

Revised Council Tax Reduction Scheme

Strategy & Resources Committee Thursday, 27 June 2024

Report of: Director of Resources

Purpose: For decision

Publication status: Unrestricted

Wards affected: All

Executive summary:

The Revenue & Benefits Service request that Members review and agree an outline proposal on amendments to the current Council Tax Reduction (CTR) Scheme for the Council Tax year 2025/2026. The proposed amendments will be included in a public consultation, and analysis of this consultation and final recommendations to be considered by this Committee in September 2024.

Permission was previously granted to go out to public consultation between August and October 2020 following a report to the Strategy & Resources Committee on 28th July 2020. Unfortunately, the Revenue & Benefits Service had to manage the impact of Covid-19 and a change the IT system used to process CTR cases, so no public consultation was possible between August and October 2020 and the CTR scheme was not changed.

The proposed changes to the CTR scheme would protect vulnerable groups, whilst reducing the overall cost of the scheme. The total reduction would be based on the final scheme after public consultation and full savings determined for report due later in the year).

This report supports the Council's priority of: Building a better Council/
Becoming a greener, more sustainable District

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Recommendations to Committee:

That:

- A. the Benefits Section are permitted to go out to public consultation; and
- B. feedback from this consultation is reviewed and presented in a report later in the year with final proposed amendments to the Council Tax Reduction Scheme to be effective from 1st April 2025.

Reason for recommendation:

The proposed changes to the Council Tax Reduction scheme will allow the Council to reduce the financial cost of the current scheme whilst providing an increased level of customer service through reduced processing time, and CTR claimants on UC would not be amended every time there was a change in their UC. This would mean fewer notification letters needing to be issued, less Council Tax bills sent and fewer direct debits needing to be amended.

1 Introduction and background

- 1.1 The former national Council Tax Benefit ('CTB') scheme was abolished on 31 March 2013 and replaced with a new system of localised Council Tax Reduction ('CTR'), which requires each billing authority to design and implement its own scheme for awarding council tax discounts to working age customers on low incomes. In doing so the Department for Communities and Local Government ('the Department') reduced the funding available, to local councils to pay for this support, from 100% subsidy to a grant of only 90%. This grant was rolled into mainstream local authority funding which has since been reduced significantly. Before 2013-14, the maximum CTB award that a family could receive was their council tax liability.
- 1.2 Families receiving a means-tested out-of-work benefit – that is, income support, income-based jobseeker's allowance, income-based employment and support allowance ('ESA') or pension credit guarantee credit – automatically qualified for maximum CTB. Those who were not 'passported' onto full CTB in this way had to undergo a separate means test, which compared the family's income with a centrally determined measure of minimum needs. Needs were expressed as an 'applicable amount', the sum of various allowances and premiums which depended on age, whether single or in a couple, number of children and any disability and which were generally aligned with parameters elsewhere in the benefit system. If the family's income was below their applicable amount, they qualified for maximum CTB; otherwise, their CTB was reduced by 20p for each £1 of income more than their assessed needs until their entitlement was exhausted.

- 1.3 Since 2013/14 the Department transferred responsibility for CTR to local authorities. Local authorities now have a duty to provide a local CTR scheme. The Department introduced CTR at a time of wider changes, both to local authority funding and the benefits system. The Department for Work & Pensions ('DWP') introduced Universal Credit, a single benefit payment replacing six working-age benefits. As part of this, the Government removed some of the local authorities' responsibility for administering Housing Benefit by 2017 but opted not to include Council Tax Benefit in Universal Credit, localising it as Council Tax support instead.
- 1.4 The Department formally consulted local authorities, drafted legislation, and designed a 'default scheme' which they could adapt to design their own schemes. The Department's reductions to Council Tax Support funding meant that all local authorities faced a funding shortfall.
- 1.5 Most local authorities have now opted to change from the default scheme to meet their funding reduction, whilst continuing to protect vulnerable groups, and support improved work incentives delivered by the Government's welfare reform programme. Local authorities opted to pass at least some of the funding reductions on to claimants, with some requiring all working age claimants to make a minimum contribution to their Council Tax bill.
- 1.6 The roll-out of Universal Credit (UC) has had significant consequences for CTR, CTR scheme designs and local authorities workload. Rather than reduce the amount of work being done by staff trained in benefit assessments, local authorities receive daily Universal Credit Digital Service ('UCDS') notifications which provide updates to claimants who have claimed Universal Credit. Local authorities have mitigated this increased workload by automating the assessment process where possible and making changes to their CTR schemes.
- 1.7 90% of local authorities have made some changes to their CTR scheme for working-age households (other than mirroring changes made to the wider benefits system) by 2018-19s. 82% of English councils chose to deviate from the default scheme at the first available opportunity in 2013-2014.

