

Cabinet 10 January 2017	 TOWER HAMLETS
Report of: Zena Cooke – Corporate Director Resources	Classification: Unrestricted
Local Council Tax Reduction Scheme 2017/18	

Lead Member	Councillor David Edgar Cabinet Member for Resources
Originating Officer(s)	Steve Hill Head of Benefits Services
Wards affected	All wards
Key Decision?	Yes
Community Plan Theme	One Tower Hamlets

Executive Summary

On 20 January 2016 Full Council considered the report from Cabinet on the Local Council Tax Reduction Scheme 2016/17.

The recommendations set out in the report were put to the vote and were agreed.

The decisions made by Full Council were as follows:

1. That the continuation of the current Local Council Tax Reduction Scheme for 2016/17 be approved which will retain the same level of support to all working age Council Tax payers on a low income as set out in the report to Cabinet on 5 January 2016;
2. That it be agreed that the extension of the scheme is for one year only, to be reviewed alongside the impact of the Government's proposed welfare reform changes and an options review for the future of LCTRS during 2016.

This report sets out the schemes that have been considered and consulted upon, the implications of each scheme and the feedback from the consultation. For each financial year, the Council is required to consider whether to revise its scheme or to replace it with a different scheme. Any revision or replacement must be made by 31 January in the financial year preceding that for which the scheme is to take effect.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Consider the feedback from the consultation on the options for the Local Council Tax Reduction scheme
2. Consider the options to revise the current Local Council Tax Reduction scheme as set out in paragraphs 3.11 to 3.18 and 3.27 to 3.28 of the report.
3. Agree the Local Council Tax Reduction scheme to be recommended to Full Council.

1. REASONS FOR THE DECISIONS

- 1.1 At the meeting of Full Council on 20th January 2016 the decision was taken to extend the Local Council Tax Scheme for 2016/17 for one year only and that the scheme be reviewed alongside the impact of the Government's welfare reform changes and an options review for the future of the LCTRS be undertaken. This report details the outcome of that review and options for consideration.
- 1.2 For each financial year, the Council is required to consider whether to revise its scheme or to replace it with a different scheme; any revision or replacement must be made by 31 January in the financial year preceding that for which the scheme is to take effect.

2. ALTERNATIVE OPTIONS

- 2.1 A number of options for changes have been identified and have been consulted upon; there is now a need to decide which scheme will be recommended to Full Council for approval in relation to the 2017/18 financial year.
- 2.2 The resolution from 2016 and regulations are clear that a scheme must be agreed each year and so in the event that the decision is made to retain the current scheme without any changes a resolution to that effect is required.

3. DETAILS OF REPORT

- 3.1 In April 2013 the Government replaced the national Council Tax Benefit scheme with a requirement for each local authority to develop its own Local Council Tax Reduction Scheme (LCTRS). At the same time, the Government reduced its funding contribution to Local Authorities nationally by £500 million

(10%) and put in place mandatory protections for some groups of recipients such as Pensioners.

- 3.2 Since that time, the funding made available to support LCTRS schemes has formed part of the Council's formula funding arrangements (the Revenue Support Grant (RSG)) and consequently from 2014/15 there has been no visibility over the actual level of funding for LCTRS. However, the government has transacted its austerity savings programme for local government through reducing the level of support through RSG and it is reasonable to conclude that a proportion of the resources received through RSG have been subject to those reductions. Between 2014/15 and 2017/18 the overall reduction in RSG is 54%. Based on the current cost set out below a pressure of around £13m could be considered to be falling on Council Tax payers or being met through service reductions.
- 3.3 The cost of the current LCTRS scheme is around £26.5m with £19m supporting 22,551 working age households and £7.5m supporting 8,920 pensioner households. Given that the Revenue Support Grant is expected to disappear in 2020, this represents a significant on-going cost to the council.
- 3.4 Councils have discretion over its own LCTRS within certain constraints; the Government requires pensioner households in receipt of LCTRS to be protected, but councils can determine the level of support provided for working age households. The current Tower Hamlets LCTRS also includes protection for war widows.
- 3.5 Since April 2013 the Council's LCTRS has mirrored the previous national Council Tax Benefit scheme. This means that the Council has met the full cost of reductions in Government funding for the last four years as an alternative to passing them on to working age households via changes to the council's Local Council Tax Scheme. The Council is currently one of 41 councils (from a total of 326 councils) that have chosen to retain the level of support available under the national Council Tax Benefit scheme that was abolished in 2013.
- 3.6 It is important to note that while pensioner households are not affected as, under the regulations, they are a protected group; changes to LCTRS may result in working age households receiving a Council Tax bill for the first time. Some working age households may also see their Council Tax bill rise.
- 3.7 In order to explain fully the schemes, it should be noted that the current LCTR scheme is similar to the national Housing Benefit scheme whereby the income of the claimant and their partner is compared to a nationally defined set of allowances designed to reflect needs; these include amounts for each dependent child. Deductions are then applied to entitlement in respect of non-dependants (adults in the household other than the claimant and partner). The level of deduction is based on the non-dependant's income and circumstances.

