LOCAL COUNCIL TAX REDUCTION SCHEME

To:
Councillor Mike Davey, Executive Councillor for Finance, Resources and Transformation and Non Statutory Deputy Leader
Strategy & Resources Scrutiny Committee 10/10/2022

Report by:
Naomi Armstrong, Benefits Manager
Tel: 01223 - 457752 Email: naomi.armstrong@cambridge.gov.uk

Wards affected:
All

Key Decision

1. Executive Summary

1.01 Draft recommendations (listed below) for the Local Council Tax Scheme were presented and agreed at Strategy and Resources Committee 11 July 2022 and moved to public consultation which concluded on 18 September 2022 and is detailed in Annex A.

1.02 The consultation responses have broadly agreed with the proposals.

2. Recommendations

2.01 The Executive Councillor is recommended to put to Council on 20 October 2022 that:

- To continue with the current Council Tax Reduction scheme (to include annual uprating in line with housing benefit rates) for working age claimants who are not in receipt of Universal Credit.

- To reset the non-dependant deduction rates for both working-age schemes for 1 year from 1 April 2023 and to uprate by September CPI figures thereafter.
- To continue with an earnings based banded local Council Tax Reduction scheme for Universal Credit claimants and to have fixed non-dependant deductions for these claims.
- To reset the earned income bands and contribution amounts set out in 4.03 Table 1 for 1 year from 1 April 2023 and to uprate by September CPI figures thereafter.
- To align non-dependant deductions so the rules for application are the same for all schemes (prescribed Pensioner scheme and the two Local Schemes, one for Universal Credit households and one for non-Universal Credit households)
- To not introduce a minimum contribution towards Council Tax for households on Local Council Tax Reduction.

3. Background

3.01 From April 2020, the council has been operating three schemes:

- Prescribed Pensioner Scheme– this is defined by central government and Local Authorities are not able to change this.
- Non-Universal Credit – for working age applicants based on pre 2013 Council Tax Benefit framework and uses annual uprating of allowances and premiums. This works well with housing benefit as they use the same regulations and allowances and premiums.
- Universal Credit – for working age applicants on Universal Credit. Uses data from Department for Work and Pensions (DWP) to create a claim and uses date on household and income including earnings. This scheme works well with Universal Credit claims and provides clarification and stability of entitlement despite fluctuating Universal Credit amounts. Applicants are asked to pay a contribution towards their Council Tax.

3.02 The two working age schemes have worked well side by side and migration from non-Universal Credit to Universal Credit schemes is easy by utilising the data from DWP.

3.03 New Universal Credit applicants who express an interest in claiming Council Tax Reduction will automatically have their claim for Council Tax Reduction backdated to their Universal Credit claim using the DWP data feed as well as using the household and income information to calculate their contribution to Council Tax.

3.04 Universal Credit itself can change monthly due to earnings; the banded scheme flattens out the number of changes providing stability and clarity for the applicant.

3.05 Since the start of the Universal Credit banded scheme in April 2020, 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

4. Proposals

Universal Credit Scheme

i. Income Bands

4.01 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.

4.02 Responses from the consultation include:

- It should include CPI, but ideally a double lock of income and CPI (selecting between them to pick the lowest amount due from people with low incomes)
- Inflation is very high at the moment and large discount may be unaffordable
- I'd rather they grew in proportion to Council Tax levels.
- The CPI is completely out of touch with realistic finances of everyday people.
- Common sense to have a strategy and pricing that relates to a none-political scale.
- i am assuming this would mean people would have to pay more each year?
- costs are rising massively, universal credit/council tax should reflect the greater costs households have to bear.

4.03 By moving away from CPI for one year will address some of the above. Using the Council Tax increase is difficult as this is not known until a few days before the bills are produced so will not provide clarity for claimants. Following a reset of band parameters and contribution levels for 2023, the proposal is to reintroduce uprating by CPI from 2024.

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

4.04 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.

4.05 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.

