

Committee: Finance Committee Court of Common Council	Date: 15 December 2015 14 January 2016
Subject: Council Tax Reduction Scheme	Public
Report of: The Chamberlain	For Decision

Summary

Until 2013 there was a national Council Tax Benefit scheme to assist people on low incomes with their council tax bills. This was replaced by a locally determined Council Tax Reduction Scheme (CTRS) from the financial year 2013/14. For the first year the Government defined a default scheme almost identical to the old Council Tax Benefit scheme. To protect residents on low incomes, the City Corporation adopted the Government's default scheme and subsequently has kept the CTRS in line with Government increases of benefits generally.

However, following changes to national benefits in the July 2015 budget, this will not be possible for 2016/17 and changes will be required to keep the scheme as similar to now as possible. It is obligatory to consult on any changes to the scheme and hence consultation was undertaken with all council tax payers on 2 options. Broadly speaking option 1 would protect existing claimants from possibly being worse off, although it would also limit backdating in future for new claimants and it would keep the administration of CTRS in line with Housing Benefit. Option 2 would keep the existing scheme more or less as it is now which could make some disabled claimants worse off but would continue to allow longer backdating for new claimants and would cause the CTRS to be less aligned with Housing Benefit and other national benefits.

Option 1 was recommended as it would help protect the most vulnerable City residents. The financial impact on the City Corporation would be very small with either option.

The detailed report gives greater technical information about the issue; the results of the consultation; and recommends the alteration of the current scheme to incorporate option 1 for 2016/17.

Recommendation

Members are asked to endorse the adoption of a revised Council Tax Reduction Scheme, following national benefit upratings (increases) and applying option 1 for onward approval by the Court of Common Council.

Main Report

Background

1. In 2013 the Council Tax Reduction Scheme (also known as Council Tax Support) replaced the Council Tax Benefit scheme that had existed to assist council tax payers with low incomes to pay their council tax. It is in effect a rebate from full council tax and the reduction can be any amount up to 100%. Council Tax Benefit was very closely related to Housing Benefit, using similar rules about calculating income. The change was brought about partly as a result of the Government's aim to replace Housing Benefit with Universal Credit and partly in line with the localism agenda, giving councils more discretion over the rebate scheme they offer for council tax. Since 2013 pensioners have been fully protected and their entitlement to Council Tax Reductions continues to be assessed in accordance with existing national benefit regulations. Any changes, therefore, only apply to working age claimants.
2. Prior to April 2013, the amount of Council Tax Benefit granted was wholly funded by central Government. From 2013/14 a grant was provided to local authorities, intended to be 90% of the amount of Council Tax Benefit. In the City's case, the majority of this grant was actually not paid, following a Government formula. In subsequent years no grant was paid and the council tax reduction awarded notionally formed part of the overall council tax calculation.
3. For 2013/14 it was possible to use the Government's default scheme, i.e. having a CTRS which mirrored the old Council Tax Benefit scheme and was linked to the Housing Benefit rules. Some Councils chose to adopt the default scheme and made up the 10% shortfall themselves. Those that did not use the default scheme had to consult with all tax payers and other stakeholders about their proposed schemes.
4. The City Corporation adopted the default scheme in 2013 whereby no-one was worse off than under the old arrangements and picked up the shortfall in funding. For the two subsequent years, although the default scheme technically no longer existed, the City continued with a CTRS which mirrored the Housing Benefit Scheme. Hence no consultations were undertaken but the CTRS was confirmed as part of the council tax setting procedure each year.
5. However, the July 2015 budget made changes to the "uprating" (increases/decreases) rules for Housing Benefit, by which some people (other than pensioners) could be worse off. The budget changed the increases to the amounts (applicable amounts) set by Government to reflect the basic living needs of the claimant and family that are used to assess entitlement to CTRS discount. The Government announced that the applicable amounts would be frozen for 4 years for working age claimants. However, some benefits will continue to increase such as disability pensions and some claimants could be

worse off. To prevent this happening, the local CTRS would have to change and it would therefore no longer be possible to continue with what was in effect the default scheme beyond the financial year 2015/16. There are also changes to the rules around backdating of benefit; applicable amounts for families; and non-dependant deductions (a non-dependant is someone who normally resides with the claimant on a non commercial basis, typically these are adult sons and daughters in the household).

