

Report of:	Executive Member for Environment and Finance & Governance - Councillor Barrie Cooper Director of Finance - Ian Wright
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Submitted to:	Executive - 5 October 2021
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Subject:	Council Tax Reduction Scheme 2022/23
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Summary

Proposed decision(s)
That Executive approve the commencement of consultation on a maximum Council Tax Reduction Scheme of 90% with the following : <ul style="list-style-type: none"> • with Major Preceptors on the proposed changes to the working age Council Tax Reduction (CTR) scheme with effect from 1st April 2022 (as required by the Local Government Finance Act 1992); and • with the public on the proposed changes to the working age Council Tax Reduction (CTR) scheme with effect from 1st April 2022 (as required by the Local Government Finance Act 1992)

Report for:	Key decision:	Confidential:	Is the report urgent?¹
Decision	Yes	No	No

Contribution to delivery of the 2020-23 Strategic Plan		
People	Place	Business
The purpose of the change is to implement a new working age CTR scheme which will not only provide additional support to low-income families but also improve current administration, make it easier to claim and to assist in the collection of Council Tax within the area.	N/A	N/A – applies to domestic premises only.

Ward(s) affected

All wards are affected by the decision to change the CTR scheme.

What is the purpose of this report?

1. The purpose of this report is to request permission to undertake a consultation (a requirement of schedule 1A of the Local Government Finance Act 1992) with both the public, and the Major Precepting Authorities in respect of proposed changes to the Council's CTR Scheme with effect from 1st April 2022.

Why does this report require a Member decision?

2. The amendment to the scheme affects all wards. As Middlesbrough Council are proposing to make changes to the CTR scheme for working age claimants (the scheme for pension age claimants is prescribed by Central Government), as required by the legislation a full consultation with both Major Preceptors and the public is necessary. As such, this requires a member decision to consult on changes to the 2022/23 scheme.

Report Background

3. 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** claimants 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 **Pensionable age** would be dealt with under regulations set by Central Government and not the authorities' local scheme.
4. Pensioners, subject to their income, can receive up to 100 per cent 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.
5. When CTR was introduced in 2013, for working age claimants, the majority of Councils including Middlesbrough broadly adopted the previous means tested Council Tax Benefit scheme as the basis of awarding support. Due to the reduction in funding from Central Government, the Council also required all working age claimants, even those on the lowest income, to pay a minimum payment of 20%.
6. Since that time the minimum payment required has reduced to 15% and only slight changes have been made to bring the scheme into line with either Housing Benefit or Universal Credit (UC).

The current scheme

7. There are some areas within the current scheme which can be amended which in turn will provide a differing level of support to low-income taxpayers, and will also help the Council to provide the service in a more efficient manner. The main areas are as follows:

- The need to further assist low-income households and assist in the collection of Council Tax;
- The introduction of UC for working age claimants; and
- The need for a simplification of the scheme.

8. Each of the above are examined in detail below.

Assisting low-income households and the collection of Council Tax

9. In 2013, 80% maximum support was provided to working age claimants. In 2018/19, this increased to 85% maximum support to working age claimants.

10. A number of authorities have and are making changes to the CTR scheme (see appendix a), for reasons such as;

- More support for claimants on passported benefits;
- Simplification of the scheme;
- Reduction in the administrative burden collecting from those households with limited means;
- Reduction in the provision made for bad debtors;
- Reduce if not remove the high level of rebilling that occurs throughout the year due to benefit changes which ultimately leads to a delay in cash collection.

Middlesbrough's proposed scheme will equally address these underlying concerns.

Council Tax Reduction and the roll out of Universal Credit

11. The introduction of UC 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. Many Councils have experienced the following:

- The reluctance of UC claimants to make a prompt claim for CTR leading to a loss in entitlement;
- A high number of changes to UC cases are received from the Department for Work and Pensions requiring a change to CTR entitlement. On average 40% of UC claimants have between 8 and 12 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.

12. It is clear that the existing means tested CTR scheme, which is too reactive to change, will not be viable in the longer term now that UC has been rolled out fully within the area and with the massive increase in UC claimants due to the COVID-19 crisis. Giving weight to these circumstances, it would be appropriate to move to a more efficient scheme from 2022/23.

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

13. Notwithstanding the introduction of UC, the existing scheme is based on a 'pre-dated' means-tested benefit scheme:

- It is difficult for customers to understand and is based on a complex calculation of entitlement;

- The administration for staff is very convoluted, with staff having to request significant amounts of information from claimants;
- Staff have to undergo extensive 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.

