

26<sup>TH</sup> SEPTEMBER 2019**REPORT OF THE PORTFOLIO HOLDER FOR ASSETS AND FINANCE****LOCAL COUNCIL TAX  
REDUCTION SCHEME 2021/22****EXEMPT INFORMATION**

None

**PURPOSE**

To inform Cabinet of the need to review the Council's Local Council Tax Reduction Scheme (LCTRS).

To explain the proposed features of a new Local Council Tax Reduction Scheme.

**RECOMMENDATIONS**

That Cabinet approve:

1. the need to review the Council's Local Council Tax Reduction Scheme.
2. the detailed cost forecasting and scheme principles explained in this report are considered and endorsed.
3. that Corporate Scrutiny Committee be asked to review the proposals and options contained within this report with the aim to finalise a new scheme for Public consultation in 2020.

**EXECUTIVE SUMMARY**

This report updates Members on the proposals to review the Local Council Tax Reduction Scheme (LCTRS) for implementation in 2021/22, starting on 1 April 2021.

The Council's current LCTRS was implemented in 2013, in partnership with all other Staffordshire councils, when the national Council Tax Benefit scheme was abolished. In common with all other districts and boroughs at that time, Staffordshire authorities worked jointly to produce a framework scheme, which is based on the same set of principles but contained some variances for each local authority depending on their demographics and local priorities, whilst at the same time accommodating a 10% reduction in government funding, and protecting the more vulnerable groups.

In the main our scheme has remained relatively unchanged since 2013 only incorporating small changes to continue to align the scheme each year with any Housing Benefit changes. In light of the proposals contained within this report, we are not proposing any changes to the scheme for 2020/21 other than the usual alignment with Housing benefit which is a minor change and does not require consultation.

The scheme is means tested and all claimants are required to complete an application form and provide considerable evidence and information within a specific timescale in order for an assessment to be completed enabling a reduction in the amount of council tax payable.

However, the current scheme does not work well for Universal Credit (UC) claimants, who no longer claim other benefits from the Council.

Central government funding continues to reduce as Housing Benefit caseloads reduce as a result of Universal Credit. The rules for LCTR pensioners continue to be prescribed nationally and therefore we can only consider changes to the scheme for working age claimants.

Our current scheme is ‘penny specific’. We make an award based on exact income and capital of the customer. Any change must be reported and will require a re-assessment, which in turn generates a revised Council Tax bill. This is cumbersome and frustrating for Benefit Staff, Council Tax Staff and customers alike, particularly when changes are small. Furthermore, the repeated re-issue of bills, delays the recovery of unpaid council tax, which obviously contributes to non-payment issues.

UC payments in particular would be problematic if not addressed. For many claimants, UC payments can change on monthly basis. This could mean that an individual might receive twelve council tax bills and revised benefit letters during the year with payment schedules being re-profiled each time. This makes it very difficult for claimants to manage their money or understand how changes to their income might affect them, often leading to arrears and debt. This will certainly become more of an issue as the volume of UC claimants increase when managed migration of UC commences, with additional administration as a consequence of the multiple changes, potentially impacting on staff resources required to deal with these changes.

The Council Tax arrears amongst LCTR recipients are proportionately much higher than arrears amongst those not reliant on benefit, and this is no surprise. Whereas in 2018-19 we collected 98.4% of our overall Council Tax within the financial year, the collection rate amongst LCTR recipients was 84%. The current scheme is evidently creating charges which are difficult for the taxpayer to pay and for the Council to recover when not paid. This is clearly inefficient and ineffective and needs to be addressed, without losing fairness and equality from the scheme.

Better use of technology can also be considered in order to simplify the process of claiming, assessing and notifying LCTR, to the benefit of both the council and its customers.

The proposed scheme will be a “Banded Discount Scheme” which would remove much of the complexity associated with the current scheme, whilst at the same time maintaining fairness and equality in the way in which awards are distributed amongst Council Tax payers.

According to their household and financial circumstances, claimants will be placed into bands and an appropriate percentage reduction made from their bill.

