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# Three Rivers District Council

# Council Tax Reduction Scheme

# Options & Modelling Report

# May 2017

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# Introduction and background

1.1 The following report follows on from the initial options report produced for Three Rivers District Council in April 2017. Having considered the report, the authority selected the following options for further development and modelling:

## Three Rivers District Council

**Options selected for further development and modelling:**

* Introducing a ‘fixed assessment period’ within the current schemes to allow for multiple changes
* Current Schemes with changes to mirror HB from 2018/19
* Current Schemes with Work-Related changes –Minimum Income Floor

**Options not selected**

* Maintain the current scheme – this will be an option within the consultation.
* Introducing a new scheme for working age cases – income band
* Introducing a new scheme for Universal Credit cases – income band
* Introducing a tolerance level to avoid multiple changes
* Align with Watford Borough Council
  1. Each of the selected options is examined in detail below and details are provided. In each case the option is explained in full and details provided as to:
* The effect on the overall scheme costs;
* The estimated number of applicants affected by each potential scheme change;
* The estimated effect on applicants in terms of changes in their Council Tax Reduction entitlement; and
* Where appropriate, additional comments on the implications of the proposed scheme changes on applicants and applicant types.

# 2.0 Key assumptions and notes relating to the modelling

2.1 The modelling has been undertaken based on the following assumptions:

1. The scheme changes relate to **Working Age cases only**. Three Rivers District Council is unable to make any changes to the Pension Age scheme as this is proscribed by Central Government;
2. Data have been obtained and represents the claimant base as at May 2017 – further modelling will need to be undertaken as the options are progressed to ensure the most accurate information is available;
3. Data have been obtained using SQL reports to interrogate the academy system and extract data;
4. Each option has been modelled individually – there will be a requirement, if more than one option is chosen, to undertake multiple modelling on the basis that some of the changes will affect the same applicant. Where this occurs, any changes must be accumulated and any scheme savings calculated accordingly;
5. The data are based on the current schemes, as they stand for 2017/2018. **In effect this means that the modelling measures the change from the current Council Tax Reduction provision**.
6. In the case of certain options, it is not possible to base the modelling on current data but on estimates of the effects. Where this has been done, it has been highlighted the basis on which the estimates have been produced;
7. The main body of the report provides a summary of the effect of each option. Full data are provided (as separate files) in the Appendix.

2.2 As a reminder, the current schemes for this authority are shown below:

* **Three Rivers District Council** – the current scheme replicates the previous Council Tax Benefit scheme with the following amendments:
  + A limitation on the amount payable based on the band of the property;
  + Changes to capital levels;
  + The removal of Second Adult Rebate; and
  + Increases in Non-Dependant deductions

2.3 For completeness, in Section 3 of this report are shown the current scheme costs and applicant numbers and, in the remaining sections, for the selected options we have included the original options summary in each case as provided in the initial options report.

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# 3.0 Council Tax Reduction with Three Rivers District Council

3.1 The following tables give the current position and are based on information supplied.

### Table 1. Costs of Schemes

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Authority** | **Actual cost of CTR scheme 2013/14** | **Actual cost of CTR scheme 2014/15** | **Actual cost of CTR scheme 2015/16** | **Actual cost of CTR scheme 2016/17** | **Estimated cost of CTR scheme 2017/18** | **Total Reduction in Scheme costs since introduction in 2013** | **%age reduction in costs** |
| Three Rivers | £4,759,855.54 | £4,516,131.76 | £4,388,862.28 | £4,369,412.01 | £4,526,513.61 | £233,341.93 | 4.9% |

### Table 2. Working Age Caseloads

| **Authority** | **CTR caseload 31st March 2014** | **CTR caseload 31st March 2015** | **CTR caseload 31st March 2016** | **CTR caseload 31st March 2017** | **Estimated CTR caseload 31st March 2018** | **Reduction in case load since 2013** | **% age reduction in case load since 2013** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three Rivers | 2768 | 2625 | 2540 | 2516 | 2510 | 258 | 9.3% |

### Table 3. Pension Age Caseloads

| **Authority** | **CTR caseload 31st March 2014** | **CTR caseload 31st March 2015** | **CTR caseload 31st March 2016** | **CTR caseload 31st March 2017** | **Estimated CTR caseload 31st March 2018** | **Reduction in case load since 2013** | **% age reduction in case load since 2013** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Three Rivers | 2177 | 2047 | 1940 | 1837 | 1839 | 338 | 15.52% |