14. There is a need to simplify the scheme, not only to mitigate the effects of UC, which have been fast tracked as a consequence of Covid, but also make it easier for customers to make a claim, reduce the likelihood of fraud, and to reduce the costs of administration.

The proposed approach for the 2022/23 Council Tax Reduction Scheme

15. It is proposed that an alternative approach be taken from 2022/23, through the redesign of the scheme to address all of the main areas highlighted in this report.

16. Work has been ongoing since early this year on a proposed alternative scheme which is now complete. Consultation now needs to be undertaken with the public and the Major Precepting authorities. If accepted by the Council, the proposed alternative scheme will take effect from 1st April 2022.

17. The proposed alternative scheme has a number of features as follows:

- More support shall be given to those households on the lowest of incomes than in the current scheme;
- The changes can **only be made to the working age schemes** as the current schemes for pensioners are prescribed by Central Government;
- The grid below represent weekly amounts.
- 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
WEEKLY Income Ranges							
Band 1*	90%	£0 - £100.00	£0 - £160.00	£0 - £220.00	£0 - £140.00	£0 - £205.00	£0 - £260.00
Band 2	72%	£101.01 - £180.00	£160.01 - £240.00	£220.01 - £295.00	£140.01 - £240.00	£205.01 - £281.00	£260.01 - £340.00
Band 3	36%	£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	23%	£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

- *If the claimant is in receipt of a 'passport benefit' such as Income Support, Jobseeker's Allowance (Income Based) and Employment and Support Allowance (Income Related), it is proposed (as outlined above) that the maximum level of support will be 90% (Band 1);
- All other discount levels are based on the claimant's (and partner's if appropriate) net weekly income;
- The scheme allows for variation in household size with the levels of income per band increasing where a claimant has a partner, and / or dependants. Couples with 2 or more children are all combined into the same income level. This means the income band is the same regardless of whether a claimant has 2 children or more;
- There will be no charges made where a claimant has non-dependants living with them. This is a significant change and means that the administration of the scheme will be more straightforward whilst also protecting low-income families where adult sons and daughters, for example, remain at home;
- To support claimants in or into work, the first £25 per week of the claimant / partner's net earnings will be disregarded before comparing the level of weekly income to the income grid. This will take the place of the current standard disregards and additional earnings disregards.
- Disability benefits such as Disability Living Allowance and Personal Independence Payments will continue to be disregarded;
- Where any claimant, their partner or dependant child(ren) are disabled, a further disregard will be given, 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;
- An amount in respect of the housing element, limited capability for work elements, carers element and disabled child elements within UC will be disregarded;
- The total disregard on war pensions and war disablement pensions will continue;
- Extended payments will be removed; and
- The current scheme has a capital limit of £16,000, this will reduce to £6,000 with no tariff (or assumed weekly income) being applied. Based on current data, only 106 claimants out of almost 18,000 would be impacted by this.

How the proposed alternative scheme will address the problems with the current scheme

18. With the simplification of the proposed alternative scheme, it will address the following:

- **Claiming process.** Claimants will see a reduction in the claiming process and, where appropriate to do so, CTR will be awarded automatically. For UC claimants *any* UC 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 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 claimant.** As there will no requirement for UC claimants to apply separately for CTR, and for all other claimants, the claiming process will be simplified, and backdating will be kept to a minimum;

- **Maintenance of collection rates** – the proposed alternative scheme will avoid reissuing of demand notices and re-setting instalments, and support the approach to the improvement of collection rates. The increased level of CTR support will mean those claimants on the lowest levels of weekly income will pay less Council Tax;
- **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. The proposed alternative scheme, with its simplified income banding approach will have the following advantages:
 - Only significant changes in weekly income will affect the level of award;
 - Council Tax payers who receive CTR will not receive multiple Council Tax demands and adjustments to their instalments; and
 - The proposed alternative 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 proposed alternative scheme and the Exceptional Hardship Scheme

19. Any change in scheme or a transition to a proposed alternative scheme may result in a change to the entitlement of certain claimants.
20. The changes to the scheme, will mean those regarded as the most vulnerable will gain in award, with others (as shown above) having a reduced award (i.e. those with capital over £6,000). It is proposed that the alternative scheme will contain additional provisions to protect individuals who experience exceptional hardship. Where any claimant 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 claimant.
21. This approach will enable individual claimants to be dealt with in a fair and equitable manner. The Exceptional Hardship Scheme will form part of the CTR scheme and fall to be paid through the Collection Fund.

