider community, as well as involving key representative bodies.
- 2.24 Any consultation must be carried out as soon as possible after Cabinet agreement to consult on a revision to the scheme to give adequate time for implementation by April 2015. The report seeks delegated authority for the Corporate Director of Resources, in consultation with the relevant portfolio holder, to determine the details of the draft scheme, based on the options set out in this report. As consultation is about the draft scheme and must follow publication of the draft scheme, realistically this means that the earliest opportunity to consult would be from 7<sup>th</sup> of July. It is anticipated that an 8 week consultation will take place. The consultation will be shaped through working in partnership with the multi-agency Community Reference Group, the voluntary sector being represented by organisations such as the CAB, HAD, Harrow Mencap, MIND etc). By working closely with this group, it will help the Council to ensure the scheme continues to meet the needs of the local area.

## **Legal Implications**

- 2.25 Paragraph 5 of Schedule 1A to the Local Government Finance Act 1992, as inserted by Schedule 4 to the Local Government Finance Act 2012, requires the authority to consider whether, for each financial year, the CTS scheme is to be revised or replaced. Where the scheme is to be revised or replaced the procedural requirements in paragraph 3 of that schedule apply. Any revision/replacement must be determined by 31 of January in the preceding year to the year which the changes are to apply. The council must therefore consider whether the scheme requires revision or replacement and if so, consult with the GLA, publish a draft scheme and then consult with such persons are likely to have an interest in the operation of that scheme prior to determining the scheme before 31<sup>st</sup> January. This report recommends that the scheme be revised. If any proposed revision is to reduce or remove a reduction to which a class of person is entitled, the revision must include such transitional provision as the Council sees fit.
- 2.26 Although the current scheme is under spending based on previous financial parameters, the money transferred to local authorities for this area is not ring fenced for council tax support. The Council can decide that less funding will be given to this area to enable funding to be allocated to other council priorities taking into account the financial pressures and the need to reduce costs generally.
- 2.27 The original purpose of consulting and determining a 2 year scheme was to provide certainty to claimants as to what the scheme would be for a longer period. At the end of the 2 year period, the Council would have the opportunity to reflect on the financial situation and any issues or unforeseen consequences of the scheme and consider whether revisions or a replacement scheme was required. The recommendation that for the third and fourth year of the scheme, the scheme is revised to reduce costs, is appropriate based on current claimant numbers and financial information.

## **Financial Implications**

- 2.28 Members must consider the Council's financial position and the likelihood of the Council's income decreasing year on year for the foreseeable future. In view of this, it is not a viable option for Harrow to continue funding the CTS scheme at the same level that it has done in previous years.
- 2.29 The DWP no longer subsidises CTS expenditure. Instead, from 1/4/2013, Local Authorities were given an un-ringfenced grant as part of Formula grant, to cover future CTS expenditure, but this was reduced to 90% of the preceding years' expenditure, in effect cutting support by 10%. The grant is uprated only by the same percentage as formula grant. Additionally there is no extra funding for inflationary upratings or for increases in caseload, both of which could increase CTS expenditure annually.
- 2.30 The local CTS funding is not ring-fenced and it is entirely for the local authority to determine how to spend it based on local priorities. As such it is right that Cabinet, in considering their review of the scheme, take

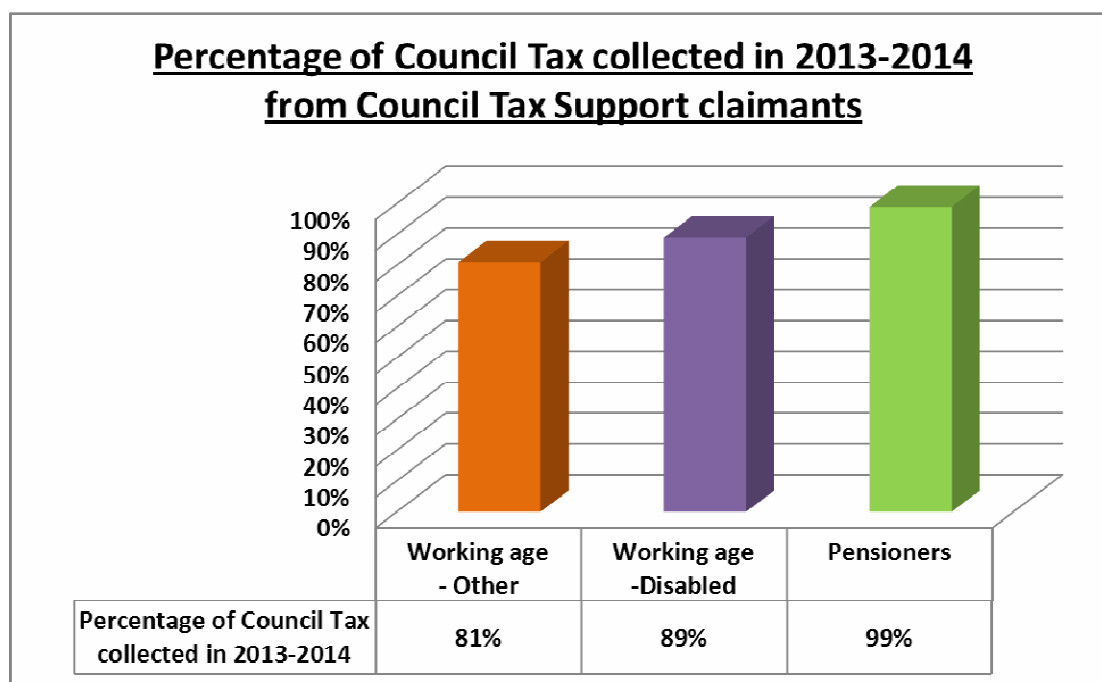


into account the financial position Harrow finds itself in and the difficult financial decisions that will need to be made.

