

BROMSGROVE DISTRICT COUNCIL

CABINET

Date 17 February 2021

CHANGES TO THE COUNCIL TAX REDUCTION SCHEME WITH EFFECT FROM 1ST APRIL 2021

Relevant Portfolio Holder	Cllr Geoff Denaro
Portfolio Holder Consulted	Cllr Geoff Denaro
Relevant Head of Service	Chris Forrester
Ward(s) Affected	All wards
Ward Councillor(s) Consulted	
Key Decision /	

1. SUMMARY OF PROPOSALS

- 1.1 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.
- 1.2 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.
- 1.3 As with the majority of authorities within England, the council has changed its scheme each year to for a number of reasons including:
 - Adjust the level of support in line with the funding available from central government; and
 - To aid administration.
- 1.4 This report details the changes and makes recommendation to members for the 2021/22 scheme.

2. RECOMMENDATIONS

- 2.1 **The Cabinet is asked to RECOMMEND** the introduction a new income banded / grid scheme for working age applicants with effect from 1st April 2021 to implement a modern, future proofed scheme and reduce the administrative burden placed on the council by the introduction of Universal Credit

3. KEY ISSUES

Financial Implications

- 3.1 The current Council Tax Reduction scheme costs approximately £4.469m which is borne by the Council's Collection Fund. Costs are shared between the Council and the Major Precepting Authorities in proportion to the share of Council Tax.
- 3.2 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 £4.605m.
- 3.3 Financial modelling has been undertaken and will continue to be undertaken throughout the project and this will be particularly important given the effect of the COVID-19 crisis on the incomes of households within the District Council's area.
- 3.4 Whilst the expected costs of the scheme for 2021/22 are slightly higher, the overall level of Council Tax Reduction as a proportion to Council Tax Base has reduced significantly year on year since 2013 as shown below. The overall proposed costs level for 2021/22 is considerably lower in terms of the percentage of the taxbase than when Council Tax Reduction was introduced in 2013.

Tax Year	Maximum % Reduction	Gross Council Tax £000s	Total CTR awarded £000s	CTR as % Gross CTax
2013/14	100	56,471	4,564	8.08
2014/15	100	58,103	4,441	7.64
2015/16	80	59,662	3,896	6.53
2016/17	80	62,371	3,878	6.22
2017/18	80	64,566	3,808	5.90
2018/19	80	68,110	3,831	5.62
2019/20	85	71,847	4,035	5.62
2020/21	85	74,910	4,469	5.97

Legal Implications

3.5 Schedule 1A (3) of the Local Government Finance Act 1992, states:

Before making a scheme, the authority must:

- (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.

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

3.7 The purpose of this report is to recommend that the new scheme be implemented with effect from 1st April 2021

Background / Service Implications

3.8 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.

3.9 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.

3.10 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.

- 3.11 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.
- 3.12 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 all working age applicants, even those on the lowest income, to pay a minimum payment of 20%.
- 3.13 Since that time the minimum payment required has reduced to 15% and other 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

- 3.14 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;
- 3.15 Each of the above are examined in detail below.

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

- 3.16 Since 2013, the introduction of Council Tax Reduction, the majority of authorities, including the District 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.
- 3.17 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 crisis which has had a major effect on incomes generally.
- 3.18 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 it’s 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. For information, in 2019 Council Tax of approximately £694,000 has been demanded from working age Council Tax claimants and an amount of £234,000, 33% of the amount demanded is outstanding.

- 3.19 The costs of administration of these cases by the District Council has increased significantly over the years. These costs are borne solely by the District 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

- 3.20 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.

- 3.21 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 massive increase in Universal Credit claimants due to the COVID-19 crisis. The move to a new more efficient scheme from 2021 is now imperative.

