

ROTHERHAM BOROUGH COUNCIL – REPORT TO CABINET

1.	Meeting:	CABINET
2.	Date:	24th September 2014
3.	Title:	Council Tax Reduction Scheme for 2015/16
4.	Directorate:	Resources

5. Summary

This report provides details of the operation of Rotherham's Council Tax Reduction Scheme (CTRS) for the last 16 months since April 2013 and outlines the policy options available to the Council in order to help determine the nature and scope of its CTRS for 2015/16. Legislation requires the Council to determine and approve formally its CTRS on an annual basis. Essentially, the authority must determine 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:

- Note the contents of the report and;**
- Consider the policy and financial options available to the Council in respect of determining and approving a CTRS for 2015/16.**

7. Proposals and Details

- 7.1 **Background** - 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). A grant from the DWP met in full the cost of benefits awarded. In April 2013 CTB was abolished and replaced by a locally determined and administered discount scheme - **the Council Tax Reduction Scheme (CTRS)**.
- 7.2 Rather than being a benefit payment CTRS operates as a discount on the Council Tax charged by an authority. Local CTR Schemes are required by statute to protect pensioners and, provided their financial circumstances do not change, there will be no change in the Council Tax support that a pensioner receives. Working age claimants do not receive any such protection and authorities can require a contribution towards Council Tax from these claimants. Currently working age claimants in Rotherham are required to contribute a minimum 8.5% of their Council Tax liability and this has been the case since the scheme was introduced in 2013/14.
- 7.3 **Government funding for CTRS** - Unlike CTB, CTRS is not fully funded by the Government. The initial grant allocation for 2013/14 of £17.5m represented 90% of the DCLG's estimated cost of all former CTB payments. In addition, the design of Rotherham's CTRS which set the maximum available support for all working age claimants at 91.5%, (requiring a minimum contribution of 8.5% of Council Tax liability), met the Government's qualifying criteria for one-off Transitional Grant of £0.468m in 2013/14.
- 7.4 This year Central Government support for CTRS has been further reduced; firstly the Transitional Grant (£0.468m) has been discontinued and secondly, funding for Council Tax Support was merged with the Council's Central Government Funding Settlement rather being paid as a specific grant as it was in 2013/14. Although Ministers have asserted that the grant has not reduced, if it is assumed that funding for CTRS has declined in line with the overall settlement total, then it is estimated that the original £17.5m allocation for 2013/14 was reduced to £15.4m in the current year and is projected to fall further to £12.8m in 2015/16. The reduction in total settlement funding has been reflected in the Council's MTFS.
- 7.5 The current estimated cost of the CTRS is £21.3m of which Rotherham's share is £18.3m (the remaining £3m relates to the Police and Fire Precepts). Allowing for the decline in government funding for CTRS outlined above, the estimated shortfall in funding is currently £2.8m and will grow to £5.5m for 2015/16. The 2014/15 Revenue budget and the current MTFS assume that the Council will:
- Continue to support working age claimants up to a maximum of 91.5% of their Council Tax Liability;
 - Continue to generate income from the changes to CT discounts for empty dwellings and second homes; and
 - Treat the continuing decline in Government funding for Council Tax Support as part of the overall reduction in government grant and a corporate pressure.

- 7.6 **CTRS Policy Options for 2015/16** – The Council is required to review its CTRS annually and decide whether to retain the current scheme or alternatively introduce a new CTR scheme which could incorporate a different minimum contribution percentage for working age claimants (the protection of pensioners is mandatory).
- 7.7 If the Council does choose to change its CTRS it is required by the 1992 Local Government Finance Act to undertake a consultation with major preceptors (the Police and Crime Commissioner and the Fire and Rescue Authority) followed by public consultation. Minor adjustments to the scheme to mirror DWP and DCLG provisions would not require consultation.
- 7.8 The process for the Council therefore starts with the decisions:
- **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). And
 - **Does the Council wish to revise its Empty Property and Second Home Council Tax Discounts?**
- 7.9 **Experience to date:** - It is considered that the implementation of the current CTRS and CT discount changes in 2013/14 operated relatively smoothly and, although an additional 16,000 working age claimants were required to pay Council Tax for the first time or at an increased rate, the Council was able to achieve and exceed the challenging 97% collection rate last year and this pattern is being repeated in the current financial year. Additionally, the relatively low contribution level required from working age claimants has allowed the Revenues and Benefits Service to exercise greater flexibility in resolving claimants' payment plans which prevented many from appearing in Magistrates Court and incurring additional costs.
- 7.10 Scheme costs: - when the 2014/15 budget was set it was estimated that Rotherham's 2014/15 CTRS scheme would cost £18.2m in total before any Council Tax rise. The level of discounts granted is currently in line with this target, although the Council Tax has increased by just under 2%.
- 7.11 The stability in the cost of the scheme is attributed to a decline in the number of claimants due to:
- An increase in the State Pension Credit Age has led to a decline in the number of Pensioner Claimants: - 3.2% in 2013/14 and a further -1.5% in the year to date.
 - Working Age Claimant numbers have also reduced - by -4.3% and -1.3% over the same periods
 - Overall there has been a decrease in claimant numbers of around 5% since the introduction of CTRS. Although the rate of decline does appear to be slowing, the downward trend in caseload is expected to continue. Each 1% reduction in the caseload is estimated to reduce the cost of the Council's scheme by just under £0.2m.

