

ROTHERHAM BOROUGH COUNCIL – REPORT TO CABINET

1.	Meeting:	Cabinet
2.	Date:	16th October 2013
3.	Title:	Council Tax Reduction Scheme for 2014-2015
4.	Directorate:	Resources

5. Summary

This report provides details of the operation of Rotherham's Council Tax Reduction Scheme (CTRS) for the financial year 2013/14 and outlines the policy options available to the Council in order to help determine the nature and scope of its 2014/15 Scheme. Each Council is required by legislation to formally determine and approve its CTRS on an annual basis for implementation from 1st April. In essence, the authority must decide whether to retain the current scheme or alternatively consult on a new local scheme which, for example, could set a different minimum contribution percentage from claimants.

6. Recommendations

Cabinet are recommended to:

- **Retain the current Council Tax Reduction Scheme and Empty Property Discounts for 2014/15;**
- **Confirm that the loss of CTRS transitional funding be addressed in the MTFS as part of Council's overall funding shortfall.**

7. Proposals and Details

- 7.1 Prior to April 2013, Council Tax Benefit (CTB) was an income related benefit administered by local authorities on behalf of the Department for Work and Pensions (DWP). The cost of benefits awarded was met **in full** by grant from the DWP. From April 2013, CTB was abolished and replaced by a locally determined and administered discount scheme – **the Council Tax Reduction Scheme (CTRS)**. CTRS operates as a discount on the Council Tax charged by an authority rather than being a benefit payment. Pensioners are protected under the scheme and, provided their financial circumstances do not change, they will see no change in the Council Tax support that they receive. This means that the scheme only applies to working age claimants who under Rotherham's CTRS that was approved by Full Council in January 2013, are required to contribute a minimum 8.5% of their Council Tax liability from the 1st April 2013.
- 7.2 **Council Tax empty property discounts** - alongside the introduction of CTRS from April 2013 the Government allowed authorities increased local discretion with respect to the Council Tax Discounts and Exemptions granted for empty properties and second homes.
- 7.3 The Government indicated that they expected changes to empty property discounts would allow Local Authorities to raise additional income to mitigate the reductions in CTRS funding and minimise the amount that would be passed on to CTRS claimants.
- 7.4 The discounts adopted by Rotherham for 2013/14 were:
- A full charge for second homes;
 - A 25% discount for homes undergoing major structural repair;
 - A 25% discount for vacant and unfurnished properties in the first 6 months;
 - A full charge for vacant and unfurnished properties between 6 months and two years;
 - An additional 50% premium charge for vacant and unfurnished properties over two years.
- 7.5 **Government funding for CTRS** - Unlike CTB, CTRS is not fully funded by the Government. The Council's £17.5m grant allocation for 2013/14 (which now forms part of the Council's Central Government Funding Settlement rather than as previously a specific grant) is 90% of the DCLG's estimated cost of all former CTB payments for 2013/14. The South Yorkshire Police and Fire and Rescue Authorities also receive funding in respect of CTRS.
- 7.6 The design of Rotherham's CTRS for 2013/14, which set the maximum available support for all working age claimants at 91.5%, requiring a minimum contribution of 8.5% of their Council Tax liability, met the Government's qualifying criteria for Transitional Grant of £0.468m in 2013/14. The Council

estimated that the funding shortfall in 2013/14 after, allowing for Council Tax Freeze Grant and Transitional Grant was in the region of £3.0m.

7.7 It was estimated that the funding shortfall in 2013/14 would be met by an additional Council Tax income of £2m generated by changes to empty property discounts leaving approximately £1m to be passed through to working age CTRS claimants.

7.8 **Operation of the Council Tax Reduction Scheme and Council Tax Discount Changes in 2013/14** - The introduction of the CTRS, changes to Council Tax empty property discounts and other welfare reforms have had a significant impact on both claimants and the Council's Revenues and Benefits Service including:

- An additional 16,000 claimants who have either been required to pay Council Tax for the first time or have seen their payments increase.
- A substantial increase in customer contact with the service, with telephone call numbers up 32% overall and 47% in respect of those having difficulty paying.
- A significant rise in Council Tax payment default with an 80% increase in the numbers of both reminders and summonses issued and a 57% increase in cases being taken to Magistrates' Court for non-payment. It is estimated that the Revenues and Benefits service (non-staffing) costs will increase by c£50k in 2013/14, due to increased printing, postage and Magistrates' charges as a result of higher default levels.
- An increase in the levels of customer contact and payment default has led to a reduction in the Revenues and Benefits service's capacity to carry out its other functions such as; billing, benefit assessment and debt collection. To address this, the Government's new burdens funding has been used to temporarily supplement the service's capacity.

