

27 July 2023

Cabinet

17 August 2023

**Report of the Portfolio Holder for Operations and Finance****Local Council Tax Reduction Scheme 2024/25****Exempt Information**

Not applicable

**Purpose**

To provide an update on the proposed changes to the Local Council Tax Reduction Scheme and to request permission to undertake a consultation with the public and our Preceptors.

**Recommendations**

That Cabinet be asked to approve the consultation with the public and Major Precepting Authorities on the introduction of a new income banded / grid scheme for working age applicants with effect from 1<sup>st</sup> April 2024. To reduce the administrative burden placed on the Council by the introduction of Universal Credit, to increase the overall level of support for the lowest income families and to improve the level of Council Tax collection.

**Executive Summary**

The purpose of this briefing report is to update the authority on the work undertaken so far and to request permission to undertake a consultation with both the public and the Major Precepting Authorities in respect of proposed changes to the Council's Council Tax Reduction Scheme with effect from 1<sup>st</sup> April 2024.

Each year the Council is required to review its Council Tax Reduction Scheme in accordance with the requirements of the schedule 1A of the Local Government Finance Act 1992 and to either maintain the scheme or replace it.

Council Tax Reduction (CTR) was introduced from 1 April 2013 when it replaced the Central Government funded Council Tax Benefit regime. From its inception, the funding available to the Council from government has reduced year on year.

As with the majority of authorities within England, the Borough Council needs to make changes to the CTR scheme for working age applicants (the scheme for pension age applicants is prescribed by Central Government) in order to reduce the significant administrative burden placed on the Council by the introduction of Universal Credit.

This report requests permission to consult on changes required to the scheme and makes recommendation for the 2024/25 scheme.

## Options Considered

The alternative to introducing a new scheme for Council Tax Reduction from 2024/25 is to leave the existing scheme in place. This would be a short-term option; lead to increasing costs of administration; and in the longer term, significantly affect the collection of Council Tax and the effectiveness of the scheme to support households within the Council's area.

## Resource Implications

The current Council Tax Reduction scheme costs approximately £4.77m which is borne by the Council's Collection Fund. Costs are shared between the Council and the Major Precepting Authorities in the following proportions:

- Borough Council (10%);
- County Council (73%);
- Police and Crime Commissioner (13%);
- Fire and Rescue Service (4%);

The approach and 'shape' of the scheme is changing, and the overall approach will be to provide additional support to those households on the very lowest incomes. There is no intention to reduce the level of support available to other households. Based on current modelling, were the new scheme to be in place at the current time, the costs would be £5.57m.

Financial modelling has been undertaken and will continue to be undertaken throughout the project.

Whilst the expected costs of the scheme for 2024/25 will be higher, the overall level of Council Tax Reduction as a proportion of the Gross Council Tax liability (Table 1) and the Council Tax Base has reduced year on year since 2013 as shown below (Table 2). The proposed changes for 2024/25 would still represent a significant reduction in the proportion of costs in real terms compared to the original Council Tax Reduction level:

**Table 1**

Financial Year	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	Reduction since 2013
Gross Liability	£34.08	£34.3	£34.9	£36.1	£37.8	£40.3	£42.4	£44.8	£47.7	£49.8	
CTR	£4.4	£4.2	£4.0	£3.9	£3.9	£4.0	£4.1	£4.1	£4.7	£4.7	
%age	13%	12.2%	11.5%	10.8%	10.3%	9.9%	9.7%	9.2%	9.8%	9.4%	-27.7%

**Table 2**

Financial Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	% increase /decrease since 2013
Tax Base (Band D)	28,756	29,150	29,199	29,333	29,340	29,614	29,776	30,203	30,645	30,808	7.1%
CTR (Band D)	4,284	4,057	3,848	3,702	3,517	3,388	3,314	3,489	3,444	3,326	-22.4%
%age	14.8%	13.9%	13.1%	12.6%	11.9%	11.4%	11.1%	11.5%	11.2%	10.8%	

Table 3 below also provides details of the collection rate for working age cases and it can be clearly seen that the reduced level of support provided is inevitably leading to a reduction in the in-year collection rate. This is primarily due to the need for even the poorest families being required to make a minimum payment and the resulting increase in the level of arrears. In most cases the sums outstanding now are far more than their ability to pay.

