

Report to the Cabinet

Report reference: C-052-2015/16
Date of meeting: 3 December 2015



Portfolio: Finance

Subject: Local Council Tax Support Scheme 2016/17

Responsible Officer: Janet Twinn (01992 564215).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) That Cabinet note the responses to the consultation on the scheme for 2016/17;
- (2) That the scheme be amended to reduce the maximum liability percentage for people of working age from 80% to 75%; and
- (3) That a minimum income floor for self-employed people of working age be introduced into the scheme.

Executive Summary:

As part of the major changes to the Welfare Benefits system, from 31 March 2013 Council Tax Benefit ended and was replaced by a new scheme called Local Council Tax Support (LCTS). A key principle of the scheme was the protection of people who are of an age where they can claim Pension Credit. The Government introduced Regulations to ensure that pensioners who previously received Council Tax Benefit have continued to receive the same level of assistance they had prior to LCTS being introduced.

The Pan Essex LCTS project group, comprising of all the billing authorities and the unitary authorities in Essex, was created in January 2012 to devise a modular approach upon which all Essex authorities could base their local schemes according to local needs. The precepting authorities of Essex County Council, Essex Fire Authority and Essex Police have been involved from the beginning of the project. The project is managed by the Benefit Managers under guidance from the Essex Finance Officers Association.

Council approved the Epping Forest LCTS scheme for 2013/14 in December 2012, and, since that first year, the scheme has remained unchanged. On 23 July 2015, Cabinet approved the general principle that the Local Council Tax Support scheme for 2016/17 should aim to be cost neutral for the Council and that public consultation should be undertaken on certain elements of the scheme. Consultation on the 2016/17 scheme was undertaken from 27 August 2015 to 11 October 2015. Following the consultation period Members now need to approve the scheme for 2016/17 and decide whether the scheme should remain in its current form for 2016/17 or whether any amendments should be made.

Reasons for Proposed Decision:

If any changes are to be made to the current scheme either for financial or other reasons, full Council needs to approve the final scheme on 15 December 2015.

Due to reductions to Government funding, the cost to the Authority of the LCTS scheme is

increasing and, if the aim is to make the scheme as cost neutral as possible, changes will need to be made to the scheme for 2016/17. It is therefore proposed to reduce the maximum percentage of the Council Tax liability that is included in the calculation of LCTS entitlement for people of working age.

It is also proposed to have a minimum income floor for self-employed people who have established their business but declare income that is below the national living wage. This change is in line with how income from self-employment is treated in Universal Credit.

Other Options for Action:

If the Council does not approve any amendments to the scheme by 31 January 2016, the existing scheme will have to continue.

Report:

Proposed Local Council Tax Support scheme 2016/17

1. In 2013/14, the Government funded LCTS with a specific grant, but after that initial year, the funding has been rolled into the Council's overall funding position made up of Revenue Support Grant and locally retained business rates. The specific allocation for LCTS funding is therefore not identifiable, but the overall package has been reducing each year and will reduce again in 2016/17. The Department for Communities and Local Government have stated that Members will need to decide on the value of the funding to be used for LCTS.

2. After operating the same scheme for three years, it is proposed that the scheme should be changed for 2016/17 as the cost of the scheme is exceeding the funding allocated to the scheme.

3. The Pan Essex LCTS project group has been looking at how schemes can be changed to both simplify the administration of the schemes and to make further cuts in expenditure on the schemes. However, there are several issues that need to be considered if schemes were changed significantly from the current means testing schemes. The future is uncertain for the benefits provision within Local Government and, whilst local authorities still have Housing Benefit and a specified means testing scheme for people of pensionable age, it is not appropriate to significantly change how LCTS is administered and calculated.

4. Consultation was undertaken to specifically look at proposals to reduce expenditure and administration on the current working age scheme. The two specific issues were to seek views on changing the maximum percentage that people of working age can receive from the current 80%, and the introduction of a minimum income floor for people who are self-employed.

5. Currently, the total expenditure on LCTS is £6,644,000, which is made up of £3,743,000 for elderly recipients and £2,901,000 for working age recipients. It was originally anticipated that expenditure on the current scheme would total £6,741,640 for 2015/16 and therefore there is an underspend which is primarily due to a decrease in the caseload. The total number of recipients of LCTS has fallen from 7612 in April 2015, to 7360 in October 2015, a reduction of 252 in seven months. If this trend of a reduction in the caseload continues, there will be a reduction in LCTS expenditure to offset against the cost of the scheme, but it will not be sufficient to offset the full cost.

