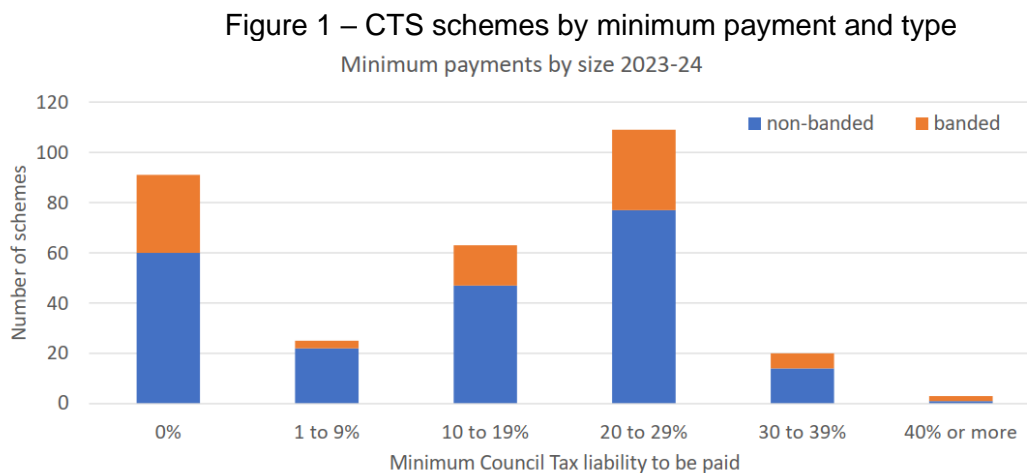


APPENDIX 2 - Consultation on proposed changes to the Council Tax Support Scheme

Background

- 1 Council Tax Support (CTS) is a means tested discount to help low-income households with the cost of council tax payments. CTS was previously known as Council Tax Benefit (CTB), and until 2013, was administered by billing authorities on behalf of the Department for Work and Pensions (DWP). The DWP reimbursed local authorities for the cost of CTB in full.
- 2 In 2013 the DWP devolved CTB to local government and required local authorities to design their own schemes of support for working age people. The scheme for people of pension age is administered by local authorities but under a national legislative framework with no local discretion.
- 3 When CTB was localised, the DWP reduced the funding for local authorities by 10 per cent. In Coventry this resulted in a £3 million reduction in funding for a scheme that cost £30 million per annum at the time.
- 4 Like many local authorities, Coventry implemented a scheme in 2013 which broadly mirrored the previous CTB scheme and resisted passing on the 10 per cent cut to recipients of CTS.
- 5 In 2016 Coventry reviewed the scheme, and, due to the ongoing challenges of austerity, reduced the amount of support delivered to working age people. Coventry capped the maximum entitlement that a working age household could receive up to 85 per cent of council tax liability. Despite the reduction in support, Coventry's scheme remained one of the more generous schemes with many local authorities having already implemented caps of 80 per cent or less.
- 6 In 2024/25, Coventry expects to award approximately £28.4 million in council tax support to 25,000 households. Approximately £18.1 million relates to working age claims and £10.3 million to pension age.
- 7 When the Government initially introduced CTS it was difficult to determine a clear link between the cost of such schemes and the amount of notional funding provided for them within the Local Government Finance Settlement. Due to the passage of time, the degree of funding reductions to local government, the nature of the Local Government Finance Settlement and the Council's status as a 100 per cent Business Rates Pilot authority, any link between the cost and funding for CTS schemes has been further obscured. What is clear is that funding reductions have led to councils having to make difficult decisions on expenditure (such as CTS schemes).
- 8 The budgetary challenges faced by the Council for 2024/25 therefore requires a review of all expenditure including the option to reduce the amount of support provided through the CTS scheme for working age households.
- 9 Since 2013, local authorities have developed different approaches to the administration of CTS, with approximately one third of authorities moving to a 'banded income' scheme. The previous CTB scheme, like Coventry's current CTS scheme, is effectively a means tested benefit with a tapered reduction in support as income increases above a household's 'applicable amount.'
- 10 The 'applicable amount' is the notional amount of income a household is deemed to require, to meet basic needs. The applicable amount is based on the circumstances of the household – including factors like the number of children and disabled household members.
- 11 If a household has no income beyond their applicable amount, then they receive full (85 per cent) support. As their income increases the support would reduce and if income decreases, the support will increase.