7.12 Under the current 8.5% minimum contribution level, and assuming no Council Tax rise in 2015/16, a CTRS claimant in a Band A property (with no parish precept or other discounts but including Police and Fire Precepts) would be expected to pay a minimum of £82.94 per year or £1.60 per week. The table below shows the impact of increasing the minimum contributions on the payments required from claimants (assuming no increase in Council Tax)

Maximum Level of Support	Current Annual Claimant Contribution £	Annual Increase in Claimant Contribution £	Weekly Increase in Claimant Contribution £	New Annual Claimant Contribution £
91.5%	82.94	n/a	n/a	82.94
90%	82.94	+14.65	+0.28	97.59
87.5%	82.94	+39.04	+0.75	121.98
85%	82.94	+63.43	+1.22	146.37
82.5%	82.94	+87.83	+1.69	170.77
80%	82.94	+112.22	+2.16	195.16

7.13 Although reducing the maximum level of support and increasing working age claimant contributions would increase the amount of Council Tax billed not all of the sum will be collectable. It is anticipated that as the maximum level of support decreases and the minimum contribution rises overall Council Tax collection rates will fall for several reasons as set out below:

- For claimants paying through DWP deductions from benefits, the national weekly deduction limit set by the DWP is already insufficient to clear the current 8.5% contribution plus any court costs during the year, leaving such claimants in arrears at the year end. An increase in contributions will in these cases increase the level of debt and arrears without collecting additional income.
- Arrears for those claimants currently making no payments are also expected to increase. These debts are pursued through Liability Orders. Currently there are 6,704 outstanding Liability Orders for CTRS claimants and where DWP deductions from benefits are not possible or are already in place for another Liability Order, the only recovery option where payment is refused is bailiff collection. Following the introduction of the Tribunal Courts and Enforcement regulations from 2014/15 the costs for bailiff collection have increased substantially making this course of action inappropriate in the majority of CTRS cases as this will merely increase the unpaid debt.
- Evidence reported by other Councils indicates that increasing the minimum contribution may result in some claimants who are currently paying ceasing to do so as the amount becomes unaffordable.

- Experience in 2013/14 and the current year indicates that as levels of default in relation to CTRS claimants increase, a greater proportion of staff resource is taken up by these cases which in turn reduces the amount of resource available to collect non CTRS debt, which has a detrimental effect on **overall** collection rates.

7.14 This is borne out by an analysis of collection rates in 2013/14 (the latest year for which data are available) for the 26 Metropolitan Authorities with CTR Schemes comparable to Rotherham's. This showed a strong link between increases in the minimum contribution required from claimants and reductions in the overall levels of Council Tax collection. Generally, the higher the minimum contribution the larger the increase in default and thus the greater the negative impact on CT collection. The average reduction in **overall collection rates (i.e. not just for claimants)** was as follows:

Contribution Rate %	Average Increase in Losses on Collection %
8.5% or less	-0.4
10-19%	-1.0
20%	-1.2
More than 20%	-1.5

7.15 An average of these authorities allowing for local circumstances has been used to estimate the effect on Rotherham's collection rate and income levels over and above the 0.4% reduction already experienced by Rotherham – assuming no increase in Council Tax levels. (See 7.17 below)

7.16 **Other Costs** – the increase in losses on collection is not the only factor that will reduce the level of Council Tax yielded by any reduction on the maximum level of CTRS support.

- **Costs of Collection will increase** – these include postage, staff time and expenses and court costs. These would increase as the level of default rose as outlined above. The estimates are set out in the table below.

In addition, any change in Rotherham's CTRS requires a public consultation. The consultation process prior to the adoption of the 2013/14 CTRS, included; press adverts, letters, SMS/text, emails and presentations to the community. It is estimated that a similar programme for 2015/16 would cost in the region of £20k.

7.17 The effect of these costs on the Additional Council Tax income is shown below with the potential additional net income expected to be received by the Council shown in the final Column. The additional costs and increase in overall losses on collection mean that even quite substantial changes in the level of support/claimant contributions generate relatively small sums. The estimated maximum additional income that could be generated is £74,000.

