

## Council Tax Reduction Scheme 2025



**Report to:** Scrutiny Committee

**Date:** 3 September 2024

**Portfolio Holder:** Councillor Michael Hardware, Portfolio Holder for Finance

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### Executive Summary

- A** The purpose of this briefing report is to update Scrutiny Committee on the work undertaken so far which will allow the Council 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 1<sup>st</sup> April 2025.
- B** Each year the Council is required to review its Council Tax Reduction Scheme in accordance with the requirements of schedule 1A of the Local Government Finance Act 1992 and to either maintain the scheme or replace it.
- C** 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.
- D** As with the majority of authorities within England, the Council needs 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.
- E** This report outlines the proposals to change the scheme for working age applicants from 1 April 2025 and to receive comments from the committee prior to the consultation with major preceptors and the public in line with the recommendations.

## Recommended that:

- A 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<sup>st</sup> April 2025. This is to reduce the administrative burden placed on the Council by the introduction of Universal Credit, to increase the overall level of support for the lowest income families and to improve the level of Council Tax collection.

## Reason for decision

- A There is a need for a major change to the Council's current working age Council Tax Reduction scheme in order to better support low income households, provide simplification and effectively deal with the roll out of Universal Credit.

## Other Options

- A The alternative to introducing a new scheme for Council Tax Reduction from 1 April 2025 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, significantly affect the collection of Council Tax and the effectiveness of the scheme to support households within the Council's area.

## Background

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:
  - a) Placed the duty to create a local scheme for **Working Age** applicants with billing authorities;
  - b) 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
  - c) Prescribed that persons of **Pension age** would be dealt with under regulations set by Central Government and not the authorities' local scheme.
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. The current Council Tax Reduction 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.

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.
5. When Council Tax Reduction 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. Due to the reduction in funding the Council introduced a scheme for working age cases which required a minimum payment of 24% although applicants are able to apply for additional support through the Council's Exceptional Hardship fund.
6. The only other changes made were in line with prescribed requirements and to bring the scheme into line with either Housing Benefit or Universal Credit

### **The main issues with the current scheme**

7. 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 if the Council is able to provide the service in an efficient manner. The main issues are as follows:
  - a) The need to assist low-income households and assist in the collection of Council Tax;
  - b) The introduction of Universal Credit for working age applicants; and
  - c) The need for a simplification of the scheme.
8. Each of the above are examined in detail below:

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

9. Similar to other authorities, the Council now requires all working age applicants to pay a minimum payment. 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.
10. There is a strong view amongst authorities (including similar sized councils to Harlow that there should be an increase in the level of support 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 the cost of living crises which have had a major effect on incomes generally.
11. Within Essex the current maximum levels of support for working age cases are as follows:

Basildon	75%
Braintree	77%
Brentwood	75%
Castle Point	70%
Chelmsford	77%
Colchester	80%
Harlow	76%
Maldon	80%
Rochford	75%
Southend	75%
Thurrock	75%
Uttlesford	87.5% (100% for protected group - carers / disabled)

12. It can be seen that the Council's current working age scheme is at the lower end of support (Castle Point being the lowest). Where Councils have changed their scheme, they have used the opportunity to increase the level of support to minimise the effects on households. This also assists low income households who 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.
13. The costs of administration of these cases by the Council 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**

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 Council Tax Reduction and also the collection of Council Tax generally. All Councils have experienced the following:
  - a) The reluctance of Universal Credit claimants to make a prompt claim for Council Tax Reduction leading to a loss in entitlement;
  - b) 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 c40,000 per annum and is expected to rise to c50,000 changes per annum from the end of 2025. 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
  - c) The increased costs of administration through multiple changes with significant additional staff and staff time being needed.

15. It is clear that the existing means tested Council Tax Reduction scheme, which is too reactive to change, will not be viable in the longer term now that Universal Credit is being rolled out fully within Harlow 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 scheme from 1 April 2025 is now imperative.

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

16. Notwithstanding the introduction of Universal Credit, the existing scheme is based on an 'old fashioned;' means tested benefit scheme. It has major defects namely:
- a) It is complex for customers to understand and is based on a complex calculation of entitlement;
  - b) The administration for staff is complex, with staff having to request significant amounts of information from applicants;
  - c) Staff have to undergo significant training to be proficient in processing claims;
  - d) The timescales for processing applications is lengthy, mainly due to the complexity and evidence required to support the applications; and
  - e) The administration of the scheme is costly when compared to other discounts for Council Tax.
17. Clearly there is a need now to simplify the 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 costs of administration.