6. The grant used to fund the scheme for 2015/16 is £5,806,663 and there is therefore a current shortfall of £837,337. Based on the current caseload, if the scheme was not changed, the expenditure in 2016/17 will be in the region of £6,587,000. As the grant is expected to reduce by 10%, the shortfall for 2016/17 is likely to be in the region of £1,361,000 unless the scheme is changed to reduce expenditure. The current caseload has a 50% split between 3669 people of pension age and 3691 people of working age, although the expenditure for people of pension age is far greater. However, if changes are to be made to the LCTS

scheme, people of pension age are protected and therefore changes can only be made to the 50% of the caseload relating to people of working age.

7. If the scheme is changed to achieve further savings, a change to the maximum percentage of 80% for working age recipients would achieve approximately £40,800 savings per 1% reduction. A reduction in the maximum percentage to 77% would therefore mean that the cost of the scheme would be in the region of £6,465,000, whilst a reduction in the maximum percentage to 75% would mean that the cost of the scheme would be in the region of £6,383,000. It is therefore proposed to decrease the maximum percentage used for calculating Local Council Tax Support for people of working age from 80% to 75%, to make savings of £204,000.

8. As the major impact of any further reduction in LCTS will be on low income working age families, there is a risk of a reduction in the collection rate should this group be asked to pay considerably more towards their Council Tax. With the Government Welfare Reform initiatives that are ongoing, it is this same group who are most affected by the social sector under occupancy rule, benefit 'capping' and Tax Credit changes. If there is a significant reduction in the amount of support, there will become a time where people who were paying their Council Tax, albeit that it was difficult for them, will not pay at all because the total amount is impossible for them. The savings outlined above can only be achieved if those sums can be collected.

9. If the maximum percentage is reduced to 75%, based on the Council Tax for the current year, the amount of LCTS would be reduced by approximately £1.15 (£0.85 if claiming a single resident discount) per week for a band B property, £1.30 (£0.97 if claiming a single resident discount) per week for a band C property and £1.45 (£1.10 if claiming a single resident discount) per week for a band D property. It will be these amounts that people in receipt of LCTS will have to pay in addition to the amount that they are paying under the current scheme.

10. Although there are different demographics throughout Essex which have given rise to slightly different schemes for the Essex Authorities, a maximum percentage of 75% is comparable with other Essex Authorities. For 2015/16, 1 Authority had a maximum of 70%, 3 had a maximum of 75%, 1 had a maximum of 76%, 1 had a maximum of 77%, 7 had a maximum of 80%, and 1 had a maximum of 87.5%. However, all the Authorities are currently considering whether changes should be made

11. Predicting the costs of the LCTS scheme for 2016/17 is difficult because the impact of proposed Tax Credit changes is unknown. The Government has announced their intention to reduce the Tax Credit bill but there will be an effect on the cost of LCTS to Local Authorities. As LCTS entitlement is means tested, if a claimant's income decreases due to a reduction in the amount of Tax Credits that they receive, the amount of LCTS that they receive will increase. The cost to the Authority will therefore increase. During the previous three years, we have seen savings to the LCTS scheme that have arisen because the economy has improved and there are less people relying on state benefits. Although that trend may continue, it is unlikely to fully offset the additional cost to the LCTS scheme by people who receive a reduced amount of Tax Credits.

12. A further proposed change is in relation to working age claims where either the claimant, the partner, or a non-dependant is self-employed. The Universal Credit Regulations provide that there is a Minimum Income Floor where a person is self-employed. This means that if their declared earnings from self-employment are below the National Living Wage of £7.20 per hour for workers aged 25 or older, or the National Minimum Wage levels for workers under 25 years, it is the National Living Wage/National Minimum Wage rates that are used in the calculation of Universal Credit. Self-employed claims are the most difficult and time consuming to calculate as many people do not have audited accounts, and, in many cases have very few records at all. The Benefit Assessment Officers have to act as an Accountant using whatever evidence is available, but ultimately it is very difficult to verify any income and expenditure details for the self-employed. It is not uncommon for a Benefit

Assessment Officer to spend up to half a day assessing just one self-employed claim. However, if our LCTS scheme is changed to introduce the Minimum Income Floor for self-employed, the administrative burden on the Authority would be greatly reduced, and it would be aligning our scheme with other Government Welfare Reforms. Universal Credit is currently due to commence roll-out in the Epping Forest District in February 2016 and therefore it is appropriate to introduce this change to our Local Council Tax Support scheme from April 2016 to provide a consistent approach to Welfare Reform.