- 3.8 Any number of options could be considered when designing a Local Council Tax Reduction scheme although there is clearly a balance between fairness, complexity and costs of administration that should be considered overall.

Current Scheme

- 3.9 The current scheme is based on a claimant's Council Tax liability and their entitlement to a reduction is then assessed by comparing the income of both the claimant and their partner with a national set of amounts designed to reflect their circumstances. A reduction of up to 100% of the Council Tax liability is possible. Deductions are then made in respect of other adults residing in the household. The nationally set amounts are also used to assess entitlement to Housing Benefit.

Options Considered

- 3.10 Three alternative options were considered as follows:

Option 1

This option is based on a claimant's full Council Tax Liability and their entitlement to a reduction is assessed as it currently is but including the earnings of all other adults in the household are also taken into account. Once the reduction is calculated, a 20% deduction is made (this is referred to as a "bottom slice" option).

Option 2

This option is based on an initial 80% of a claimant's Council Tax Liability and their entitlement reflects not only the income of the claimant and their partner but also the earnings of all other adults in the household (this is referred to as a "top slice" option).

Option 3

This option is a banded option under which entitlement is assessed by comparing household income with income bands that determine the level of entitlement.

- 3.11 Option 1 and 2 were proposed because they retain the fairness inherent in the current option via the use of allowances which reflect an applicant's circumstances. By contrast Option 3 would be easier to administer and understand but may be perceived as less fair.
- 3.12 All three options differ from the current scheme in that entitlement is based on the income and the earnings of all adults in the household. Consequently there are no nominal deductions for non-dependants as all income has been considered. This provides a more accurate indication of household income and affordability and is therefore considered to be fair.
- 3.13 All the options include a minimum income floor for self employed households, whereby after the first year of self-employment, if the reported income from self-employment is not at or above the minimum wage then the minimum wage will be assumed as income. Applying the floor in the first year

acknowledges that there can be challenges to becoming self-employed and there may be little or no income in the first year. From the second year of self-employment we would expect income to be at or above the minimum wage level to demonstrate that the self-employment is genuine and effective. Where self-employed income is reported to be below minimum wage, support and advice will be offered to the claimant.

- 3.14 The three options above also incorporate proposed changes to the amount of savings that a claimant can have from £16,000 to £6,000. Currently applicants with savings between £6,000 and £15,999 can still qualify for a Council Tax Reduction but an assumed level of income is used as a proxy measure based around the value of savings. This assumed income is applied in the assessment of entitlement and which therefore reduces the entitlement. An additional £1 for every £250 or part thereof in respect of capital between £6,000 and £15,999 is included as income in the assessment which may therefore reduce entitlement.
- 3.15 Variations to Options 1 and 2 were also proposed so as to provide protection to vulnerable households. Vulnerable households include lone parents, households in receipt of Personal Independence Payments/ Disability Living Allowance/ESA Support, carers' allowance and war widows.
- 3.16 All the options and variations referred to above were then consulted upon. These are set out in the table below, with the number of households estimated to be affected, the average weekly support and average loss of support and the estimated cost reduction of each option.

