

LOCAL COUNCIL TAX REDUCTION SCHEME

**To:**

Councillor Mike Davey, Executive Councillor for Finance, Resources and Transformation

Strategy & Resources Scrutiny Committee 11/07/2022

Report by:

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Wards affected:

All

Key Decision

1. Executive Summary

- 1.1 Councils are required to review their Council Tax Reduction scheme annually and determine whether to revise it or not.
- 1.2 At Strategy and Resources Committee 7 October 2019, it was agreed for an annual, light touch review, to be delegated to Head of Service followed by consultation with preceptors and for a full review and comprehensive consultation in 2022 for the 2023-2026 Council Tax Reduction Schemes.

2. Recommendations

2.1 The Executive Councillor is recommended to agree:

- outline proposals and consultation process for the review of the Council Tax Reduction Scheme for Universal Credit households

- to retain the Non-Universal Credit scheme and approve annual uprating based on September CPI figures.
- to approve delegation of the Council Tax Reduction schemes
- annual review to the Head of Finance, and subject to the final recommendations post consultation being adopted, that these schemes continue (subject to uprating) until 31 March 2026.

3. Background

- 3.1 In April 2013, following the ending of Council Tax Benefit, Councils were required to have a Local Council Tax Reduction scheme for working-age claimants. The scheme that Cambridge City adopted was based on the previous Council Tax Benefit Scheme and worked well alongside housing benefit.
- 3.2 Pensioners follow a Prescribed Council Tax Reduction Scheme that is not subject to local control.
- 3.3 Once Universal Credit started to be rolled out in Cambridge in 2018, replacing housing benefit and six other 'legacy' benefits, it became clear that the 2013 Council Tax Reduction Scheme did not work well alongside Universal Credit. Therefore, the Local Council Tax Reduction scheme was changed in April 2020 to add a banded scheme for households on Universal Credit. Non-Universal Credit households remain on the old 2013 scheme.
- 3.4 From April 2020, the council has been operating three schemes:
- Prescribed Pensioner Scheme - national scheme
 - Non-Universal Credit – for working age applicants based on pre 2013 Council Tax Benefit scheme and uses annual uprating of allowances and premiums.
 - Universal Credit – for working age applicants on Universal Credit. Uses data from DWP on earnings and depending on levels of earnings, applicants are asked to pay a contribution towards their Council Tax.
- 3.5 The primary reason for the introduction of the Universal Credit scheme was that minor monthly fluctuation of earnings, (often less than £20 per month) results in multiple rebilling of Council Tax making budgeting difficult for applicants and creating a bar to recovery as each new change resets the recovery process.

- 3.6 The Local Council Tax Reduction - Universal Credit banded scheme is working well with fluctuating monthly Universal Credit incomes, giving a level of entitlement stability to the applicant, and a clear understanding of what an increase or decrease in earnings means for their Council Tax Reduction.
- 3.7 The new scheme utilises increasing data flows from the Department for Work and Pensions on Universal Credit calculations, removing the need for an application to be made and reducing the burden of supplying details of Universal Credit changes.
- 3.8 Since the start of the Universal Credit banded scheme, there have been no challenges or complaints on its design or application and the proposal is to continue with two working age schemes:
- banded scheme for Universal Credit households
 - non-banded for non-Universal credit
- 3.9 The government has a target to move legacy benefit households (Tax Credit, Job Seekers, Employment Support, housing Benefit etc.) to Universal Credit by the end of the financial year 2024-2025.
- 3.10 Households on our non-Universal Credit scheme will move to the Universal Credit banded scheme when their legacy benefits end and they claim Universal Credit.
- 3.11 Universal Credit claimants will not need to apply for Council Tax Reduction separately as the local scheme already allows for information supplied by DWP to be treated as an intention to claim and used to set up claims automatically.

4. Proposals

Universal Credit Scheme

i. Income Bands

- 4.1 Since 2020, the income bands and the amount of the contributions have been uprated by the September CPI rate. During Covid and the cost-of-living increases, CPI has become a less reliable figure for uprating which may cause the increase in contributions where wages have not kept pace with CPI. The proposals are for a reset of both the bands and

the contributions based on national minimum wage and to keep costs of the scheme broadly within the same cash envelope.