**Table 3**

<b>Year</b>	<b>In year collection rate (all)</b>	<b>In year collection rate (CTR only)</b>
2013/14	97.6%	83.9%
2014/15	97.7%	84.5%
2015/16	97.9%	85.6%
2016/17	98.0%	85.3%
2017/18	98.1%	85.6%
2018/19	97.9%	84.2%
2019/20	97.9%	83.3%
2020/21	97.4%	87.1%
2021/22	97.5%	85.5%
2022/23	76.4%	67.9%

The Authority budgets for an in-year collection rate of 97.9%. The overall collection rate including previous years arrears is 99%. It is estimated that this generates an additional £500k in revenue for the authority and its precepts. In addition, uncollectable Local Council Tax Reduction cases are written off for each financial year at approximately £50k.

It should be noted that the collection of court costs will be reduced as many of these types of cases will no longer be progressing. This will mean there will be a reduction in court costs raised. It is difficult to estimate the potential cost at present however a prudent estimate would be in the region of £50k per annum.

Postage costs are expected to be reducing the amount of Council Tax Reduction notifications and Council Tax documentation. This is anticipated to be £10k per annum.

Caseload and staffing required for Revenues and Benefits will be analysed and it is anticipated that reductions will be made if efficiencies cannot be made to generate additional revenue. In terms of Benefits this will be dependant in terms of the grant funding we receive to provide the service to our residents who are most in need of our help. However, it is anticipated that in the first instance that savings will be made with the introduction of this scheme through natural wastage of £28k per annum.

	<b>£000</b>	
Expected additional cost LCTR	800	
Less amount collected in excess of budget	-500	(Budgeted at 97.9%, actual collection rate in excess of 99%) £0.5m is still lost income which would previously have been distributed as part of the collection fund surplus.
Impact on preceptors	<b>300</b>	(to budget at 99% in future)
TBC impact @ 10%	30	
Reduction in court cost income	50	
Saving in TBC postage	-10	
Saving in TBC staff cost	-28	
<b>Total TBC Budget Impact</b>	<b>42</b>	

## Legal/Risk Implications Background

Schedule 1A (3) of the Local Government Finance Act 1992, states that Before making a scheme, the authority must:

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

In addition, in order to set a new scheme, the Council is obliged to make a resolution by 11<sup>th</sup> March of the year prior to the scheme coming into place.

## Equalities Implications

A full Equalities Impact Assessment has been completed for Working Age applicants and is in Appendix A.

## Environment and Sustainability Implications (including climate change)

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 be an additional cost to itself and its Precepts should this scheme be implemented.

## Background Information

Council Tax Reduction (CTR) was introduced by Central Government in April 2013 as a replacement for the Council Tax Benefit scheme administered on behalf of the Department for Work and Pensions (DWP). As part of the introduction, the Government:

- Placed the duty to create a local scheme for **Working Age** applicants with billing authorities;
- Reduced initial funding by the equivalent of ten per cent from the levels paid through benefit subsidy to authorities under the previous Council Tax Benefit scheme; and
- Prescribed that persons of **Pension age** would be dealt with under regulations set by Central Government and not the authorities' local scheme.

Since that time, funding for the Council Tax Reduction scheme has been amalgamated into other Central Government grants paid to Local Authorities and also within the Business Rates Retention regime. It is now generally accepted that it is not possible to identify the amount of funding actually provided from Central Government sources.

The current Council Tax Reduction scheme administered by the Council is divided into two schemes, with pension age applicants receiving support under the rules prescribed by Central Government, and the scheme for working age applicants being determined solely by the local authority.

