

Council Tax Support Modelling for Melton Borough Council



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Executive Summary

Melton Borough Council is considering revising its current Council Tax Support (CTS) Scheme in 2017/18.

Policy in Practice has been commissioned to model three alternative CTS scheme options for consideration by the council. This report provides an analysis of their impact on residents and on council finances. The analysis is based on modelling all three of the proposed options below on each of the 2,524 low-income households in the council's housing benefit and council tax support datasets.

The cost of the current scheme is £2.04m, with £877,221 spent on 1,230 working age households who could potentially be impacted by changes in the CTS scheme. The remaining £1.17m is spent on 1,294 pension age households who are fully protected from any changes in support.

The current scheme caps support at 88% of council tax liability for working-age households. If Council Tax Liability is set to increase by 3.52% in 2017/18 (based on the increase in 2016/17), this will increase the costs of support by 3.2% to £2.11m, or £896,046 for working age households. Support increases by less than the increase in liability as some households in work benefit from the increased personal tax allowance, and higher National Living Wage, which in turn leads to lower council tax support.

The following CTS scheme options are modelled against the updated current scheme for working age households.

- Model 1 – Maximum Council Tax Support reduced to 70% for all households
- Model 2 – Maximum Council Tax Support reduced to 80% for all households
- Model 3 – Introducing a band cap at band D, and a capital limit of £6,000

The schemes were agreed with the council as being relevant for consideration, as part of a coordinated review of the existing Council Tax Support (CTS) schemes in Leicestershire with a view to adopting new schemes with effect from 1st April 2017.

The headline description of each scheme is a summary; the models take into account all specified changes. Table 1 (below) compares each scheme according to the key criteria identified by the council, and highlights the key impacts and implications the council may wish to consider.

The council will need to think carefully about how to balance savings, alongside the impact on household incomes. We hope that this report leads to further informed discussion among members about the appropriate priorities for the council.

Table 1: A comparison of scheme options

	Current Scheme (2016/17)	Baseline Current Scheme (2017/18)	Option 1: 70%	Option 2: 80%	Option 3: bandcap & capital limit (£6,000)
Scheme description	The current scheme caps support for working age	Current scheme (max 88%) uprated by 3.52% for 2017/18.	Maximum council tax support set at 70% for all working age households.	Maximum council tax support set at 80% for all working age households.	Council Tax Support limited to properties at Band D and below; and to households with savings below £6,000
Total cost of scheme	£2,044,710	£2,109,242	£1,905,581	£2,017,750	£2,091,593
Support to working age households	£877,221	£896,046	£692,385	£804,554	£878,396
Estimated CT savings		£18,825	-£203,662	-£91,492	-£17,650
Estimated CT savings			-9.7%	-4.3%	-0.8%
Average annual loss in support (WA) altogether		N/A	-£165.58	-£74.38	-£14.35
Overview		A higher minimum wage and personal tax allowance mean that the cost of support increases by less than the rise in liability.	Council tax falls on average by £3.18 per week (£165.58 / year) on average. A loss of £2.81/week for those still in receipt. 47 households lose support altogether.	Council tax falls on average by £1.43 per week (£74.38 / year). A loss of £1.33/week for those in receipt. 15 households lose support altogether.	Council tax falls by 28p per week (£14.35 / year). A loss of 15p/week for those in receipt. 16 households lose support altogether.
Impacts			Households in receipt of higher levels of council tax support are impacted the most. They are more likely to be in higher banded properties (larger families)	Households in receipt of higher levels of council tax support are impacted the most. They are more likely to be in higher banded properties, typically couples (both with and without	Households in higher banded properties (E/F/G) are impacted the most, these households are more likely to be couples with children, in-work and owner-occupiers. A total of 10

1.0 Introduction

Melton Borough Council is considering revising its Council Tax Support Scheme in 2017/18.

Policy in Practice has been commissioned to propose three alternative CTS schemes for consideration by the council, and to provide an analysis of their impact on residents, and on council finances.

This report will provide information to inform members, assist the council in scheme evaluation, and help the council to meet their objectives for a new scheme.