An example of a banded scheme can be seen below  
**(This is for illustration purposes only):**

CTR Level	Passported	Single Person Income Band £	Couples Income Band £	Family with 1 child £	Family with 2 or more children £
Band 1 – 80%	Relevant Benefit	0.00 – 79.99	0.00 – 119.99	0.00 – 179.99	0.00 – 239.99
Band 2 – 60%	N/A	80.00 – 129.99	120.00 – 169.99	180.00 – 229.99	240.00 – 299.99
Band 3 – 40%	N/A	130.00 – 179.99	170.00 – 219.99	230.00 – 279.99	300.00 – 349.99
Band 4 – 20%	N/A	180.00 – 259.99	220.00 – 299.99	280.00 – 379.99	350.00 – 449.99
No Discount	N/A	>260.00	>300.00	>380.00	>450.00

Changing the LCTRS to a Banded Discount Scheme will make it much easier for people to understand and for our staff to administer. Claimants will easily be able to establish if they will qualify and the amounts involved.

The new income band system would enable people to increase their working hours or get a better paid job knowing in advance how much support we will give them to pay their council tax. It is therefore, proposed that the income ranges will be wide ranging in order to avoid having to make constant changes in the level of discount awarded. They will also get fewer council tax bills even if their Universal Credit changes provided their income remains within a particular band.

The current CTR scheme policy is significant in size, unduly complex and primarily based on a means-tested benefits scheme. The intention is to make the new scheme policy much simpler, reducing the level of complexity and making it more transparent and understandable for applicants and tax payers.

It is expected that some of the current onerous evidence requirements can be also reduced, with our officers' time being more targeted to compliance checks using data access and data matching facilities available to us.

Many other councils across the country are adopting the same approach.

- 2013/14 – Only 1 Council in England had a banded scheme
- 2018/19 – 10 Councils introduced banded or part banded schemes
- 2019/20 – 25 Councils have introduced banded or part banded schemes
- 2020/21 – Over 100 authorities are looking to change and simplify their schemes.

## **OPTIONS CONSIDERED**

The new scheme will be much simpler and will bring in a system of income bands to assess an entitlement to a set % Council Tax Reduction. The proposed Banded Scheme will be easier to administer. It will be easy for customers to calculate their own entitlement and understand the effect of changes in their income and how much council tax they need to pay. Their entitlement will only produce a revised Council Tax Demand Notice if their income moves into up/down into another band level.

Options considered for the proposed banding scheme are:

- The scheme will be cost neutral. We anticipate the total spend to be as it is now.
- Significant administrative savings resulting from the streamlined process and use of technology.
- Improved customer experience, through simplicity of process.
- If possible, we want to create common schemes across all Staffordshire Districts.
- Banded Discounts, probably increasing in 25% or 20% increments up to 100%.
- For Universal Credit claimants – Housing costs to be 100% disregarded. This amount included in their monthly payment is intended for help towards their rental costs. This is also disregarded in the current scheme.
- Continue to disregard the following incomes – Disability Living Allowance (Care & Mobility components), Personal Independence Payments (Daily Living & Mobility – both Standard & Enhanced rate components) and Child Benefit, Maintenance Received & War Pensions (the current scheme allows for all of these disregards).
- Where an applicant is disabled, they have a disabled child or receive the Support Component of the Employment and Support Allowance, the amount they receive as a premium under the existing scheme will be replaced by an equivalent income disregard. This will help continue to protect the most vulnerable.

- Where applicants receive Carers Allowance for looking after a person who is ill or disabled, the Carers Allowance payment they receive should be disregarded.
- Earnings disregards – to encourage work existing earnings disregards replaced by a standard £25 per week across all applicant types. Under the current scheme the earnings disregards are £5 (single persons), £10 (couples) and £25 (Lone Parents & disabled)
- No Non-dependant deductions. This is a significant change and means that the administration of the scheme will be more straightforward whilst also protecting low income families where adult sons and daughters, for example, remain at home. The current scheme applies no deduction where a non-dependant claims a primary benefit, £5 if a non-dependant works less than 16 hours per week and £10 if working 16 hours or more weekly.
- Simplifying the capital rules and reducing the capital limit from the current £16,000 to £6,000. Any capital below this level will not have any effect on the applicant's entitlement. This removes the need for applying a tariff income on capital above £6000.
- The scheme will have a minimum award of £1.00 per week.
- Claimants will only need to report changes of income which are sufficient to take them into the next income band.
- Self-employed claimants will be assessed according to their HMRC self-assessed earnings, subject to a minimum of the National Minimum wages level.

Various modelling has been carried out with varying degrees of savings/expenditure dependant on the options applied, income bands and percentages used – attached at **Appendix 1**.

