

REPORT TO
PEOPLE SELECT COMMITTEE
OCTOBER 2020
REPORT OF
REVENUES & BENEFITS
LCTS PROJECT MANAGER

REVIEWING THE LOCAL COUNCIL TAX SUPPORT SCHEME
AND THE IMPACT OF CORONAVIRUS

SUMMARY

Local Authorities are required to review their Local Council Tax Support (LCTS) scheme annually with a view to it being formally adopted by 11th March of the preceding financial year. Councils are free to design their own local schemes for people of working age. The pensioner scheme is prescribed by government and cannot be changed.

This report looks at options for reviewing the LCTS scheme with particular emphasis on the risks of forecasting, developing and consulting on changes in the midst of the pandemic.

RECOMMENDATIONS

1. Given the uncertainty around the numbers of claimants and financial costs caused by the impact of the Coronavirus, no changes are made for the 2021/22 financial year.
2. That draft scheme proposals are developed and presented to Cabinet once there is a greater understanding of the impact of Coronavirus on the increasing demand for support and the consequential increase in cost and affordability of scheme changes, anticipated to be introduced for the 2022/23 financial year. This 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 LCTS 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.
 - funds are set aside from April 2021 to provide targeted support to customers struggling to pay the minimum 20% contribution using section 13A of the Local Government Finance Act and the council's own Discretionary Hardship policy.

INTRODUCTION

3. In April 2013 Council Tax Benefit was abolished and replaced with the LCTS scheme with a 10% cut in funding. The government prescribed the scheme for pensioners to

ensure that no pensioner lost out as a result of the changes. The burden of the whole 10% expenditure cut had to be borne by working age recipients and following consultation the decision was taken to introduce a minimum payment of 20%, sharing the reduction equally across the working age caseload.

4. In previous years changes to the scheme have been limited to the annual uprating of figures in line with the Department of Work and Pensions. Since the introduction of the scheme the general cost of living has risen, whilst, since 2015, there has been a freeze on welfare benefits, lifted in April 2020.
5. It is expected that a revised scheme will be affordable, reach those who most need support, easier to administer and understand and improve collection rates for customers.

INTERNAL REVIEW

6. The review of the LCTS scheme is already underway within the Revenues and Benefits Service. Consultation has been held with a number of partner organisations and staff operating the scheme.
7. It has become especially important for the service to gear up for a potential increase in demand following the end of furlough. On-line services and automation are becoming more critical to ensure customers can continue to access services and staff can manage a higher caseload. An online application form has been developed and implemented, along with a means to upload supporting documentation. Telephone support is available for those customers who need support to complete forms.
8. Work is taking place to introduce a new document management and workflow system enabling the team to process applications and changes in circumstances more efficiently.
9. The LA has signed up to a new processing contract with Civica UK which includes additional modules to enable customers to report changes in their circumstances through an online portal and automate changes of address.
10. A review of working practices using the LEAN principles has been scheduled in for the coming months to streamline processes further.
11. These ongoing changes will be key for the service this year with time being allocated to dealing with training, further changes in ICT and working practices. It would be helpful to implement these changes in advance of any scheme changes.

SCHEME CHANGES – RISKS DUE TO CORONAVIRUS

Increasing Caseload / Rising Costs

12. At 31.08.20 the current working age caseload has increased by 9.22% since the beginning of the financial year and the scheme is costing an additional £1.3 million pounds. These are unprecedented increases and all indications are that these figures will continue to rise.
13. Initial projections for the 2020/21 scheme were £16.3m and a further £1m was approved in the MTFP for the extra cost of a revised scheme. However, the current scheme is now running at £17.2m which is expected to increase once furloughing ends.

14. Modelling a new scheme is complex but never more so in the current climate and there are real risks of forecasting the costs of a new scheme before the impact of Coronavirus is fully understood.

Forecasting Risks

15. Forecasting figures pre April 2020 were based on a relatively stable caseload in which there was a gradual movement of customers from legacy benefits onto Universal Credit.
16. Following lockdown in March 2020 there was a surge in applications for UC and new LCTS.
17. A number of existing customers have had their working hours cut, been furloughed or lost their jobs. A number have moved off their legacy benefits and are now claiming UC. Their initial LCTS entitlement has increased and there are new customers not factored into the original forecasting.
18. This movement in the caseload is highly irregular and means it brings with it a risk of predicting the cost of a new scheme, particularly if significant changes are made to how the scheme operates.

