

REPORT TITLE: CONSULTATION ON CHANGES TO THE COUNCIL TAX
REDUCTION SCHEME

16 SEPTEMBER 2020

REPORT OF CABINET MEMBER: Cllr Neil Cutler, Deputy Leader and Cabinet
Member for Finance and Risk

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WARD(S): Whole City Council Area

PURPOSE

1. The purpose of this report is to request permission to undertake statutory consultation with both the public and the Major Precepting Authorities in respect of proposed changes to the City Council's Council Tax Reduction Scheme which will take effect from 1st April 2021.
2. Each financial 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 amend it.
3. 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.
4. As with the majority of authorities within England, the City Council should consider 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.
5. This report requests permission to undertake the statutory consultation on requested changes to the scheme and makes recommendation to members for the 2021/22 scheme.

RECOMMENDATIONS:

1. Approve statutory consultation on the introduction of a new income banded / grid Council Tax Reduction scheme for working age applicants, effective 1st April 2021.

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IMPLICATIONS:

1 COUNCIL PLAN OUTCOME

1.1 Homes for all

1.2 Changes to the CTR scheme from 1st April 2021 will enable all potential applicants to obtain help towards their Council Tax liability quickly, thereby ensuring that all low-income households are provided with financial support from the earliest possibility.

1.3 Living Well

1.4 Changes to the CTR scheme for working age applicants will allow for the automatic granting and potential backdating of support. This will ensure that households will not lose entitlement. Often failure to claim on time or lack of knowledge of the existence of the CTR scheme leads to households struggling to pay higher levels of Council Tax.

1.5 The new scheme will ensure that applicants receive entitlement from the earliest possible date and also allow for the straightforward backdating of entitlement where the applicant was unaware or where circumstances have prevented the applicant from claiming.

1.6 By reducing the level of Council Tax payable, more of the household's finances can be used for other essential expenses, relieving some financial pressures.

2 FINANCIAL IMPLICATIONS

2.1 The current Council Tax Reduction scheme costs £6.4m (in May 2020) which is borne by the Council's Collection Fund. Costs are shared between the Council and the Major Precepting Authorities in the following proportions:

- City Council (7.93%);
- Hampshire County Council (71.29%);
- Police and Crime Commissioner for Hampshire (11.72%)
- Hampshire Fire and Rescue Service (3.83%)
- Parishes and Winchester Town (5.23%)

2.2 Whilst the approach and 'shape' of the scheme is changing, there is no deliberate intention either to reduce the level of support available to households or to increase the overall costs of the scheme itself.

- 2.3 The scheme has been designed so that disabled people are not disadvantaged. This is achieved by continuing to disregard their disabled income plus up to £80 per week of their other income. There may be a small number of cases that receive less support. They will be able to apply for assistance from the Exceptional Hardship Fund. In the case of those with a disabled child who will receive less support, this is primarily because they are large families.
- 2.4 There may be other applicants with larger families who may see a reduction in support. Child Benefit will continue to be disregarded and as the income bands for applicants with children are higher, they will be able to receive the same level of support with a higher income. Cases which receive less CTR will be able to apply for assistance from the Exceptional Hardship Fund where they can demonstrate financial hardship.
- 2.5 Based on current modelling, if the new scheme was in place now, the cost would be in the region of £6.4m. This takes in to account the new cases caused by COVID-19, and processed, in mid-May.
- 2.6 Further financial modelling will be undertaken. This will be particularly important given the effect of the COVID-19 crisis on the income of households within the City Council's area.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 Section 13A of the Local Government Act 1992 requires the Council as the billing authority to make a localised council tax reduction scheme in accordance with section 1A of the Act. Each financial year the council must consider whether it wants to revise the scheme, leave as is or replace it. Consultation must occur on any options required to change the scheme prior to introduction, and is set out in Schedule 1A (3) of the Local Government Finance Act 1992:
- (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.
- 3.2 When carrying out consultation the following guiding principles for a fair consultation must be adhered to:
- At a time when the proposals are at a formative stage;
 - Include sufficient reasons to enable those consulted to give consideration and respond;
 - Awareness of the factors which are of decisive relevance to the decision;
 - Adequate time for consideration and response;
 - The result of the consultation should be conscientiously taken into account by the decision makers when the decision is made.

- 3.3 Approval to commence consultation by officers is proposed to enable adequate consideration of proposals resulting from the consultation by 11th March 2021, being the year prior to the scheme coming into place.

4 **WORKFORCE IMPLICATIONS**

- 4.1 At present, COVID-19 has caused an increase in CTR claims. This generates additional work for an already small team and the use of agency staff has been required in order for the team to process all additional claims and respond to the increase in enquiries.
- 4.2 Changes to the scheme will enable a reduction in administration and allow staff to be able to undertake all CTR work using existing resources. Failure to implement changes will inevitably lead to an increase in administration with the corresponding increase in costs and the requirement for more staff.
- 4.3 Changes to a more simplified approach will also allow for the work to be undertaken by other staff within the Revenues and Benefits service and should reduce the need for agency staff within the team, which are costly.

