



Title of meeting: Cabinet

Date of meeting: 01 October 2024

Subject: Local Council Tax Support for working age residents -
Permission to Consult

Report by: Chris Ward - Director of Finance and Resources

Wards affected: All

Key decision: Yes/No

Full Council decision: Yes/No

1. Purpose of report

- 1.1 The purpose of this report is to request permission to undertake a consultation with both the public and the major precepting authorities (Police & Crime Commissioner for Hampshire, and Hampshire & Isle of Wight Fire & Rescue Service) in respect of proposed changes to the Council's working age Local Council Tax Support (LCTS) Scheme with effect from 01 April 2025. The proposed changes have no impact on the pension age LCTS Scheme.

The proposed changes seek to make the LCTS fairer and simpler, and in doing so, encourage those who are entitled to support to claim it. By simplifying the scheme as proposed, many claimants will receive an automated award without the need to make an application.

2. Executive Summary

- 2.1 When LCTS 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 from Central Government, the Council also required working age applicants, even those on the lowest income, to make a minimum payment of 20%.
- 2.2 The legislation requires that Pensioners in receipt of LCTS under any scheme remain protected, such that they are able to receive full 100% support towards their council tax bill.
- 2.3 Since that time, only slight changes have been made to bring the scheme into line with either Housing Benefit or Universal Credit.
- 2.4 There are several challenges with the current scheme that need addressing if the system is to continue to provide effective support to low-income council taxpayers in an efficient manner. The main issues are as follows:

- The need to provide increased financial support to the lowest income households.
- The need for a simplification of the scheme, making it more understandable and accessible to increase take up and ensure eligible households receive support.
- The current scheme does not work well for residents receiving Universal Credit, as frequent small fluctuations in Universal Credit awards result in frequent changes to LCTS entitlements with subsequent frequent changes to council tax bills that creates uncertainty.

2.5 Pensioners in receipt of LCTS are unaffected by this proposal.

2.6 Each of the main issues are examined in detail further in this report.

3. Recommendations

3.1 It is recommended that:

- i) The Council undertakes a consultation with the public and major precepting authorities for the introduction of a new income banded / grid scheme for working age applicants with effect from 01 April 2025, intended to simplify the application process, increase LCTS take up, mitigate frequent reassessment of council tax bills as a consequence of Universal Credit changes, and to increase the overall level of support for the lowest income families.
- ii) The results of the consultation and any recommended changes to the scheme are made to Full Council in January 2025 with a view to any revised scheme being adopted for 2025/26.

4. Background

4.1 LCTS was introduced by Central Government in April 2013 as a replacement for the Council Tax Benefit scheme administered by Local Authorities 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 Local Authorities.
- Reduced the initial funding by the equivalent of ten percent from 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 schemes.

4.2 The current LCTS scheme administered by the Council is therefore divided into two parts, with pension age applicants receiving support under rules prescribed by Central Government, and the scheme for working age applicants being determined solely by the City Council.

4.3 Since LCTS was introduced, funding for the LCTS scheme has been amalgamated into other Central Government grants paid to Local Authorities and it is now estimated

that the difference between the cost of the scheme and the Central Government funding for the scheme is a shortfall of £4.3m that is met by the local Council Taxpayer.

- 4.4 Each year the Council is required to review its LCTS 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.
- 4.5 Reviewing the scheme provides an opportunity to consider how it may be possible to assist low-income households further and to simplify the scheme, making it simpler to understand and apply for.
- 4.6 In reviewing the scheme, it also provides the opportunity for the Council to consider how it can make the scheme fairer, simpler and more efficient and as a consequence, reduce the number of changes to applicant's Council Tax liability due to small fluctuations in income levels (largely created by frequent changes in Universal Credit amounts received).
- 4.7 Since introducing a working age LCTS scheme, the Council has only made slight changes to the scheme to bring it into line with either Housing Benefit or Universal Credit. There are however several challenges with the current scheme that need addressing if the Council's LCTS scheme is to continue to provide effective support to low-income council taxpayers in an efficient manner. These issues are:

The need to provide increased financial support to the lowest income households

- 4.8 Since the introduction of LCTS, the majority of Local Authorities, including the Council from 2017, have required all working age applicants to pay a minimum payment.
- 4.9 Research suggests across a large number of Local Authorities, there is a strong view 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 crisis and subsequently throughout the cost-of-living crisis, both of which have had a major effect on incomes generally.
- 4.10 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 LCTS, the reality is that low-income taxpayers have often been unable to pay the balance, leading to additional costs for the household through Court and enforcement action.
- 4.11 There are currently approximately 12,500 LCTS claimants (including 5,087 pensioner age claimants) and trend data suggests that approximately 22% of all claimants will, through non-payment, incur additional court costs as their debt escalates through the recovery process. In these circumstances, the overall amount they pay is higher and makes their financial circumstances more challenging. It is expected that by increasing the level of support to 90% for those on the lowest income under the proposed scheme, the number of households on the lowest incomes falling into the recovery process will reduce.