2 The Current Policy

- 2.1 The Council continues to adopt the default scheme whilst facing increased financial challenges through the combination of funding reductions and welfare reforms. The Council now bears the risk of any rise in claimant numbers. This was a risk that the Council inherited from central government. With the DWP now implementing managed migration to UC throughout the UK, we may see an increase in claimant numbers over the next few years, as those who had not previously claimed CTR are invited to make claim through the managed migration process and the amount of UCDS we receive increases as the DWP notify us of any new UC claimants. This will increase the cost of running the current scheme, both financial and in terms of the amount of time spent processing UC claims.

- 2.2 The default scheme has only had minor amendments made to it to meet legislation changes. The Council Tax Reduction Schemes (Default Scheme) (England) Regulations 2012 As the remaining 10% of local authorities look to change their schemes within the next few years, it's unlikely there will be any further changes made to the default scheme.
- 2.3 The default scheme is a means tested benefit, in a similar manner to Housing Benefit where new claimants are expected to provide details of their and their households income and capital. Existing claimants are to report relevant changes in their or their households circumstances
- 2.4 Our current scheme does mean some UC claims are reassessed up to 13 times a year when their Universal Credit award changes (Rather than once or twice). This is one letter for every monthly UC change and one letter when the Council processing its End of Year calculation. This has a negative impact on staff working on both Benefits and Council Tax tasks, daily processing stats, and provides a lower level of customer service as the claimant is receiving up to 13 letters a year, direct debits change more frequently, and it can make it hard to budget their payments as a result.

3 Proposed new policy

- 3.1 Councils' schemes differ substantially, which can mean that similar families can have a very different council tax bill depending on where they live. When considering different approaches to amending the current scheme, Officers have looked to simplify the scheme to allow easier accessibility for claimants, and reducing administration, whilst maintaining as generous scheme as possible and allowing high level of council tax collection. Any proposed changes must go out for public consultancy before implementation.
- 3.2 There is now several years' worth of data available from councils who amended their CTR schemes between 2013 and 2024. In considering the design and creation of a simplified CTR scheme (for 2025/26), Officers have looked at the various pros & cons of different schemes to provide the best financial assistance to claimants, provide greater customer service and reduce the administrative impact of Universal Credit and other welfare reform on an already strained Benefits Section.
- 3.3 The scheme provided by the Council must be accessible to all people who live and work in the District, protect vulnerable groups and support improved work incentives delivered by the Government's welfare reform programme.
- 3.4 The central government cuts to national benefits, and the abolition of extra support for third and subsequent children have often been mirrored in councils' CTR schemes, reducing the income that claimants can earn before their CTR is withdrawn. This means that even the default option involves a reduction in CTR relative to maintaining the generosity of the pre-2013 national council tax benefit system.

- 3.5 Designing a new CTS scheme is complex and requires expertise in forecasting and modelling the impact of any scheme choices on a range of different issues from ensuring vulnerable groups are protected, minimising the effects of any reduction in CTR and reducing cost to administrate any CTR scheme. The proposed changes has been put forward by Senior Benefits Officer and who will be seeking advice from an external consultant for scheme design & modelling, the initial Equality Impact Assessment (EIA), exceptional Hardship scheme measures, the final modelling to establish CTR award levels, development of a consultation document, development and creation of new s13A 1 A Scheme documentation (CTR Policy) for the Council in line with the new scheme and the public consultation

4 Proposed changes to the existing policy

- 4.1 **Income Banding Scheme** - A simplified CTR scheme for working aged applicants, based on an income band system. Depending on where a household's total income falls within a range of specified bands, that household may be entitled to relief of up to a maximum of hundred percent of the annual council tax charge. Some local authorities have limited the maximum relief to less the a maximum of hundred percent of the annual council tax charge meaning that every working-age household, regardless of their circumstances, must pay at least a certain share of their gross council tax bill. Under that type of scheme, even those who would previously have had no net council tax bill, because their incomes and assets were so low that they would have qualified for a hundred percent discount, would now must pay something. The Council intends to continue to support its residents with as generous scheme as possible, so would retain CTR relief of up to hundred percent.
- 4.2 An income banding scheme with up to hundred percent CTR, retains some of the benefits of the default scheme whilst protecting the vulnerable, considering the impact on claimants and lowering administration. The most pressing effect of Universal Credit on CTR schemes is that it means administration costs become a much more significant burden than was the case under its previous scheme. Councils that have opted for schemes with maximum of less the hundred percent have often seen increased costs in the recovery of outstanding Council Tax, and increased recover action as a result.

