

**AGENDA ITEM**

**REPORT TO CABINET**

**24 JUNE 2021**

**REPORT OF CORPORATE  
MANAGEMENT TEAM**

**CABINET DECISION**

**Leader of the Council - Lead Cabinet Member – Councillor Bob Cook**

**COUNCIL TAX REDUCTION SCHEME 2022/2023**

**SUMMARY**

A review of the local Council Tax Reduction scheme has been undertaken following the report to Cabinet received from the People Select Committee in December 2020. The purpose of this report is 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 April 2022.

The scheme applies to working age applicants; the scheme for clients of pension age is prescribed by Central Government.

The current scheme is largely based on the housing benefit scheme which is being phased out by Government and is both complex for the customer to understand and burdensome for the Council to administer.

This report recommends a scheme which increases the maximum award from 80% to 100%, provides residents with the lowest income levels the greatest level of support, reduces the complexity for the customer and reduces the administration burden for the Council.

**REASON FOR RECOMMENDATION/DECISION**

To present the option for the future Council Tax Reduction scheme, increasing the overall level of support for the lowest income families.

**RECOMMENDATION**

1. Cabinet approve the consultation with the public and major precepting authorities on the introduction of a new income banded scheme for working age applicants with effect from 1 April 2022.

**BACKGROUND**

1. 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.
2. Since that time, funding for the CTR scheme has been amalgamated into other Central Government grants paid to Local Authorities and also within the Business Rates Retention regime.
  3. The current CTR 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.
  4. 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.
  5. When CTR 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%.
  6. Since that time only slight changes have been made to bring the scheme into line with either Housing Benefit or Universal Credit.
  7. Cabinet received a report from People Select Committee in December 2020 following a review of the CTR scheme. The report recognised the uncertainty caused by the impact of the Coronavirus and recommended that draft scheme proposals are developed and presented to Cabinet once there is a greater understanding of the impact of Coronavirus. People Select Committee also recommended that any future scheme should ensure:
    - consideration is given to the benefits and impacts of alternative approaches to the existing scheme, including, but not limited to the workings of a banded scheme and a change in the minimum contribution rate;
    - for consistency, future scheme proposals include appropriate technical changes to reflect the welfare reforms already introduced into the CTR pensioner scheme and Housing Benefit / Universal Credit schemes;
    - the intention to incentivise work, protect the vulnerable and support families with children is retained within a revised scheme;
    - in line with the Local Government Finance Act, consideration is given to transitional protection should some customers be negatively affected by changes to the scheme.
  8. The number of households claiming CTR increased suddenly as a result of Covid-19 rising from 11,421 working age claimants in March 2020 to 12,597 in July 20. Numbers appear to have stabilised at approximately 12,400 claimants. The financial impact of the change equates to approximately £1.1m in additional CTR awarded and this is included in the Medium Term Financial Plan.

## **DETAIL**

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

9. There are a number of issues with the current scheme that will need addressing if the system is to focus support to low-income taxpayers and make the service easier for the customer to understand:
  - The need to assist low-income households
  - The introduction of Universal Credit for working age applicants; and
  - The need for a simplification of the scheme.
  
10. Each of the above are examined in detail below:

### **The need to assist low-income households**

11. The Council is committed to supporting the most vulnerable in our community and a key element of this is supporting those residents on low incomes.
  
12. 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 CTR, the reality is that, since its introduction, many low-income taxpayers, the poorest households, have been unable to pay. This in itself leads to additional costs, court and enforcement action which inevitably causes additional pressures and stress for those already facing hardship.

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

13. The introduction of Universal Credit within the area has, brought a number of significant challenges to both the administration of CTR 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 and the re-calculation of instalments, which means customers are re-billed each time, resulting in delays and confusion for taxpayers. In one month alone over 2,000 council tax bills were issued due to adjustments to CTR; and
  - The increased costs of administration through multiple changes with significant additional staff and staff time being needed.
  
14. It is clear that the existing means tested CTR 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.

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

15. Notwithstanding the introduction of Universal Credit, the existing scheme is based on a 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;
  - The timescales for processing applications is lengthy, mainly due to the complexity and evidence required to support the applications;
  - The administration of the scheme is costly when compared to other discounts for Council Tax; and
  - Based on the level of changes there are multiple bills issued every year
16. 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 simplify the processes.

#### The Proposed Approach for the 2022/2023 Council Tax Reduction Scheme

17. In view of the problems being experienced with the current scheme, it is proposed that an alternative approach be taken from 2022/23. The approach has been to fundamentally redesign the scheme to address all of the issues with the current scheme and in particular;
- The level of support available to the poorest households;
  - The problems with the introduction of full-service Universal Credit; and
  - The significant increase in administration due to the high level of changes received in respect of Universal Credit.
18. A new scheme has been developed and consultation now needs to be undertaken with the public and major precepting authorities prior to it being submitted to Council. If accepted by the Council, the new scheme will take effect from 1 April 2022. The scheme is designed around a banded income grid scheme, specifically to support those on the lowest incomes.
19. The proposed new scheme (for working age customers only) is shown at Appendix A and has a number of features, examples include:
- More support shall be given to those households on the lowest of incomes than in the current scheme;
  - Those on the lowest incomes paying no council tax at all;
  - Households with higher levels of income will receive less/no CTR;
  - The current means - tested schemes will be replaced by a simple income grid model;
  - Protection for low income families with non-dependants living at home;
  - Income such as child benefit, disability benefits and personal independent payments will be disregarded;
  - The current savings allowance of £6,000 will continue but where savings are held above this threshold there will be no entitlement to CTR.
20. A range of digital and traditional communication methods will be used to promote the consultation, including:
- Stockton-on-Tees News Magazine (delivered to all 90,000 households)
  - SBC social media channels
  - Catalyst e-Bulletin and Catalyst forums
  - SBC's Community Partnerships
  - SBC Libraries (posters and other marketing materials)
  - SBC Website
  - Revenues and Benefits partnership meetings (SDAIS and Infinity)

