

Cabinet

7 November 2023

Council Tax Reduction Scheme

For Recommendation to Council

Portfolio Holder: Cllr G Suttle, Finance, Commercial and Capital Strategy

Local Councillor(s): All Councillors

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Report Status: Public

1.0 Purpose of Report

1.1 The purpose of this report is to recommend the implementation of a new Council Tax Reduction Scheme with effect from 1st April 2024, also known as Local Council Tax Support.

2.0 Brief Summary

2.1 Each year the Council is required to review its Council Tax Reduction (CTR) 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.

2.2 The Council does not need to make any decision in relation to pension age applicants as that scheme is prescribed by Government and is operated by all English authorities in a similar way.

- 2.3 As with all authorities, the Council needs to adopt a CTR scheme for working age applicants and as experienced by the majority of authorities within England, the Council also needs to make changes to the CTR scheme for working age applicants in order to reduce the significant administrative burden placed on the Council by the introduction of Universal Credit.
- 2.4 There is a requirement for public consultation which has been held and completed. The results are supportive and located in Appendix A

Recommendation: This report recommends the adoption of a new income banded Council Tax Reduction scheme for the Dorset Council area.

3.0 Background

- 3.1 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.
- 3.2 Since that time, funding for the scheme has been amalgamated into other Central Government grants paid to Local Authorities and into the Business Rates Retention regime. It is now generally accepted that it is not possible to identify the amount of funding actually provided from Government sources.
- 3.3 Currently the Council Tax Reduction scheme administered by the Council is divided into two, with pension age applicants receiving support under the rules prescribed by statute, and the scheme for working age applicants being determined solely by the Council.
- 3.4 Pensioners, subject to their income and capital, can receive up to 100 per cent support towards their council tax. No authority has power to change the level of support provided to pensioners although, in all cases, schemes have been enhanced by allowing the full disregard of war pensions and war disablement pensions (the Local Scheme) which fulfils the authority's agreement to adopt the Armed Forces Covenant.
- 3.5 When Council Tax Reduction was introduced in 2013, for working age applicants, the districts, and boroughs (at that time) broadly adopted the previous means tested Council Tax Benefit scheme as the basis of awarding support. Although minor changes to the scheme were made over the years, this 'means tested benefit' approach was also brought forward into the new unitary council when it was created in 2019.

The main issues with the current scheme

3.6 There are a number of issues with the current scheme that will need addressing if the proposed new scheme 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 need to assist low-income households and assist in the collection of Council Tax;
- The continuing introduction of Universal Credit for working age applicants; and
- The need for a simplification of the scheme.

3.7 Each of the above are examined in detail below:

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

3.8 Since 2013, the introduction of Council Tax Reduction, the majority of authorities, including the original Dorset districts and boroughs required all working age applicants to pay a minimum payment. With the creation of the new unitary council, working age applicants are required to pay 10% of their Council Tax (90% maximum support) except where the applicant is in receipt of any of the following, when up to 100% support can be given depending on income:

- a Disability Premium;
- an Enhanced Disability Premium;
- a Severe Disability Premium;
- a Disabled Child Premium;
- a Carer Premium;
- a Support Component within their Employment and Support Allowance;
- a War Disablement Pension;
- a War Widows Pension;
- a War Widows Disablement Pension;
- Disability Living Allowance (any element)
- Personal Independence Payment (any element); or
- Universal Credit where the applicant or partner receives any element or premium listed above.

3.9 There is a strong view within authorities generally that the greatest support should be given to those households on the lowest of incomes. This view has gained momentum over the past few years but has been reinforced since the COVID-19 and cost-of-living crises which have had a major effect on incomes generally.

3.10 Whilst the principle of all working age households paying 'something' was initially thought to be an approach that would be central to the design of Council Tax Reduction, the reality is that, since its introduction, low-income taxpayers, the poorest households, have been unable to pay the balance leading to additional costs, court, and enforcement action and, in some cases, the amounts demanded have been written off as uncollectable.

3.11 The costs of administration of these cases by all Councils has increased significantly over the years. These costs are borne solely by the Council. With the difficulties experienced, the relatively low level of payment, and the high administration costs

incurred, it no longer makes the amounts economically viable to collect. Notwithstanding the negative effects to those poorest households.