1.1 Background and Objectives

Melton Borough Council is part of the Leicestershire & Rutland Welfare Practitioners Group (LRWPG), a group directed by the Leicestershire Treasurers group to review the council tax support scheme, and establish co-operation and sharing of best practice in Leicestershire and Rutland for welfare benefits administration and processing.

Members of the group are coordinating a review of the existing Council Tax Support (CTS) schemes with a view to adopting new schemes with effect from 1st April 2017. The group has considered the implementation of a single, county-wide CTS scheme but it is not expected that the project will implement a single, county-wide scheme due to the variations in the customer base. The overall aim is for some degree of consistent approach but ultimately each council will be responsible for deciding its own scheme, in part reflecting local circumstances, and objectives.

The objectives of Melton, and the wider LRWPG project are to:

- successfully review the current scheme and to implement changes to the scheme, on time, and to budget;
- establish appropriate co-operation across Leicestershire Councils directly affected by the project, whether currently responsible for local council tax support or not;
- identify and maximise opportunities for county-wide efficiency within the schemes;
- review their schemes with a view to reducing costs on the current schemes whilst meeting established principles i.e. protecting the most vulnerable and incentivising work.

1.2 Current scheme

The current scheme (2016/17) is modelled on the pre-2013 Council Tax Benefit scheme, but with support capped at 88% for working-age households. All councils must retain this scheme in respect of pensioner households, therefore, modelling for revised schemes is presented only with respect to working age households.

The cost of the current scheme is £2.04m, with £877,221 spent on 1,230 working age households who could potentially be impacted by changes in the CTS scheme.

1.3 Updated Scheme

Council Tax Liability has been modelled to increase by 3.52% in 2017/18. This will increase the costs of support by 3.2% to £2.11m, or £896,046 for working age households. The reason support increases by less than the increase in liability is because households in work will benefit from the increased personal tax allowance, and higher National Living Wage, which in turn leads to lower council tax support.

1.4 Proposed Schemes

The proposed schemes modelled in this report are;

- Model 1 – Maximum Council Tax Support reduced to 70% for all households
- Model 2 – Maximum Council Tax Support reduced to 80% for all households
- Model 3 – Introducing a band cap at band D, and a capital limit of £6,000

These schemes were agreed with the council, and aimed at showing different ways in which the council's objectives could be met.

Each of the schemes seek to make savings, but does so to different extents with a corresponding impact on low income households.

They are each modelled on the current scheme, which is in turn modelled on the original Council Tax Benefit scheme, retained for pensioners. This helps to ensure each of the proposed schemes can be administered effectively, without significant changes in administration.

There are no protected groups within the scheme itself, but there is a discretionary council tax hardship scheme to support households who may need additional support to pay their council tax. There are 253 lone parents with children under five, and 421 households in receipt of ESA, DLA or Carer's Allowance.

Migration to Universal Credit has not been included when modeling the specified schemes, as it is unlikely to have a significant impact in 2017/18.

2.0 Modelled Schemes

A selection of the main findings for each scheme is summarised here, along with an overview of the impacts of each scheme.

An overview of each scheme can be found in Table 1, in the executive summary.

2.1 Model 1: Maximum Council Tax Support reduced to 70% for all households

By reducing maximum support to 70% to all working-age household, the annual expenditure on CTS would fall from £2.11m to £1.9. This represents a 9.7% reduction in overall costs, a 22.7% fall if we consider expenditure on support for working-age households only.

This group would face a reduction in the level of support received of £3.18 per week, with 47 households losing support altogether.

Looking at the effects of this scheme across different households group, we observe little variations. Households living in band C properties, private tenants, lone parents and households in work face the highest proportional reduction in CTS, compared to the amount of support they would receive if the current scheme was maintained in 2017/18.

