

Crawley Borough Council

Report to Overview and Scrutiny Commission 2 December 2013

Report to Cabinet 4 December 2013

Review of the Council Tax Reduction Scheme

Report of the Head of Finance, Revenues & Benefits
Report number: FIN/318

1. Purpose

- 1.1 The Council introduced a local council tax reduction scheme in April 2013. The scheme is means tested and determines the amount by which a taxpayer's council tax will be reduced. It is appropriate for the Council to consider whether it wishes to revise the current scheme. This report considers some possible amendments to the current scheme, which, if agreed, would come into effect from 1 April 2014.

2. Recommendations

2.1 To the Overview and Scrutiny Commission:

That the Commission consider the report and decide what comments, if any, it wishes to submit to the Cabinet.

2.2 To the Cabinet

The Cabinet is recommended to:

Recommend to Full Council that the following amendments are made to the Council's local council tax reduction scheme:

- a. **To introduce a non dependent deduction of £5.00 per week in respect of non dependents receiving a means tested out of work benefit**
- b. **To amend the taper to 20%**
- c. **To introduce a £15 a week disregard in respect of income from child maintenance**

and that the resulting revised scheme is approved

3. Reasons for the Recommendations

- 3.1 The Council needs to decide whether it wishes to make any changes to its local council tax reduction scheme.

4. Background

- 4.1 The Government ended the national council tax benefit scheme in March 2013. It required billing authorities to introduce their own local council tax schemes from April 2013. This was set out in the Welfare Reform Act 2012 and the Local Government Finance Act 2012. It also cut the grant support for the scheme by 10%.
- 4.2 The legislation included a default scheme that some authorities adopted. The Council decided to implement its own scheme, which was agreed by Council in December 2012. As with other authorities introducing their own scheme, it had no freedom over the provision made for pensioners as this was prescribed in the legislation.
- 4.3 With such a major change it was sensible to review the implementation of the scheme. In fact, the implementation went smoother than officers had expected and there have been very few adverse comments from those affected. As a consequence it was decided, in consultation with the relevant portfolio holders, that major changes were not needed.
- 4.4 Instead officers identified three potential changes to the scheme that they felt worthy of consideration. Following further discussion with the relevant portfolio holders it was agreed to undertake consultation on those potential changes. That consultation has taken place. It included an on line survey (which was available for a six week period ending in late October), consultation with West Sussex County Council and the Sussex Police & Crime Commissioner, and a presentation to a meeting of the Financial Deprivation Scrutiny Panel to which all members were invited. The Council has also received a representation from Gingerbread that is relevant to one of the proposed changes.
- 4.5 The Sussex Police & Crime Commissioner is supportive of all the potential changes being implemented as was the Financial Deprivation Scrutiny Panel. West Sussex County Council has not responded to the consultation. Other consultation responses are considered later in the report in the context of the individual changes.
- 4.6 The cost of the scheme is split between the Council, West Sussex County Council and the Sussex Police & Crime Commissioner on the basis of the split of the council tax charge. The Council's share in the current year is 12.62%.
- 4.7 The budget is based on the total cost of the scheme being £8,160,000. The latest estimate is that the cost in the current year will be £8,000,000. If all three changes were to be implemented, the increased cost of the scheme would be a minimum of £60,000. The Council is facing significant financial pressures and if no changes were made to the scheme it is estimated that there would be a saving to the Council equivalent to its share of the £160,000 estimated shortfall – around £20,000.

5. Description of Issue to be resolved

- 5.1 The Council needs to decide whether it wishes to amend the local council tax reduction scheme.

6. Information & Analysis Supporting Recommendation

- 6.1 This section details the three potential changes, together with some analysis.