Council Tax Reduction and the roll out of Universal Credit

3.12 The introduction of Universal Credit within the Dorset 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 needed.

3.13 It is clear that means tested designed Council Tax Reduction schemes, which are too reactive to change, will not be 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 managed migration from other 'legacy' benefits. The move to a new more efficient scheme in 2024 is now imperative.

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

3.14 Notwithstanding the introduction of Universal Credit, means tested schemes have major defects namely:

- They are complex for customers to understand and are 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.

3.15 Clearly there is a need now to introduce a simplified scheme across the Dorset Council area to mitigate the effects of Universal Credit, make it easier for customers to make a claim, and to significantly reduce the costs of administration.

The recommended approach for the 2024/25 Council Tax Reduction Scheme

3.16 In view of the above, it is proposed that a simplified banded / income approach be implemented as the scheme for Dorset Council. The approach has been designed to remove the main problem areas, in particular.

- (a) The level of support available to the poorest households;
- (b) The problems with the introduction of full-service Universal Credit; and

- (c) The significant increase in administration costs due to the high level of changes received in respect of Universal Credit.

3.17 Work has been ongoing since early this year on a new scheme which is now complete. Consultation has also been undertaken with the public and the major precepting authorities. If accepted by the Council, the new scheme will take effect from 1st April 2024. There will be an annual requirement to review the income bands for a banded scheme to ensure that they remain suitable and relevant.

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

- More support shall be given to those households on the lowest of incomes.
- The changes can **only be made to the working age scheme** as the current scheme for pensioners is prescribed by Central Government.
- The current scheme will be replaced by a single unified simple income grid model as shown below:

Discount	Weekly Net Income				
	Single	Couple	Family with 1 dependant	Family with 2 dependants	Family with 3 or more dependants
Band 1* 100%	£0 to £90.00	£0 to £135.00	£0 to £155.00	£0 to £220.00	£0 to £285.00
Band 2 80%	£90.01 to £125.00	£135.01 to £175.00	£155.01 to £195.00	£220.01 to £260.00	£285.01 to £325.00
Band 3 60%	£125.01 to £160.00	£175.01 to £215.00	£195.01 to £235.00	£260.01 to £300.00	£325.01 to £365.00
Band 4 40%	£160.01 to £195.00	£215.01 to £255.00	£235.01 to £275.00	£300.01 to £340.00	£365.01 to £405.00
Band 5 20%	£195.01 to £230.00	£255.01 to £295.00	£275.01 to £315.00	£340.01 to £380.00	£405.01 to £445.00
Band 6 0%	£230.01 +	£295.01+	£315.01+	£380.01+	£445.01+

- It is recommended that the highest level of discount will be at a maximum level of liability (100%), Band 1, 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) will receive maximum discount on the basis that their household income has already been assessed.
- 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 a restriction on support to Council Tax Band E level (any applicant who resides in a property banded F,G or H will have their Council Tax Reduction calculated on a Band E level. Currently there are 240 band F, 79 band G and 1 band H.
- Where an applicant has non-dependants living with them, there will be a fixed standard charge of £5 per week per non-dependant. This is a significant change

from the existing deductions which can be up to £14.15 per week and the change will significantly assist low income households.

- Disability benefits such as Disability Living Allowance and Personal Independence Allowance will continue to be disregarded.
- Where any applicant, their partner, or dependant child(ren) are disabled, a further disregard of £50 per week will be given, thereby continuing to provide additional 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 continue to be disregarded.
- The following elements within Universal credit will be disregarded:
 - Housing Element.
 - Disabled Child Element.
 - Carer's Element; and
 - Limited Capability for Work and Limited Capability for Work & Work Related Activity Elements
- The total disregard on war pensions and war disablement pensions will continue.
- Extended payments will be removed.
- A capital limit of £6,000 with no tariff (or assumed income) will be applied (this is a reduction from the current maximum of £16,000); and
- Backdating of claims will be allowed for up to 3 months, extending the existing 1 month provision. The period of backdate will be at the discretion of the Council and this new provision, if accepted, it would not affect periods prior to 1 April 2024.