Pensioners, subject to their income, can receive up to 100 per cent support towards their Council Tax. The Council has no power to change the level of support provided to pensioners and therefore any changes to the level of CTR can only be made to the working age scheme.

When Council Tax Reduction was introduced in 2013, for working age applicants, the Council broadly adopted the previous means tested Council Tax Benefit scheme as the basis of awarding support. Due to the reduction in funding from Central Government, the Council also required working age applicants, even those on the lowest income, to pay a minimum

payment of 25%. Some working age cases are able to receive up to 100% support under the current scheme namely where the claimant, partner or dependant is in receipt of any of the following;

- Severe Disability Premium; or
- War Widows Pension; or
- War Disablement Pension; or
- Armed Forces Compensation Scheme; or
- Disabled Child Premium

Since that time only slight changes have been made to bring the scheme into line with either Housing Benefit or Universal Credit.

### **The main issues with the current scheme**

There are a number of issues with the current scheme that will need addressing if the system is to continue to provide effective support to low-income taxpayers and also if the Council is able to provide the service in an efficient manner. The main issues are as follows:

- The need to assist low-income households and assist in the collection of Council Tax;
- The introduction of Universal Credit for working age applicants; and
- The need for a simplification of the scheme.

Each of the above are examined in detail below:

### **The need to assist low-income households and assist in the collection of Council Tax**

Since 2013, the introduction of Council Tax Reduction, the majority of authorities, including the Council have required all working age applicants to pay a minimum payment. Under the previous scheme (Council Tax Benefit) almost 75% of working age applicants would not have been required to pay any Council Tax and would have received full (100%) support.

As with a large number of authorities, there is a strong view that there should be an increase in the level of support to those households on the lowest of incomes. This view has gained momentum over the past few years but has been reinforced since the COVID-19 and the cost of living crises which have had a major effect on incomes generally.

Whilst the principle of all working age households paying 'something' was initially thought to be an approach that would be central to the design of Council Tax Reduction, the reality is that, since its introduction, low-income taxpayers, the poorest households, have been unable to pay the balance leading to additional costs, court, and enforcement action and, in some cases, the amounts demanded have been written off as uncollectable.

The costs of administration of these cases by the Council has increased significantly over the years. These costs are borne solely by the Council. With the difficulties experienced, the relatively low level of payment and the high administration costs incurred, it no longer makes the amounts economically viable to collect. Notwithstanding the negative effects to those poorest households.

### **Council Tax Reduction and the roll out of Universal Credit**

The introduction of Universal Credit within the area has, as experienced in all other areas, brought a number of significant challenges to both the administration of Council Tax Reduction and also the collection of Council Tax generally. All Councils have experienced the following:

- The reluctance of Universal Credit claimants to make a prompt claim for Council Tax Reduction leading to a loss in entitlement;
- A high number of changes to Universal Credit cases are received from the Department for Work and Pensions requiring a change to Council Tax Reduction

entitlement. On average 40% of Universal Credit claimants have between eight and twelve changes in entitlement per annum. These changes result in amendments to Council Tax liability, the re-calculation of instalments, delays, and the demonstrable loss in collection; and

- The increased costs of administration through multiple changes with significant additional staff and staff time being needed.

It is clear that the existing means tested Council Tax Reduction scheme, which is too reactive to change, will not be viable in the longer term now that Universal Credit has been rolled out fully within the area and with the increase in Universal Credit claimants due to the COVID-19 crisis and the managed migration from legacy benefits (to be completed by the end of 2024). The move to a new more efficient scheme from 2024/25 is now imperative.

### **The need for a simplified approach to the Council Tax Reduction Scheme**

Notwithstanding the introduction of Universal Credit, the existing scheme is based on an 'old fashioned;' means tested benefit scheme. It has major defects namely:

- It is complex for customers to understand and is based on a complex calculation of entitlement;
- The administration for staff is complex, with staff having to request significant amounts of information from applicants;
- Staff have to undergo significant training to be proficient in processing claims;
- The timescales for processing applications is lengthy, mainly due to the complexity and evidence required to support the applications; and
- The administration of the scheme is costly when compared to other discounts for Council Tax.