Current Position

6. The City's current CTRS technically cannot continue beyond the end of the current financial year without a few people being potentially worse off for the reasons set out above. Although most of the scheme can be retained and the only necessary changes are highly technical, a full consultation was required by legislation in order to implement them for 2016/17. The new scheme must be set by resolution of the Court of Common Council in January 2016 to be effective for the following year.
7. The consultation has now taken place, following advice from the Comptroller and City Solicitor. It ran for a 6 week period from 12th October 2015 to 16th November 2015. All City council tax payers were consulted as well as the Greater London Authority as the major preceptor and the Temples as minor preceptors (parishes).
8. In total 5,800 letters were sent to council tax payers, offering 2 options and recommending one of them. There were 178 responses, just over 3%, of whom the majority, 140 favoured Option one; 34 favoured Option two; and 4 made comments but did not state a preference. A total of 18 comments/queries were received in writing. Some were simple comments thanking for being consulted, some were comments supplementing the response and saying that people should not be worse off under a revised scheme, a few raised queries about the costs of the scheme and there were 6 respondents who did not understand the letter or thought the options unclear. The Greater London Authority responded that they had no comments and the Inner and Middle Temple did not respond formally to the consultation.

Options

9. It is not possible to comply with the legislation and to protect working age claimants while continuing with the current CTRS so to do nothing would not be an option. A new, legal CTRS is required. Given the City has previously followed the Government's default scheme, two options were offered in the consultation which enable the existing scheme to continue with minimal change and therefore to protect existing working age claimants as far as possible. It is important to note that pensioners are fully protected and not affected by any change.

10. The two options for the future CTRS which were offered are set out below; by the very nature of benefits these had to be quite technical and detailed:

Option One:

Introduce revised applicable amounts, personal allowances, backdating and non-dependant deductions in line with Housing Benefit. The effects of this would be that:

- i. broadly speaking the claimant would receive the same amount of CTRS discount as they have done until now and as under the old Housing Benefit scheme, provided, of course, that their personal circumstances do not change;
- ii. backdating the start date of the CTRS claim would be aligned with new Housing Benefit rules; this was previously 6 months but from April 2016 will be reduced to 4 weeks. This will only affect new claims which have been made late;
- iii. where the claimant has non-dependants (generally adult sons or daughters) living in the household, the amount that the non-dependants are expected to contribute will increase in line with the prescribed scheme for pensioners to ensure that the contributions are the same whether or not the non-dependant is a pensioner or non pensioner.

Option Two:

Continue to award CTRS discount based on the current scheme, using the current rates of applicable amounts, personal allowances, and non-dependant deductions. Not make technical adjustments to the scheme to bring it in line with the prescribed scheme for pensioners and the Housing Benefit scheme. The effect of this would be that:

- i. the applicable amounts and personal allowances would remain the same and claimants could be awarded a smaller amount of CTRS discount.
- ii. Not making the technical changes to backdating and non-dependant deductions would leave CTRS misaligned with the prescribed pensioner CTRS and with Housing Benefit.

Proposals

11. Option 1 was recommended as it would protect existing claimants from reduction in CTRS and would keep the scheme more in line with Housing Benefit. It should be noted that the changes in the backdating provisions for Housing Benefit would reduce the period of backdating to 4 weeks from 6 months. The change to backdating will only affect new claimants who do not make a claim for CTRS discount at the appropriate time.

12. As Option 1 protects existing claimants better than Option 2 and of those who responded to the consultation, a clear majority, 79%, favoured this option, it is proposed that Option 1 be adopted for the financial year 2016/17.
13. The current changes proposed are technical but in time, CTRS will diverge increasingly from Housing Benefit and when Universal Credit replaces Housing Benefit, there will be nothing on which to base the local CTRS. Also, the Government has just announced a review of the operation of the council tax reduction system overall. It is proposed, therefore, that a review of the City's CTRS be undertaken during 2016/17.

Financial Implications

14. The current CTRS caseload consists of 373 households, around 5% of all council tax dwellings. Of these, 230 are working age and therefore potentially affected by the changes. There are 3 disabled households currently in receipt of CTRS discount; these are the most likely to be affected by the budget changes.
15. It is difficult to calculate precisely the effect of the two options as CTRS entitlement could change for a number of reasons not related to changes to the scheme such as change in income or household composition. However, based on current caseload, it is estimated that in total Option 1 would cost somewhere between £240 and £1,000 per annum and Option 2 between £90 and £500. The current total cost of council tax discount for 2015/16 is estimated to be £209,000, although this may fluctuate slightly over the remainder of the year. The exact amount of CTRS discount payable for 2016/2017 will depend on the number of claimants at that time and their individual personal circumstances but based on current caseload if option 1 is adopted the amount of CTRS discount would increase slightly to £210,000. Historically, the cost of CTRS has been around £250,000 but has declined in the last year.

Conclusion

16. It is concluded that the City's Council Tax Reduction Scheme should be altered in line with Option 1 above from the financial year 2016/2017 and that the Court of Common Council should be requested to set the new scheme in January 2016.

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