4.06 From the consultation, the biggest number of respondents thought the bands were about right with comments below:

- Too many people get reductions in council tax. How about pensioners!
- While broadly positive, I have two concerns: first, as someone in a fortunate position with good income, I am not sure I fully appreciate if the bands are set well, or should be adjusted. I would look for guidance from others on that. Second, I think some of these steps show an increase comparable to the minimum hourly wage. It would be preferable for a more gradual scheme so that extra earnings never lead to lower income after tax. I guess that is too complex to implement in this situation?
- I think it's important to minimize work and uncertainty here. Maybe giving people a grace period before they have to 'declare' a change in income would help? I am thinking of weekly-paid employees who might earn more in a five-week month, for example.
- If what you are suggesting is that Earnings of £657.56 and above: Make a Full contribution of monthly council tax payments, then this is wrong and appears that you have not wholly taken on the increasing costs of living. I live in social housing (rent increases every year) this comes to £430 pm. How do you expect someone to afford to pay full contribution given that there are other bills to pay on top of this? They wouldn't even be able to afford to eat! It would be another example of the divide between rich and poor in Cambridge!
- i’m not sure the money is spent wisely by the council
- As previously stated would like to get more detailed information as did not understood completely.
- There shouldn't be so many bands. Fair taxing for everyone please. (council tax for house owners and council tax for tenants)

- Those who rely on Universal Credit really should be rated as low as it is possible to be, balancing this with a little more from a lot more households in the middle and upper llevels
- The cost of living crisis is making it impossible for people on low incomes to survive
- I think the bands seem. to offer a good option of contributions versus not having to recalculate too often.
- No idea how the Universal credits work.
- Families with Single person earning are struggling for example i need to pay 200pounds per month and take care of my wife and Daughter
- We got rid of lower bands years ago which didn't benefit poorer people, restoring them would be a fairer thing for society.
- I have read the information about this but I'm not sure what you are referring to
- Bands set based on what type of accommodation it is, owned or rented
- People should be encouraged to work.

4.07 The bands have been set to reflect current minimum wages.

4.08 Introducing a delay in applying earnings changes would be difficult to administer and having bandings does ignore most small changes totally.

4.09 The earnings figures are net weekly earnings, so the top income of £657.56 represents a take home pay of £34,193 pa or £2,849 per month. Universal Credit includes elements towards the cost of housing in its calculation so if there is no rent as the property is owned, the Universal Credit will reflect this.

ii. Non-dependent deductions

4.10 Having a flat rate of deduction for other adults living in the property for the Universal Credit scheme has worked well, applicants are clear on what other people in the household need to contribute towards the Council Tax and respondents agreed on the principle of non-dependant deductions in both schemes.

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

4.12 The proposal is to reset this to £6.70 from 2023 and to reintroduce uprating by CPI from 2024.

4.13 For non-Universal Credit scheme, non-dependant rules will mirror those for housing benefit, so they are in step.

4.14 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 and the majority of respondents agreed with this.

4.15 Pensioners on Pension Credit or if they have a disability income, will not be asked to contribute.

4.16 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

4.17 Currently both the Universal Credit and non-Universal Credit Local Schemes are based on 100% of the Council Tax liability.

4.18 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.

4.19 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.

4.20 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.

4.21 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.

4.22 Over half of respondents agreed that calculation of entitlement to Council Tax Reduction should continue to be based on 100% of liability.

Non-Universal Credit Scheme

4.23 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.

4.24 This has also worked well since it was introduced in 2013 and works very well with the legacy benefits such as Tax Credits, Income Support, Employment and Support Allowance and Job Seekers Allowance for instance.

4.25 Respondents to the consultation thought this may add to confusion but we have not had any negative comments since the introduction of the Universal credit council tax Reduction Scheme in April 2020 and the impact of migration to Universal Credit is highly automated reducing.

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, not only has there has been the rollout of Universal Credit but also 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 1

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 Council Tax Reduction accounts to Universal Credit Council Tax Reduction accounts and will continue to move over until the full migration by DWP from legacy benefits to Universal Credit which 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 is attached to the report as Annex B.

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.

Consultation and communication considerations

6.1 Consultation period from 26 July 2022 to 18 September 2022 with the following groups:

- i) All current working age Council Tax Reduction recipients.
- ii) Partnership meetings with Cambridge Citizen's Advice Department for Work and Pensions
- iii) Financial inclusion organisations and third sector organisations.
- iv) Engagement with internal stakeholders.
- v) A sample of 500 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 Details of the consultation questions and the 56 responses received are at Annex A.

6.3 The consultation explained 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.

6.4 The proposals were:

- 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.

Background papers

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

Appendices

8.1 Annex A – Consultation Responses

8.2 Annex B – Equality Impact Assessment

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.