6.2 Non dependent deductions

- 6.2.1 The current scheme includes making a deduction from the amount of a support a taxpayer receives in respect of adults (others than partners) living in the property. The underlying logic is that adults living in a property should contribute to the household costs, including the council tax.
- 6.2.2 The amount of the deduction varies according to the income of those adults. However, in some cases the deduction is zero. This applies where the adult is receiving a means tested out of work benefit – Job Seekers Allowance (JSA), Income Support or Employment Support Allowance.
- 6.2.3 The option is to introduce deductions of £5.00 a week for these cases. This would be the same deduction as applies in respect of adults who have earnings of £100 a week or less. The main argument in favour of doing this is that it treats households the same regardless of the source of the income.
- 6.2.4 As an example of what this change would mean, let us take a family with three children, aged 18, 10 and 3 with the youngest being disabled. The oldest child is receiving JSA. They have earned income of £365 a week, as well as child benefit, child tax credit and a disabled living allowance for the youngest child. They are in a band D property. Under the current scheme they are awarded a reduction of £10.30 a week. Under the proposal that will be reduced by £5.00 per week. As a consequence, they will be required to pay £1,212.64 council tax in the year rather than £952.64.
- 6.2.5 The following table summaries some key information regarding the option:

Costs	Amending the non dependent deductions would <u>reduce</u> the cost of the scheme by £46,000 a year
No. Affected	280 households, who will be required to pay an average of £164 a year more council tax
Consultation	This option was included in the proposed scheme for 2013 (it was dropped so that the Council was eligible for the transitional grant that the Council introduced at a late stage). The consultation on that scheme showed a majority (66%) in favour of introducing the change. This has been repeated in the current on line consultation. Of the 40 that responded on this option 70% were in favour of its introduction.

- 6.2.6 As the option would reduce the support given, it is required to consider whether it should apply any transitional relief. It does not have to give any. If there was a desire to introduce the change, but mitigate the immediate effect, it would be better done by spreading the introduction of the change – e.g. by introducing a deduction of £2.50 a week from April 2014 and of £5.00 a week from April 2015.

6.3 Taper

- 6.3.1 The amount of support granted is based on a comparison of income against an allowance. The amount of the allowance depends on the household composition. If the income is less than the allowance the support is 100% of the council tax charge. If the income is greater, the award is 100% less a deduction equal to a percentage of the “excess” income. This deduction is known as the taper.

- 6.3.2 In the old national council tax benefit scheme the taper was set at 20%. The local reduction scheme increased the taper to 25%. Where the taxpayer is a pensioner, the taper has remained at 20%.
- 6.3.3 There is an option to amend the taper. Reducing the taper would increase the amount of any additional income that is retained by the household. The main argument in favour of doing so is that it would increase the incentive to start work or increase earnings.
- 6.3.4 The taper could be varied to any figure. However, the figures included below and in the consultation were both based on reducing the taper to 20%.
- 6.3.5 The table below shows the impact of reducing the taper on the same family as described in 6.2.4.

	25% taper £	20% taper £
Total income	528.47	528.47
Less disregarded income	139.70	139.70
Income for assessment	388.77	388.77
Less living allowance	315.46	315.46
Excess Income	73.13	73.13
Taper at 25%	18.32	
Taper at 20%		14.63
Band D weekly council tax	28.62	28.62
Reduction awards – weekly council tax less taper	10.30	13.99

- 6.3.6 In this case the family will be required to pay £760.76 for the year rather than £952.64.
- 6.3.7 The following table summaries some key information regarding the option:

Costs	Reducing the taper to 20% would <u>increase</u> the cost of the scheme by a minimum of £103,000 a year. To the extent that some households who currently receive no support would become entitled, the cost would be higher.
No. Affected	Around 1,200 households, who will be required to pay an average of £86 a year less council tax
Consultation	The on line consultation has shown a majority in favour of reducing the taper to 20%. Of the 38 that responded on this option 74% were in favour of its introduction.

- 6.3.8 It would be possible to apply the reduction in the taper to only those households where there is someone in work. This would significantly reduce the cost.