Table 1 – Draft bands and contributions. These will be revised post consultation and with more up to date modelling figures.

Weekly Earnings Ranges	Amount of contribution towards Council Tax per week
earnings less than £77.00	Zero contribution
earnings £77.00 to £140.59	£6.09 contribution
earnings £140.60 to £210.89	£13.52 contribution
earnings £210.90 to £281.19	£20.55 contribution
earnings £281.20 to £351.49	£35.22 contribution
earnings £351.50 to £657.55	£52.08 contribution
£657.56 and above	full contribution

4.2 It is proposed to use similar, reasonably broad earnings bands, as to create too many increases the likelihood of moving from band to band when relatively small changes in earnings happen which then leads to rebilling and uncertainty of entitlement. The current scheme encourages increasing hours for workers at the bottom or the middle of each band as this will not change their Council Tax Reduction entitlement.

4.3 Following a reset of band parameters and contribution levels for 2023, the proposal is to reintroduce uprating by CPI from 2024.

ii. Non-dependent deductions

4.4 Having a flat rate of deduction for other adults living in the property has worked well, applicants are clear on what other people in the household need to contribute towards the Council Tax.

4.5 The initial rate of contribution was £6.50 and with CPI applied for 2021 and 2022, is now £6.73.

4.6 The proposal is to reset this to £6.80 from 2023 and to reintroduce uprating by CPI from 2024.

4.7 There is also a proposal to introduce non-dependant deductions for pensioner adults living with a working age household as this aligns with the non-Universal Credit Local Scheme and also with the Prescribed scheme for pensioners.

- 4.8 Pensioners on Pension Credit or if they have a disability income, will not be asked to make a contribution.
- 4.9 Currently, there are 23 Working Age claims where there is a pensioner non-dependant. Five have Pension Credit Guarantee Credit so will not have a deduction and 14 have disability incomes so will not have a deduction. This leaves four 4 potentially affected from April 2023.

iii. 100% Liability

- 4.10 Currently both the Universal Credit and non-Universal Credit Local Schemes are based on 100% of the Council Tax liability.
- 4.11 Many other Local Authorities have schemes based on less than 100% liability, meaning the charge-payer must make a contribution towards their Council Tax irrespective of their income unless they fall into a vulnerable group (as defined by the Local Authority). These are either a fixed amount or a percentage of the Council Tax liability.
- 4.12 This approach may make a scheme marginally more affordable to a Council but can place additional burdens on households, especially at present with cost of living increases putting pressure on low income households.
- 4.13 Modelling based on a £2 per week minimum payment would reduce total Council tax Reduction spend for all preceptors by just over £70,000 but save Cambridge City Council approximately £7,000 (based on current precepts). Adding £2 per week would create a debt of £104 even if they would otherwise be entitled to maximum support due to very low incomes.
- 4.14 These amounts are not small for households and are very costly to collect for billing authorities. It is therefore felt that the imposition of either a percentage or flat rate contribution would not support vulnerable households, nor would it deliver significant savings for the authority due to high collection costs.
- 4.15 The report below highlights that there is an increasing number of authorities who are moving to banded schemes and are also dropping minimum payments, probably for the for the above reasons.
- 4.16 [Review of Council Tax Reduction schemes in England in 2021/22 \(npi.org.uk\)](https://www.npi.org.uk)

Non-Universal Credit Scheme

- 4.17 The mechanism based on Council Tax Benefit continues with annual uprating of incomes in line with housing benefit allowances, premiums and increases in social security benefits.
- 4.18 This has also worked well since it was introduced in 2013 and works well with the legacy benefits such as Tax Credits, Income Support, Employment and Support Allowance and Job Seekers Allowance for instance.