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

18. In view of the problems being experienced with the current scheme, it is proposed that an alternative approach be taken from 1 April 2025. The approach has been to fundamentally redesign the scheme to address all of the issues with the current scheme and 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;
19. Work has been ongoing since early this year on a new 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 new scheme will take effect from 1<sup>st</sup> April 2025.
20. The proposed new scheme has a number of features as follows:

- a) More support shall be given to those households on the lowest of incomes than in the current scheme;
- b) The changes can **only be made to the working age schemes** as the current schemes for pensioners is prescribed by Central Government;
- c) The current means - tested schemes will be replaced by a simple income grid model as shown below in Table 1

**Table 1**

	Passported	Single	Couples £	Family with One Child £	Family with Two or more children £
<b>Discount level</b>		<b>Weekly Income Levels £</b>			
<b>Band 1*</b> <b>78%</b>	Relevant Benefit	0.00 to 125.00	0.00 to 175.00	0.00 to 225.00	0.00 to 325.00
<b>Band 2</b> <b>60%</b>	N/A	125.01 to 175.00	175.01 to 225.00	225.01 to 275.00	325.01 to 375.00
<b>Band 3</b> <b>40%</b>	N/A	175.01 to 225.00	225.01 to 275.00	275.01 to 325.00	375.01 to 425.00
<b>Band 4</b> <b>20%</b>	N/A	225.01 to 275.00	275.01 to 325.00	325.01 to 375.00	425.01 to 475.00

- a) It is proposed that the highest level of discount will be at a maximum level of liability (78%), 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:
- b) All other discount levels are based on the applicant’s and partner’s, (where they have one) net income;
- c) 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;
- d) There will be no charges made where an applicant 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;
- e) To encourage work, a standard £50 per week 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;
- f) Disability benefits such as Disability Living Allowance and Personal Independence Allowance will continue to be disregarded;

- g) Where any applicant, their partner or dependant child (ren) are disabled, a further disregard of £50 per week will be given, thereby maintaining the current level of support to those with disabilities;
- h) Carer's Allowance and the Support Component of Employment and Support Allowance will be disregarded;
- i) Child benefit and Child Maintenance will be disregarded;
- j) An amount in respect of the housing element, within Universal credit will be disregarded;
- k) The total disregard of war pensions and war disablement pensions will continue;
- l) Extended payments will be removed; and
- m) The capital limit of £6,000 with no tariff (or assumed income) being applied

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

21. 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 failings in the current scheme and Universal Credit as follows:
- a) **The scheme will require a simplified claiming process.** All applicants will see a significant reduction in the claiming process and, where possible, Council Tax Reduction 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 Council Tax Reduction. Where information is received from DWP, the entitlement to Council Tax Reduction will be processed automatically where possible without the need to request further information from the taxpayer. These changes will have the following distinct advantages namely:
    - i) **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;
    - ii) **Maximising entitlement to every applicant.** Where possible there will be no requirement for Universal Credit applicants to apply separately for Council Tax Reduction, and for all other applicants, 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;
    - iii) **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;

b) **The income bands are sufficiently wide to avoid constant changes in discount.** The current Council Tax Reduction scheme is very reactive and will alter even if the overall change to the person's liability is small. This can lead to multiple changes in Council Tax liability, the need to recalculate monthly instalments and the requirement to issue a large number of Council Tax demands. 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:

- i) Only significant changes in income will affect the level of discount awarded;
- ii) Council Taxpayers who receive Council Tax Reduction will not receive multiple Council Tax demands and adjustments to their instalments; and
- iii) 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.

### **The effect of proposed scheme on individual households**

- 22. The proposed changes will have a significant effect on households within the Council's area especially those on the lowest of incomes. Current modelling allows us to project the likely outcomes for typical households given their individual circumstances.
- 23. 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.
- 24. In view of this, 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.
- 25. 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.

### **Finance**

- 26. The current Council Tax Reduction scheme costs approximately £6,781,040 which is borne by the Council's Collection Fund. Costs are shared between the Council and the Major Precepting Authorities in the following proportions:



- a) Harlow District Council (13.5%)
- b) Essex County Council (71%)
- c) Essex Police and Crime Commissioner (11.5%)
- d) Essex Fire & Rescue Service (4%).

27. 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. There is no intention to reduce the level of support available to other households. Based on current modelling, were the new scheme to be in place at the current time, the costs would be £7,240,335.
28. Financial modelling has been undertaken and will continue to be undertaken throughout the project.

### Effect on the taxbase

29. Whilst the expected costs of the scheme for 2025/26 will be higher, the overall level of Council Tax Reduction as a proportion of the Council Tax Base has reduced year on year since 2013 as shown below. CTR as a percentage of the taxbase is now over 38.5% less than in 2013.