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

21. Households on the lowest incomes will have less or no council tax to pay, improving their overall financial position and reducing the risk of additional costs and enforcement action when they are unable to pay.
22. With the simplicity of the proposed new scheme and by taking a more 'Council Tax discount approach', it will be a much simpler process for residents:
  - **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** – 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 CTR, and for all other applicants, the claiming process will be simplified significantly. Entitlement to CTR will be maximised with a reduced risk of loss of discount or the need for backdating;
  - **Easier to understand** – 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 income bands are sufficiently wide to avoid constant changes in discount.** The current CTR scheme is very reactive and will alter even if the overall change to the person's liability is small. 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 CTR will not receive multiple Council Tax demands and adjustments to their instalments.

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

23. In the proposed scheme, modelling suggests that 9,300 (75%) will receive more support, including approximately 8,000 (approximately 65%) households which will no longer have to pay council tax at all. Inevitably, with any change in scheme, there will be some households that are adversely affected and modelling suggests this would be approximately 2,600 (21%).
24. 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.

25. 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 CTR scheme and fall to be paid through the Collection Fund.

### **Other Options Considered**

26. The alternative to introducing a new scheme for Council Tax Reduction from 2022/23 is to leave the existing scheme in place and increase the level of maximum award. This is not a viable option to address the issues with the current scheme and will lead to increasing costs of administration and significantly affect the collection of Council Tax and the effectiveness of the scheme to support households within the Borough Council's area.

### **COMMUNITY IMPACT IMPLICATIONS**

27. A full impact assessment will be undertaken after the consultation exercise and prior to the report being presented to Council.

### **CORPORATE PARENTING IMPLICATIONS**

28. None

### **LEGAL IMPLICATIONS**

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

- 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.

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

### **FINANCIAL IMPLICATIONS**

31. The costs of the current scheme are shared between the Council and the Major Precepting Authorities in the following proportions:

- Stockton Borough Council (82.6%);
- Police and Crime Commissioner for Cleveland (12.8%)
- Cleveland Fire Brigade (Fire and Rescue Service) (3.9%)

32. 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 Borough Council's area. Based on current modelling, were the new scheme to be in place at the current time, the costs to the Council would be around £1m higher than the current costs which is included in the Medium Term Financial Plan.

### **RISK ASSESSMENT**

33. It should be noted that the scheme modelling is based on CTR claimants at a point in time, this is continuously changing and therefore numbers and costs may increase or decrease accordingly. Modelling will continue throughout the project.

## **WARDS AFFECTED AND CONSULTATION WITH WARD/COUNCILLORS**

34. The scheme applies to the whole of the Borough and is not ward specific.

## **BACKGROUND PAPERS**

35. Report of People Select Committee: Scrutiny Review of the Local Council Tax Support Scheme December 2020.

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## Appendix A

**Proposed CTR scheme for Working Age Customers**

The proposed new scheme has a number of features which include:

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

Discount	Single Income band £	Couple Income band £	Lone Parent 1 child Income band £	Lone Parent 2+ children Income band £	Couple 1 child Income band £	Couple 2+ children Income band £
Band 1 100%	£0.00 -£75.00	£0.00 -£120	£0.00 -£145	£0.00 -£195	£0.00 -£185	£0.00 -£240
Band 2 80%	£75.01 -£115	£120.01 - £155	£145.01 - £180	£195.01- £235	£185.01- £225	£240.01-£280
Band 3 50%	£115.01 -£145	£155.01 - £210	£180.01 - £240	£235.01 - £295	£225.01 - £285	£280.01 -£340
Band 4 25%	£145.01 -£175	£210.01 - £260	£240.01 - £300	£295.01 - £355	£285.01 - £345	£340.01 -£400
0%	Over £175.00	Over £260.00	Over £300.00	Over £355.00	Over £345.00	Over £400.00

4. 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, Jobseeker's Allowance (Income Based) and Employment and Support Allowance (Income Related) receive maximum discount;
5. All other discount levels are based on the applicant's (and partner's, where they have one) net income;
6. 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;
7. 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;



8. To encourage work, an earnings disregard will be retained however this will be standardised at £25 per week. This will replace 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;
9. Disability benefits such as Attendance Allowance, Disability Living Allowance and Personal Independence Payment will continue to be disregarded;
10. Child benefit and Child Maintenance will be disregarded;
11. Fostering Allowance and Guardians Allowance will be disregarded;
12. An amount in respect of the housing element within Universal Credit will be disregarded;
13. The total disregard on war pensions and war disablement pensions will continue;
14. Extended payments will be removed;
15. The capital limit will be set at £6,000 and households with savings above this amount will not be eligible; and
16. Backdating of applications will be considered for a maximum period of 12 months at the Council's discretion.