

# Report – Finance Committee

## City of London Corporation Council Tax Reduction Scheme

*To be presented on Thursday, 14<sup>th</sup> January 2016*

*To the Right Honourable The Lord Mayor, Aldermen and Commons  
of the City of London in Common Council assembled.*

### 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. The Government defined a default scheme which was almost identical to the old Council Tax Benefit scheme. To protect residents on low incomes, the City of London Corporation adopted the Government's default scheme and subsequently has kept the CTRS in line with Government increases of benefits generally.

However, changes were made to national benefits in the July 2015 budget and the Scheme will no longer be compliant with legislation. Changes will be therefore be required from 2016/17. As this is a change to the Council Tax scheme, approval is required from the Court of Common Council. It is obligatory to consult on any changes to the scheme and hence consultation was undertaken with all council tax payers on two options.

Option One was to introduce revised applicable amounts, personal allowances, backdating and non-dependant deductions, keeping these in line with Housing Benefit. This 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. This was the option recommended to Council Tax payers.

Option Two was to make technical adjustments to allow the current scheme to continue broadly as at present, including the current rates of applicable amounts, personal allowances and non-dependant deductions. This could make some claimants worse off and would cause the CTRS to be less aligned with Housing Benefit and other national benefits, but would continue to allow longer backdating for new claimants.

Consultation letters were sent to 5,800 council tax payers, from whom there were 178 responses. 140 of these responses favoured Option One, 34 favour Option Two and four stated no preference. Option One is therefore recommended as it would help protect the most vulnerable City residents, and was the preferred option from the consultation. Your Finance Committee agreed that this was the most appropriate option and recommends it to the Court.

It is difficult to calculate the precise financial impact on the City of London, although it will be low, with an estimated cost of Option One of between £240 and £1,000 per annum (Option Two is estimated to cost between £90 and £500).

## **RECOMMENDATION**

It is **recommended** that the Court approves the introduction of a new Council Tax Reduction Scheme, with applicable amounts, personal allowances, backdating and non-dependent inductions in line with the Housing Benefit Scheme.

## **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 of London Corporation'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 of London Corporation adopted the default scheme in 2013, meaning that 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 four years for working age claimants. However, some benefits will continue to increase 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. It is not possible to comply with the legislation and to protect working age claimants while continuing with the current CTRS, so continuing with the existing scheme was not a practical option. 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.
7. The consultation has now taken place, following advice from the Comptroller and City Solicitor. It ran for a six-week period from 12<sup>th</sup> October 2015 to 16<sup>th</sup> November 2015. All City of London 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 two 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 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 six 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 Temples did not respond formally to the consultation.

### **Options**

9. As set out above, 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 of London Corporation 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 have to be quite technical:

#### 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:

- broadly speaking, claimants are likely to 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);
- 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;
- 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, but 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:

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

#### **Proposals**

11. Option One was recommended to Council Tax payers as it would protect existing claimants from a 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 from six months to four weeks. 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 One protects existing claimants better than Option Two 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. In time it is likely that CTRS will diverge increasingly from Housing Benefit. 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 CTRS 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. This caseload is subject to fluctuation as entitlement could change for a number of reasons not related to changes to the scheme, such as change in income or household composition
15. 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. 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, as stated above. However, based on current caseload, it is estimated that in total Option One would cost somewhere between £240 and £1,000 per annum and Option Two between £90 and £500.

#### **Conclusion**

16. It is therefore **recommended** that the Court approves the introduction of a new Council Tax Reduction Scheme, with applicable amounts, personal allowances, backdating and non-dependent inductions in line with the Housing Benefit Scheme.

All of which we submit to the judgement of this Honourable Court.

DATED this 15<sup>th</sup> day of December 2015.

SIGNED on behalf of the Committee.

**Roger Arthur Holden Chadwick**  
Chairman, Finance Committee