Furlough

19. As the furlough system winds down employers are required to make increasing contributions to employers wages. Some businesses have expressed concerns about the viability of their businesses after October 2020.
20. There is a very real prospect of further job losses and an increase in customers applying for LCTS. Redundancies at any local company could produce a pressure on the scheme and make forecasting even more difficult.

Consultation and Implementation

21. Coronavirus means April 2021 is now a particularly challenging start date for a revised scheme:-
 - Over 19,000 customers will be directly affected and will need to be contacted for their views on proposed changes. Consultation will also be required with the wider public who have an interest in the council tax charge itself. There are a number of residents who, whilst not being entitled to support currently, have been hit hard financially.
 - A draft scheme must be approved by cabinet in October 2020 to provide adequate time for consultation. Determining proposals for scheme change by then are especially difficult because of the risks associated with forecasting future demand and costs.
 - Any scheme changes which could reduce entitlement for some customers may be inappropriate at this time considering the financial challenges many residents are facing.
 - A decision to increase LCTS awards for all customers would carry significant risk on the MTFP before there is some degree of stability in the caseload and the ability to forecast likely costs. Should the scheme be unaffordable yet more changes would be required leading to some customers facing a particularly noticeable reduction in the second year.
 - Cabinet is required to approve scheme changes and then the proposals are to be presented to full Council. Sufficient time will need to be available to make the

necessary ICT changes and recalculate all existing cases by the end of February 2021 to achieve usual billing timescales.

ADDITIONAL SUPPORT FOR CUSTOMERS – HARDSHIP FUND

22. In March the LA was allocated £2,440,212 from a £500 million Hardship Fund to support economically vulnerable people and households. Stockton is using this funding to award up to £150 Council Tax discount to all existing and new working age LCTS customers throughout 2020/21. Over 12,000 customers have already benefitted.
23. Awards have been made under section 13A of the Local Government Finance Act using the LA's Discretionary Hardship policy.
24. Due to the financial risks of developing proposals to change the LCTS scheme this financial year the LA may want to consider setting aside additional funds for 2021/22 to offer more targeted support to those LCTS customers facing exceptional hardship.

FUTURE SCHEME OPTIONS

Means Test or Income Banded Discount Scheme

25. The key consideration for Stockton is whether to continue to operate the existing scheme with a change to the minimum contribution rate or whether to make some more fundamental changes and move to an alternative approach such as a banded scheme.

Retaining the Existing Scheme with a Rise in the Maximum Award

26. Retaining the existing scheme with an increase in the maximum award is a relatively straightforward change although it does not bring with it some of the simplification for both staff and customers that a banded scheme would bring.
27. A higher maximum award such as the move to a 90% scheme will make the scheme more expensive (see Appendix A), but with over a 9% rise in caseload in just five months it is crucial that the LA reflects on the affordability of the current scheme before considering further changes.

Introducing a Banded Scheme

28. A banded scheme moves away from the 'means test' and instead applies a pre-defined percentage discount where income falls within a specific income band.
29. Research carried out by 'Entitledto' shows there are now over 60 authorities that have moved to a banded scheme. There is a variety of approaches being used, to a large extent, dependant on the individual LA's caseload.
30. As Stockton's caseload rises resources will need to be directed to those who most need help. Once there is a greater understanding of the future costs of the LCTS scheme, modelling of a new scheme can factor this in.

Transitional Protection

31. When making changes to the LCTS scheme the LA is required to consider transitional protection for customers who are negatively affected by the changes.

32. Permanent additional protection can be added back into the scheme to compensate for losses in entitlement although this departs somewhat from the principle of simplifying the scheme and controlling costs. Transitional support can also be applied for a limited period to give customers the chance to adapt to the changes.
33. Transitional protection will have further cost implications and both of these options are best considered once the true cost of the scheme can be determined.

CONCLUSION

34. There is a need to review the current LCTS scheme, however there are many variables which affect the forecasting of costs and Coronavirus has introduced an extra layer of complexity. Time is needed to understand the impact on customers, their ability to pay a minimum contribution, the rise in caseload and any wider welfare reforms that may come through as part of the government's response to Coronavirus.
35. It would be beneficial to continue to review and modernise the LCTS process but to refrain from making changes impacting on the financial aspects of the scheme until more is known about the affordability of the current scheme and any alternative proposals.
36. In the meantime funds could be set aside to provide more targeted support to those struggling to pay the minimum 20% contribution using section 13A of the local government Finance Act

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