

POLICY AND RESURCE COMMITTEE

Wednesday 17 July 2024

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| REPORT TITLE: | CONSULTATION - CHANGING THE COUNCIL TAX REDUCTION SCHEME FOR WORKING AGE APPLICANTS WITH EFFECT FROM 1ST APRIL 2025 |
| REPORT OF: | DIRECTOR OF FINANCE |

REPORT SUMMARY

The purpose of this report is to update the Policy and Resources Committee on the work undertaken so far and 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 1st April 2025.

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.

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.

As with the majority of authorities within England, we need to make 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.

This report provides details of the proposed scheme which will provide assistance to the most vulnerable and negate the negative administrative effects of the introduction of Universal Credit. If the review of our current scheme is approved, the report requests permission to consult on these proposed changes as required by the legislation.

The report supports the Council Plan 2023 – 27, specifically the Early Help for Children and Families and Promoting Independence & Healthier lives themes.

This is a Key Decision as it affects all Wards within the Borough.

RECOMMENDATIONS

Policy and Resources Committee is recommended to:

Agree that the Council will consult with the public and Major Precepting Authorities on the introduction of a new income banded/grid scheme for working age applicants with effect from 1 April 2025 to:

- a) reduce the administrative burden placed on the Council by the introduction of Universal Credit
- b) to maintain the overall level of support for the lowest income families
- c) to improve the level of Council Tax collection

The proposed scheme within this report will address the issues faced by the Revenues and Benefits Service in administering the current scheme.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The Council is required to agree its CTR scheme by the 11th March each year
- 1.2 The current scheme causes confusion for residents due to the number of changes occurring during the year resulting in amended Council Tax bills
- 1.3 The current scheme is administratively burdensome and creates delays in processing for residents which can impact on collections.
- 1.4 The current scheme was based on processes in place in 2013, there have been significant changes to the level and speed of data transfer between the DWP and Councils

2.0 OTHER OPTIONS CONSIDERED

- 2.1 The alternative to introducing a new income-banded scheme for Council Tax Reduction from 2025/26 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, continue to significantly affect the collection of Council Tax and the effectiveness of the scheme to support households within the Council's area.

3.0 BACKGROUND INFORMATION

- 3.1 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.

- 3.2 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.
- 3.3 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.
- 3.4 Pensioners, subject to their income, can receive up to 100% 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.
- 3.5 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 apart from introducing a minimum charge of 22% for working age claimants without protected characteristics (see 3.6).
- 3.6 The Council reduced the amount of the minimum charge for working age applicants in April 2017 from 22% to 12%. Vulnerable claimants (working age people awarded a war pension, disability premium, severe disability premium, disabled child premium or Employment Support Allowance – Support Component; or a Limited Work Related Activity Component within any award of Universal Credit) can continue to receive up to 100% support.
- 3.7 The only other changes made were in line with prescribed requirements (set by Government) and to bring the scheme into line with either Housing Benefit or Universal Credit

3.8 The main issues with the current scheme

- 3.9 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 to provide the service in an efficient manner. The main issues are as follows:
- The need to continue 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.

Each of these points are examined in detail below:

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

- 3.11 Similar to other authorities, the Council, now requires all working age applicants (except those considered vulnerable) to pay a minimum payment (12%). 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.
- 3.12 It is essential that this level of support is maintained notwithstanding that the design and the administration of the scheme needs to change.

3.13 Council Tax Reduction and the roll out of Universal Credit

- 3.14 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 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. This currently stands at 76,000 per annum and is expected to rise to over 100,000 changes per annum from the end of 2025. On average 40% of Universal Credit claimants have between eight and twelve changes in entitlement each year. 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 staff time being needed. Consequently, this has resulted in delays in processing CTR claims and sending revised council tax bills.
- 3.15 The existing means tested CTR scheme, is too reactive to change, and is not viable in the longer term now that Universal Credit has been rolled out fully within the area and with the increase in Universal Credit claimants due to the COVID-19 crisis and the managed migration from legacy benefits (to be completed by the end of 2025). The move to a new more efficient CTR scheme from 2025/26 has now become essential.

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

- 3.17 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 difficult 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 competent in processing claims, it takes over a year for an assessor to be proficient in the basics.
- 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 in comparison to other Council Tax discounts.

3.19 There is now a need to review our CTR 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 time and costs of administration so work demands are more manageable on the team.