What decision(s) are being asked for?

22. That Executive approve the commencement of consultation on a maximum Council Tax Reduction Scheme of 90% with the following :
 - with Major Preceptors on the proposed changes to the working age Council Tax Reduction (CTR) scheme with effect from 1st April 2022 (as required by the Local Government Finance Act 1992); and
 - with the public on the proposed changes to the working age Council Tax Reduction (CTR) scheme with effect from 1st April 2022 (as required by the Local Government Finance Act 1992)

Why is this being recommended?

23. The proposed changes, will simplify a complicate scheme, further assist low income households and support the collection of council tax, whilst also fulfilling the obligations on Local Authorities to support the roll out of Universal Credit.

24. Any changes to the existing scheme are subject to full consultation which will likely run from the middle of October 2021 for a period of 6 weeks and will inform the scheme from 1 April 2022.

25. See **Appendix B** – How Middlesbrough will consult.

Other potential decisions and why these have not been recommended

26. The alternative to introducing a proposed alternative scheme for CTR from 2022/23 is to leave the existing scheme in place. This would be a short-term option; leading 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 Council's area.

27. Modelling (see below) has also been done on an alternative 'income grid' scheme with 85% maximum support and 100% maximum support. The principles of this scheme are exactly as described earlier in this report (Para 17), however given weight to the options appraisal/rationale (**Appendix C**) these are not recommended.

Option	Scheme / Support	Cost / Saving to the Council	Support	Recommended / Not Recommended
1	Income Banded Scheme – 85% maximum support	£700,000 saving	85% - similar to existing support	Not recommended – See Appendix C
2	Income Banded Scheme – 90% maximum support	£70,000 saving	90% - 5% increase on existing support	Recommended – See Appendix C
3	Income Band – 100% maximum support	£1,000,000 cost to the council	100% - 15% increase in support	Not recommended – See Appendix C.

Impact(s) of recommended decision(s)

28. The Council will obtain the views of the Major Preceptors and the public on the proposed alternative scheme and will be able to take those views into account when deciding whether to adopt the scheme with effect from April 2022.

29. Any decision whether to change the scheme will need to be approved by full Council.

Legal

30. 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.

31. 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.

Financial

32. The current CTR scheme budget is **£19.1m** which is borne by the Council's Collection Fund. Costs are shared between the Council and the Major Precepting Authorities in the following proportions:

- Middlesbrough Council (83.55%);
- Police and Crime Commissioner for Cleveland (12.63%)
- Cleveland Fire Brigade (Fire and Rescue Service) (3.82%).

33. Based on current modelling, were the proposed alternative scheme to be in place at the current time, the costs of this scheme is estimated to be a small saving of £71,000 (this figure is subject to change as claimants move on and off the scheme over the remainder of the year). This saving is intended to be used for the Exceptional Hardship scheme mentioned in paragraphs 19-21.

34. The proposed scheme has been costed on the current number of active claims as at July 2021. It does not assume any further impact to the scheme brought about by changes to claimant circumstances (for example, as a consequence of furlough ending). It is not possible to estimate the impact of any unforeseeables, hence the model has been costed on the current position.

35. The changes brought about by the simplified scheme, should generate capacity to undertake age debt collection (leading to a reduction in bad debt), and compliance (which would reduce potential fraudulent claims).

Policy Framework

36. The CTR scheme does not change the Policy Framework.

Equality and Diversity

37. Any proposed alternative scheme shall be implemented in accordance with the Council's equality and diversity policies.

Risk

38. This policy will impact positively on the following risks.

- 08-059 Incorrect assumptions in the MTFP;
- 08-075 Reduction in Council Tax Collection;

Actions to be taken to implement the decision(s)

39. That Executive approve the consultation on the Council Tax Reduction (CTR) scheme with the following :

- with Major Preceptors on the proposed changes to the working age Council Tax Reduction (CTR) scheme with effect from 1st April 2022 (as required by the Local Government Finance Act 1992); and

- with the public on the proposed changes to the working age Council Tax Reduction (CTR) scheme with effect from 1st April 2022 (as required by the Local Government Finance Act 1992)

40. Following approval, consultation will progress, feedback which will influence the future shape of the scheme. Any changes will be made before a final report for adoption of the CTR scheme for 2022/23 will be progressed.