Clearly there is a need now to simplify the scheme, not only to mitigate the effects of Universal Credit, but also make it easier for customers to make a claim and to significantly reduce the costs of administration.

### **The proposed approach for the 2024/25 Council Tax Reduction Scheme**

In view of the problems being experienced with the current scheme, it is proposed that an alternative approach be taken from 2024/25. The approach has been to fundamentally redesign the scheme to address all of the issues with the current scheme and in particular;

- (a) The level of support available to the poorest households;
- (b) The problems with the introduction of full-service Universal Credit; and
- (c) The significant increase in administration costs due to the high level of changes received in respect of Universal Credit;

Work has been ongoing since early this year on a new scheme which is now complete. Consultation now needs to be undertaken with the public and the major precepting authorities. If accepted by the Council, the new scheme will take effect from 1<sup>st</sup> April 2024.

The proposed new scheme has a number of features as follows:

- More support shall be given to those households on the lowest of incomes than in the current scheme;
- The changes can **only be made to the working age schemes** as the current scheme for pensioners is prescribed by Central Government;
- The current means - tested schemes will be replaced by a simple income grid model as shown below in Table 4

**Table 4**

Reduction %	Single	Single plus 1 dependant	Single plus 2 dependants	Couple	Couple plus 1 dependant	Couple plus 2 dependants
	Weekly Income levels					
100%*	£0.00 to £110.00	£0.00 to £220.00	£0.00 to £275.00	£0.00 to £165.00	£0.00 to £220.00	£0.00 to £275.00
75%	£110.01 to £165.00	£220.01 to £275.00	£275.01 to £300.00	£165.01 to £220.00	£220.01 to £275.00	£275.01 to £300.00
50%	£165.01 to £220.00	£275.01 to £330.00	£300.01 to £385.00	£220.01 to £275.00	£275.01 to £330.00	£300.01 to £385.00
25%	£220.01 to £275.00	£330.01 to £385.00	£385.01 to £440.00	£275.01 to £330.00	£330.01 to £385.00	£385.01 to £440.00
0%	Over £275.00	Over £385.00	Over £440.00	Over £330.00	Over £385.00	Over £440.00

- It is proposed that the highest level of discount will be at a maximum level of liability (100%), Band 1, and all current applicants that are in receipt of a ‘\*passport benefit’ such as Income Support, Jobseekers Allowance (Income Based) and Employment and Support Allowance (Income Related) receive maximum discount;
- All other discount levels are based on the applicant’s and partner’s, (where they have one) net income;
- The scheme allows for variation in household size with the levels of income per band increasing where an applicant has a partner, and / or dependants;
- There will be no restriction on Council Tax band level as in the current scheme;
- There will be no charges made where an applicant has non-dependants living with them. 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;
- To encourage work, a standard £25 per week disregard will be provided against all earnings. This will take the place of the current standard disregards and additional earnings disregards. Where a family also receives a childcare disregard (for childcare costs not paid for by Central Government schemes), the income levels in the ‘grid scheme’ are set at a higher rate;
- Disability benefits such as Disability Living Allowance and Personal Independence Allowance will continue to be disregarded;
- Where any applicant, their partner or dependant child (ren) are disabled, a further disregard of £50 per week will be given, thereby maintaining the current level of support to those with disabilities;
- Carer’s Allowance and the Support Component of Employment and Support Allowance will be disregarded;
- Child benefit and Child Maintenance will be disregarded;
- An amount in respect of the housing element, within Universal credit will be disregarded;
- The total disregard on war pensions and war disablement pensions will continue;

- Extended payments will be removed; and
- The capital limit of £6,000 with no tariff (or assumed income) being applied.