Option	Details	Estimated Number of working age households affected	Average weekly support	Average Loss in weekly support	Estimated cost reduction
1A	Reducing the maximum level of support for working age applicants to 80%	4,341	£13.70	£3.05	£6.1m
1B	Reducing the maximum level of support for non-vulnerable working age applicants to 80%	4,164	£15.23	£1.52	£4.4m
2A	Maximum support reduced by 20% for all working age households	4,736	£13.05	£3.24	£6.0m
2B	Maximum support reduced by 20% for all non-vulnerable working age households	3,897	£15.17	£1.58	£4.3m
3	Introduce an income banded scheme in line with Universal Credit	6,015	£13.27	£3.47	£7.9m

3.17 Further to the Options and Variations referred to in the table above, five proposed additions to any option were also consulted upon. These are:

- Reducing the period for which backdated claims can be made for a reduction in Council Tax to 1 month.
(Currently claims can be backdated for up to 6 months).
- Reducing the length of time claims can continue whilst the recipient is abroad to 4 weeks.
(The current scheme allows for up to 13 weeks).
- Removing the allowances for the work related activity premium in the Employment Support Allowance (ESA) and for recipient of the family premium for new claims with effect from 1 April 2017.
(Allowances for both are included in the current scheme).
- Limit to a maximum of 2 the allowances for children included in the assessment of new claims from 1 April 2017.
(There is currently no limit to the number of children included in a claim).
- To introduce a scheme in addition to council tax reduction to help applicants suffering exceptional hardship.

3.18 Although each of the additions will reduce the future cost of the scheme, the main purpose of including them is to align the LCTRS to the Housing Benefit provisions as both are claimed and assessed simultaneously via a single application and there is in any case a logic for them being the same given that they both relate to claimed welfare benefits.

Consultation

3.19 A public consultation ran from 14 October until 2 December. All households (115,617) in the Borough were written to; residents were encouraged to respond to the consultation through a daily social media campaign using Twitter (generating 16,387 impressions and 136 engagements), Facebook and Instagram; the consultation was promoted in the council's e-bulletin to 9,000 residents; it was featured on the homepage of the council's website with a web banner; all welfare advice agency partners were encouraged to support their clients in completing the consultation; a news release was also sent to all local and BME media outlets.

3.20 The survey was open to all Tower Hamlet residents aged 18 years and over. A total of 2092 people responded to the questionnaire. This was a very high response rate for a consultation and provides results with a 95% confidence level and a 2.1% error rate. (i.e. if we were to run the survey again, 95 times out of 100 the results would be within +/-2.1% of the original survey results).

3.21 In addition to online responses, the Council received a petition signed by 500 residents against changing the scheme. These have been appended to the report in line with guidance from legal services.

3.22 Representations were also received from Child Poverty Action Group, Toynbee Hall and the GLA. These are included in the final consultation

outcomes report where it was possible to do so (i.e. they answered the questions in line with the survey).

3.23 A full report setting out the consultation feedback is set out at appendix 2, but a summary of the findings is as follows:

- There was a broadly similar level of support for each LCTRS option with 1B slightly the most popular of the models and 2B the second most popular.
- 46% of residents were in favour of changing the scheme and 40% thought we should keep the current LCTRS.
- The addition of “reducing the period for which a person can be absent from Great Britain and still receive CTR to four weeks” was the most popular option followed closely by “reducing backdating to one month”.
- 68% of respondents opposed the choice to increase the level of Council Tax to fund LCTRS, while 56% opposed finding savings from cutting other council services and 68% opposed using council reserves to delay savings. However, when forced to choose one of the options respondents’ preference was to find savings from cutting other council services.

3.24 As part of the survey residents were asked to place the options in order of preference. 1B was the highest rated option with 3 receiving the lowest level of support.

Next steps

3.25 The Council is required to conscientiously take into account the product of the consultation prior to the ultimate decision being taken. However it is not under a duty to adopt the option that residents favoured the most or any of the options consulted on. In considering the outcome of a consultation exercise it may well be that more appropriate alternative options reveal themselves. The Council must show good reasons however, if it wishes to depart from those consulted on options.

3.26 Having considered the responses from the consultation (including consideration of the petition and the representations from Child Poverty Action Group, Toynebee Hall and the GLA) and discussions with Members, the Mayor has indicated he is minded to retain the 100% support for working age households and therefore requested alternative options which retained 100% support to be drawn up for consideration. These are set out below.

3.27 Members are therefore asked to consider adopting components of the options which have been consulted upon as part of the 2017/18 LCTR scheme and retain the up to 100% reduction of the current scheme. The individual components are set out as Options 4 to 7 below. It should be noted that Options 4 and 5 below are exclusive of each other.