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

- 3.22 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.
- 3.23 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 recommended approach for the 2021/22 Council Tax Reduction Scheme

- 3.24 In view of the problems being experienced with the current scheme, it is proposed that an alternative approach be taken from 2021/22. 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;
- 3.25 Work has been ongoing throughout this year on a new scheme which is now complete. Consultation now needs to be undertaken with the public and the precepting authorities. If accepted by the Council, the new scheme will take effect from 1st April 2021.
- 3.26 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 schemes for pensioners is prescribed by Central Government;
 - The current means - tested schemes will be replaced by a simple income grid model as shown below:

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Discount Band	Discount	Single Person	Single person with one child	Single person with two or more children	Couple	Couple with one child	Couple with two or more children
Income Ranges							
Band 1	100%	£0 to £95.00	£0 to £150.00	£0 to £210.00	£0 to £140.00	£0 to £195.00	£0 to £255.00
Band 2	75%	£95.01 to £115.00	£150.01 to £180.00	£210.01 to £240.00	£140.01 to £160.00	£195.01 to £225.00	£255.01 to £285.00
Band 3	50%	£115.01 to £135.00	£180.01 to £210.00	£240.01 – £270.00	£160.01 to £180.00	£225.01 – £255.00	£285.01 to £315.00
Band 4	25%	£135.01 to £155.00	£210.01 to £240.00	£270.01 – £300.00	£180.01 to £200.00	£255.01 to £285.00	£315.01 to £345.00
	0%	Over £155.00	Over £240.00	Over £300.00	Over £200.00	Over £285.00	Over £345.00

- 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 'passported benefit' such as Income Support, Jobseeker's 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 charges made where an applicant had 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 up to £40 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 continue to be disregarded;
- The total disregard on war pensions and war disablement pensions will continue;
- Extended payments will be removed;
- Second Adult Reduction will be removed; and
- Removal of the income taper and introduction of a capital limit of £6,000.

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

3.27 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:
 - (a) **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;
 - (b) **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;
 - (c) **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

- 3.28 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.
- 3.29 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, taking into account available income and essential outgoings. Where appropriate further support will be given to the applicant.
- 3.30 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.

Other Options considered

- 3.31 The alternative to introducing a new scheme for Council Tax Reduction from 2021/22 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 District Council's area.

Rationale and Impact of Proposed Changes

- 3.32 In preparation for consultation on the proposals to replace the existing Council Tax Reduction Scheme modelling of the changes was completed. The modelling identifies the working age claimants that will be impacted by the changes. It is important to note that only working age applicants will be impacted by the changes as the discount for pensioner claimants will continue to be determined by reference to the national schemes for Council Tax Reduction.
- 3.33 The initial modelling indicated that of the 2,450 working age recipients of Council Tax Reduction 72%, almost 3 quarters, will receive an increase in the amounts of Council Tax reduction that they receive.
- 3.34 Where there is a reduction in the level of support a relative majority of these cases fall within the single person and childless couple client groups. The largest group seeing a reduction in support is the single person household, this is consistent with the general principle that Council Tax Reduction schemes should incentivise work, as this client group is that which is most able to return to employment.
- 3.35 The impact and rationale for each of the changes to the scheme is commented on below:

Increase of maximum support to 100% liability; and further discounts based on the applicant and partner's income.

- 3.36 The modelling of the proposed scheme identified that an increase in support from 85% of Council Tax liability to 100% liability, and the implementation of an income banded scheme would provide additional support to 72% of the CTR recipients.
- 3.37 The claimants seeing a reduction in support will be a minority and these claimants will be within the higher household income groupings.
- 3.38 An exceptional hardship scheme will remain in place, in-line with the current scheme and in appropriate cases the hardship scheme can be utilised to provide a transitional support for these claimants.

Removal of Non-Dependant deductions

- 3.39 Non-Dependant Deductions are applied where there are adult residents – other than the partner or claimant - within a property and they reduce the amount of Council Tax Reduction.
- 3.40 The current scheme's requirement to apply Non-Dependant deductions creates an administrative drag on the assessment of Council Tax Reduction. This slows the speed of assessment and prevents the movement to automate the assessment of Council Tax Reduction.
- 3.41 The removal of non-dependent deductions from CTR will increase the speed of assessment for all claimants and allow the automation of the initial award from receipt of the notification of universal credit.