5. Implications

a) Financial Implications

- 5.1 In the first year of Local Council Tax (2013/14), central government funding for Council tax Reduction was cut by 10% compared to what had been paid to councils the year before under Council Tax Benefit.
- 5.2 From April 2014, funding for Council tax Reduction was included in the annual central government grant, meaning it is no longer separately identifiable.
- 5.3 Costs fall to local preceptors and are based on their percentage of the Council Tax levied. Cambridge City Council's share of the cost is currently approximately 10.5%.
- 5.4 Since April 2013, there has been the rollout of Universal Credit, the Coronavirus pandemic and a cost-of-living crisis, all of which causes problems for forecasting. The table below shows the total Council Tax Reduction awards per financial year, broken down by Pensioner, Working Age Universal Credit and Working Age non-Universal Credit. Alongside each year is the percentage increase in Council Tax liability which has a direct impact on the amount of Council Tax Reduction as the higher the liability, the more an award generally is.

Table 2

Year	Pensioner £m	Pensioner Accounts	Working Age £m	Working Age Accounts	UC £m	UC Accounts	Total CTR £m	Average Annual Award
2018/2019	2.1	2440	4.36	5657			6.46	£798
2019/2020	2.1	2320	4.52	5626			6.62	£833
2020/2021*	2.2	2248	3.24	3887	2.5	3281	7.94	£843
2021/2022	2.2	2216	2.86	2947	2.96	2777	8.02	£1,010
2022/2023	2.31	1978	2.71	2217	3.17	3246	8.19	£1,101

*2020-2021 Central government announced the CTR Hardship Fund in response to the pandemic. Cambridge City allocation was £291,000 and reduced the total CTR from £8.23m to £7.94m and kept average awards down by about £150.

5.5 On 1 April 2020, claims started to move from Working Age accounts to Universal Credit accounts and will continue to move over until the full migration by DWP from legacy benefits to Universal Credit is due to complete in March 2025.

a) Staffing Implications

5.6 A fundamental service review of Revenues and Benefits concluded in 2021-2022, resulting of an overall reduction in staff by one third. One of the overriding enablers of this review was the introduction of the Universal Credit banded scheme as it is highly automated, allowing for the Universal Credit claim to automatically create a claim for Council Tax Reduction and for over 65% of all changes to be processed by the system.

5.7 To revert to a scheme where applicants need to claim themselves and to provide significant amount of evidence both at the point of claiming and for changes in circumstances will require a service review to increase staffing.

b) Equality and Poverty Implications

5.8 An Equality Impact Assessment will be undertaken as part of the consultation review.

c) Net Zero Carbon, Climate Change and Environmental Implications

5.9 None.

d) Procurement Implications

5.10 None.

e) Community Safety Implications

5.11 None.

6. Consultation and communication considerations

6.1 Consultation will be carried out during July, August and September 2022, with an aspiration for 12-week period of consultation and will include:

- i) All current working age Council Tax Reduction recipients.

- ii) Partnership meetings with Cambridge Citizen's Advice Department for Work
- iii) and Pensions, financial inclusion organisations and third sector organisations.
- iv) Engagement with internal stakeholders.
- v) A sample of Council Tax payers, including those not receiving Council Tax Reduction.
- vi) Council Tax Precepting Authorities.
- vii) Groups representing those with protected characteristics.
- viii) Media exposure including City Council publications.

6.2 The consultation will explain that this is a review of the two working age schemes (Universal Credit and non-Universal Credit) and does not extend to the prescribed Pensioner scheme.

6.3 The proposals for consultation will be to

- i) Maintain the non-Universal Credit scheme as it currently is for households who are not claiming Universal Credit, with annual uprating of allowances and premiums in line with September CPI. There is no proposal to move them to the Universal Credit banded scheme or to introduce a separate banded scheme for these households.
- ii) Maintain a banded scheme for Universal Credit households.
- iii) Reset the earnings bands and contribution levels for the Universal Credit Local Scheme.
- iv) Reset the non-dependant contribution levels for the Universal Credit Local Scheme.
- v) Align non-dependant contributions for pensioners across all Council Tax Reduction Schemes.
- vi) Whether the Council should seek a minimum contribution amount or percentage amount for both working age Local Schemes.

7. Background papers

7.1 No background papers were used in the preparation of this report.

8. Appendices

8.1 Consultation questions to follow.

9. Inspection of papers

9.1 To inspect the background papers or if you have a query on the report please contact Naomi Armstrong, Benefits Manager, tel: 01223 - 457752, email: naomi.armstrong@cambridge.gov.uk.