Option 4 – All non-dependants’ income is taken into account as part of household income rather than applying a standard deductions for non dependants as this could be considered fairer.

Option 5 – Households with non-dependants' income above £370.50 per week are excluded from support. CTR non-dependant deductions apply to all other non-dependants with income below £370.50 per week. This level is consistent with the full time London Living Wage which is considered sufficient to cover all costs including those associated with housing. In order to avoid potential “cliff edges” a tiered approach has been proposed; these range from £4.00 per week to £12.00 per week for those with income below £370.50. Appendix 1 sets out the current level of deductions and those now proposed.

Option 6 applies an assumed income for self employed earners where their self-employment earnings after one year is declared at below equivalent minimum wage levels. This takes into account the time taken for new businesses to start up and acknowledges there may be extra expenses incurred in the first year of self-employment. However, we would expect self-sufficiency to be achieved after that time.

Option 7 would lower the existing capital threshold for working age households from £16,000 to £6,000. If adopted this would mean that households would not qualify for CTR until their capital fell below £6,000.

Options based on individual elements of the LCTRS models consulted upon

Individual element/option	Details	Estimated Number of working age households affected	Average weekly support	Average loss in support	Estimated cost reduction if this individual element/option was adopted
4	All non-dependants income is taken into account as part of household income	2,634	£18.04	£1.29	£1.3m
5	Households with non-dependants income above £370.50 per week excluded from support. CTR non-dependant deductions apply to all other non-dependants with income below £370.50 per week.	1,261	£18.38	£1.64	£700k
6	A minimum income floor is applied to self-employed income after one year where income is below minimum wage; minimum wage will be used as earnings	2,262	£18.73	£1.98	£600k
7	The savings limit is lowered from £16k to £6k in order to qualify for LCTRS	473	£18.94	£2.20	£400k

3.28 It should be noted that some people may be affected by more than one of the options e.g. the same claim may have non dependants' income and have savings above £6,000.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 The current cost of the Local Council Tax Support Scheme in 2016/17 is estimated at £26.5m; approximately half of which could be considered to be met through Revenue Support Grant (RSG).
- 4.2 RSG will no longer be paid from 2020, as the government implements its 100% business rate retention scheme. All other things being equal the total cost of any support under the Local Council Tax Support Scheme (LCTRS) from that time will fall to be met largely from a combination of service reductions, income from Council tax payers or retained business rates.
- 4.3 Other than the need to comply with government constraints such as the requirement to protect pensioner households, authorities can determine the scope of their schemes in a way that reflects local needs and priorities. However, there is clearly a need to balance the complexity of a scheme against its fairness and ability to be understood.
- 4.4 The 2017-2020 Medium Term Financial Plan considered by the Cabinet elsewhere on this agenda, includes a savings proposal amounting to £1.4m consequent on agreeing a scheme that will require some people, currently in receipt of full relief, to start to make a contribution towards their Council tax costs. Unless the scheme is unchanged, some households will pay more Council Tax than they pay at present, including those who may have to pay towards their Council Tax for the first time.
- 4.5 However, because of the wide variation in outcomes from the options set out here, which arise from the need to make assumptions about the numbers of people affected, means that there is a high degree of uncertainty attached to this level of estimated income. In addition entitlement to a Council tax reduction also has significant volatility inherent in it as circumstances and therefore entitlements change.
- 4.6 In order to recognise that there may be a number of people adversely affected by both changes to the LCTRS and other changes to the welfare system the Mayor has asked that an earmarked Tackling Poverty Reserve be created as mitigation against the overall effects associated with welfare changes. Dependent on the options chosen and therefore an assessment of the number of people affected and the potential risks, a sum of up to £5m has been provided in the Tackling Poverty Reserve; this sum will be reviewed and finalised in the February report recommending the budget to Full Council once the outcome from the LCTRS and other associated changes are known.

5. LEGAL COMMENTS

- 5.1 In order for the Council to implement its own local council tax reduction scheme ('LCTRS'), it has a duty under Schedule 1A, Paragraph 3 (1) of the Local Government and Finance Act 2012 ("the Act") to publish a draft scheme and consult any major precepting authority, namely the Greater London

Authority (“GLA”). The Council has discretion in the manner it publishes the draft scheme.