3.20 The proposed approach for the 2025/26 Council Tax Reduction Scheme

3.21 In view of the problems being experienced with the current scheme, it is proposed that an alternative approach be taken from 2025/26. The approach is to fundamentally redesign the scheme to address all the issues with the current scheme and in particular:

- (a) To maintain the level of support available to the poorest households.
- (b) To address the problems with the introduction of full-service Universal Credit; and
- (c) To reduce the administration costs and delays in processing due to the high level of changes received in respect of Universal Credit;

3.22 Work has been ongoing since the beginning of June this year on a proposed new scheme which is now complete. If agreed by Policy and Resources Committee, consultation needs to be undertaken with the public and the major precepting authorities. If agreed by Full Council later this year, the new scheme will take effect from 1st April 2025.

3.23 The current means - tested schemes will be replaced by a simple income grid model as shown below in Table 1:

Table 1 – EXAMPLE

| | Passported* (entitled to benefits that mean no assessment is required) | Single | Single with 1 Child | Single with 2 or more Children | Couples £ | Couple with 1 Child £ | Couple with Two or more children £ |
|-----------------------|--|--------------------|----------------------------|---------------------------------------|--------------------|------------------------------|---|
| Discount level | Weekly Income Levels £ | | | | | | |
| Band 1* 100% | Relevant Benefit | £0.00 to £125.00 | £0.00 to £225.00 | £0.00 to £275.00 | £0.00 to £175.00 | £0.00 to £225.00 | £0.00 to £275.00 |
| Band 2 75% | N/A | £125.01 to £175.00 | £225.01 to £275.00 | £275.01 to £325.00 | £175.01 to £225.00 | £225.01 to £275.00 | £275.01 to £325.00 |
| Band 3 50% | N/A | £175.01 to £225.00 | £275.01 to £325.00 | £325.01 to £375.00 | £225.01 to £275.00 | £275.01 to £325.00 | £325.01 to £375.00 |
| Band 4 25% | N/A | £225.01 to £275.00 | £325.01 to £375.00 | £375.01 to £425.00 | £275.01 to £325.00 | £325.01 to £375.00 | £375.01 to £425.00 |

- It is proposed that the highest level of discount will be at a maximum level of liability 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;
- All of the proposed scheme options specified below, have the same 'grid' and are identical in other respects except for non-dependant deductions;

3.24 For all of the above options, the following key features will apply:

- To encourage work, a standard weekly 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;
- A £5 charge will be made for non-dependants;
- Disability benefits such as Disability Living Allowance and Personal Independence Allowance will continue to be disregarded;

- Where any applicant, their partner or any dependent child(ren) are disabled, a further disregard will be made against their income, 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 be disregarded;
- The following elements of Universal Credit will also be disregarded:
 - An amount in respect of the Housing Element;
 - Limited Capability for Work and Work Related Activity Element;
 - Carer's Element; and
 - Disabled Child Element
 - The total disregard on war pensions and war disablement pensions will continue (maintaining the Council's commitment to the Armed Forces Community Covenant);
 - Extended payments will be removed; and
 - The capital limit will be £ 6,000 but with no tariff (or assumed income) being applied.

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

3.26 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 and delays in processing 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, CTR 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 CTR. Where information is received from DWP, the entitlement to CTR will be processed automatically without the need to request further information from the council taxpayer. 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.** The claiming process will be simplified significantly for all CTR claimants. Entitlement to CTR 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 improving and increasing collection rates. The maintained maximum level of

discount will also 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 CTR 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 bills. 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.

3.27 The effect of proposed scheme on individual households

- 3.28 The proposed changes will have a significant positive effect on households especially those on the lowest of incomes, who should benefit from greater certainty about how much Council Tax they should have to pay.
- 3.29 Inevitably, with any change in scheme, there will be some losers although the proposed scheme has been designed to protect the most vulnerable and the vast majority of applicants.
- 3.30 In order to assist any household who may lose 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.
- 3.31 The Council will consider all applications for hardship on an individual case-by-case basis, taking into account available income and essential outgoings. Where appropriate further support will be given to the applicant. Any discretionary awards made are to be paid through the Collection Fund.

4.0 LEGAL IMPLICATIONS

- 4.1 Schedule 1A (3) of the Local Government Finance Act 1992, states that 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.

4.2 In addition to the statutory consultation, 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.

5 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

5.1 Staffing

5.2 The change in scheme will allow resources to be freed from the existing benefit service to focus on improving processing times residual housing benefit claims, Personal Finance Unit assessments and improving delivery of Council Tax.

5.3 ICT

5.4 The new scheme will be administered using the existing software system albeit that a further module will be required.

5.5 Finance

5.6 The current Council Tax Reduction scheme costs approximately £34.283m which is borne by the Council's Collection Fund. Costs are shared between the Council and the Major Precepting Authorities in the following proportions:

- Council (83.4%);
- Police and Crime Commissioner (11.7%);
- Fire & Rescue Service (4.0%).
- Liverpool City Region Mayor (0.8%).