Appendices

41. Appendix A – Other CTR schemes in the area and future plans
Appendix B – Examples of likely consultation questions
Appendix C – Options appraisal - Rationale

Background papers

42. There are no background papers associated with this report

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Appendix A – Council Tax Reduction Schemes

Council	2021/22 Scheme	2022 / 23 Plans
Stockton	80% - means tested	100% - Income Banded – out to consultation
Darlington	80% - means tested	No plans to change.
Hartlepool	88% - means tested	Considering options but expect to stay the same.
Redcar & Cleveland	82.5% - means tested	Considering options
Durham	100% - means tested	No plans to change
Newcastle	90% - Income Banded	Looking to increase support to 100%. Retaining Income Banded scheme – considering options
Gateshead	91.5% - means tested	No plans to change
Hambleton	90% - Income Banded	No plans to change – minor tweaks to existing scheme
North Tyneside	85% - means tested	No plans to significantly change
Northumberland	88% - means tested	No plans to change
South Tyneside	70% (or 15% if vulnerable) – means tested	No plans to change
Sunderland	91.5% - means tested	No plans to change

* - means tested schemes are similar to the type of scheme Middlesbrough currently operate where the whole of a claimant and their partner's income is compared to an allowance and the entitlement is worked out based on this comparison. It is similar to the way Housing Benefit is currently calculated.

** - Income Banded scheme is a scheme calculated in the way proposed in this report for Middlesbrough going forward. Broad income ranges are set based on a claimant and their partner's circumstance, and a set discount is given based on an income range.

Appendix B – Examples of the likely consultation areas / options.

As the Council is proposing a number of changes to its existing scheme and, in line with legislation, we have a duty to consult with residents and provide them with the opportunity to tell us their views on the proposed changes to the Council Tax Reduction Scheme.

Consultation questions will be put to residents through the council's portal in regards to the following:

- Introducing an income 'grid' scheme for all working age applicants replacing the current scheme which was based on the previous Council Tax Benefit scheme. This will provide up to 90% support in certain cases (currently there is a maximum of 85%) **(Option 1)**;
- Limiting the number of dependent children used in the calculation of support to two for all working age applicants **(Option 2)**;
- Removing Non-Dependant deductions **(Option 3)**;
- Disregarding Carers Allowance, the Support Component of the Employment and Support Allowance and the housing element of Universal Credit in the calculation of income **(Option 4)**;
- Removing all of the current earnings disregards and replacing them with a standard £25 disregard for all applicants where they are in work **(Option 5)**;
- Where a person is disabled and in receipt of certain disability benefits, allowing a further deduction from their income before calculating any entitlement to Council Tax Reduction **(Option 6)**;
- Removing the Extended Payment provision **(Option 7)**;
- Making all new claims and changes in circumstances which change any entitlement to Council Tax Reduction on a daily basis rather than the current (benefit based) weekly basis **(Option 8)**; and
- Allowing the discretion to backdate any discount to be commencement of the financial year where a good reason is provided **(Option 9)**.
- Reducing the maximum capital limit from £16,000 to £6,000 **(Option 10)**

Appendix C – Options appraisal of the differing support in an income banded CTR scheme.

Scheme	Pros	Cons
85% Income Band	<ul style="list-style-type: none"> • Saving of £700k 	<ul style="list-style-type: none"> • Bad Debt Provision will increase = cost to the council • Increase in the amount of CTax arrears / burden of collection – reduced collection rates • MBC – one of the most income deprived areas in the UK • Further pressure on the courts and additional increases in debt due to court costs • Where schemes have changed, no council has taken money out / reduced support
90% Income Band	<ul style="list-style-type: none"> • Affordable • Provides greater level of support for those on low levels of income • Supports those going back into work and those who are already in work • Links in with other welfare strategies such as Stop the Knock, our Crisis support and other discretionary funds, and is part of our toolkit to respond to differing degrees of poverty • Current scheme requires improvement and proposed scheme seeks to address • the amount left to pay be more affordable = realising a greater opportunity to pay • Scheme is easier to administer = more likely to claim 	<ul style="list-style-type: none"> • Still an amount to pay for the most financially vulnerable
100% Income Band	<ul style="list-style-type: none"> • 100% support for the most vulnerable • Any other payments will go against historical / bad debt • Significant reduction in the administration of collection • Less pressure on courts 	<ul style="list-style-type: none"> • Significant cost to the council – circa £1million+ = affordability concerns.