## Performance Issues

2.31 Collection rates by claimant category has shown some groups achieving higher collection rates than others and therefore we must be mindful that any scheme revisions do not go so far as to simply swapping a lower financial CTS award for a council tax debt that is impossible to pay.

2.32 Whilst in 2013/14 an in year collection rate of 97.5% was achieved, (97.7% in 2012/13), the graph below highlights the risks regarding CTS claimants; the in year collection rate as at 31/3/2014 being much lower for this category of tax payer than the overall 97.5% achieved cumulatively for all tax payers.



## Environmental Impact

2.33 There are no direct environmental impacts.

## Risk Management Implications

2.34 The expenditure estimate assumes a static caseload benefitting from a recovering economy. There is however risk here as Harrow has proportionally less pensioners claiming CTS than the national average, and should this change, there will be an increase in expenditure due to the fact that pensioners are protected by legislation and will receive CTS awards at pre 2013/14 CTB levels with Harrow incurring additional costs as a result.

- 2.35 The effects of EU changes to work restrictions and recourse to public funds may in future also impact upon overall CTS expenditure. However this risk has been considered within the overall scheme finances.
- 2.36 We are aware that Council Tax payers will be affected, specifically those on Income Support, Job Seekers Allowance or those residents on low incomes who may be asked to pay more. As such there may be a negative impact on collection rates. But we also believe that we can mitigate the risk of non payment by
- Supporting Harrow JSA claimants into work
  - Supporting low paid Harrow residents to develop their skills (upskilling) and equip them to secure better paid work.

This will reduce demand on the Council Tax scheme. In the last two years the council's Xcite project has supported nearly 300 residents into employment and the JSA count in Harrow has dropped by 23% in the last 12 months.

Employed residents make up the lion's share of Council Tax Support claimants and it should be noted that between 2010 – 2012 the number of low paid jobs in Harrow increased by 6% resulting in a fifth of residents currently earning less than £20k p.a.

The consultation process will also ask residents if Harrow's Council Tax Support Scheme should be used to encourage people into work. Depending on the responses received, members may also be asked later in the year whether a percentage of any CTS savings should be allocated to funding a jobs broker and a skills broker to respectively support residents to enter employment. This would support residents in low pay to gain new skills and improve their ability to earn more and move away from council tax support awards. This "invest to save" program could therefore be a key mitigation to the changes with the potential that it could also be fully self-funded.

The table below shows the value to the public purse of moving claimants into employment, and the value of gaining a qualification (and skill) to citizens.

<b>Job Seeker's Allowance</b> First order fiscal benefit from a workless claimant entering work	£ 8,285
<b>Job Seeker's Allowance (Lone Parent)</b> First order fiscal benefit from a workless lone parent entering work	£ 6,776
<b>NVQ Level 2 Qualification</b> Lifetime earnings (NPV) gain for employee	£ 17,728
<b>City &amp; Guilds Level 2 Qualification</b> Lifetime earnings (NPV) gain for employee	£ 42,353
<b>BTEC Level 2 Qualification</b> Lifetime earnings (NPV) gain for employee	£ 35,138

*(source Manchester CBA toolkit)*

## Equalities implications

- 2.37 A full detailed EqIA was carried out in 2012 in relation to the CTS Scheme that was proposed and agreed. The EqIA reflected the feedback from the consultation and the multi-agency sub group that worked together with the Council to develop and design the scheme taking into account potential impacts and repercussions.
- 2.38 When making policy decisions, the Council must take account of the equality duty and in particular any potential impact on protected groups. Due regard should therefore be had to the Public Sector Equality Duty when giving consideration to a review of the scheme and the recommendations in this report. The Council's original completed equality impact assessment still applies but members should consider the potential impact of reducing the schemes funding and claimants receiving less support as a result in making their decision.
- 2.39 A consultation will aim to identify any impacts on groups with protected characteristics to inform an Equalities Impact Assessment for submission to full council with a recommended scheme.

## Corporate Priorities

- 2.40 The Harrow Council Tax Support Scheme's objectives are to support those in financial need and as such reflects the aims of our corporate priorities and will ensure we make a difference to the vulnerable.

## Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 19 May 2014		
Name: Sarah Wilson	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 5 May 2014		

## Section 4 – Performance Officer Clearance

Name: Martin Randall	<input checked="" type="checkbox"/>	on behalf of the Divisional Director Strategic Commissioning
Date: 5 May 2014		

## Section 5 – Environmental Impact Officer Clearance

Name: Venetia Reid-Baptiste



on behalf of the  
Corporate Director of  
Environment and  
Enterprise

Date: 13 May 2014

**Ward Councillors notified:**

**NO**

## Section 6 - Contact Details and Background Papers

### Contact:

Fern Silverio (Head of Service – Collections & Housing Benefits),  
Tel: 020-8736-6818 / email: [fern.silverio@harrow.gov.uk](mailto:fern.silverio@harrow.gov.uk)

### Background Papers:

None

**Call-In Waived by the  
Chairman of Overview  
and Scrutiny  
Committee**

**NOT APPLICABLE**

*[Call-in applies]*