7.9 In spite of the above it is considered that the transition to and implementation of the current CTRS and CT discount changes has been managed and operated smoothly drawing only very limited adverse publicity / customer complaints unlike other welfare reform changes e.g. bedroom tax and the benefits cap. Although collection rates are marginally down compared to previous years (as is also the experience in benchmark authorities) it is estimated (at this stage) that the challenging 97% collection rate that has been budgeted for should be achieved. In addition, the Council has avoided some of the problems encountered by other authorities with larger CTRS contribution levels where, for example, large demonstrations against the scheme have been made at court hearings which have attracted substantial press coverage.

7.10 The achievement of this relatively smooth transition can be largely attributed to the minimum contribution level in the Council's scheme being kept at 8.5% (less than many authorities locally and nationally). This has meant that, although many claimants are being required to pay Council Tax for the first time, the amount that they pay has proved manageable despite their limited

income. For example 12.5% of working age claimants having already paid in full for the year. Additionally, the relatively low contribution level has allowed the Revenues and Benefits Service to exercise greater flexibility in resolving claimant's payment requirements which has prevented many from appearing in Magistrates Court and incurring additional costs.

7.11 **CTRS Policy Options for 2014/15** – The Council is required to review its CTRS annually, determine its approach going forward and decide whether to retain the current scheme or alternatively consult on a new one which could incorporate a different minimum contribution percentage or revert to the Government's Default Scheme.

7.12 Resulting from the Government's Spending Review announcements in late June it has become clear that the Government will no longer be providing its CTRS Transitional Grant funding as in 2013/14. To this Council this represented £468k, which was used to offset the reduction in Government funding referred to in paragraph 7.5.

7.13 It is estimated that the funding shortfall in 2014/15 will be £3.4m based on current workloads – the increase in the shortfall from £3m is largely a result of the loss government funding, principally the CTRS Transitional Grant.

7.14 Assuming that the Council does not wish to have the Government default scheme imposed on it and will continue to have its own local scheme, the process for the Council therefore starts with the decision:

- **Does the Council wish to continue the current level of support for claimants?** (i.e., the Council will continue to set the maximum available support for all working age claimants at 91.5% requiring a minimum contribution of 8.5% of their council tax liability)

7.15 **This policy option gives rise to two further questions:**

- **If the same scheme to the existing one is adopted – how does the Council want to meet the shortfall in funding?** Ultimately, a local authority may decide to use a single approach or a combination of actions in order to offset the funding gap. It is likely, given the potential scale of the challenge, that a combination of policy options, as in 2013/14, will be needed. This is discussed further in the Paragraphs 7.16 to 7.21.
- **If any of the shortfall in funding is passed onto claimants – are there any other groups (other than pensioners, for example, disabled people, families with children) that it considers should be protected and how would this be funded?**

7.16 The Council's current Medium Term Financial Strategy (MTFS) assumes that the indicative CTRS funding shortfall will be met by a combination of:

- Continuing to support working age claimants up to a maximum of 91.5% of their Council Tax Liability;
 - Continuing to use the additional income from changing the CT discounts for empty dwellings and second homes to offset the CTRS funding shortfall; and
 - Absorbing the loss of CTRS transitional funding as part of Council's overall funding shortfall.
- 7.17 Under the current 8.5% minimum contribution level, and assuming no Council Tax rise in 2014/15, a CTRS claimant in a Band A property (with no parish precept or other discounts) would be expected to pay a minimum £81.39 per year or £1.56 per week. Each 1% increase in minimum contribution would mean a £9.58 per year increase in Council Tax which would equate to a 12% increase in a CTRS claimant's 2014/15 bill. In overall terms, this level of increase would yield an additional estimated £115k in CT income before losses on collection.
- 7.18 The current collection rate for CTRS claimants (27% as at July) is currently substantially below those of non-CTRS cases (43% as at July) – these differing collection rates were expected and are likely to further widen as the current collection rates for those liable under CTRS are artificially inflated due to 12.5% of those liable paying in full at the beginning of the year. It is considered that increasing the minimum % contribution would further increase levels of default, court action and losses on collection. Those currently managing to maintain payment of relatively low instalment amounts may find themselves no longer being able to do so if this increases. Emerging evidence from other authorities is showing that those councils that have set a higher minimum contribution level are experiencing a more significant increase in default levels and as a result could potentially see a far greater overall reduction in collection rates by the year end.
- 7.19 In addition, many CTRS claimants are being adversely affected financially by the impact of other welfare reform changes introduced by this government which affect benefits administered by both DWP e.g. incapacity benefits and those locally such as the “bedroom tax” and the benefits cap. Furthermore, the planned national roll out of Universal Credit will have substantial impact on many claimants ability to budget, as their benefit will be paid monthly in arrears. For these groups a further reduction in CTRS support may have serious financial implications on their ability to pay increased council tax contributions.
- 7.20 Any change to the Council's CTRS would additionally require a further consultation process, which would need to start immediately in order for the new scheme to be in place in time for 2014/15. Prior to the adoption of the 2013/14 CTRS, the Council undertook a consultation process including: press adverts, letters, SMS/text, emails and presentations to the community. This was followed by a programme of staff training and further promotion to claimants. The estimated cost of this was in excess of £40k and a similar exercise would be required if a change to CTRS was to be considered.

