

From: John Simmonds, Cabinet Member for Finance & Procurement and Deputy Leader  
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To: Policy & Resources Committee 24<sup>th</sup> May 2016

Decision No: n/a

Subject: **Council Tax Support**

Classification: **Unrestricted**

**Summary:**

This report provides the Cabinet Committee with an update on work being done in conjunction with districts and boroughs to review local Council Tax Reduction (CTR) schemes prior to a consultation exercise being planned by districts to take place in the summer and local decisions on revised schemes to be introduced from 2017-18. The work also includes opportunities to increase council tax base and collection rates. This report also includes an overview of council tax support schemes across the country including Medway

**Recommendation(s):**

Policy and Resources Cabinet Committee is asked to NOTE the report and make recommendations on any other considerations affecting council tax support schemes or improvements to council base/collection rates which should be raised with districts prior to their formal consultation.

Members are reminded that Section 106 of the Local Government Finance Act 1992 applies to any meeting where consideration is given to a matter relating to, or which might affect, the calculation of council tax.

Any Member of a Local Authority who is liable to pay council tax, and who has any unpaid council tax amount overdue for at least two months, even if there is an arrangement to pay off the arrears, must declare the fact that he/she is in arrears and must not cast their vote on anything related to council tax.

**1. Introduction**

1.1 The responsibility for supporting households on low incomes to help defray the cost of council tax was transferred from Council Tax Benefit (CTB) controlled by the Department of Work and Pensions (DWP) to local authorities in April 2013. Each collection authority (district and borough councils in two tier areas) was required to devise, consult on and implement local schemes to provide support (discounts) towards council tax for working age households. Local councils could choose to adopt a default scheme (unchanged from CTB) or devise their individual arrangements. The arrangements for pensioner households are laid down under legislation and could not be varied.

- 1.2 Funding to support the new arrangements (for both pensioners and working age households) was transferred into the main local government finance settlement through Revenue Support Grant (RSG) and local share of business rates. The funding included a 10% reduction compared to the estimated cost of CTB in 2013-14. Initially this funding was separately identifiable in 2013-14 settlement, but since 2014-15 it has been indistinguishable within the RSG and business rate baseline allocations. Effectively this means it has not been protected from past or future reductions in RSG. In 2013-14 KCC received £70m from the transfer into RSG/business rates (with £42m of this included in RSG). Between 2013-14 and 2016-17 KCC's RSG has reduced by 55%. The indicative settlement for 2017-18 to 2019-20 shows further reduction in RSG of 91.5% by 2019-20 (effectively removing the grant).
- 1.3 Across all Kent authorities (KCC, Police & Crime Commissioner, Fire & Rescue, districts, and parishes) council tax reduction (CTR) discounts are estimated to have reduced the 2015-16 collectable council tax by £95.1m (approx. 10.7%). Of this £44.5m relates to pensioner discounts (as required by legislation) and £50.6m working age discounts determined under local schemes. KCC's pro rata share of the impact on council tax yield is £67.8m, of which £36.1m is from working age discounts determined under local schemes. These amounts assume full collection of discounted council tax bills.

## **2. Local Schemes in Kent**

- 2.1 The initial schemes for 2013-14 were based on a common approach developed and agreed by all districts and preceptors. This common approach was developed early in 2012 (before some of the final aspects of the national arrangements were known). This enabled districts to consult on their local schemes well ahead of the implementation deadline for 2013-14. This common approach comprised of the following features:
- Districts would reduce all working age discounts by 18.5% compared to the previous CTB arrangements (default scheme)
  - Districts would reduce class C empty property discounts (habitable but unfurnished) from 6 months to 3 months
  - Preceptors would pay each district £125k per annum (pro rata to each preceptor's share of tax base) towards the cost of setting up and administering local schemes
  - Preceptors would underwrite the district's share of central grant included in RSG/business rate baseline should this prove to be inadequate due to higher than anticipated claimant numbers
  - Agreements to last for 3 years from 2013-14 to 2015-16
  - Individual districts were able to submit local variations e.g. smaller working age reductions, protections for vulnerable groups, etc., providing these were fiscally neutral to compensate for the impact on the tax base
- 2.2 Under these common arrangements eligibility for CTR for working age households was unchanged from CTB and the 10% reduction in funding, potential non collection and cost of £125k payment/underwriting was covered by the additional income from 18.5% reduction in working age benefits and reduction in empty property discount. Six districts opted for the common