Maximum Level of CTRS Support	Projected <u>additional</u> net income after losses £'000	Estimated Increased Costs of Collection £'000	Consultation Costs £'000	Estimated additional Net RMBC Income £'000
91.5%	n/a	n/a	n/a	n/a
87.5%	105	50	20	35
85%	214	120	20	74
80%	340	250	20	70

7.18 **Other Factors-** In addition to the financial implications considered above there are other factors which need to be considered in respect of any change to the Council's CTRS. Changes in the CTRS scheme would mean:

- Increased payment default for Council Tax which would have a negative impact on collection rates;
- An increase in the number of claimants summonsed for non-payment at Magistrates' Court;
- Increased hardship for CTRS claimants already adversely affected financially by welfare reform (DWP Sanction Regime, Bedroom tax, benefits cap etc.). 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 claimants a further reduction in CTRS support may have serious financial implications on their ability to pay increased Council Tax contributions.

Canvassing neighbouring authorities, of the 6 Metropolitan Districts that responded, 67% indicated that they had no plans to revise their CTRS in 2015/16. Of the 7 smaller District Councils that responded only 2 were considering changes to their CTRS.

7.19 **Council Tax: Empty Property and Second Home Discounts** based on experience to date it is estimated that:

- Removing the 25% discount for properties undergoing structural repair would generate a further £40-50k allowing for losses; and
- It is estimated that removing the 25% discount for the first 6 months a property is empty and unoccupied could generate additional income of up to £100k after allowing for losses on collection and the following caveats:
 - A significant proportion will relate to CTRS claimants liable for the period after leaving while they still have the tenancy. It is considered that the chances of collection on these are minimal.
 - In addition, reducing Council Tax Empty Property discounts would disproportionately impact CTRS claimants in periods when they have a tenancy but are not in receipt of CTRS support as they are not in occupation, and increase payment default for Council Tax having a further negative impact on collection rates.

- In response to the Council levying the charges, private landlords are reducing property vacant periods to minimise their costs.
- The previous reduction in Empty Property Discounts created a significant increase in workload for the Revenues and Benefits service, which in turn increased the cost of collection and reduced the time available to collect other Council Tax debts. Further discount reductions would inevitably have a similar effect.

8. Finance

The estimated cost of running the current CTRS scheme in 2014/15 is £21.3m for which the Council is expected to receive government funding of £15.4m through its financial settlement, albeit it is not possible to specifically identify this source of funding within the settlement. With the projected decline in settlement funding, support for CTRS is projected to reduce to £12.8m in 2015/16. The MTFS currently reflects the reduction in Government Grant Support for the Council and as indicated within this, the reduction in support for CTRS.

The Council's current MTFS assumes that the Council would:

- Continue to support working age claimants up to a maximum of 91.5% of their Council Tax Liability;
- Continue to generate income from the changes to CT discounts for empty dwellings and second homes that were introduced in 2013/14 to offset the CTRS funding shortfall; and
- Treat the continuing decline in Government funding for Council Tax Support as part of the overall reduction in government grant and a corporate pressure.

9. Risks and Uncertainties

9.1 The risks to the authority of amending CTRS to provide less support for claimants 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 overall income collection performance.
- Although collection rates declined in 2013/14 compared to previous years, it is estimated that the 96.5% collection rate that has been budgeted for in 2014/15 will be achieved. However there remains a risk that the continuing impact of welfare reform and the transitional roll out

of the Universal Credit will result in further reduced income levels amongst working age claimants which in turn could place even more pressure on Council Tax collection rates.

- As comparative Council Tax collection statistics are published by the DCLG any decline in Rotherham's Tax collection rate might be expected to give rise to adverse publicity for the Council and to damage its hard-won reputation for good performance in this area – Rotherham were the best performing metropolitan authority in Yorkshire and the 5th Best Metropolitan Authority overall in 2013/14.
- 9.2** As indicated any change to the Council's CTRS would require a further consultation process, which would need to start immediately in order for the new scheme to be in place in time for 2015/16.
- 9.3** Any future increase in the number of CTRS 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. However as indicated in section 7.11 above, the number of claimants is reducing but the rate of decline appears to be slowing, and although the downward trend in caseload is expected to continue, this cannot be guaranteed. Any increase in Council Tax levels will increase the cost of the scheme.

10. Policy and Performance Agenda Implications

Amending the CTRS scheme to provide less support for claimants is expected to increase the rate of default on payments and customer enquiries, which will in turn cause a capacity issue for the Revenues and Benefits service 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 Single Person Discount (SPD) review.

The Full Council must adopt the 2015/16 CTRS by 31st January 2015.

11. Background Papers and Consultation

- 2013/14 Published CTRS Scheme.
- Report to Cabinet - Council Tax Support / Council Tax Discount and Exemption - Consultation findings – 16th January 2013
- Report to Council Final Council Tax Reduction Scheme and Revisions to the Council Tax Discount and Exemptions for Second homes and empty properties – 30th January 2013
- SIGOMA estimates of Council Tax Support Reductions in funding due to reducing SFA

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