7.21 **Change Council Tax empty property discounts.** In setting the local CT discount rates for empty and second homes as described in paragraph 7.4 the Council now has only limited flexibility to further change these rates. Primarily it could:

- **Remove the 25% discount for homes undergoing major structural repair** – this could potentially yield additional CT income of £41k before any losses on collection which are likely to be high. Removing it may also dissuade developers from taking on derelict properties to return them to occupation which could have a negative impact on the authorities New Homes Bonus allocation.
- **Remove the 25% discount for vacant and unfurnished properties in the first 6 months** – this could potentially raise additional Council Tax income of £371k before losses. Collection rates for properties empty for the first six months have been low since the 100% discount was removed. Over 15% of those affected by this particular discount change have been CTRS claimants who are liable for the periods when they have the tenancy but are not in occupation and are therefore unable to apply for CTRS. For these CTRS claimants, a short period of liability for an empty property can equal a full year's liability when in occupation. Landlords have also expressed concern that the removal of the 100% discount would not allow them sufficient time to do required repairs and maintenance between tenants or seek a new tenant.

8. Finance

The estimated cost of running the current CTRS scheme in 2014/15 is £21.3m of which the Council and Joint Authorities are expected to receive government funding of £17.9m paid through their financial settlements, albeit this source of funding is not specifically identified in the settlements. This funding takes account of the loss of Transitional Grant previously referred to in paragraph 7.12 of this report. The Council is therefore facing a potential funding shortfall of £3.4m.

The Council's current MTFS assumes that this expected cost would be funded by a combination of:

- Continuing to support working age claimants up to a maximum of 91.5% of their Council Tax Liability;
- Continuing to use the additional income from changing the CT discounts for empty dwellings and second homes to offset the CTRS funding shortfall
- Absorbing the loss of CTS transitional funding as part of Council's overall funding shortfall

9. Risks and Uncertainties

Although collection rates are expected to be marginally down compared to previous years, it is estimated that the 97% collection rate that has been budgeted for will still be met. However, there remains a risk that the continuing impact of welfare reform and the transitional roll out of the Universal Credit from October 2013 will result in further reduced income levels amongst working age claimants, which in turn could place even more pressure on Council Tax collection rates.

Any future increase in the number of CTR claimants would increase the cost to the authority of the scheme, which would be the case whether the current minimum payment is retained or increased. We have however seen a slight 3.1% fall in CTRS claims since the beginning of the current financial year however there is no certainty that this trend will continue.

The risks to the authority of amending CTRS to provide less support for claimants or of reducing empty property discount levels further are:

- Reduced collection rates as more tax payers, particularly CTRS claimants, may find themselves unable to pay increased Council Tax bills and are taken to court;
- The anticipated increased default levels would cause a capacity issue for the part of the service dealing with income collection. An increased level of default cases, as has been experienced with the 2013/14 changes, reduces the resource that can be allocated to chasing each debt, including non CTRS claimants, and this results in reduced income collection performance.
- Any changes to the current CTRS would require consultation which would have to adhere to tight timescales to enable the changes to be adopted by full Council in time.

10. Policy and Performance Agenda Implications

Amending CTRS scheme to provide less support for claimants or reducing further empty property discounts is expected to increase the rate of default on payments and of customer enquiries, which will in turn cause a capacity issue for Revenues and Benefits in collecting debt and performing its other functions.

Performance levels could be substantially reduced in the areas of customer telephone service, benefit assessment, billing and income collection and the service may be unable to carry out future income generation initiatives such as the SPD review.

The Full Council must adopt the 2014/15 CTRS by 31st January 2014 otherwise the Council will have to adopt the Government's default scheme.

11. Background Papers and Consultation

2013/14 Published CTRS Scheme

Contact Name:

Stuart Booth (Director of Finance), email: stuart.booth@rotherham.gov.uk Tel No: 22034

Robert Cutts (Service and Development Manager, Revenues and Benefits, email: robert.cutts@rotherham.gov.uk Tel No: x23320