### **How the new scheme will address the problems with the current Council Tax Reduction**

With the simplicity of the proposed new scheme and by taking a more 'Council Tax discount approach', it will address the problems associated with the increased administration caused by failings in the current scheme and Universal Credit as follows:

**The scheme will require a simplified claiming process.** All applicants will see a significant reduction in the claiming process and, where possible, Council Tax Reduction will be awarded automatically. For Universal Credit applicants *any* Universal Credit data received from the Department for Work and Pensions (DWP) will be treated as a claim for Council Tax Reduction. Where information is received from DWP, the entitlement to Council Tax Reduction will be processed automatically without the need to request further information from the taxpayer. These changes will have the following distinct advantages namely:

- **Speed of processing** – all claims will be able to be calculated promptly and largely automatically without the need to request further information which inevitably leads to delays;
- **Maximising entitlement to every applicant.** As there will no requirement for Universal Credit applicants to apply separately for Council Tax Reduction, and for all other applicants, the claiming process will be simplified significantly. Entitlement to Council Tax Reduction will be maximised with a reduced risk of loss of discount or the need for backdating;
- **Maintenance of collection rates** – the new scheme will avoid constant changes in discount, the need for multiple changes in instalments and therefore assist in maintaining the high collection rates currently achieved. The increased level of discount will assist all those applicants on the lowest levels of income, again improving the overall collection rate;
- **The income bands are sufficiently wide to avoid constant changes in discount.** The current Council Tax Reduction scheme is very reactive and will alter even if the overall change to the person's liability is small. This is leading to constant changes in Council Tax liability, the need to recalculate monthly instalments and the requirement to issue a large number of Council Tax demands. The effect of this is that Council Tax collection is reduced. The new scheme, with its simplified income banding approach will have the following advantages:
  - Only significant changes in income will affect the level of discount awarded;
  - Council Taxpayers who receive Council Tax Reduction will not receive multiple Council Tax demands and adjustments to their instalments; and
  - The new scheme is designed to reflect a more modern approach, where any discount changes it will be effective from the day of the change rather than the Monday of the following week.

### **Transition to the new scheme and the Exceptional Hardship Scheme**

The Council must be mindful that any change in scheme or a transition to a new scheme may have result in a change to the entitlement of certain applicants.



Inevitably, with any change in scheme, there will be some winners and losers although the proposed scheme has been designed to protect the most vulnerable. It is proposed that the new scheme will contain additional provisions to protect individuals who experience exceptional hardship. Where any applicant is likely to experience exceptional hardship, they will be encouraged to apply for an exceptional hardship payment. The Council will consider all applications for exceptional hardship on an individual basis and take into account available income and essential outgoings. Where appropriate further support will be given to the applicant.

This approach will enable individual applicants to be dealt with in a fair and equitable manner. The Exceptional Hardship Scheme will form part of the Council Tax Reduction scheme and fall to be paid through the Collection Fund.

### **Report Author**

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### **List of Background Papers**

Local Council Tax Reduction Scheme 2020/21, Corporate Scrutiny Committee 25 August 2020 & Cabinet 10 September 2020.  
Local Council Tax Reduction Scheme 2020/21 Onwards and Consultation Results, Council 10<sup>th</sup> December 2019  
Local Council Tax Reduction Scheme 2021/22, Corporate Scrutiny Committee, 14 November 2019  
Local Council Tax Reduction Scheme 2021/22, Cabinet 26 September 2019 & 3 December 2020  
Local Council Tax Reduction Scheme 2022/23, Cabinet 2 December 2021 & 14 December 2021

### **Appendices**

**Appendix 1** Local Council Tax Reduction Working Age Expenditure Summary  
**Appendix 2** Local Council Tax Reduction Caseload Summary  
**Appendix 3** Equality Impact Assessment Working Age  
**Appendix 4** Local Council Tax Reduction Caseload Graph

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