- 4.3 Where a claimant who is receiving UC, income for CTR is determined by UC's monthly assessment system. This has led to monthly variations in earnings which creates need for monthly assessments/billing/changing of Direct Debits etc as there is no averaging provision in UC. As previously stated, this could lead to a monthly assessment of their claim, with up to 13 award letters a year being sent out, frequent changes to their Council Tax payments and direct debits. With an income banding scheme, unless a claimant's income either decreased to a lower band or increased to a high band, their CTR would remain the same. This ensures that all claims, including UC claims aren't assessed every time there is a small change in their income (It would have to be a significant change which changes their income band) and provides greater customer service and makes it easier to budget payments of council tax.
- 4.4 There will be incomes which Officers do not include in weekly income figure in a similar way to the default scheme e.g. DWP benefits relating to disability, or children to ensure maximum protection for more vulnerable groups.
- 4.5 The income bands will increase annually in line with inflation ('CPI'). To see which band applies, Officers would calculate the amount of a claimant's household's weekly income. This is done by simply adding together all the money regularly coming in to their home. Any money received at frequencies of more than a week e.g. annually, monthly, should be converted to weekly amounts. Once calculated, an income band would then be applied, and a CTR award made for that band.
- 4.6 The Government has said that local authorities must protect pensioners at the same level of support as the council tax benefit scheme and has prescribed a national scheme for pensioners that provide the same outcomes as council tax benefit, so the income banding scheme only applies to working age claimants or mixed aged couples.
- 4.7 **Self Employed earnings to be assessed using minimum income floor ('MIL')** - The DWP and HMRC currently use MIL when assessing someone's entitlement to Universal Credit and Tax Credits. MIL would be determined in the same way as Universal Credit and Tax Credits policy with a 'Gainful self-employment' determination being made.
- 4.8 If someone is self-employed and their earnings are low, their CTR banding may be worked out on higher earnings than they have. This is called the 'minimum income floor'. The minimum income floor is set at the level of the national minimum wage at the number of hours a person would be expected to work. How many hours this is depends on an individual's circumstances. For many people it will be 35 hours per week, but if someone has a disability, have caring responsibilities, or look after children it might be less.
- 4.9 If someone's self-employed earnings are below the minimum income floor, the minimum income floor figure will be used to work out their earnings instead of their actual earnings figure.

- 4.10 If they earn above the minimum income floor, their actual earnings will be used to work out their CTR banding. This change brings self-employed claimants in line with PAYE claimants, and matches the changes adopted by Universal Credit and HMRC in the assessment of Tax Credits. A clause will be added to the MIL amendments to allow the local authority to remove MIL earnings in exceptional circumstances e.g. COVID-19 crisis.
- 4.11 **Non-dependant Deductions** - If someone is entitled to CTS, their entitlement may be reduced if they have a non-dependant adult living with them. This is called a non-dependant deduction and is because the non-dependant is expected to contribute to the household expenses. A non-dependant is an adult who lives with the claimant. This doesn't mean their partner or adult children who are still dependent on the claimant – for example, because they are in education. It could be for example, an adult son or daughter who is working or unemployed and who still lives with the claimant.
- 4.12 The current exemptions from a non-dependant deduction would apply to protect the vulnerable, but where non-dependant deductions are based on earnings and like a claimant, each time their income changes, the non-dependant deduction could change, we would adopt a similar non-dependant 'banding' to determine any deduction made. There would be 3 non-dependant deduction rates – 1 for non-dependants who aren't currently working, and two gross annual earnings income bands for those that are.
- 4.13 There can be delays in processing claims, especially whilst waiting for evidence of a non-dependant's gross earnings. Non-dependant income banding will prevent this and be less likely to lead to non-dependant income fraud or failing to keep the Council informed of changes. Less delays and speedier service. The weekly financial contribution for each non-dependent member of a household will be –
- £5 - non-worker
 - £10.00 - if they have gross annual earnings of £22,999 or less and
 - £30.00 - if they have gross annual earnings of £23,000 or above
- 4.14 **Removal of Second Adult Rebate** - Second adult rebate is a rebate someone can get on their council tax. A claimant can't get a second adult rebate at the same time as CTR. Typically, someone might want to claim second adult rebate if they can't get CTR because their income or capital is too high, and if there's another adult living with them who isn't their partner. They would need to be on low income or getting certain benefits for a claimant to get the rebate. Officers propose to remove second adult rebate for working age claimants, though it would remain for pension age claimants. Assessing second adult rebate claims often takes a greater amount of time than other claims, as there are delays in the second adult's earnings being provided. There are often gaps and delays in updates when a second adult's earnings change. There are 22 working age second adult rebate claims as most liable people pay their Council Tax without any need to claim.