### Table 4. Pension Age and Working Age Caseload

| **Authority** | **Working Age %** | **Pension Age %** |
| --- | --- | --- |
| Three Rivers | 57.7% | 42.3% |

# 4.0 Option Modelling – Three Rivers District Council.

4.1 The following section models the options selected by Three Rivers District Council.

### Fixed Assessment Period

| Introducing a ‘fixed assessment period’ within the current schemes to allow for multiple changes | | |
| --- | --- | --- |
| **Description** | The option would continue with the existing schemes operated by Three Rivers District Council but would look only to reassess entitlement after a fixed period. One authority has introduced this from April 2017. It is primarily designed to reduce overall administration costs.  The Partnership will need to determine:   * The length of the fixed period; and * Whether all applicants will be affected or whether it will only apply to certain case types. | |
| **Advantages** | **Financial** | If a decision is made not to change CTR entitlements for a fixed period even when they increase, then additional savings may be made. |
| **Administration** | The scheme will avoid multiple changes in CTR and reduce the number of changes per case. |
| **Disadvantages** | **Financial** | If a decision is made not to change CTR entitlements for a fixed period, even when they reduce, then additional costs may be incurred.  Some applicants may take advantage of the scheme by anticipating when their case is to be reviewed and reduce overtime / income for that period (this was experienced when Family Credit introduced a fixed period assessment. |
| **Administration** | None |
| **Effects on applicants / Claim groups** | There will potentially be an effect on applicants where a fixed period is introduced which does not change CTR entitlement where the applicant has a reduced income. | |
| **Future Proofing** | The scheme would allow for reductions in administration costs especially in the areas of Council Tax billing and collection. | |
| **Software Implications** | This would be a manual process of reviews and could be undertaken within the current software provision. | |

### Fixed Assessment Period

|  |  |
| --- | --- |
| Modelling – Three Rivers Option 5 - Introducing a ‘fixed assessment period’ within the current schemes to allow for multiple changes | |
| Number of changes received per annum (2016/17) | 10,062 |
| Average Number of changes per claim | 4.05 |
| **Comments** |  |
| This change will effectively reduce administration costs rather than have a direct influence on the scheme itself. There is a potential for changes to the overall scheme cost although from examination of the base data we would anticipate this would be cost neutral. | |

### Mirroring HB scheme form 2018/19

| Current Schemes with changes to mirror HB from 2018/19 | | |
| --- | --- | --- |
| **Description** | If the Partnership authorities decide to retain the current means-tested schemes, in order to align with Housing Benefit a number of significant alterations must be made to reflect changes that have been made to Housing Benefit in 2016 and 2017. These are as follows:   * 1. Removal of the Family Premium;   2. Reduction of the backdate period to 1 month;   3. Freezing applicable amounts in line with Housing Benefit;   4. Withdrawal of Council Tax Reduction where a person leaves the UK for 1 month or more;   5. Limiting the number of dependants’ additions within Housing Benefit to a maximum of two for all cases where dependants are born on or after 6 April 2017;   6. Removal of the Employment and Support Allowance Work-Related Activity Component from Housing Benefit applicants;   7. Disregard of Post-Graduate Master’s Degree Loan and Special Support Loans; and   8. The full disregard of Bereavement Payments from April 2017. | |
| **Advantages** | **Financial** | A number of the changes will result in the cost of the schemes reducing. They are part of the welfare reforms generally and have been applied across Central Government benefits. |
| **Administration** | There will be no change to administration other than to implement the changes through the software systems. The alignment of both CTR and Housing Benefit will assist Partnership staff. |
| **Disadvantages** | **Financial** | None |
| **Administration** | None |
| **Effects on applicants / Claim groups** | These changes are in line with Central Government policy and will affect certain applicant groups | |
| **Future Proofing** | The changes will be in line with Welfare Reforms generally so any changes to Council Tax Reduction will ensure that the schemes remain aligned with Housing Benefit and also Council Tax Reduction for Pension Age cases. However, the changes will not future proof the schemes from the changes imposed by Universal Credit. | |
| **Software Implications** | Software systems currently allow for all the changes stated. | |

