1 Executive Summary

1.1 Cabinet is asked to recommend Full Council to agree changes to the Council Tax Reduction (CTR) scheme on the 18th February 2019 and to be effective from 1st April 2019.

1.2 The proposed changes are:

1.3 To reduce the minimum contribution required from working age households to 10%.

1.4 Any revision to the scheme is governed by the Local Government Finance Act 2012 and any revised scheme needs to be agreed by Council by 11th March 2019.

2 Recommendations

2.1 For the reasons set out in the report and its appendices and taking into account the outcome of the consultation process, Cabinet is asked to recommend to Full
Council

2.1.1 To implement the option to reduce further the minimum contribution expected from working age households in receipt of Council Tax Reduction provision

2.1.2 To not implement the option to provide maximum support to all households receiving Universal Credit.

2.2 Cabinet and Full Council is asked to note: The impact of a change to the Council Tax Reduction Scheme has been built into the Medium Term Financial Strategy 2019/2023. This additional reduced amount of Council Tax receivable from those eligible will have no additional impact upon the finances of the Council.

3 Background

3.1 With the abolition of Council Tax Benefit (CTB) from April 2013, the Local Government Finance Act 2012 required local authorities to create a Council Tax Reduction (CTR) scheme or accept the Government’s default scheme to provide financial assistance with council tax liabilities. The Act also required local authorities to consider annually if they wanted to revise or replace their scheme. Any changes to the scheme are subject to Council approval after appropriate consultation with the GLA and affected persons and need to be agreed by Council by 11th March preceding the financial year for which they would be effective.

3.2 The funding provided by central government was 10% lower than the amount of support the authority had received previously for CTB. The government prescribed the scheme for pension aged claimants which effectively left local authorities to decide if they wished to design their own scheme for working age households. In response to the Act, the London Borough of Newham decided to create its own working age scheme in order to manage the financial impact of the reduced funding on its residents. The key elements of the scheme were:

- to introduce a minimum contribution of 20% before financial assistance was calculated; and
- to increase expected contributions from other adults (non-dependents) in the household.

3.3 The concept of a minimum contribution before financial assistance has been widely adopted by local authorities. In London during 2017/2018, 8 boroughs did not impose a minimum contribution, 1 has imposed a fixed minimum of £3.75 per week, and the percentage contributions for the remaining 24 boroughs range from 8.5% to 30% of net liability.

3.4 The basis for the calculation of financial assistance was maintained as it was previously under CTB where each household was given a ‘need’ allowance based on published DWP figures. The scheme has continued with this basis since its inception though changes to allowances were made in 2017/2018 to reflect changes in government policy to limit Tax Credits to two children in
certain circumstances.

3.5 The design of CTR schemes and in particular the setting of minimum contributions has been highlighted by organisations such as Child Poverty Action Group and Zacchaeus 2000 (Z2K), who have published regular analysis of the impact on residents, as a factor in household debt. These reports have outlined the impact minimum contributions have on low income working households. They encourage councils to try to return the level of support available to 100% as in the previous national council tax benefit scheme.

3.6 Since the provision of CTR schemes was given to Billing Authorities the DWP have commenced roll out of Universal Credit (UC). The Universal Credit Full Service (UCFS) was fully implemented in the Newham on 25th July 2018. UC replaces six benefits and applies to households whether in or out of work. For households in work, UC replaces Working Tax Credit and moves them from an annual award with no need to inform of changes in income of less than £2500 annually to a monthly assessment of income and needs with any change in income, such as overtime, taken into account in the following month’s payment. This variability/uncertainty in UC award has been highlighted as a factor in the negative impact of UC on household finances.

3.7 The current CTR scheme is designed to respond to such changes in UC and in turn would produce a new assessment of the CTR award and a new bill. If households have frequent changes to UC, due to overtime or work under a zero hours contract for example, then this would lead to uncertainty and difficulty budgeting for the amount of council tax the household has to pay and increases the administrative burden on the service.

4 Key Considerations & Proposals

4.1 There are currently 18,535 working age households in receipt of CTR who would benefit from a reduction in the minimum contribution. Whilst the minimum contribution agreed in 2013/2014 was introduced as a response to the reduced funding from central Government, it did mean that many households in receipt of benefits had to make a payment towards their Council Tax for the first time.

4.2 Under the previous CTB scheme, the net liability (after discounts and CTB/CTR) for all households i.e. not just working age households, was £7,423,435 with additional summons and liability order (court) costs of £396,109.

4.3 The table below is for working age households only under the CTR scheme from 2013/2014. Note that a household will be considered to be in receipt of CTB or CTR if they have had an award for any period during that year no matter how short. This shows that over the 5 full years of operation the liability to pay council tax has risen but efforts to increase payment and reduce the number of cases has led to reductions in the level of costs applied. Efforts to collect outstanding amounts without the use of enforcement agents and the associated costs to households has led to a build up of debt being recovered from DWP benefits leading to a slowing in the rate of recovery from these cases.
4.4 This liability for council tax can result in recovery action where there is non-payment. The service has worked to increase its engagement with council tax payers to reduce the level of recovery activity and additional costs passed on to low income households. A profile of recovery action taken against households in receipt of CTR is given below.