5.7 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. Based on current modelling, were the new scheme to be in place at the current time, the cost would be approximately £35M

5.8 It is assumed a continued reduction in caseload will reduce this figure for 2025/26.

5.8 Financial modelling will continue to be undertaken throughout the project as CTR caseloads change throughout any financial year.

5.9 Effect on the taxbase

5.10 Since 2013 the tax base has grown by over 7.35% whilst the effect of CTR on the tax base has reduced considerably by over 16.4%. Over the last 11 years Council Tax Reduction has, in real terms, reduced by 22.13%.

Table 5 - the effect of CTR on the taxbase.

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | increase/ decrease |
|------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------------------|
| CTB | 125,333 | 130,472 | 131,151 | 131,450 | 131,958 | 132,195 | 132,861 | 133,237 | 134,028 | 134,378 | 134,553 | 7.35% |
| CTR | 25,997 | 25,653 | 24,641 | 23,981 | 23,408 | 22,452 | 21,745 | 22,780 | 22,386 | 21,917 | 21,733 | -16.4% |
| % | 20.74% | 19.66% | 18.78% | 18.24% | 17.74% | 16.98% | 16.36% | 17.09% | 16.70% | 16.30% | 16.15% | -22.13% |

5.11 The overall CTR caseload (Table 6) is reducing year on year due to mainly the increasing income of pensioners (this is in line with all other English Authorities) and whilst the working age caseload increased temporarily through the COVID crisis, this is again reducing and is expected to reduce further from now on.

Table 6 - reduction in CTR caseload

| Financial Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Reduction since 2013 |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------------------|
| Working Age | 21,990 | 21,822 | 20,928 | 20,060 | 19,484 | 19,182 | 18,352 | 18,164 | 19,590 | 18,319 | 17,840 | 4,150 |
| Pension Age | 16,645 | 16,069 | 15,303 | 14,513 | 13,831 | 13,250 | 12,664 | 12,154 | 11,737 | 11,319 | 11,134 | 5,511 |
| Total | 38,635 | 37,891 | 36,231 | 34,573 | 33,315 | 32,432 | 31,016 | 30,318 | 31,327 | 29,638 | 28,974 | 9,661 |

Both above tables show clearly that the proposed changes for 2025/26 would still represent a significant reduction in the proportion of costs in real terms compared to the original Council Tax Reduction level in 2013.

6.0 RELEVANT RISKS

6.1 There is a risk that the CTR Caseload could rise as a result of the continued cost of living pressures.

7.0 ENGAGEMENT/CONSULTATION

7.1 Initial engagement with Finance Sub Committee took place on the 23 April 2024, this provided background to details contained within Section 3 of this report and sort permission to appoint external consultant to assist with amending the Council Tax Support scheme.

7.2 In order to change the scheme, a full consultation will need to be undertaken in line with the statutory requirement with:

- Police and Crime Commissioner for Merseyside.
- Mayor of the Liverpool City Region.
- Merseyside Fire & Rescue Service; and
- Members of the public

7.3 Consultation will be taken in accordance with the Gunning Principles and are summarised below;

- It should be at a time when proposals are at a formative stage;
- Must include sufficient reasons for particular proposals to allow those consulted to give intelligent consideration and an intelligent response;
- Those consulted should be made aware of the factors that are of decisive relevance to the decision;
- Adequate time should be given for consideration and response;
- The product of the consultation should be conscientiously taken into account by the decision makers in finalising their statutory proposals/ when the ultimate decision is taken.

7.4 The responses to the consultation will assist the authority in making its decision which must be made by Full Council

8.0 EQUALITY IMPLICATIONS

8.1 If the proposed recommendation is agreed, we will assess the Council's equalities duty in regard to this proposal and include any relevant findings from the outcome from the consultation in the report to Policy and Resources Committee on 6th November 2024.

9.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

9.1 There will be no measurable environmental impact.

10.0 COMMUNITY WEALTH IMPLICATIONS

10.1 The provision of an effective Council Tax Reduction scheme will benefit residents by enabling faster and more efficient service. This will provide clarity to the amounts of Council Tax due from chargepayers and reduce the number adjustments to bills.

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APPENDICES

None

BACKGROUND PAPERS

Local Government Finance Act 1992, Section 13A and Schedule 1A

TERMS OF REFERENCE

This report is being considered by the Policy and Resources Committee in accordance with Section 1.2(a) of its Terms of Reference, to formulate, co-ordinate and implement corporate policies and strategies and the medium-term financial plan (budget). The report seeks a recommendation to Council in accordance with Part 3(A) of the Constitution as the setting of the Council's Council Tax requirement is a function reserved to Council.

SUBJECT HISTORY (last 3 years)

| Council Meeting | Date |
|------------------------|------------------|
| Council | 26 February 2024 |
| Council | 27 February 2023 |
| Council | 28 February 2022 |