- 12 With the national migration of benefits to Universal Credit (UC), recipients of CTS now experience multiple changes in their entitlement to support which results in low-income households receiving numerous council tax bills each year. This is because UC processes income data in real time from His Majesty's Revenues and Customs (HMRC). As people's income fluctuates month to month their UC is adjusted and in turn their CTS is adjusted. Receiving up to 12 different council tax bills each year would be challenging for any household but is particularly challenging for people with marginal household budgets.
- 13 To address this issue, approximately 90 local authorities have introduced banded CTS schemes which allow household incomes to fluctuate within a range, or band, without their entitlement to CTS being increased or reduced.
- 14 Figure 1 below shows the national profile of CTS schemes by type and minimum payment. The most common level of minimum payment is in the bracket 20 – 29 per cent. Approximately 90 local authorities have no minimum payment, and 20 local authorities have a minimum payment of between 30 and 39 per cent.



- 15 The consultation will ensure that the Council is compliant with the requirements for any changes to a local CTS scheme. The consultation will also inform any subsequent decision to revise the scheme to facilitate the following (see below paragraph 2.4 – 2.24):

Proposals

Capping maximum support at 75 per cent

- 16 To support the Council to achieve a balanced budget for 2024/25, maximum CTS entitlement for working age households could be reduced from 85 per cent to 75 per cent.
- 17 A 75 per cent restriction would reduce the notional level of CTS by approximately £2.16million per annum. The assumed eventual collection rate for balances owed by households in receipt of council tax support is 90 per cent – compared to an eventual collection rate of 98 per cent for all council tax balances. This reduced rate assumption acknowledges the challenge of collecting balances from low-income households. Of the collectible £1.9 million, approximately 13 per cent is shared with precepting authorities and therefore the net benefit for the Council is £1.69 million.
- 18 Table 1 below sets out the high-level impact of a reduction in support.

Table 1 – CTS increases and reductions by property band.

Council tax band	A	B	C	D	E	F	G	Total
Number of decreased awards	11,460	3,500	1,062	230	82	19	9	16,362
Average weekly reduction	£2.35	£2.94	£3.62	£4.50	£6.57	£10.26	£6.14	£2.62
Number of increased awards	543	182	28	1	0	0	0	754
Average weekly increase	£1.95	£1.68	£1.44	£2.67	0	0	0	£1.88

19 Table 1 shows that reducing support to 75 per cent results in 16,362 households receiving less support with the average household paying an additional £2.62 per week. The majority of those impacted reside in band A properties with those households paying an additional £2.35 per week in council tax.¹

20 The table also shows that 754 households would be better off under this model. This is because of the impact of income bands which is set out in detail below.

21 The reduction in the maximum level of support would apply consistently across the entire working age caseload and no one group would be disproportionately impacted for this reason.

A banded income scheme.

22 The introduction of the banded scheme is proposed to be cost neutral to the CTS scheme in that some households may initially gain and some will receive reduced support but overall a banded scheme would deliver the same amount of support to working age households – notwithstanding the reduction in maximum support to 75 per cent.

23 When considering the option of a banded income scheme, it is proposed that the scheme uses ‘excess income’ rather than earned income or total income. This approach ensures that the circumstances of households form an integral part of the assessment of entitlement. For example, households with children or with a disabled member, would need to have higher levels of income before they are assessed to have ‘excess income’ above their applicable amount.

24 The proposed scheme has five excess income bands as detailed in table 2 below.

Table 2 – Proposed excess income bands.

Band	Discount	Weekly excess income threshold (£s)
1	75%	0-15
2	65%	15-40
3	40%	40-70
4	20%	70-80
5	0%	80+

¹ These figures are based on an assumed 5 per cent increase in council tax charges for 2024/25 and a number of assumptions about benefit uprates and migration to Universal Credit.