<table>
<thead>
<tr>
<th></th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households awarded CTR</td>
<td>29,401</td>
<td>27,999</td>
<td>27,522</td>
<td>26,746</td>
<td>25,674</td>
</tr>
<tr>
<td>Summons issued</td>
<td>7,823</td>
<td>8,003</td>
<td>5,863</td>
<td>5,849</td>
<td>4,960</td>
</tr>
<tr>
<td>Summons costs levied</td>
<td>6,634</td>
<td>6,727</td>
<td>4,949</td>
<td>5,186</td>
<td>4,240</td>
</tr>
<tr>
<td>Liability order granted</td>
<td>5,868</td>
<td>5,937</td>
<td>4,381</td>
<td>4,553</td>
<td>3,731</td>
</tr>
<tr>
<td>Enforcement action</td>
<td>2,205</td>
<td>2,723</td>
<td>2,341</td>
<td>2,184</td>
<td>920</td>
</tr>
</tbody>
</table>

4.5 Any reduction in the minimum contribution will be financially beneficial to working age households. An analysis of the impact of the change in minimum contribution can be found at Appendix 1 but in summary the average council tax bill for these households would decrease from £363.77 to £316.04 at a 15% minimum contribution or £268.03 at a 10% minimum contribution.

4.6 At the current debt level for issuing a summons (£50), the reduction in minimum contribution would not result in a change in the number of households with an annual liability above the summons level. However, a reduction in the minimum contribution to, for example, 10% would ensure that an additional 4,682 out-of-work households and 2,691 in-work households would have an annual liability that would be below the level that could be subject to recovery through enforcement agents (£150).

4.7 The proposed changes will reduce the income received through council tax and as a result is reflected in the council’s budget calculations and the Medium Term Financial Strategy 2019/2023.

4.8 The cost to the London Borough of Newham of the options for reducing the minimum contribution would be £672,440 per year at a 15% minimum contribution or £1,348,640 per year at a 10% minimum contribution based on current council tax rate, CTR caseload and Newham’s share of total council tax.

4.9 With the reductions in tax-payers liabilities through the proposed reduction in minimum contribution the level of bad debt provision required against unpaid debts will be reduced.

During the consultation a second proposal was considered which relates to households where a liable person is in receipt of Universal Credit and is
intended to provide a degree of certainty in terms of the amount of council tax payable. Universal Credit is assessed on a monthly basis based on the circumstances in the previous month. The current CTR scheme requires a reassessment of CTR entitlement after each change in UC. If a household has variable income due to holding a zero hours contract or undertaking ad-hoc additional hours then potentially they could have their CTR entitlement reviewed each month as UC changes and in turn receive a council tax bill. This would increase administrative costs as new demand notices would need to be issued to customers in some cases on a monthly basis.

4.10 This is very different from working households in receipt of Working Tax Credit and CTR for example, where they will not be required to inform the Tax Credit service of changes in earnings or income of less than £2500 annually and where in assessing CTR we would base it on what we calculate as an average future income.

4.11 The proposal would have awarded households in receipt of UC the maximum amount of CTR after any minimum contribution and deductions for other adults. This proposal was therefore included in the consultation (see below).

4.12 Following the publication of the proposal, it has become apparent that due to the ongoing level of UC take-up within the borough and the number of previously unentitled households that would be brought back into entitlement this change is not financially sustainable and would not necessarily support the poorest households in the borough.

4.13 This proposal on its own would disproportionately benefit those on higher incomes with a small amount of UC compared to those on the lowest income. This proposal is especially beneficial to those on higher incomes. This is because as Universal Credit includes support with housing costs, households in properties with higher rents will retain Universal Credit to a high level of earnings.

4.14 On average households in receipt of UC and earning less than £100 per week would benefit by £4.08 per week whereas those with a payment of UC and earning more than £300 would benefit by £14.15 per week, for those earning more than this the increase rises further. (See Appendix 3 for a detailed breakdown). Given this evidence it is felt that this would not meet the intended aims of the scheme and it is recommended it should therefore not be implemented.

4.15 Instead administrative processes will be developed that will give working households on UC better financial stability in relation to their council tax liabilities. These will include reviewing such CTR claims on a six monthly basis rather than monthly and incorporating changes over that period into entitlement before notifying them of any adjustment to their liability. This will provide more consistency of entitlement to residents and reduce the frequency of changes and revised bill issues to UC households thus supporting more effectively the financial stability of the household.

4.16 The additional expenditure on CTR resulting from the proposed changes would be a net cost to the authority. The Government funding for CTR was fixed for the first two years before being included in the financial settlement and could be assumed to be reducing at the same rate as the settlement; a breakdown of the
assumed CTR grant against spend is set out in Appendix 2. In 2018/2019, the spend on CTR will exceed the grant and, if the proposed changes to the scheme are agreed, the additional spend in 2019/2020 will further increase the gap.

4.17 Consultation

4.17.1 Consultation was carried out over a 6 week period between 5th December 2018 and 16th January 2019 through a public consultation open to all residents but particularly targeted to working age households currently in receipt of CTR. Detailed analysis of the responses can be found in Appendix 3.