scheme (Dartford, Gravesham, Sevenoaks, Tonbridge & Malling, Tunbridge Wells and Shepway) and the other six opted for local variations.

- 2.3 Of the local variations, the three East Kent authorities operating under East Kent Services (Canterbury, Dover and Thanet) adopted their own common approach to minimise reductions in working age benefits (5%, 6% and 5.5% respectively). This was compensated by removing entirely the unfurnished empty property discount and second adult rebate<sup>1</sup>. The other three authorities reduced working age benefits by 10% (Ashford), 13% (Maidstone) and 15% (Swale), these were compensated by reducing (but not entirely removing) empty property discounts. Ashford offered further protection for disabled claimants with CTR reduced by 5% compared to CTB. All of those choosing local variations removed the final 10% discount on second homes and some introduced 50% premium on long-term empty properties as part of the compensation measures.
- 2.4 In 2013-14 a one-off transitional grant was available to those authorities that limited working age reductions to 8.5% or less. All 12 Kent districts took up this grant (in agreement with the major preceptors) requiring 9 of them to defer the full introduction of their local schemes until 2014-15 (the 3 East Kent districts qualified for the grant without making any transitional changes to their schemes).
- 2.5 Since the introduction of local schemes the overall value of CTR discounts across Kent has reduced each year as a result of reductions in the number of households claiming support. This arises from a combination of demographic and economic factors as well as impact of welfare reforms. However, these reductions in CTR have been significantly less than the reductions in RSG.
- 2.6 Some districts have made minor technical adjustments to the schemes over the years, but the fundamental principles (no changes to eligibility and reductions in work age benefits) have remained unchanged. Collection rates across Kent have held up well since the introduction of local council tax support schemes. We do not have evidence whether there is any marked difference in collection rates between those households in receipt for CTR compared to those liable to pay full council tax.
- 2.7 The original 3 year agreement expired on 31<sup>st</sup> March 2016. However, for a number of reasons (not least the uncertainty over the funding settlement) districts were unable to consider or consult on new schemes for 2016-17. In the end the major preceptors agreed that there was no alternative other than to extend the original arrangements by one year, pending a full review and consultation on revised schemes for 2017-18.

### **3. Schemes in Other Authorities**

- 3.1 When council tax support was transferred 268 authorities introduced local schemes to vary working age benefits in 2013-14, the remaining 58 adopted

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<sup>1</sup> a discretionary alternative to CTR where the main tax payer is not eligible for council tax reduction but a second adult lives with them who is not their spouse/partner and is earning a low income/in receipt of certain welfare benefits

the default scheme. In the intervening years the number adopting the default scheme has declined each year as demonstrated in table 1.

Table 1	Default Scheme in 2013-14		Default Scheme in 2014-15		Default Scheme in 2015-16		Default Scheme in 2016-17	
Inner London	5	35.7%	5	35.7%	5	35.7%	5	35.7%
Metropolitan	5	13.9%	3	8.3%	2	5.6%	1	2.8%
Outer London	1	5.3%	1	5.3%	1	5.3%	1	5.3%
Shire Districts	43	21.4%	32	15.9%	30	14.9%	30	14.9%
Unitary	4	7.1%	4	7.1%	4	7.1%	4	7.1%
Total	58		45		42		41	