### Removal of the Family Premium from 1 April 2018

|  |  |
| --- | --- |
| Removal of Family Premium | |
| Number of cases affected | 750 |
| Average reduction in CTR per week | £3.49 |
| Annual Reduction in Scheme Costs | £108,095 |
| **Analysis of CTR Loss** |  |
| Number of cases who would lose CTR completely | 0 |
| Number of cases who would see no effect in CTR | 173 (23%) |
| Number of cases who would lose CTR under £1 per week | 0 |
| Number of cases who would lose CTR between £1 and under £2 per week | 0 |
| Number of cases who would lose CTR between £2 and under £3 per week | 0 |
| Number of cases who would lose CTR between £3 and under £4 per week | 577 (77%) |
| Number of cases who would lose CTR between £4 and under £5 per week | 0 |
| Number of cases who would lose CTR between £5 and under £6 per week | 0 |
| **Comments** |  |
| The removal of the Family Premium within the Working Age Scheme would align the Council Tax Reduction scheme to Housing Benefit and to the Council Tax Reduction scheme for Pension Age. However, the following should be noted:   * The changes **do not affect** any case where the applicant is in receipt of a **passported benefit** (Income Support, Job Seeker’s Allowance (Income-Based), Employment and Support Allowance (Income-Related)). * New claimants would not receive a Family Premium (if the claim was to be received after 1 April 2018). * Family Premium would **only be** removed from existing claims where there is a break in claim. * The full reduction in scheme costs would only be achieved in the longer term, as claims end or new claims are received. | |

### 

### Reduction in the backdate period to 1 month from 1 April 2018

|  |  |
| --- | --- |
| Reduction in the backdate period to 1 month from 1 April 2018 | |
| Number of cases affected | Not applicable |
| **Comments** |  |
| The change will align the potential backdate under good cause to one calendar month from 1 April 2018. The number of cases cannot readily be determined on the basis that the following variables apply:   * That the applicant makes a claim for backdating; and * That the reason given must meet the criteria for ‘Good Cause’   The change would align both Housing Benefit and Council Tax Reduction and therefore simplify administration. | |

### Freezing Applicable Amounts in line with Housing Benefit

|  |  |
| --- | --- |
| Freezing Applicable Amounts in line with Housing Benefit | |
| Number of cases affected | All working age cases not in receipt of a passported benefit will have personal allowances and dependants’ additions frozen in line with Housing Benefit (Central Government has announced that these will be frozen until 2020/21). |
| Cases in receipt of disability premiums, severe disability premiums or enhanced disability premiums – these premiums are increased annually in line with CPI. | 351 cases currently receive a disability-related premium |
| Annual Reduction / Increase in scheme costs | Cost neutral |
| **Comments** |  |
| The change would align both Housing Benefit and Council Tax Reduction and therefore simplify administration. In addition, it would allow any persons who qualify for a disability related premium to receive an increase in applicable amounts directly in line with increases in benefits generally.  The change traditionally is designed to be cost-neutral although, if working age cases have an increase in their income (e.g. through inflation), it will not be reflected in a corresponding increase in applicable amounts. | |

### Withdrawal of Council Tax Reduction where a person leaves the UK for 1 month or more

|  |  |
| --- | --- |
| Withdrawal of Council Tax Reduction where a person leaves the UK for 1 month or more | |
| Number of cases affected | Not applicable |
| **Comments** |  |
| The change will align the working age Council Tax Reduction scheme with both Housing Benefit and the Pension Age Council Tax Reduction scheme. Any applicants who are temporarily absent from their home will have their Council Tax Reduction cancelled if the absence is to be greater than 1 months and they have left the UK.  In any other case the temporary absence rules remain at 13 weeks. Special rules apply for those in hospitals, in prison, receiving care or on approved training.  It is not possible to model the number of cases affected by this change on the basis that it will depend on:   * Applicants being absent from their dwelling; * The absence being for a period greater than 1 month; and * The applicant leaving the UK. | |

### Limiting the number of dependants’ additions within Housing Benefit to a maximum of two for all cases where dependants are born on or after 6 April 2017