- 3.42 The data modelling of the new CTR scheme identified 346 of the 2,512 working age claimants had non-dependants resident within the household. The majority of these cases, 236 in total, have no non-dependant deduction applied as a result of the circumstances of the claimant. The removal of the non-dependant deduction for the remaining 110 cases will provide an average £7.06 increase in CTR, and a cost of £770 per week.

Removal of extended payments

- 3.43 Extended payments were a feature of the legacy Council Tax Benefit scheme. The payments were provided when a claimant moves from benefits into employment and were intended to smooth the transition into employment.
- 3.44 The introduction of universal credit and assessment of entitlement on a month to month basis has reduces the requirement to provide extended payments as universal credit is designed to integrate more smoothly with employment and changes to income.
- 3.45 The structure of the proposed banded reduction scheme provides a transparent assessment process for claimants and further reduces the requirement for extended payments to continue. As claimants increase their working hours, or return to employment the impact of their increased earnings on their CTR will be evident.

Removal of the Income Taper and introduction of a capital limit of £6,000

- 3.46 The current CTR scheme applies a capital limit of £6,000; where a claimant has over £6,000 in capital a tariff income is applied to assume income of £1.00 per week for every £250 in capital up to £16,000 at which point eligibility for CTR is removed.
- 3.47 The use of tariff income requires the service to obtain evidence of a claimants capital and to periodically review the level of capital for these claimants. This creates an administrative drag on the initial assessment of support and a further burden in the requirement to carry out reviews on income.
- 3.48 The removal of tariff income and introduction of £6,000 capital limit will remove the administrative requirement.
- 3.49 Modelling of the scheme identified 25 applicants estimated to be impacted by the reduction in Capital Limits, with an average Council Tax Reduction of £14.00 per week. The scheme will include an exceptional hardship provision and capacity will exist within the fund to provide transitional protection to customers losing support due to the removal of the tariff income and introduction of the £6,000 capital limit.
- 3.50 It is important to note that the changes to the income taper and capital limits will only impact working age claimants. Pensioners who have accrued savings to meet their needs in retirement will continue to have their eligibility for discount determined by national rules.

Retention of disregards for:

- Carer's Allowance and Support Component of Employment Support Allowance
- Disability Benefits such as Disability Living Allowance and Personal Independence Allowance
- Child Benefit and Child Maintenance
- War Pensions and War Disablement Pensions

- 3.51 The identified disregards will be maintained within the proposed scheme and maintain the protections that these groups enjoy within the current CTR Scheme

CONSULTATION AND COMMUNICATION

- 3.52 As required by the legislation, the Council has consulted with both major preceptors and also the public. In the case of the public consultation, a full consultation was undertaken until 9th November 2020.

Major Preceptors

- 3.53 All major preceptors were requested for their views on the recommended new scheme. The Council received the responses shown in Appendix 3

Public Consultation

- 3.54 The public consultation produced 55 responses full details are provided in Appendix 2.

- 3.55 The Council suggested 11 options for changes and the overall responses were as follows:

Option 1 – The introduction of an income banded scheme to replace the current scheme for all applicants of working age

Yes: 47.83%, No: 26.09%, Don't Know:26.08%

Option 2 - To limit the number of dependant children within the calculation for Council Tax Reduction to a maximum of two for all applicants

Yes: 60.87%, No: 30.43%, Don't Know:8.70%

Option 3 – To remove non-dependant deductions from the scheme

Yes: 47.83%, No: 26.09%, Don't Know: 26.08%

Option 4 – Disregarding Carers Allowance, the support component of the Employment and Support Allowance and the housing element of Universal Credit

Yes: 78.26%, No: 17.39%, Don't Know: 4.35%

Option 5 - To reduce the maximum limit of capital from £16,000 to £6,000

Yes: 69.57 %, No: 30.43%, Don't Know: 0%

Option 6 – Removing the current earnings disregards and replacing them with a standard £25 disregard for all working age applicants..