Annual cost of modelled scheme - working age households			
	Scheme Cost	Comparison to uprated current scheme cost	
	£/annum	Change/£ annum	% change
Working age	£692,385	-£203,662	-22.7%
Pension age	£1,213,196	£0	0%
Total	£1,905,581	-£203,662	-9.7%

Age Group	Households currently in receipt of CTS			
	No. households	Average CTS received	Change (£/week)	Change (%)
Working age	1,230	£10.83	-£3.18	-22.7%
Pension age	1,294	£18.03	£0.00	0.0%

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Households currently in receipt of CTS				
Band	No. households	Average CTS received	Change (£/week)	Change (%)
A	494	£10.10	-£2.84	-22.0%
B	573	£10.90	-£3.26	-23.0%
C	102	£11.93	-£3.72	-23.8%
D	37	£12.81	-£3.89	-23.3%
EFG	24	£16.14	-£4.91	-23.3%

Households currently in receipt of CTS				
Tenure	No. households	Average CTS received	Change (£/week)	Change (%)
Social Tenant	740	£11.12	-£3.22	-22.4%
Private Tenant	339	£10.73	-£3.28	-23.4%
Owner Occupier	151	£9.61	-£2.82	-22.7%

Households currently in receipt of CTS				
Household Type	No. households	Average CTS received	Change (£/week)	Change (%)
Single	464	£10.86	-£3.02	-21.8%
Lone Parent	492	£9.53	-£2.98	-23.8%
Couple no children	73	£14.63	-£4.11	-21.9%
Couple with children	201	£12.53	-£3.73	-22.9%

Households currently in receipt of CTS				
Economic Status	No. households	Average CTS received	Change (£/week)	Change (%)
Employed	337	£5.98	-£2.72	-31.3%
Self-employed	55	£9.01	-£3.08	-25.5%
Out-of-work benefits	838	£12.89	-£3.38	-20.8%

2.2 Model 2: Maximum Council Tax Support reduced to 80% for all households

Scheme 2 modelled a reduction in maximum support from 88% to 80% for all working age households. Our analysis finds that, under this scheme, the council could reduce expenditure on CTS by £91,492 a year, bringing down the costs of support to £2.01m. This represents a 4.3% reduction in overall costs (10.2% if we consider expenditure for working-age households only), compared to the current uprated scheme.

On average, working age households would face a reduction in the weekly amount of council tax support received of £1.43. Under this scheme, 15 households would no longer qualify for support altogether.

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Similarly, to Model 1, households living in band C properties, private tenants, lone parents and households in work will face the highest proportional reduction in the level of support received.

Annual cost of modelled scheme - working age households			
	Scheme Cost	Comparison to updated current scheme cost	
	£/annum	Change/£ annum	% change
Working age	£804,554	-£91,492	-10.2%
Pension age	£1,213,196	£0	0%
Total	£2,017,750	-£91,492	-4.3%

Households currently in receipt of CTS				
Age Group	No. households	Average CTS received	Change (£/week)	Change (%)
Working age	1,230	£12.58	-£1.43	-10.2%
Pension age	1,294	£18.03	£0.00	0.0%

Households currently in receipt of CTS				
Band	No. households	Average CTS received	Change (£/week)	Change (%)
A	494	£11.67	-£1.28	-9.9%
B	573	£12.70	-£1.47	-10.4%
C	102	£13.98	-£1.67	-10.7%
D	37	£14.96	-£1.75	-10.5%
EFG	24	£18.86	-£2.18	-10.4%

Households currently in receipt of CTS				
Tenure	No. households	Average CTS received	Change (£/week)	Change (%)
Social Tenant	740	£12.89	-£1.44	-10.1%
Private Tenant	339	£12.52	-£1.48	-10.6%
Owner Occupier	151	£11.17	-£1.26	-10.1%

Households currently in receipt of CTS				
Household type	No. households	Average CTS received	Change (£/week)	Change (%)
Single	464	£12.53	-£1.35	-9.8%
Lone Parent	492	£11.17	-£1.34	-10.7%
Couple no children	73	£16.91	-£1.84	-9.8%
Couple with children	201	£14.58	-£1.68	-10.3%

Households currently in receipt of CTS				
Economic Status	No. households	Average CTS received	Change (£/week)	Change (%)
Employed	337	£7.44	-£1.26	-14.5%
Self-employed	55	£10.70	-£1.38	-11.4%
Out-of-work benefits	838	£14.77	-£1.50	-9.2%

2.3 Model 3: Introducing a band cap at band D, and a capital limit of £6,000

Under this model, the potential savings obtained by the Council are minimal. Expenditure would fall by £17,650 (0.8%) a year, to £2.09m.