- 5.2 The Council must decide to adopt a LCTRS no later than the 31st January of the financial year the scheme relates to or the default scheme in the Act will apply.
- 5.3 There is a statutory duty to consult and the consultation had to comply with the following common law criteria:
 - (a) it should be at a time when proposals are still at a formative stage;
 - (b) the Council must give sufficient reasons for any proposal to permit intelligent consideration and response;
 - (c) adequate time must be given for consideration and response; and
 - (d) the product of consultation must be conscientiously taken into account as stated at paragraph 3.25 above.
- 5.5 Although the Act imposes a statutory duty to consult, the length of the consultation period is not stipulated. The Cabinet Office Principles on Consultation suggest a timeframe between 2-12 weeks. Council should decide on a reasonable timeframe that is commensurate to the significance of the subject matter of the consultation. Council launched the Council Tax Reduction Scheme Consultation for a period of 8 weeks which is a proportionate length of time.
- 5.6 Whilst there is a statutory duty to consult, as stated in paragraph 3.25 there is no corresponding duty to adopt the LCTRS that residents favoured the most or any of the options consulted on. In considering the product of a consultation exercise, the Council should also consider whether the responses to the consultation reveal more appropriate alternative options. In this case such consideration did and a further 4 options (numbered 4 through to 7) have revealed themselves and which are based on components of what was consulted on. In adopting any of these alternative options, the Council must show good reasons if it wishes to depart from those consulted on options.
- 5.7 When deciding whether or not to proceed with the proposals, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty). A proportionate level of equality analysis is required in order to enable the Council to adequately discharge this duty. Paragraph 6.3 of this report refers to an equalities impact assessment and which is included as at Appendix 3.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The vision and priorities expressed in the Tower Hamlets Community Plan are to increase opportunity, prosperity and mobility in Tower Hamlets. Welfare

reform, of which LCTRS is one element, could have a significant impact for each of these priorities for residents.

6.2 There are client groups within the scheme that are fully protected e.g. pensioners, while others e.g. those of working age, could be liable to reduced support if the Council revises the current scheme.

6.3 It is important to ensure that no individual or group will be adversely impacted by any changes that may be introduced for the 2017/18 scheme. An equalities impact assessment has been completed and is attached as Appendix 3. This includes actions to mitigate against any adverse implications.

7. BEST VALUE (BV) IMPLICATIONS

7.1 This report acknowledges the financial pressures on the Council and sets out the options review of LCTRS for consideration.

7.2 The options have been subject to a full public consultation during which every household in the Borough was written to, to encourage participation and feedback.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

8.1 There are no sustainable action for a greener environment implications arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

9.1 The principal risk to the Council is to ensure that an agreed scheme for LCTRS is approved by full Council before the end of January 2017 and is in place by the beginning of the financial year 2017/18, that the scheme is written and approved by Legal and that the changes to the Council's ICT systems are delivered.

9.2 A full implementation plan will be developed to reflect the decisions made by Full Council which will include a risk register setting out the actions and related mitigations.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

10.1 None.

11. SAFEGUARDING IMPLICATIONS

11.1 None.

Linked Reports, Appendices and Background Documents

Linked Report

- List any linked reports [if Exempt, Forward Plan entry MUST warn of that]
- State NONE if none.

Appendices

Appendix 1 – Option 5 Non Dependant Deductions current and proposed

Appendix 2 – LCTRS Consultation Report

Appendix 3 – Equalities Impact Assessment

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- NONE

Officer contact details for documents:

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Appendix 1 – Option 5 Non Dependant Deductions current and proposed/

Current LCTRS Non Dependant Deductions

Aged over 18 or over and in remunerative work	2015	2016
- gross income: less than £195.00	3.74	3.77
- gross income: £195.00 to £337.99	7.52	7.77
- gross income: £338.00 to £419.99	9.49	9.56
- gross income: £420.00 and above	11.36	11.45
- Lowest Deduction	3.74	3.77

Non Dependant Deductions in the event that option 5 were to be introduced

Aged 18 or over - All income	2017
- gross income: less than £195.00	4.00
- gross income: £195.00 to £281.99	8.00
- gross income: £282.00 to £370.49	12.00
- Income £370.50 per week and above	No CTR
- Lowest Deduction	4.00

Under Option 5 there would be no entitlement to CTR for any household where a non dependant's income is greater than £370.50 per week.