- 3.2 The 58 authorities adopting the default scheme, and 151 of those introducing local schemes took up the transitional grant and limited working age reduction to 8.5% in that year. 60 of these 151 authorities subsequently increased working age reductions in 2014-15 (including the 9 Kent authorities). In 2015-16 another 20 authorities that had local schemes in 2014-15 made further increases in working age reductions. In 2016-17 another 40 authorities that had local schemes in 2015-16 made further increases in working age reductions.
- 3.3 Of the 268 authorities that introduced local schemes in 2013-14, the vast majority (229 authorities) included a minimum council tax payment by reducing working age benefits (this includes all 12 Kent districts). The average reduction was 14.76% (ranging from 5% to 33.1%). By 2016-17 the number of authorities requiring a minimum council tax payment by reducing working age benefits had grown to 259 out of the 285 with local schemes, the average reduction being 17.71% (ranging from 3% to 45%). The average reduction in Kent was 7.75% in 2013-14 (including impact of transitional restriction), the Kent average reduction in subsequent years has been 13.6%. A fuller analysis of the benefit reductions in different classes of authority is included as appendix A.
- 3.4 Reductions in working age benefits through a % reduction have been by far the most common approach to dealing with the impact of localising council tax support. However, a number of authorities have also made other changes which include:
- Reductions in the savings limit used in council tax support calculations
  - Changes in other benefits counting towards income used in council tax support calculations
  - Changes in the deductions for other non-dependent adults in council tax support calculations
  - Restricting support to lower council tax bands e.g. max Band D
  - Introducing minimum council tax support cash amount (as opposed to %)
  - Changing the taper which reduces the value of support as incomes increase (usually making the taper steeper so support is reduced faster)
  - Reduction or abolition of second adult rebate

- 3.5 The number of authorities making these other changes is included in appendix B. Some authorities have offered hardship funds to households facing exceptional difficulty in paying council tax (also identified in appendix B). We do not have comparative information on changes to empty property discounts in other authorities although many are likely to have used the additional flexibility allowed since 2013-14 to help offset the impact of council tax support discounts. .
- 3.6 Medway did not take up the transitional grant in 2013-14 and introduced a 25% reduction in working age benefits for council tax support. Medway also made changes to the non-dependent adult deductions and abolished second adult rebate. In 2016-17 Medway increased the working age reduction to 35%, making it the second highest reduction in the country.

#### **4. Review of Kent Schemes**

- 4.1 All Kent districts have undertaken to review their local schemes during 2016, with consultation on alternative options likely during the summer and autumn. This consultation must fulfil certain minimum requirements and needs to consider options to sustain current schemes as well as alternatives to reduce or change existing support arrangements. The reviews will be comprehensive taking into account the variations/changes in other local authority schemes, the changes in national arrangements since original schemes were introduced (including the lack of identifiable funding) and the impact any options to change to local schemes would likely have on individual households and council tax collection levels.
- 4.2 There is a statutory requirement on district councils to consult major precepting authorities about local CTR schemes. As identified in paragraph 1.3 over 70% of the impact of CTR is borne by the county council's share of the tax base. This aspect of consultation will also need to include the future of preceptors' support to districts in setting-up and administering schemes. KCC recognises that some support is necessary to assist and improve council tax collection, particularly from those in receipt of CTR discounts. As part of this we will be investigating alternative ways to incentivise districts to grow the council tax base and maximise council tax collection.

#### **5. Conclusions**

- 5.1 Responsibility for local council tax support schemes rests with district councils in two tier areas. The county council cannot insist on any particular provisions within local schemes even though the majority of the impact is borne by the county's share of the tax base. The county council will want to have regard to the scope for local schemes to support the most vulnerable, incentivise individuals into work, as well as the impact on the county council's share of the tax base and county council services. Inevitably this is a complex mix and may throw up some conflicting consequences.

## 6. Recommendation(s)

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## 7. Background Documents

### 7.1 DCLG consultations, guidance and regulations

<https://www.gov.uk/government/collections/localising-council-tax-support>

### 7.2 Information and analysis on the localisation of council tax support

<http://counciltaxsupport.org/>

## 8. Contact details

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