- 25 In this approach, anyone with an excess income below £15 per week would qualify for the full (75 per cent) reduction in their council tax bill. If their income changes but did not exceed the £15 per week excess income, then there would be no change to their CTS entitlement.
- 26 Approximately 92 per cent (15,700) of working age households would fall within this band and be entitled to 75 per cent support.
- 27 A disadvantage of a banded scheme is that ultimately small increases in income can result in support reducing at a disproportionate level should the change take the customer into the next higher band.
- 28 For example, a person in a band A property with an excess income of £14.99 per week would have a weekly council tax charge of £7.35. If their income increased by £0.01, their charge would increase to £10.30 per week.
- 29 There is an option to increase the number of income bands and therefore lessen the financial impact of transition between bands. To do so, however, would result in households receiving more changes in entitlement – and more council tax bills – which runs contrary to the rationale for implementing a banded scheme.

Change in income disregard.

- 30 When a customer or their partner are working, a standard earnings disregard is applied which reduces the amount of net income counted towards the CTS assessment. A further earnings disregard known as Additional Earnings Disregard (AED) is also currently applied where applicable in Coventry, which further reduces the amount of net income counted towards the CTS assessment.
- 31 The criteria for AED is based around the person working on average 16 or 30 hours per week, depending on their circumstances. However, modern work patterns such as zero-hour contracts and fixed-term contracts, mean application and removal of AEDs are being made more frequently than before, which affect CTS assessments and therefore make it more challenging for people to manage their household budgets.
- 32 Information about working hours is not routinely provided to the Council by the DWP or HMRC and so obtaining information about working hours creates an additional delay and administrative burden on the processing of CTS.
- 33 Therefore, the proposal is to remove the Additional Earnings Disregard and increase the standard earnings disregard which is not based on the number of hours worked.
- 34 The intention of this specific change is to simplify the scheme and therefore the overall impact of this change is cost neutral.
- 35 As a result of this change and taking account of the two other proposed changes detailed previously, 177 households would receive on average £5.12 per week more support and 88 households would receive on average £5.85 per week less support.

Governance

- 36 The Local Government Finance Act 2012 sets out the requirements for any changes to a local CTS scheme. Local authorities 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;

- consult such other persons as it considers are likely to have an interest in the operation of the scheme.

37 A revised CTS scheme must be approved at a meeting of the Council by 11 March prior to the tax year in which the scheme is due to take effect. In designing local schemes local authorities are also encouraged to give due consideration to equality impacts and work incentives.

38 Once the responses to the public consultation have been evaluated and a final equality impact assessment has been completed, the outcome of the consultation and any recommendations will be included in the Council's budget report for Cabinet and Council on 20 February 2024.

39 It is recommended that a consultation is initiated on 13th December 2023 for a period of eight weeks closing on 7th February 2024.

40 As part of the consultation process, a letter will be sent to every working age household in receipt of CTS to explain the options for change and the high-level impact. The letter will contain a link to the online consultation survey and provide details on how to request a paper copy of the survey.

Financial Implications

41 The Council, like many households and organisations, is seeing significant increases in expenditure due to rising prices, and specifically, the rapidly increasing costs of Social Care. The money the Council receives from Government as well as through council tax and business rates, has not increased in line with the increasing cost of providing services. The result is that in 2024/25, the Council's spending is now forecast to exceed its income by over £30 million. The Council must, by law, set a balanced budget each year which means the amount it plans to spend cannot be more than the income it expects to receive. It is therefore looking at ways that it could reduce Council spending, or increase income, to ensure it is able to continue providing its most essential services.

42 One of the options is to increase the amount of council tax income the Council receives by reducing the maximum amount of CTS provided to working age households.

43 The changes to the scheme recommended in this report will deliver a £2.16 million reduction in the notional level of CTS, by increasing the city's Council Tax Base, which has the effect of increasing the amount of Council Tax that can be collected. The Council needs to consider a reduced eventual collection rate, recognising that collection will prove very challenging given the impact on the individuals affected. Of the collectable balance (circa £1.9 million), the Council will retain circa £1.7 million (approximately 87 per cent), with the remaining being distributed through the precepts for the West Midlands Police and the West Midlands Fire Authority.