

Changes to the Council Tax Support Scheme**Background**

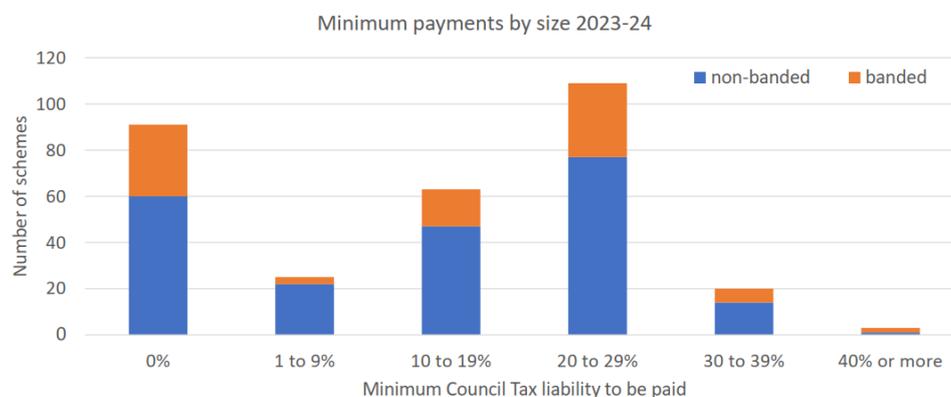
- 1 Council Tax Support (CTS) is a means tested discount to help low-income households with the cost of council tax payments. CTS was previously known as Council Tax Benefit (CTB), and until 2013, was administered by billing authorities on behalf of the Department for Work and Pensions (DWP). The DWP 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 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 Without changing the current CTS scheme, in 2024/25, Coventry would expect 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 99 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 To this end, on 15 December 2023, Coventry initiated an eight-week public consultation on proposals to change its CTS scheme. The proposals are set out below in detail.

Proposals

Banded income scheme

- 10 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.'
- 11 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.
- 12 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 would increase.
- 13 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.
- 14 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.
- 15 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.

Figure 1 – CTS schemes by minimum payment and type



Capping maximum support at 75 percent

- 16 To support the Council to achieve a balanced budget for 2024/25 it was proposed in the consultation that 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 £2.16 million 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 The responses received from the consultation found that respondents were overwhelmingly opposed to the proposal of reducing support to 75 per cent with many respondents concerned about the regressive nature of the proposal and the impact it would have for low-income households.
- 19 Having due regard to the consultation responses, the Council now proposes a technical change to the proposals such that the maximum level of support is set at 80 per cent of council tax liability – five percentage points lower than the current level of support but five percentage points higher than the 75 per cent maximum initially proposed in the consultation. This approach balances the need for the Council to achieve a sustainable financial position whilst also protecting our most vulnerable households as far as possible from reductions in expenditure. The impact of this proposal is set out in table 1 below.

20 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	11,385	3,442	1,016	226	80	19	8	16,176
Average weekly reduction	£1.23	£1.71	£2.34	£2.99	£4.95	£8.31	£3.22	£1.45
Number of increased awards	627	240	60	5	2	0	1	935
Average weekly increase	£1.96	£1.68	£1.31	£1.05	£0.14	0	£0.30	£1.84

21 Table 1 shows that reducing support to 80 per cent results in 16,176 households receiving less support with the average household paying an additional £1.45 per week. The majority of those impacted reside in band A properties with those households paying an additional £1.23 per week in council tax.¹

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.

22 The table also shows that 935 households would be better off under this model. This is because of the impact of income bands which is set out in detail below.

23 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

24 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 80 per cent.

25 In 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.

26 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	80%	0-15
2	65%	15-40
3	40%	40-70
4	20%	70-80
5	0%	80+

27 In this approach, anyone with an excess income below £15 per week would qualify for the full (80 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.

28 Approximately 92 per cent (15,700) of working age households would fall within this band and be entitled to 80 per cent support.

29 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 a higher band.

30 The consultation did not identify any significant resistance to the introduction of a banded income scheme.

Change in income disregard

31 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.

32 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.

33 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.

34 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.

35 The intention of this specific change is to simplify the scheme and therefore the overall impact of this change is cost neutral.

36 As a result of this change and taking account of the two other proposed changes detailed previously, 177 households would receive on average £5.49 per week more support and 88 households would receive on average £5.85 per week less support.

37 The consultation did not identify any significant level of resistance to this proposal.

Governance

38 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.

39 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.

40 The public consultation was launched on 13 December 2023 and concluded on 7 February 2024. As part of the consultation a letter was sent to every working age household in receipt of CTS explaining the proposals and inviting them to respond to the consultation. Two in-person drop-in sessions were held at the Council's customer service centre and a virtual consultation event was held for local advice sector partners.

Financial Impact

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 £1.13 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 £1.0 million), the Council will retain circa £0.87 million (approximately 87 per cent), with the remaining being distributed through the precepts for the West Midlands Police and the West Midlands Fire Authority.