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

3.19 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 caused by difficulties with some of 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, meaning they will receive decisions and awards more quickly. Future possibilities for automation of awards in some areas will be created. 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 automatically without the need to request further information from the 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. This is advantageous to our customers.
 - **Maximising entitlement to every applicant.** As there will no requirement for Universal Credit applicants to apply separately for Council Tax Reduction, the claiming process will be simplified significantly. 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 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 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

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

3.21 Inevitably, as with any change in scheme, there will be some winners and losers although the proposed scheme has been designed to protect the most vulnerable. 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.

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

4.0 Consultation

4.1 A full consultation has been undertaken in line with the statutory requirements with:

- The Police and Crime Commissioner.
- Dorset & Wiltshire Fire and Rescue Services; and
- The public

4.2 The full public consultation is attached at Appendix A and the responses from the Police and Crime Commissioner and the Dorset & Wiltshire Fire and Rescue Services are shown at Appendix B.

4.3 The public consultation results fall in favour of the new proposals as presented in Appendix A and there have been no objections received from our major preceptors as confirmed in Appendix B.

5.0 Outline of the Issue that a Decision is Being Sought on and Reasons for Recommendations

5.1 The Council is asked to approve the new scheme and allow for its implementation on 1st April 2024.

- 5.2 Council Tax Reduction Schemes are the responsibility of the 'billing authority' under the Council Tax legislation.
- 5.3 The move to a discount based modernised scheme is the most progressive option and will enable a future proofed low administration approach.
- 5.5 Increasing the overall maximum level of support to 100% will significantly assist low income working age families.

6.0 Financial Implications

- 6.1 The current Council Tax Reduction schemes costs approximately £29.7m which is borne by the Collection Fund. Costs are shared between the Council and the Major / Local Precepting Authorities in the following proportions:
- Dorset Council; (79.82%)
 - Police and Crime Commissioner (11.75%)
 - Dorset & Wiltshire Fire and Rescue Services (3.54%); and
 - Parishes / Town Councils (4.89%)
- 6.2 The overall approach for the scheme 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 costs would be £29.9m
- 6.3 Financial modelling has been undertaken and will continue to be undertaken until full implementation by the Council.
- 6.4 Whilst the expected costs of the scheme for 2024/25 will be higher, the overall level of Council Tax Reduction as a proportion of the Council Tax Base has reduced (and continues to reduce) year on year. The proposed changes for 2024/25 would still represent a significant reduction in the proportion of costs in real terms compared to the original Council Tax Reduction level.

7.0 Legal Implications

- 7.1 Schedule 1A (3) of the Local Government Finance Act 1992, states:
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.
- 7.2 In addition, 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.

8.0 Natural Environment, Climate and Ecology Implications

- 8.1 None

9.0 Equalities Implications

- 9.1 The move to the new scheme will either have a neutral or positive affect to the majority of working age claimants. The 9,697 pensioners within the scheme will not be affected.
- 9.2 From current modelling 11,777 working age claimants will receive either the same or more support than under the previous schemes.
- 9.3 As with all changes however, there will be up to 891 claimants who may receive less support than previous, this will range in value. In all cases, further support will be available through the Council's Exceptional Hardship Fund.
- 9.4 An Equalities Impact Assessment (EIA) has been completed and is shown at Appendix C below. The overall effect of the scheme will be continually assessed over the 2024/25 period.

10.0 Risk Assessment

- 10.1 Given the additional support provided, the simplification of the scheme for both applicants and its administration, and the provision of an Exceptional Hardship Fund for those cases who may receive lower support, the level of risk has been assessed as Low - Medium.

11.0 Appendices

Appendix A - Public Consultation of the Dorset Council – Council Tax Reduction Scheme 2024/25.

Appendix B – Response from the Police and Crime Commissioner and Dorset & Wiltshire Fire and Rescue Services

Appendix C – Equality Impact Assessment

12.0 Recommendations

- 12.1 It is recommended that the Council implement the new Council Tax Reduction Scheme with effect from 1st April 2024**