- 4.15 **Capital Limit change for working age** - The current maximum capital limit is £16,000, where the first £6,000 doesn't not affect a working age claim. A tariff income for capital between £6,000 and £16,000 is then applied to reduce any award of CTR. For working age claimants, we propose to reduce the maximum capital limit to £10,000. Anyone that has over £10,000 in capital should be able to afford their Council Tax. Normal capital disregards would apply though.
- 4.16 **Maximum Council Tax band** - The maximum amount of CTR would be capped at the equivalent band D council tax charge. For example; Mr Smith and his partner, their home is a band E property. Mr Smith and his partner have assets of less than £10,000 and a low weekly income. Mr Smith applies for a CTR and is entitled to a reduction of forty percent of the band D charge based on his household circumstances which determine his income banding instead of it being based on band E. There are currently 123 working age claims that are in a Band E or above.
- 4.17 **Backdating CTR claims** - For working age claimants, the Council is currently able to backdate requests for CTR for six months if the person has a valid reason for requesting a backdate and can provide sufficient evidence for that backdate. Housing Benefit claims can only be backdated by one month, and most local authorities have changed their schemes to match changes made by Government to the Housing Benefit backdating regulations.
- 4.18 It is proposed to reduce the backdate limit to one month to mirror Housing Benefit and to prevent requests to reconsider turning down a backdate request of more than a month. Often someone has a valid reason for not making a claim for one month but the majority of backdate requests we have for longer than one month are refused as the person making the request does not have a valid reason to have delayed for such a period.
- 4.19 Members are recommended to agree to a public consultation exercise being undertaken and for the findings to be reviewed and reported back to the Committee in September/November 2024.
- 4.20 We currently have 3,317 people claiming CTR, of which 2,012 are working age claimants. Of those working age claimants 1,356 are currently receiving Universal Credit.
- 4.21 We currently pay £5,214,560.39 in Council Tax Reduction, of which £3,259,066.49 is paid to working age claimants. Since 2017, we have seen our CTR expenditure increase year on year.

5 Consultation agreement and final proposal

5.1 The Local Government Finance Act 2012 requires councils to consult on the proposed change to the scheme as follows:

- consult with precept authorities
- publish a draft scheme in such manner as it thinks fit
- consult such other persons as it considers are likely to have an interest in the operation of the scheme

5.2 The Government code of practice for consultation suggests consultation should last for "proportionate amount of time" on the basis of legal advice and taking into account the nature and impact of the proposal. Usually the consultation period used has been between 8-12 weeks. Once Members agree to public consultation on the proposed changes, work will begin on development of a consultation document. A consultation period of 8 weeks for public consultation is recommended. This would take place between July 2024 and September 2024.

5.3 Work would be done to provide Members with an initial Equality Impact Assessment (IEA) and Exceptional Hardship Scheme. This would provide a detailed assessment of the possible impact of any changes considered to both the public and the council e.g. who maybe positively or negatively affected by changes to the scheme, what and how savings would be made be they financial or time spent on administration.

5.4 The key milestones are shown below:

- At the start of September 2024, it is anticipated that the public consultation would end. A full analysis would be made on any feedback received and a final EIA and proposal would be prepared and submitted to Members for review based on those findings. In September 2024, Committee agreement would be sought and then final agreement at full Council.
- Between November 2024 and March 2025, changes to administration and implementation would take place with staff instruction/training on the new scheme.
- 1st April 2025 would see the commencement of the new scheme

Key implications

Comments of the Chief Finance Officer

The consultation exercise was commissioned from a third party in 2020/21 when the changes to the scheme were first proposed. The supplier has confirmed that they are happy to honour that, so no further cost will be incurred. The changes will reduce the administrative burden of the CTR scheme and should also reduce the overall cost to the Council. This will be quantified in the next report when detailed modelling has taken place.

Comments of the Head of Legal Services

As set out in section 13A (2) of the Local Government Finance Act 1992, the Council as billing authority must make a localised Council Tax Reduction Scheme in accordance with Schedule 1A to the Act. Each financial year the Council must consider whether to revise its scheme, or to replace it with another scheme. The Council must make any revision to its scheme, or any replacement scheme, no later than 11 March in the financial year preceding that for which the revision or replacement scheme is to have effect.

This report recommends that the existing Scheme is revised and sets out proposals for consultation. Schedule 1A to the 1992 Act makes further provision about council tax reduction schemes including prescribing the consultation process that must be followed.

There are no legal reasons why the Committee should not take the decisions recommended in this report.

Equality

The equalities impact assessment for the proposals will be drawn up alongside detailed modelling, to take place concurrently with the consultation and to be reported back to the Committee in the Autumn.

Appendices

None

Background papers

None

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