Working age households will see their level of support dropping by £28.p per week. 16 working age households would no longer qualify for CTR, 10 of them due to the lower capital limit of £6,000.

Annual cost of modelled scheme - working age households			
	Scheme Cost	Comparison to uprated current scheme cost	
	£/annum	Change/£ annum	% change
Working age	£878,396	-£17,650	-2.0%
Pension age	£1,213,196	£0	0%
Total	£2,091,593	-£17,650	-0.8%

Age Group	Households currently in receipt of CTS			
	No. households	Average CTS received	Change (£/week)	Change (%)
Working age	1,230	£13.73	-£0.28	-2.0%
Pension age	1,294	£18.03	£0.00	0.0%

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Band	No. households	Average CTS received	Change (£/week)	Change (%)
A	494	£12.85	-£0.10	-0.8%
B	573	£14.00	-£0.17	-1.2%
C	102	£15.47	-£0.18	-1.2%
D	37	£16.70	£0.00	0.0%
EFG	24	£13.73	-£7.32	-34.8%

Households currently in receipt of CTS				
Tenure	No. households	Average CTS received	Change (£/week)	Change (%)
Social Tenant	740	£14.24	-£0.10	-0.7%
Private Tenant	339	£13.42	-£0.58	-4.1%
Owner Occupier	151	£11.96	-£0.47	-3.8%

Household Type	No. households	Average CTS received	Change (£/week)	Change (%)
Single	464	£13.78	-£0.11	-0.8%
Lone Parent	492	£12.32	-£0.18	-1.5%
Couple no children	73	£18.31	-£0.43	-2.3%
Couple with children	201	£15.42	-£0.84	-5.2%

Economic Status	No. households	Average CTS received	Change (£/week)	Change (%)
Employed	337	£8.51	-£0.19	-2.2%
Self-employed	55	£11.92	-£0.17	-1.4%
Out-of-work benefits	838	£15.95	-£0.32	-1.9%

3.0 Summary

3.1 Key Considerations

This report was commissioned to support an informed debate about a new council tax support scheme for Melton Borough Council and does not seek to provide recommendations.

Any decision on how to balance cost savings, administrative savings, equity, hardship and support for particular groups will obviously be influenced by the specific priorities and objectives of the council. The council will also need to consider the impact on other council services and funding streams.

Each of these schemes is designed to illustrate the effect of changing certain aspects of Melton Borough Council's council tax support scheme.

- Scheme 1 provides a spread of savings across all households, with everyone paying 70%.
- Scheme 2 is similar, and provides a spread of savings across all households, with everyone paying 80%.
- Scheme 3 achieves savings by limiting support to those living in larger houses, and those with savings above £6,000

Certain households will have reductions in CTS because of factors that may indicate a lower need for support, e.g. higher savings, living in a larger property. However, the individual circumstances of households will vary, larger families may have higher needs, for example.

The council will need to think carefully about the level of savings required, alongside how these are best achieved given that some households will inevitably lose out. Additional considerations include the impact of other welfare reforms, levels of arrears faced by households (and the council), and how council tax support interacts with national and other local support schemes. This cumulative assessment of the impact of welfare reform is a secondary deliverable alongside this report.

We hope that this report helps to inform a debate and assists in clarification of the role of CTS in supporting the council's priorities.

Some of the issues that the authority might wish to consider are listed below.

3.2 General Considerations

Work incentives

In work support under Universal Credit will be significantly less generous than under the current benefit regime. The Local Government Association (LGA)¹ calculated that even before the Autumn Statement 2015, a third of welfare reform savings would be from the working poor. The authority may wish to consider the effects of possible further hardship to this group together with the effect on work incentives. Particularly vulnerable are the working poor who are also private tenants. This group is likely to migrate to Universal Credit at a faster rate than owner occupiers or social housing tenant as private tenants show a significantly higher level of change of circumstances that would result in a new claim thus hastening migration to Universal Credit.