|  |  |  |
| --- | --- | --- |
| Limiting the number of dependants’ additions within Housing Benefit to a maximum of two for all cases where dependants are born on or after 6 April 2017 – FOR INFORMATION ONLY | | |
| Number of cases potentially affected | | 199 |
| Average reduction in CTR per week | | £12.99 |
| Annual Reduction in Scheme Costs | | £120,875 |
| **Analysis of CTR Loss** |  | |
| Number of cases who would see no effect in CTR | | 20 |
| Number of cases who would lose CTR under £5 per week | | 17 |
| Number of cases who would lose CTR between £5 and under £10 per week | | 46 |
| Number of cases who would lose CTR between £10 and under £15 per week | | 46 |
| Number of cases who would lose CTR between £15 and under £20 per week | | 41 |
| Number of cases who would lose CTR over £20 per week | | 29 |
| **Comments** | |  |
| This option will align working age Council Tax Reduction with Housing Benefit and will therefore aid administration.  The change only affects cases where:   * A third or subsequent child is born **after**  6 April 2017; and * There is no exemption granted by HMRC Tax Credits   The above modelling has been undertaken for information only. It represents cases who have more than 2 children currently and who **may** be subject to the default rule. The default rule, which reduces existing dependants’ additions to a maximum of two will only occur where:   * There is a break in claim or a new claim: **or** * Where the applicant has become or becomes responsible for another dependant; **and** * The applicant fails to produce evidence from HMRC Tax Credits verifying the number of children for whom Child Tax Credits has been applied for.   Please note that this option is only likely to affect applicants who have a third or subsequent child on or after 6 April and in such cases CTR will not be increased. **It is most unlikely that existing applicants will lose CTR** under the default rule if they break their CTR and reclaim. The applicant just needs to provide evidence of Child Tax credits at that level to have the dependant additions reinstated. | | |

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### Removal of the Employment and Support Allowance Work-Related Activity Component from Housing Benefit applicants

|  |  |
| --- | --- |
| Removal of the Employment and Support Allowance Work-Related Activity Component from Housing Benefit applicants | |
| Number of cases affected | Not applicable |
| **Comments** |  |
| The change will align the working age Council Tax Reduction scheme with Housing Benefit so has administrative advantages.  The change only affects new Employment and Support Allowance (ESA) cases that enter the Work-Related Activity Group on or after 3 April 2017. In such cases the DWP may not award the Work-Related Activity Component (WRAC). In which case, not equivalent component will be awarded with CTR. This will not affect any CTR in payment as their applicable amounts will reflect the level of their income.  The current caseload contains 167 ESA claims made up as follows:   * Work-Related Activity Component - 40 cases * Support Component – 127 cases   Any Work-Related Activity Group cases that have already claimed will **not** be subject to the new rules. Likewise, there are no changes to the Support Group cases whatsoever. | |

### Disregard of Post-Graduate Master’s Degree Loan and Special Support Loans

|  |  |
| --- | --- |
| Disregard of Post-Graduate Master’s Degree Loan and Special Support Loans | |
| Number of cases affected | Not applicable |
| **Comments** |  |
| The changes only affect new students undertaking a Post-Graduate Master’s degree. The change however will allow for the alignment of CTR with Housing Benefit.  Very few students are awarded Council Tax Reduction on the grounds that they receive an exemption / disregard from Council Tax and there are strict rules for student claims.  In any event, this will not change the current cost of the scheme as this is a new form of income (not taken into account before) which is now disregarded. | |

### The full disregard of Bereavement Payments

|  |  |
| --- | --- |
| The full disregard of Bereavement Payments from April 2017 | |
| Number of cases affected | Not applicable |
| **Comments** |  |
| The changes apply to any applicant receiving the new Bereavement Payments which came in to effect after April 2017.  The scheme does not currently allow for these payments and payments of this type are only now being made. As such there will be no effect on the current scheme or any current applicant. | |

### Introducing a Minimum Income Floor for the Self-Employed.

| Introducing a Minimum Income Floor for the Self-Employed. | | |
| --- | --- | --- |
| **Description** | A growing popular change to the Council Tax Reduction scheme would be the adoption of a Minimum Income Floor (MIF) for all self-employed applicants. The concept is similar to that introduced within Universal Credit whereby any applicant commencing in self-employment would be allowed to declare zero income for an initial year from the date of start-up of the business. After that time, the scheme would assume that the income generated from the business would be at least the National Minimum/ Living Wage x 35 hours per week. Where an applicant declares an income greater than the Minimum Income Floor then that figure would be used in the calculation of CTR. If the income level declared is less than the MIF, the MIF would be used to replace the declared income.  Experience has shown that, in a number of cases, applicants will undertake the ‘self-employment route’ but largely rely on other benefits such as Tax Credits to maintain an income. The MIF approach will encourage applicants to look to develop their business to at least a minimum level. | |
| **Advantages** | **Financial** | A key advantage would be that all self-employed applicants would be treated on a similar basis and, whilst the MIF will allow for a period of one year for set up and development, it would encourage applicants to at least meet a minimum level of income. There would be no incentive, not to develop the business or to undertake non-genuine or non-effective work.  The level of savings established is considerable as a number of self-employed applicants currently declare a small or negative income from their self-employment despite in most cases being engaged in that business for a number of years. |
| **Administration** | There is a slight increase in administration in respect of self-employed cases albeit that there is a perceived increase in fairness. Over 60 authorities have introduced this option as part of CTR and to date it has not presented any particular problems other than that the approach can only be used for CTR and not HB. Appeals have been very limited and so far unsuccessful. It is important however that, where this option is adopted, we consider allowing a ‘start up ‘period for the business to allow it to become established and we should consider whether the MIF should be applied when there is any downturn in the economy or the business . |
| **Disadvantages** | **Financial** | None |
| **Administration** | None |
| **Effects on applicants / Claim groups** | By definition, this will have a major effect on self-employed applicants who have declared a relatively low income. | |
| **Future Proofing** | The changes to the scheme will align the approach with the approach taken by Universal Credit. | |
| **Software Implications** | None. Current systems will allow for the change. | |