The need for a simplified approach to the Council Tax Support Scheme

4.12 The existing scheme has major defects namely:

- It is complex for residents to understand and is based on a complex calculation of entitlement
- The complexity of the scheme can be a barrier to take up, requiring significant amounts of information to be provided. This is particularly relevant to those applicants who claim Universal Credit who are often unaware that they have to make a separate claim for LCTS
- The complexity of the current scheme makes it difficult to be able to support residents with advice in relation to entitlement to LCTS
- The timescales for processing residents' applications can be lengthy, mainly due to the complexity and evidence required to support the applications
- The administration for staff is complex and costly, with staff having to undergo significant training to be proficient in processing claims
- With the move of working age cases to Universal Credit (from Housing Benefit), there is a need for the Council's LCTS scheme to be less aligned with Housing Benefit and more compatible with Universal Credit
- To ensure that households are protected in circumstances of financial hardship, support is available through the LCTS Hardship Fund. This will also ensure that should there be instances where a small increase or decrease in household income results in a larger change in entitlement, additional financial support is available. Authorities who have moved to similar schemes have not had this experience.

Council Tax Support and the roll out of Universal Credit

4.13 The introduction of Universal Credit has brought a number of significant challenges to both the administration of LCTS and also the collection of Council Tax generally.

Research suggests that all Councils have experienced the following:

- The reluctance of Universal Credit claimants to make a prompt claim for LCTS leading to a loss in entitlement
- A high number of changes to Universal Credit entitlement are received from the DWP which then require a change to LCTS 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. The frequent change to council tax bills also creates confusion. Changing the scheme to be less volatile to frequent Universal Credit fluctuations will make it simpler for residents to understand their level of discount and amount of council tax they are required to pay. Removing such volatility should also help residents to manage their council tax affairs and finances more generally
- The increased costs of administering multiple changes.

4.14 It is clear that the existing means tested LCTS scheme, which is too sensitive to change, will not be viable in the longer term now that Universal Credit has been rolled

out within the area.

5. Reasons for recommendations

5.1 In view of the problems being experienced with the current scheme, it is proposed that an alternative approach be taken from 2025/26. It is proposed to fundamentally redesign the scheme to address all the issues with the current model and in particular;

- Increase the maximum level of support available to the poorest households from 80% to 90% and reduce overall levels of enforcement and higher costs to residents on the lowest incomes
- Make the scheme simpler to understand and therefore easier to access
- Reduce the number of changes to LCTS making financial planning easier to manage
- Mitigate the increase in administration costs due to the high level of LCTS changes.

5.2 The proposed new scheme for consultation is described more fully below and 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 current means-tested scheme will be replaced by a simple income grid model as shown below (for further details of the proposed scheme, please see Appendix 1):

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	65%	£100.01 - £180.00	£160.01 - £240.00	£220.01 - £295.00	£140.01 - £240.00	£205.01 - £281.00	£260.01 - £340.00
Band 3	40%	£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	15%	£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

- The income bands have been developed taking into account the levels of awards of Universal Credit and its various elements. Some key features of the weekly income ranges are:
 - (i) All incomes used are weekly net amounts. In the case of earnings, the amounts are net of tax, national insurance and pension contributions
 - (ii) The income levels have been designed initially to minimise any losses in entitlement when compared to the existing scheme
 - (iii) Certain incomes and benefits are ignored when calculating the net weekly income (shown later in the report) in the proposed scheme, and further allowances are also applied to assist applicants whose household includes a person who is disabled. These allowances replace the protection that is built into the current means tested scheme
 - (iv) The levels of income vary to take account of the household size, and the allowances provided through means-tested benefits. The support is increased to allow for cases where the applicant has a partner or dependants
 - (v) The income bands are sufficiently wide to allow for no change even when an applicant's income varies by up to £50 per week - this provides households with greater certainty with their council tax liability, meaning that amended council tax bills will not be issued following minor fluctuations in income
 - (vi) The level of LCTS discount reduces as the applicant's income increases although a level of support is still provided where the applicant's level of income would prevent them from claiming Universal Credit
 - (vii) The levels of income 'per band' will be reviewed each year and may be adjusted if the Council feels that this is appropriate given inflation increases in benefit levels; and
 - (viii) The proposed levels of income are comparable to similar schemes operating within the Country.
- It is proposed that the highest level of discount will be at a maximum level of at least 90% of the council tax liability, 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) receive maximum discount. The maximum award for working age residents under the current arrangement is 80% of liability
- There will be no restriction on LCTS support based on the council tax band as is in place in the current scheme (there are currently 109 residents receiving LCTS who occupy properties banded D and above whose LCTS is based upon a Band C property as the current scheme dictates. Of this 109; 84 occupy Band D properties). This means that those claimants with larger properties but with limited incomes will receive greater financial support.
- It is proposed that a standard £12.50 deduction will be made for any non-dependant adult. This is a significant change from the current scheme (which has the highest deductions in England) 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 encourage work, the proposed scheme will adjust the assessment of earnings by £25 per week to maximise the level of discount that can be attracted. This adjustment replaces the support within the current scheme for those with earned income
- Disability benefits such as Disability Living Allowance and Personal Independence Payment will continue to be ignored **and** where any applicant, their partner or dependent child(ren) are disabled, a further allowance of £115 per week will be made to their assessed income, thereby continuing to enhance the level of support to those with disabilities
- The Support Component of Employment and Support Allowance will continue to be ignored in the assessment of income
- Child benefit and Child Maintenance will continue to be ignored in the assessment of income
- An amount in respect of the housing element, within Universal Credit will be ignored in the assessment of income
- War pensions and war disablement pensions will continue to be ignored in the assessment of income
- Extended payments will be removed. This is a 4 weekly 'additional payment' made when transitioning into work
- Second Adult Rebate will be removed. Second Adult rebate helps reduce a council tax bill if the person responsible for council tax is the only person responsible for paying council tax but lives with other adults. Second Adult rebate may apply where the claimant's income or capital is too high to qualify for LCTS)
- The capital limit of £6,000 with no tariff (or assumed income) will continue to be applied in the proposed scheme
- Carers allowance will be ignored in the assessment of income thereby enhancing the level of support to carers.