13. For people who are starting new businesses, it is proposed that the Minimum Income Floor would not apply for the first year of the business. This gives the person the opportunity to assess whether their business is financially viable or not. For those who have an established business and declare income from self-employment that is below the Minimum Income Floor, either the National Living Wage rate or the National Minimum Wage rate will be used in the calculation of LCTS for the number of hours that are worked. There are currently about 300 claims where someone in the household is self-employed. About 65% of these have declared earnings below the hourly rate of £7.20. There will therefore be some savings to the LCTS scheme through the introduction of the Minimum Income Floor but it is not possible at this time to be able to give an estimated value. However, the main objectives are to provide a consistent approach to Welfare Reform and to reduce the administrative burden on the Authority.

14. The draft scheme for 2016/17 is shown in appendix 1. The scheme already allows for the annual uprating of premiums, allowances and non-dependant deductions that are used in the calculation. The scheme cannot be finalised until both the Uprating Order from the Department for Work and Pensions, and the Prescribed Requirements Regulations from the Department for Communities and Local Government, are laid before Parliament. These are expected to be late in November / early December.

15. When changes are made to LCTS schemes, Authorities are required to be mindful as to whether transitional protection should be applied to protect current recipients from reductions in entitlement, but this is not considered appropriate for the proposed changes. To apply transitional protection would not achieve significant savings as the expenditure on existing claims would remain the same and would not allow for any savings to be achieved, other than from LCTS for new claimants. The maximum percentage would therefore need to be set at a much lower level than 75% for new claimants. In addition, the monetary value for each claimant is not significant enough to justify transitional protection but, in the few cases where hardship may be caused, the Exceptional Hardship Payment scheme is available. A further consideration is the additional administrative burden of running two different schemes, one for people claiming before April 2016, and a different scheme for those claiming after April 2016.

16. The changes to the LCTS scheme will be publicised and current recipients of LCTS who will be affected by the changes will be notified in advance to give them the opportunity to budget for the reduction in LCTS.

Consultation

17. If changes are to be made to the current scheme, we must consult on those changes with the major preceptors (County Council, Police & Fire Authorities) and the public. This includes any changes to make the scheme more beneficial to certain groups as this may have a negative impact on other groups, including taxpayers that do not receive any LCTS. Essex County Council finance officers regularly attend the Pan Essex LCTS project group meetings and the Police and the Fire Authority are invited and receive minutes of all the meetings. The Pan Essex Benefit Managers report to the Essex Finance Officers Association where representatives of all the major preceptors are usually in attendance. The Essex Finance Officers Association in turn reports to the Essex Strategic Leaders Forum. The major precepting authorities have therefore been consulted and have indicated that they will not object to the schemes.

18. Consultation with the public was carried out from 27 August 2015 to 11 October 2015. The consultation was asking for views specifically on retaining the current scheme for 2016/17, whether the maximum percentage should be changed and whether a Minimum Income Floor for the self-employed should be introduced. The consultation also included questions concerning the funding of the LCTS scheme.

19. The other Essex Authorities have been undertaking their own consultations during a similar period. The consultation process was the same as in the previous three years where each Authority has published information on their proposals on their website with a link for responses to Essex County Council who have co-ordinated the responses. Essex County Council also publicised each Authority's consultation on their own website. People who do not have access to the internet or who wished to give a more detailed response were able to do so directly to the Council. In addition to the website, posters were displayed in the Council offices and leaflets advertising the consultation were sent with 1000 Council Tax bills sent during the consultation period.

20. A total of 43 responses were received to the consultation which, although disappointing, is a similar number to previous years where 58 responses were received for the 2015/16 consultation and 41 responses for the 2014/15 consultation. The number of responses is in keeping with other Essex Authorities who have also had a similar number of responses. The only exception has been Uttlesford DC who had over 1000 responses and was due to their Council newsletter being delivered to all their households when their consultation opened.

21. The results of the consultation are shown in Appendix 2. The results do show that a much larger number of people viewed the consultation but then chose not to respond. It could be surmised that they are satisfied with the proposals in the consultation as they did not have strong views against the issues in the consultation. Overall the responses to the consultation that were received did not highlight any issues that would give cause to reconsider the two proposed changes.