LCTRS Modelling option 1 shows a maximum award of 100% for those customers in receipt of a Passported benefit (Jobseekers Allowance (IB), Employment Support Allowance (IR) or Income Support); however the cost of this scheme shows a significant overspend of approximately £531,000. While the intention of the scheme is to support those on the lowest income, protecting the disabled and trying to minimise the loss of customer's current entitlement, this is unlikely to be achieved without further spending. Under this scheme only 76 would lose an average of £6 per week with 2464 either benefiting financially or seeing no change to their current entitlement.

The proposed scheme, option 2 shows a change to both income bands and percentages with the maximum award of 80%. There would be a significant financial impact for a small number of customers and it is estimated that 1,778 customers will benefit financially, 762 will be worse off by £4 per week on average while achieving a cost neutral spend.

LCTRS Modelling option 3 shows the maximum award reduced to 90% with a saving of around £27,000. However in order to achieve this, the income bands have been lowered resulting in 1436 either benefiting financially or seeing no change to their current entitlement, while 1104 would lose an average of £5 per week.

It should be noted that these figures are estimates and can change due to continuous monitoring of the modelling of the scheme as the claim base changes.

In order to finalise the proposed scheme for Public Consultation in 2020, it is recommended that Corporate Scrutiny Committee be asked to review the proposals and options contained within this report and provide appropriate feedback to Cabinet to influence the design of the scheme. This will give Members the opportunity to further understand the complexities involved in amending the scheme and the potential impact (positive and negative) on the current scheme recipients.

### **Exceptional Hardship Policy**

The current LCTR scheme also contains a provision for applicants to make an application for additional financial support where they experience exceptional hardship. It is therefore

proposed that the new scheme will still contain the same provisions and where any person, or group of persons, is likely to experience hardship, this will be addressed as part of the overall scheme design.

The Exceptional Hardship Policy will continue to be an integral part of the scheme for the foreseeable future and will allow for additional support to be given where an individual suffers exceptional hardship.

### **Consultation Process**

Full Council approval will be needed for an amended scheme and we are obliged to conduct a comprehensive consultation process prior to this. This will include involvement of the Corporate Scrutiny Committee in the design of the scheme as well as consultation with preceptors, voluntary organisations and the public. The next steps in this process are as follows;

- **Review** – whilst the principles of an efficient scheme are apparent, the most difficult part of the task is to establish the correct income bands to be applied within the scheme. Revised costings can be carried out throughout the process to finalise the scheme.
- **Consultation** - An extensive formal consultation will need take place around August 2020, typically for a period of around 8 to 12 weeks and include the major preceptors, partners, community groups, other stakeholders and any other interested parties. Sufficient information on the reasons for the proposals must be provided to permit the consultees to carry out intelligent consideration of the issues and respond. The Staffordshire billing authorities will undertake this exercise together, sharing the cost of any necessary external expertise.
- **Reporting and Approval** - The results of the consultation must be properly taken into account in finalising any decision. Full Council approval is needed for the new schemes.

### **RESOURCE IMPLICATIONS**

The estimated annual cost of the current LCTR scheme is £4.1m of which £2m relates to working age claimants. The financial modelling for the new scheme is ongoing but the intention is to maintain the cost at current levels. There will be no significant financial impact to the Council and major Precepting Authorities.

This report seeks only to explain the features of the process and so has no significant financial implications at this stage.

It is anticipated that the scheme that we will consult upon will be broadly budgetary neutral and will be reported and explained to members through the consultation process.

### **LEGAL/RISK IMPLICATIONS BACKGROUND**

The new scheme framework will inevitably change the amount of discount to some customers. The modelling suggests that whilst a number will have an enhanced award, where any award is reduced applicants will be able to apply for an exceptional hardship payment.

We have a legal duty to consult on the changes to our scheme. Schedule 1A of the Local Government Finance act 1992, which was inserted by Local Government Finance act 1992 states that:

Before making a scheme, the authority must (in the following order):

- a) consult any major precepting authority which has power to issue a precept to it;
- b) publish a draft scheme in such manner as it thinks fit; and
- c) consult such other persons as it considers are likely to have an interest in the operation of the scheme.