5 **PROPERTY AND ASSET IMPLICATIONS**

- 5.1 None

6 **CONSULTATION AND COMMUNICATION**

- 6.1 As mentioned in section 3 above, there is a requirement under the legislation for a formal consultation with the major preceptors and the public in order to make any changes to the CTR scheme. This will be undertaken as follows:
- **Major Precepting Authorities** – a formal request will be made to all major preceptors for their comments on the proposed scheme. This will be by letter giving a 14-day timescale for any responses. Experiences from previous consultations have shown that preceptors will be focussed on the effect on the Council Tax base as well as the effect on households;
 - **Public** – an open invitation will be given to all residents of the City Council's area to comment on the proposed new scheme, irrespective of whether they are in receipt of CTR or not. Both working age and pension age residents will be encouraged to respond although, it should be noted, that the scheme for pension age applicants is prescribed by Central Government. If adopted, the City Council can only change the working age scheme. An online survey will be made available via the Council's website. Hardcopies will be available if requested.;

- **Other stakeholders-** the Council will contact other interested stakeholders such as advice organisations and other groups providing welfare support to residents, for their comments.

6.2 In addition to the formal consultation, the Council will provide information on its website as to the proposed changes.

6.3 If the new scheme is adopted, the Council will contact any Council Tax payer affected by the changes.

7 **ENVIRONMENTAL CONSIDERATIONS**

7.1 Failure to adopt a new simplified scheme will inevitably lead to an increase in administration. This in turn will lead to the increased use of resources.

8 **EQUALITY IMPACT ASSESSEMENT**

8.1 A first stage Equality Impact Assessment is shown at Appendix 1. Details of those households affected are referred to at para 11.15 and the bullet points that follow.


9 **DATA PROTECTION IMPACT ASSESSMENT**

9.1 None required. The project uses only existing data held. No further personal data will be requested, obtained, held or published.

10 **RISK MANAGEMENT**

10.1 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 (see para 11.17) • In some cases, applicants 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.

Risk	Mitigation	Opportunities
<p>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></p>	<ul style="list-style-type: none"> The majority of the work has already been completed with scheme design and extensive modelling. 	
<p>Project capacity</p>	<ul style="list-style-type: none"> Resources have already been allocated to the project which are sufficient 	
<p>Financial / VfM</p> <p><i>Changes to the scheme could potentially lead to changes in overall scheme costs.</i></p> <p>Potential increase in Fraud.</p>	<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. <p>Experience of similar schemes identifies that fraud tends to occur after a claim is made i.e. changes in circumstances are not reported. The change in scheme allows for a change in emphasis as evidence will only be requested in a very small number of cases. The vast majority of cases will be processed based on the information provided. The current scheme is not designed to prevent fraud, the new scheme with its reduced requirements will, by design, reduce fraud e.g. no requirement to report all income changes, non dependants etc.; Reviews will be</p>	<ul style="list-style-type: none"> The Council has indicated that it is not looking to make savings from scheme changes. However, a natural reduction in the resources required to administer this scheme should yield savings once the new scheme is bedded-in.

Risk	Mitigation	Opportunities
	undertaken on a risk based approach together with other Council Tax discounts	
<p>Legal <i>Failure to undertake statutory consultation in accordance with the legislation and comply with the legal requirements for developing a new CTR scheme may result in a judicial review</i></p>	<ul style="list-style-type: none"> The proposed consultation and introduction of the scheme is in accordance with legislative requirements 	Enhance the council's policy of siting those in the community who benefit from on-going support.
<p>Innovation <i>Failure to maximise the potential of change and automation</i></p>	Throughout the project, we will look to take advantages of the latest automation of claims and the gathering of data	There will be more opportunity to enhance customer's online experience by receiving immediate decisions of discounts being granted.
<p>Reputation <i>Failure to implement the new scheme on time or failure to deliver a comprehensive and robust scheme</i></p>	The project is following previous successful implementations by other Local Authorities	There is an opportunity for the Council to enhance its reputation by developing an up to date and effective CTR scheme

11 SUPPORTING INFORMATION:

BACKGROUND

- 11.1 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.
- 11.2 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.
- 11.3 The current Council Tax Reduction scheme created 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.
- 11.4 Pensioners, subject to their income, can receive up to 100 per cent support towards their council tax. The Council has no powers 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.
- 11.5 When Council Tax Reduction was introduced in 2013, the Council adopted the previous means tested Council Tax Benefit scheme as the basis of awarding support and enhanced the scheme by increasing the earnings disregards in order to encourage people into work. Many other authorities in England took this opportunity to introduce a requirement for claimants to make some contribution to Council Tax, leaving Winchester's scheme as one of the most generous in the Country. Since that time, other minor changes have been made to bring the scheme into line with either Housing Benefit or Universal Credit. For example, disregarding income and capital from the We Love Manchester Emergency Fund, Windrush payments and London Emergency Trust.

11.6 The main issues with the current scheme

11.7 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 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.