4.17.2 In summary opinion is split on both of the proposals. For proposal one, 18 respondents agree with the proposal to reduce minimum contributions (13 strongly agree; 5 agree) and 16 respondents disagree with the proposal (11 strongly disagree; 5 disagree).

4.17.3 Of those who agreed, 14 respondents thought the contribution should be 15%. Of those who disagreed, 10 respondents thought the contribution should remain at 20%.

4.17.4 For proposal two, 17 respondents agree that those in receipt of UC should be awarded the maximum reduction in Council Tax (8 strongly agree; 9 agree) and 14 respondents disagree (9 strongly disagree; 5 disagree).

4.17.5 Comments to the open questions noted concern that the Council may not be able to pay for services if these proposals go ahead and also that many people without benefits are also struggling financially.

4.17.6 As a major preceptor the views of the Greater London Authority on the proposals were sought and their response was. ‘The GLA notes the London Borough of Newham’s consultation on the proposed changes to its local council tax support scheme for 2019-20. In view of the fact that the Council is not proposing to increase the current minimum contribution from working age households the GLA has no specific concerns or objections to the proposals. We also endorse the proposed treatment of universal credit in the calculation of council tax support entitlements.’

5 Policy Implications & Corporate Priorities

5.1 The policy implication of this proposal is to limit the financial burden of council tax on low income households. There are currently 18,535 working age households in receipt of CTR who would benefit from a reduction in the minimum contribution. The average Council Tax bill for these households would decrease from £363.77 to £268.03 (at a 10% minimum contribution). A secondary impact of the proposal is to minimise the impact of Universal Credit (UC) on households needing financial help with Council Tax.

6 Alternatives considered
6.1 A number of alternatives have been considered to the proposals above. In general these were to reduce the minimum contribution to 15% or to make no changes to the scheme in 2019/2020 and complete a wider review of the CTR scheme and other support available for low income households with the aim of delivering a new scheme in 2020/2021.

6.2 Neither the smaller reduction to the minimum contribution nor the option to make no change was felt to be an appropriate option given the wish to ensure that the poorest households are protected from financial pressures as much as possible. These options were also not supported in consultation.

6.3 The changes to how UC is considered for CTR calculation have also been reviewed. The option to set a minimum income charge before an adjustment is made to CTR was considered. On review this option did not deliver the required efficiencies as each notified change in UC would need to be reviewed often without any impact to the level of support for residents.

7 Consultation

7.1 **Name of Lead Member consulted:** Cllr. Terry Paul **Position:** Lead Member for Finance **Date:** 27/11/18

8 Implications

8.1 **Financial Implications**

The impact of a change to the Council Tax Reduction Scheme has been built into the Medium Term Financial Strategy 2019/2023, the reduced amount of Council Tax receivable from those eligible for a discount will therefore have no additional impact upon the finances of the Council.

8.2 **Legal Implications**

The body of the report sets out the legal framework for revising the CTR Scheme.

As below the Council also needs to consider carefully the equality implications of its proposals to ensure that it complies with the public sector duty in s 149 Equality Act 2010

"149 Public sector equality duty

(1) A public authority must, in the exercise of its functions, have due regard to the need to—
(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it."

7
The Council has carried out a lawful consultation as required by the Local Government Finance Act 1992. It was required to consult the major precepting authority, namely the GLA but at the date of drafting these implications no responses have been received. It is open to the Council to decide not to implement one of the original proposals if there are sound reasons for this. The decision maker should also conscientiously consider the responses from the consultation set out in Appendix 3 before taking its decision. Otherwise the proposals appear to be lawful and will be beneficial to those who receive support. There are no identified adverse impacts from the decision being made.

8.3 **Equalities Implications**

8.3.1 The impact of the proposed reduction in minimum contribution is detailed in Appendix 3. This proposal will have a positive impact on all working age households claiming CTR so does not disadvantage any particular group.

8.3.2 Any small differences in impact will only be down to the council tax band that the property a household resides in rather than their personal circumstances. The size of house will be linked to the size of the household and will generally reflect the needs for housing rather than a reflection on a claim for Council Tax reduction.

9 **Background Information used in the preparation of this report**

- The Local Government Finance Act 1992 (as amended by the LGFA 2012)
- The Council Tax Reduction Schemes (Prescribed Requirements) (England) (Amendment) Regulations 2013
- Localising Support for Council Tax - Taking work incentives into account – DCLG, 21 May 2012
- Localising Support for Council Tax - Vulnerable people - key local authority duties – DCLG, 21 May 2012
- HM Government Code of Practice on Consultation, July 2008
- Tax Credits Act 2002, as amended by the Welfare Reform Act 2016
• London Borough of Newham Discretionary Council Tax reductions for individual Council Tax payers Policy document, February 2016
• Consultation response –Exceptions to the limiting of the individual Child Element of Child Tax Credit and the Child Element of Universal Credit to a maximum of two children, Department for Work and Pensions and Her Majesty’s Revenue and Customs, 20 January 2017