A summary of the perceived risks follows:

Perceived Risk	Seriousness	Likelihood	Preventative Action
Council not able to maximise collection due to increased demand notices	High	Medium	To review the scheme so that small changes in income are not reflecting in multiple changes to a CTR award with multiple demand notices.
Council not able to recover increase in arrears	Medium	Medium	To utilise resource effectively and administer hardship schemes appropriately.
Negative public reaction to proposals	Medium	Medium	Response from consultation will be taken into consideration when the final scheme is recommended.
Potential legal challenge to 2021/22 CTR scheme	Medium	Low	Ensure full consultation has taken place with genuine options and that a proper equality impact assessment has been undertaken.

## EQUALITIES IMPLICATIONS

A full Equality Impact Assessment, together with the results of the consultation will be presented to Cabinet once the consultation is closed. At this stage, Cabinet is being asked to agree draft scheme options that can be put out to consultation.

Where an individual may suffer exceptional hardship, the scheme will include provisions to allow additional support to be given.

## SUSTAINABILITY IMPLICATIONS

Funding for the replacement of the previous Council Tax Benefit Scheme was changed from an unrestricted reimbursement of Council Tax Benefit Subsidy to a restricted, pre-allocated grant figure – which has subsequently been reduced year on year as part of the austerity measures. The Council must be aware that there must continue to be a contingency if, for instance, a major local employer goes into administration.

## **BACKGROUND INFORMATION**

The Welfare Reform Act abolished Council Tax Benefit from 01 April 2013. It was replaced by a new Local Council Tax Reduction Scheme for working age customers. A national scheme of regulations was introduced for pensioners, which mirrors the obsolete Council Tax Benefit Scheme.

On 11 December 2018 Full Council considered and approved the Council's Local Council Tax Reduction Scheme 2019/20. Since the introduction of the original scheme in April 2013, there have been many changes in welfare reform that have required the Council to review the existing scheme and impact that it will have on residents and the authority in the future. The potential to mitigate the effect of the changes by moving to a banded LCTRS scheme was raised in the LCTRS report to Council in December 2018.

It has been recognised locally (& by most Billing Authorities in the country), that the existing Local Council Tax Reduction Schemes need to significantly change to meet the changing world of local authority benefits and our claimants, who are of working age. No changes are permissible to the reductions offered to pensioners.

As such, discussions have taken place amongst the authorities in Staffordshire with a strong consensus of opinion being reached as to what a "Banded Discount Scheme" might look like. Many other authorities have already implemented such schemes with many more looking to do so from April 2020.

As with the current countywide LCTRS scheme, authorities are keen to work together on these changes. Most districts/boroughs have indicated that they would like to adopt banded schemes which are as similar as practicably possible, so as to avoid confusion or "post code lotteries" across the county.

The introduction of Universal Credit on 30 November 2017 in the district has started and will continue to have a significant impact on the Council's CTR scheme. This trend is being recognised nationally as more schemes are adapted to meet the changing needs of residents.

From 30 November 2017 working age claimants who apply for 'legacy benefits' (Income Support, Jobseekers Allowance, Employment Support Allowance, Working & Child Tax Credits and Housing Benefit) in Tamworth Jobcentre area will have to claim Universal Credit instead.

Under Universal Credit claimants receive monthly payments encompassing their qualifying benefits. This does not include Council Tax Reduction which remains an administrative function of the Local Authority.

Any proposed significant changes to the scheme will require a full public consultation and agreement at full Council by March 2021.

Any proposed change would only relate to working age claimants as the pensionable age regulations are maintained by Central Government and out of scope for review.

In addition to this, trends show that there is low take up of customers in receipt of Universal Credit applying for Council Tax Reduction. Large numbers of change in circumstances are received by Councils via the DWP's data hub resulting in monthly adjustments in CTR creating difficulties in collection of council tax with multiple demand notices being issued. National trends have demonstrated that on average Universal Credit customers receive at least 8 change notifications in a year, in particular those that work and also claim Universal Credit. Under the existing scheme each change to income would produce a new demand notice for the customer; amending their instalments on a regular basis and making it difficult to collect via Direct Debit due to rules around the administration.

Regular changing of instalments can make it difficult for a customer to use Direct Debit as a payment method, due to the lead in times that the Council needs to advise the customer of a change before taking the payment. Multiple demand notices and CTR notifications can also be confusing for the residents to keep up with.

#### **REPORT AUTHOR**

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#### **LIST OF BACKGROUND PAPERS**

None

#### **APPENDICES**

Appendix 1 – Scheme Modelling options