Council Tax Reduction and the roll out of Universal Credit

11.8 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 required.

11.9 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 district 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.

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

11.11 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.

11.12 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 2021/22 Council Tax Reduction Scheme

11.13 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 is to fundamentally redesign the scheme to address all of the issues with the current scheme and in particular;

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

11.14 Work has been ongoing since 2019 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.

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

- The overall expenditure (cost) of the scheme will remain as at present;
- 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:

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 - £100.00	£0 - £160.00	£0 - £220.00	£0-£140.00	£0 -£205.00	£0 - £260.00
Band 2	80%	£100.01 - £180.00	£160.01 - £240.00	£220.01 - £295.00	£140.01 - £240.00	£205.01 - £281.00	£260.01 - £340.00
Band 3	40%	£180.01 - £215.00	£240.01 - £255.00	£295.01-£350.00	£240.01 - £290.00	£281.01 – £320.00	£340.01 - £400.00
Band 4	25%	£215.01 - £255.00	£255.01 - £280.00	£350.01 – £450.00	£290.01 £340.00	£320.01 - £370.00	£400.01 - £430.00
	0%	Over £255.00	Over £280.00	Over £450.00	Over £340.00	Over £370.00	Over £430.00

- It is proposed that the highest level of discount will remain at a maximum level of liability (100%) 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:
- 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. A non-dependant is an adult who lives with the applicant, normally a grown up son, daughter, friend or relative. A non-dependant will normally reduce the claimants CTR by the amount we expect them to contribute to their household. This is a significant change and means that the administration of the scheme will be more straightforward whilst also protecting low income families where, for example, adult sons and daughters remain at home. Some case studies are available to view at Appendix 6;
- To encourage work, a standard £35 per week disregard will be provided against all earnings for single persons and £70 per week for all lone parents, carers and couples. This will take the place of the current standard disregards, childcare disregards and additional earnings disregards. Child Benefit will continue to be disregarded and as the income bands for applicants with children are higher, they will be able to receive the same level of support with a higher income;
- Disability benefits such as Disability Living Allowance and Personal Independence Allowance will continue to be disregarded;
- 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 - in certain cases, where applicants have been in receipt of prescribed benefits (such as Income Support, Jobseekers Allowance or Employment and Support Allowance) and move into work which ends their entitlement, CTR can be paid for an additional 4 weeks after commencing work or increasing their hours. This is known as an Extended Payment. Similar provisions do not exist for Universal Credit claimants. As Universal Credit is to replace those existing (legacy) benefits, the Council feels that these provisions are no longer appropriate;
- Second Adult Rebate will be removed - the current CTR scheme can grant a reduction up to 25% in certain cases where the income of a 'second adult' (not the applicant's partner) who resides with the applicant is unemployed or has a low income. The reduction is not based on the applicant's or their partner's income but is purely based on the income of the 'second adult';
- Reducing the capital limit to £6,000 (from £16,000). This will eliminate the requirement to calculate the tariff on capital; and

- Where the applicant, their partner and / or a dependent child is disabled, a further disregard will be made from their income prior to the calculation of CTR.

11.16 The scheme has been designed so that disabled people are not disadvantaged. This is achieved by continuing to disregard their disabled income plus up to £80 per week of their other income. There may be a small number of cases that receive less support. They will be able to apply for assistance from the Exceptional Hardship Fund. In the case of those with a disabled child who will receive less support, this is primarily because they are large families.

11.17 There may be other applicants with larger families who may see a reduction in support. Child Benefit will continue to be disregarded and as the income bands for applicants with children are higher, they will be able to receive the same level of support with a higher income. Cases which receive less CTR will be able to apply for assistance from the Exceptional Hardship Fund where they can demonstrate financial hardship.

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

11.18 Due to 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 with minimal administration and without the need to request further information from the applicant. 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 without the need to request further information from the applicant.
- 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, and for all other applicants, the claiming process will be significantly simplified,

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:
 - In the vast majority of cases there will be no requirement to notify the Council of a change in income as the discount bands are so wide. Applicants will only be required to notify the Council when their income is likely to change the discount banding they are in
 - 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

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

11.20 Inevitably, with any change in scheme, there will be both winners and losers although the proposed scheme has been designed to protect the most vulnerable. Whilst the new scheme has been designed to protect vulnerable groups and to, where possible, minimise any reductions in entitlement, 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.

11.21 This approach will enable individual applicants to be dealt with in a fair and equitable manner. The Exceptional Hardship Scheme (see Appendix 5) will form part of the Council Tax Reduction scheme and fall to be paid through the Collection Fund.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 The alternative to introducing a new scheme for CTR 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 City Council's area.

BACKGROUND DOCUMENTS:

None.

APPENDICES:

Appendix 1 – First Stage Equality Impact Assessment;

Appendix 2 – Proposed draft letter to Major Preceptors

Appendix 3 – Proposed public consultation document

Appendix 4 – Proposed draft Council Tax Reduction Scheme (2021/22)

Appendix 5 – Proposed Exceptional Hardship Scheme

Appendix 6 – Case studies