Resource Implications:

LCTS scheme for 2016/17:

From 2014/15 the funding has been rolled into the Council's overall funding position made up of Revenue Support Grant and locally retained business rates. The actual amount of funding for LCTS is therefore not identifiable within the settlement figures, although the overall package continues to be reduced. In view of the decrease in the caseload, a level of savings can be achieved but these will be more than offset by an increase in LCTS expenditure following reductions in Tax Credit. Changes do need to be made to the scheme if it is to be self funding as far as is possible, but even the proposed changes will still leave a shortfall which the Council will need to finance.

The LCTS scheme needs to be designed to ensure, as far as possible, stability and sustainability in the Council's finances. LCTS is not a benefit and it is treated as a discount within the Council Tax calculations. This means that the Council's taxbase will reduce (as will the taxbase for all other preceptors) but the funding from the Government will cover a large proportion of the lost Council Tax income.

Exceptional Hardship Fund: For the last three years there has been a small hardship fund to assist households which have been experiencing exceptional hardship. It is anticipated that the current year's budget for this fund will be adequate. The County, Fire and Police are all contributing towards this fund and they have agreed that they will continue with those contributions for 2016/17.

Legal and Governance Implications:

There is a legal requirement to make a LCTS scheme under the Local Government Finance

Act 2012

Safer, Cleaner and Greener Implications:

There are no specific implications.

Consultation Undertaken:

Consultation has been undertaken with ECC, the Police and Fire authorities and the public. The results are detailed in this report.

Background Papers:

Council report 16 December 2014

Cabinet report 23 July 2015

Risk Management:

There are a number of financial risks associated with the LCTS scheme. Monitoring against the taxbase and collection is continuing but no major problems have been identified to date. For the last three years, LCTS expenditure has shown an underspend with regard to anticipated expenditure which has been due to the caseload continuing to reduce. However, the change to Tax Credits is likely to reverse this trend as people with reductions to one income stream will be compensated through other benefits and LCTS.

Consultation:

Consultation on LCTS has been undertaken as outlined in the Welfare Reform Act 2012.

Demand Risk:

The Government grant in 2015/16 is not clearly identifiable and there is a possibility that demand and eligibility for financial support under the LCTS scheme for 2016/17 may be greater than in 2015/16, particularly if economic conditions worsen. The cost of additional discounts would be borne in proportion by the major precepting authorities (ECC, Police, Fire, EFDC). Conversely if demand falls (e.g. if economic conditions improve), the additional saving would be realised by the same authorities.

Inflation risk:

Any increase in the Council Tax by County, Police, Fire, District or parishes, will result in the cost of the LCTS scheme increasing.

Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

Local Council Tax Support Scheme

Background: The Local Council Tax Support Scheme is designed to help those of working age on a low income. If any changes are to be made to the Council's existing scheme, consultation must first be undertaken.

Report:

Any reduction in the amount of Local Council Tax Support payable is likely to impact on families with children of school age or disabled people who are more likely to have a fixed or lower income, and claimants from ethnic minorities whose families tend to be larger

If the level of Council Tax liability increases above affordable levels, there is a risk that people may have to leave their homes and move to cheaper properties, which may be some distance away. For children of school age this may mean they have to change schools which may cause disruption to their education; for disabled people this may mean that they are separated from their friends and families who may provide support and assistance to their daily lives; and for people from ethnic minorities who may also be separated from their extended families. Some recipients may get into debt.

There are just under 3700 people of working age who would be affected by changes to the current scheme. These include families with school age children, people with disabilities and people from ethnic minorities.

A number of measures are being taken to mitigate the potentially negative impacts of the scheme:

- Consultation has not been restricted to certain groups. Anyone was able to respond, including local taxpayers who are not LCTS recipients, and any organisation who provides support to vulnerable people.
- Consultation included seeking views on using different sources of funding for the scheme as an alternative to reducing entitlement.
- Additional resources have been directed towards people affected by providing them with information about alternative housing and help with financial management, as well as help and advice with payment plans to pay their Council tax liability.
- The scheme spreads the changes as widely as possible to reduce inequalities;
- The Exceptional Hardship Fund will assist people with the most exceptional circumstances.

Equality of opportunity is built into the system via The Exceptional Hardship Fund. Premiums for children and disabled persons are included in the calculation of entitlement, which provide some additional support to these groups.