The self-employed are also likely to be affected by the move to Universal Credit as income will be assessed on the minimum wage rather than actual earnings. For many, this will result in benefit support based on a significantly higher notional income than is actually received by the household.

Protection of vulnerable groups

The LGA has calculated that at least 20% of welfare benefit savings will come from cuts in benefit to the disabled. As the authority has a statutory duty to support vulnerable adults and children it may wish to consider the impact on other services if there is further hardship to this group.

Tenants

At least 20% of welfare benefit savings have been made from tenants, currently three quarters of this amount has been saved from private tenants, mostly through implementation of local housing allowances. The extension of local housing allowances to the social rented sector may see a significant increase in hardship for tenants in this sector. The LGA calculated that private tenants have already lost about £25 per week in benefits and those in the social rented sector £14 per week. The authority may wish to consider hardship implications of reduced support for this group. In particular, if tenants fall within more than one group that has been particularly hit by welfare reform. For example, 34% of private tenants receiving Housing Benefit are working and 33% of private tenants are in receipt of DLA/PIP or attendance allowance. The groups that have multiple risk factors will be of significant risk of hardship and non-payment of Council Tax if a CTS scheme significantly reduces support over more than one of these areas. Excluding Housing Benefit from income assessment would go some way to protect tenants (options 1, 2 and 4).

Impact on other discretionary schemes

Any reduction in CT support is likely to have an impact on other discretionary schemes.

There may be more pressure on these schemes with the introduction of LHA to the social rented sector, together with the roll out of Universal Credit and consideration of the impact of these changes, together with a reduction in support through CTS may be useful.

¹ The local impacts of welfare reform. An assessment of cumulative impacts and mitigations. A report commissioned from the Centre for Economic and Social Inclusion by the Local Government Association. Tony Wilson, Gareth Morgan, Afzal Rahman, Lovedeep Vaid, August 2013

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Some of the impact of reduced CTS will continue to be managed through the existing discretionary scheme which has support from MBC, County Council, Police and Fire Authorities and provides targeted support to those in financial hardship

Administration costs

It should be noted that subsidy for CTS administration is very low (about £11 per case). There has been no indication from the DWP that this will increase as costs of assessing CTS standalone cases increase.

CTS Subsidy

Central Government funding for CTS is predicted to fall with the result that Council's will increasingly need to meet scheme costs through other means. Subsidy for payment of CTS was initially set at 90% of forecast expenditure for the year 2013/14. Although funding for council tax support was identified within councils' overall Settlement Funding Assessment figures in 2013/14, from 2014/15 onwards it has not been possible to separately identify the level of funding to each council. A report by the LGA states that "Although the Government claims that the top level transfer indicates that CTS funding has not been cut further, in practice allocations to councils are reducing²". The LGA also calculate that if funding for CTS is reduced in line with overall funding to councils there will be a reduction of 28% by 2017³.

Annex: Methodology & Approach

Modelling is at household level. We model the impact of each scheme on each affected household within the local authority.

Household data on current claimants has been supplied to Policy in Practice in the form of Housing Benefit and Council Tax Support (SHBE / CTS) data extracts. Policy in Practice convert this data into a format that can be used by their policy modelling software, the Universal Benefit and Budgeting Calculator. This software models the current benefit system, Universal Credit and other known changes to Minimum Wage, Tax and Benefits legislation. This allows for the cumulative impact of policy changes to be applied to each household. The impact on each household is then aggregated to show the impact on specific groups of households.

In order to enable comparison of modelled schemes against the current scheme in subsequent years, an agreed annual increase in council tax has been included. The rate of council tax increase used is 3.52%.

Migration to Universal Credit has not been included when modeling the specified schemes.

We have carried out analysis of the current scheme to ensure we have the same baseline as the council, and against the uprated current scheme for comparative purposes. For each model comparison of impact is made against the forecasted cost of the uprated current scheme in 2017/18, as requested by the council.

² Rewiring Public Services - Council Tax Support. Published by the Local Government Association

³ Rewiring Public Services - Council Tax Support. Published by the Local Government Association