6.4 Child Maintenance Income

- 6.4.1 The national council tax benefit scheme disregarded child maintenance income in assessing support. The local reduction scheme included it as income. The prime argument in favour of doing so was that someone receiving child maintenance should be treated the same as a household with identical circumstances receiving the same amount of income through earnings.
- 6.4.2 It should be noted that this relates to child maintenance that is typically paid by one parent to another who has the responsibility for looking after the child. The state pays child benefit in respect of all children. That is fully disregarded in the current scheme and would remain so.
- 6.4.3 The option consulted on was to introduce a £15 a week disregard for child maintenance income. This would mean that only such income above £15 a week would be taken into consideration. The main argument in favour of the option is that the first £15 of earned income is disregarded, so it would make the treatment of the two forms of income the same.
- 6.4.4 To show what this would mean, take a case of a lone parent with two children aged 15 and 8. She is receiving maintenance of £108.47 a week as well as child benefit and child tax credit and is living in a band C property. The table below summarises the current position and the impact of the change.

	No disregard £	With disregard £
Total income	307.89	307.89
Less disregarded income	33.37	48.37
Income for assessment	274.52	259.52
Less living allowance	218.38	218.38
Excess Income	56.14	41.14
Taper	14.03	10.28
Band C weekly council tax less 25%	19.08	19.08
Reduction awards – weekly council tax less taper	5.05	8.80

- 6.4.5 The effect of the change would be that the household would have to pay £534.56 council tax for the year, down from £729.56.
- 6.4.6 The following table summaries some key information regarding the option:

Costs	Introducing a £15 per week disregard for child maintenance would <u>increase</u> the cost of the scheme by £3,000 a year.
No. Affected	Around 33 households, who will be required to pay an average of £90 a year less council tax
Consultation	The on line consultation was undecided about introducing the disregard. Of the 40 that responded on this option 48% were in favour of its introduction, and 52% against.

- 6.4.7 Gingerbread has recently written to all authorities, including Crawley, that take child maintenance into account in assessing council tax reduction. They are urging those authorities to totally disregard child maintenance, arguing that doing so:

- Risks fewer single parents seeking maintenance
- Increases the risk of child poverty among single parents
- May incur additional administrative costs, eroding potential savings
- Will mean a double tax on child maintenance when (in 2014) the Government introduces a charge of 4% of maintenance collected via the new Child Maintenance Service
- Is a penalty on relationship breakdowns

6.4.8 If the option of introducing a £15 a week disregard were taken, it would mean that some households would have two disregards totalling £30 a week – if they are receiving child maintenance and earning. The possibility of only granting one disregard has been looked at, but it cannot be accommodated by our IT system.

6.4.9 Some households are passported to 100% council reduction under the local scheme, for instance because they are receiving Income Support. Child maintenance is ignored in assessing those state benefits. As a result there will be many households receiving child maintenance where it is not taken into account in determining the level of support they receive through the local scheme.

7. Implications

7.1 If the local council tax reduction scheme is to be amended, Full Council needs to approve the changes.

7.2 The report identifies three options for change that have been consulted on. One change, to non dependent deductions, reduces the cost of the scheme. The other two changes – to the taper and the account taken of child maintenance – increase the cost of the scheme. If all three changes were implemented the net effect would be to increase the cost of the scheme by a minimum of £60,000.

7.3 It is estimated that the cost of the scheme in the current year will be around £160,000 less than the budget. There is a risk that this may not be the case next year, if demand increases.

7.4 The reduction in the taper will have a positive impact on a cross section of recipients, including lone parents, families with children and those with disabilities. The change to the non dependent deductions will have an adverse affect on the same cross section of recipients. However, this is justified in terms of increasing the fairness of the scheme. The introduction of a £15 disregard in respect of child maintenance will have a positive effect on families with children, particularly lone parents.

8. Background Papers

Local Council Tax Reduction Scheme – report FIN/286 to Cabinet

http://pubintra/pub_live/groups/operational/@org/@readall/@dmcsrv/documents/commiteereport/pub183312.pdf

Report author and contact officer: Dave Rawlings, Head of Finance, Revenues & Benefits (tel.: 01293 438334)