Yes: 56.52%, No: 21.74%, Don't Know: 21.74%

Option 7 - To allow further income disregards where an applicant, their partner or any dependant is in receipt of a disability benefit

Yes: 78.26%, No: 8.70%, Don't Know: 13.04%

Option 8 – Removing the Extended Reduction provision

Yes: 69.57%, No: 21.74%, Don't Know: 8.70%

Option 9 - Removal of Second Adult Reduction from the scheme

Yes: 72.73%, No: 18.18%, Don't Know: 9.09%

Option 10 – Any new claim or change in circumstances which changes Council Tax Reduction entitlement will be made from the date on which the change occurs, (rather than on a weekly basis as at present)

Yes: 90.48%, No: 9.52%, Don't Know: 0%

Option 11 – Extending the ‘backdating’ provisions within the scheme

Yes: 90.48%, No: 4.76%, Don't Know: 4.76%

- 3.56 It can be seen from the above that the overall response to the changes have been positive and that the consultees largely support the recommended new Council Tax Reduction scheme.

Customer / Equalities and Diversity Implications

- 3.57 A stage one Equality Impact Assessment is attached within Appendix 1 of this report.

4. RISK MANAGEMENT

4.1 The following risks are associated with the project:

Risk	Mitigation	Opportunities
Property <i>No risk</i>	N/A	N/A
Community Support <i>Potential Changes to the support of some working age applicants</i>	<ul style="list-style-type: none"> • Where an applicant may receive less Council Tax Reduction, they may apply for additional support under the Council's Exceptional Hardship Fund • In cases, where applicants have the lowest income, they may receive more support under the proposed scheme. 	There is an opportunity to: <ul style="list-style-type: none"> • Modernise the current scheme; • Enable a scheme that will be fit for purpose; and • Reduce administration.
Timescales <i>It will be essential to meet project timescales if the new scheme is to be introduced for the 2021/22 financial year.</i>	<ul style="list-style-type: none"> • The work has already been completed with scheme design and extensive modelling. 	
Project capacity	<ul style="list-style-type: none"> • Resources have already been allocated to the project which are sufficient 	
Financial / VfM <i>Changes to the scheme could potentially lead to changes in overall scheme costs</i>	<ul style="list-style-type: none"> • Extensive modelling has been undertaken to estimate the costs of the scheme. This will continue throughout the life of the project. 	<ul style="list-style-type: none"> • The Council has indicated that it is not looking to make savings from scheme changes. The Council will provide additional support to those households on the very lowest of incomes
Legal	<ul style="list-style-type: none"> • The project has been undertaken strictly in 	

Risk	Mitigation	Opportunities
<i>Failure to set the scheme in accordance with the legislation and failure to comply with the legal requirements for developing a new CTR scheme</i>	accordance with legislative requirements	
Innovation <i>Failure to maximise the potential of change and automation</i>	<ul style="list-style-type: none">▪ Throughout the implementation, we will look to take advantages of the latest automation of claims and the gathering of data	<ul style="list-style-type: none">▪ There will be more opportunity to enhance customer's online experience by receiving immediate decisions of discounts being granted.
Reputation <i>Failure to implement the new scheme on time or failure to deliver a comprehensive and robust scheme</i>	<ul style="list-style-type: none">▪ The project is following previous successful implementations by other Local Authorities	<ul style="list-style-type: none">▪ There is an opportunity for the Council to enhance its reputation by developing an up to date an effective Council Tax Reduction scheme

5. APPENDICES

Appendix 1 – First & Second Stage Equality Impact Assessment;

Appendix 2 – Results from the public consultation document

Appendix 3 – Responses from the Major Preceptors

AUTHOR OF REPORT

Name: Lisa Devey
email: lisa.devey@bromsgroveandredditch.gov.uk
Tel.: (01527) 64252 Ext: 2323

Name: David Riley
email: david.riley@bromsgroveandredditch.gov.uk
Tel.: (01527) 64252 Ext: 3282