### Introducing a Minimum Income Floor for the Self-Employed.

|  |  |
| --- | --- |
| Introducing a Minimum Income Floor for the Self-Employed. | |
| Number of cases affected | 229 |
| Average reduction in CTR per week | £11.96 |
| Annual Reduction in Scheme Costs | £61,589 |
| Number of cases who would **lose all CTR** with introduction of MIF | 57 (25%) |
| **Breakdown of CTR loss** | |
| Number of cases who would see no effect in CTR | 130 (57%) |
| Number of cases who would lose CTR under £5 per week | 22 (10%) |
| Number of cases who would lose CTR between £5 and under £10 per week | 17 (7%) |
| Number of cases who would lose CTR between £10 and under £15 per week | 21 (9%) |
| Number of cases who would lose CTR between £15 and under £20 per week | 27 (12%) |
| Number of cases who would lose CTR over £20 per week | 12 (5%) |
| **Comments** |  |
| The calculation of the Minimum Income Floor is made where a self-employed applicant has been in business for more than one year **and** where the net income (after business expenses, tax and National Insurance) falls below an amount calculated by using 35 hours x National Minimum / Living Wage less notional Tax and Notional National Insurance.  For clarity, the modelling assumes the following:   * that all self-employed applicants have been in business for at least one year: and * that their age means the National Living Wage would be used in the calculation of the Minimum Income Floor. | |

**6.0 Financial Implications**

6.1 The estimated cost of the scheme for working age applicants in 2017/18 as at 15 May 2017 is £3,904,287.68. This figure will change on a daily basis as amendments are made to claims.

6.2 The average weekly entitlement to council tax reduction for a working age recipient is £19.76

6.3 The table below illustrates how every £1 of council tax is apportioned between Hertfordshire County Council, Three Rivers District Council and the Police and Crime Commission.

|  |  |  |  |
| --- | --- | --- | --- |
| Hertfordshire County Council | Three Rivers District Council | Police and Crime Commission | Parish |
| 77p | 10p | 10p | 3p |

6.4 It is clear from the apportioning of council tax collection that the County Council would financially benefit the most from any reduction in CTR expenditure

6.5 The table below illustrates the financial benefit of a reduction in expenditure for each option

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Option | Hertfordshire County Council | Three Rivers District Council | Police and Crime Commission | Parish |
| Remove Family Premium | 83,234 | 10,809 | 10,809 | 3,243 |
| Limit Dependants | 93,073 | 12,088 | 12,088 | 3,626 |
| Minimum Floor Income | 47,423 | 6,159 | 6,159 | 1,848 |

# 7.0 Protection for the vulnerable

6.1 As mentioned in the initial options report there is a high level of support already within both schemes to protect the vulnerable, which directly addresses the concerns of Central Government namely:

* Equalities – the schemes currently meet a full equalities test. Changes to the schemes as presented within the options would also fully meet the test in that they would apply equally across the board with applicants treated fairly in accordance with the legislation. The schemes with any of the changes would still protect those applicants with the lowest income either directly by the choice of option or through the use of an exceptional hardship scheme;
* Child Poverty – notwithstanding that certain options will change the way that CTR for families is calculated, most options will to some degree provide additional support for families and those with dependent children.
* Homelessness – whilst not directly affected by CTR, the Partnership provides a full Housing Benefit scheme and will also provide support for those applicants who move to Universal Credit.

6.2 In addition to the above protections, should Three Rivers District Council decide to reduce the level of funding within CTR further, it should consider providing a ‘safety net’ for those applicants who would face exceptional hardship.

# 8.0 Consultation

8.1 Should any of the above options be selected, we must consult with both the Public and Major Precepting Authorities in accordance with the legislation.