Financial Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	% increase /decrease since 2013
Tax Base (Band D)	31,830	32,364	32,412	32,738	33,115	33,658	34,194	34,669	35,191	35,526	35,595	11.82%
CTR (Band D)	5,561	5,138	4,749	4,453	4,312	4,326	4,160	4,223	4,197	3,980	3,809	-31.5%
%age	17.4%	15.9%	14.6%	13.6%	13.0%	12.8%	12.2%	12.2%	11.9%	11.2%	10.7%	-38.5%

### The annual reduction in caseload

30. The overall CTR caseload is reducing year on year mainly due to 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. The caseload has reduced by 30% since 2013.

Year	Pension Age	Working Age	Total
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	<b>Caseload</b>	<b>Caseload</b>	
2013	3,819	5,302	9,121
2014	3,673	5,189	8,862
2015	3,547	4,890	8,437
2016	3,291	4,469	7,760
2017	3,027	4,147	7,174
2018	2843	4,427	7,270
2019	2706	4,307	7,013
2020	2486	4,690	7,176
2021	2397	4,808	7,205
2022	2315	4,446	6,761
2023	2277	4,113	6,390

31. Both of the above 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.

#### **The effect on collection rates for working age applicants.**

32. Since the scheme was introduced in 2013 the collection rate for the working age cohort has reduced significantly. In 2023/24 the overall collection rate was 94.55%. For CTR cases who are pension age the collection rate was 87.80% but the working age CTR cohort was only 76.27%. In most cases the sums outstanding now are far more than the household's ability to pay.

#### **Implications**

##### **Equalities and Diversity**

An Equality Impact Assessment has been prepared and is attached at Appendix A to the report.

##### **Climate Change**

The proposals have no adverse effect on climate change and the simplification will reduce the number of changes produced and reduce documentation issued to taxpayers.

##### **Finance**

Based on current financial modelling, the reports advises that the new scheme is expected to cost approximately £7,240,335. This is an approximate increase of £459,295, (6.7%) at this point in time based on the number of current caseloads. Harlow Districts Council share of the Council Tax is 13.5%, therefore resulting in an approximate small cost of £62,004 in comparison to Harlow.

The Taxbase data shows that the cost of CTR as a % continues to decrease against the tax base. The small additional cost of the new proposed scheme would be absorbed as the CTR costs reduce year on year.

The new proposed scheme is expected to be a more simplified process and increase processing times thus making efficiencies with administration costs.

Collection rates are also predicted to improve, as low income households are supported and therefore improved debt recovery.

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## **Governance**

Local Council Tax Support came into effect on 1 April 2013 pursuant to the Local Government Finance Act 1992. Section 13A(2) of that Act (as amended) provides: 'Each billing authority in England must make a scheme specifying the reductions which are to apply to amounts of council tax payable, in respect of dwellings situated in its area, by— (a) persons whom the authority considers to be in financial need, or (b) persons in classes consisting of persons whom the authority considers to be, in general, in financial need.'

Schedule 1A of that Act prescribes what must be included in a Council Tax Reduction Scheme, and places a duty on the authority, each financial year, to consider whether to revise its scheme or replace it with another scheme. The scheme states the classes of person who are to be entitled to a reduction, the type of reduction and whether there are different reductions for different classes. The scheme should also set out the procedure to apply for a reduction and the appeal procedure.

Before preparing a scheme, the authority must (in the following order)— (a) Consult any major precepting authority which has power to issue a precept to it, (b) Publish a draft scheme in such manner as it thinks fit, and (c) consult such other persons as it considers are likely to have an interest in the operation of the scheme.

The Council Tax Reduction Schemes (Prescribed Requirements) (England) 2012 further prescribes what must be included in the scheme. The scheme must be approved by Full Council no later than 11 March before the financial year it relates to. After approval, the scheme must be published.

Since the introduction of CTR schemes, there have been a number of legal challenges against other local schemes. Most of these challenges have been in relation to the consultation undertaken and have questioned whether due regard was given to any equality impact assessment when changes were made to schemes.

A Supreme Court ruling in 2014 (*R. (on the application of Moseley) v London Borough of Haringey*) determined that consultation on changes to council tax reduction schemes must provide such information as necessary in order for consultees to express meaningful views on the proposal. Enough had to be said about realistic alternatives, and the reasons for a

preferred choice, to enable the consultees to make an intelligent response in respect of the scheme. This would include an option for any current scheme to be retained on the same level of funding with a consequent reduction in funding for other services.

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## **Appendices**

Appendix A - Equality Impact Assessment

## **Background Papers**

None

## **Glossary of terms/abbreviations used**

CTR – Council Tax Reduction