5.3 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 failings in the current scheme and Universal Credit as follows:

- **The scheme will require a simplified claiming process.** Applicants will see a reduction in the claiming process and, where possible, LCTS will be awarded automatically without the need for an application. For Universal Credit applicants, **any** Universal Credit data received from the DWP will be treated as a claim for LCTS. Where information is received from DWP, the entitlement to LCTS will be processed without the need to request further information from the taxpayer. These changes will have the following distinct advantages namely:
 - **Speed of processing** – claims will be able to be calculated promptly and largely without the need to request further information which inevitably leads to delays
 - **Maximising entitlement to every applicant.** As there will be no requirement for Universal Credit applicants to apply separately for LCTS, and for other applicants, the claiming process will be simplified significantly, entitlement to LCTS 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 to the level of LCTS award and therefore reduce the need for multiple changes in instalments and the issue of amended council tax bills, which is anticipated to assist in maintaining council tax collection rates. The increased level of discount will also assist all those applicants on the lowest levels of incomes, again improving the overall collection rate;
- **The income bands are sufficiently wide to avoid constant changes in discount.** The current LCTS scheme is very sensitive and can alter even if the overall change to the person's income is small. This leads to constant changes in the level of LCTS discount, the need to recalculate monthly instalments and the requirement to issue a large number of council tax bills. The effect of this is that residents may be confused by frequent changes to their council tax bill which further results in impacts to council tax collection. The new scheme, with its simplified income banding approach will have the following advantages:
 - Only significant changes will affect the level of discount awarded
 - Council Taxpayers who receive LCTS will not receive multiple council tax bills and adjustments to their instalments creating greater certainty about the level of support and amount to pay
 - Greater certainty about the level of LCTS discount and the amount of council tax to pay, may lead to a reduction in the number of residents who claim LCTS being summoned to liability order hearings, and therefore avoiding additional costs; 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.

6. Advantages of a banded scheme

- Provides greater levels of discount for those on the lowest income
- Banded schemes are much simpler to understand and explain
- Residents can see more clearly how much discount they will receive
- The simplicity of a banded scheme is anticipated to increase take up
- The banded scheme provides an opportunity to remove the need for a claim form from Universal Credit claimants, and therefore increasing take up and maximising entitlement
- The application process will be simpler for all applicants
- The banded scheme would reduce the number of changes associated with Universal Credit entitlement, and associated changes to council tax bills and instalment plans. This will therefore avoid constant changes to the discount and assist in the maintenance of collection, and potentially avoidance of additional costs
- The scheme is easier to administer reducing the timescales for determining an award
- The scheme is simpler reducing the level of staff training required to be proficient in processing claims

- The cost of administration reduces, creating resilience to further support local charge-payers
- The scheme is more modern, where any change is effective from the day of change rather than the Monday of the following week
- The simplicity of the scheme means that there is significantly less error and fraud
- The scheme would allow the Council to only process those changes which would result in a change
- The scheme will not require constant change and once set, it will future proof the Council's working age LCTS scheme
- The scheme is in line with the majority of English Local Authorities who are moving from the 'traditional' complex means tested approach due to its high administration costs, and complexity

NB: A small increase or decrease in household income can result in a larger change in entitlement than would have resulted in the existing means tested benefit scheme. In practice however, with other Authorities that have been administering similar schemes for a number of years, this has not been found to be the case, especially where additional support can be provided through the Council's Exceptional Hardship Fund.

7. Transition to the new scheme and the Exceptional Hardship Fund

- 7.1 Any change in scheme or a transition to a new scheme may result in a change to the entitlement of certain applicants.
- 7.2 The proposed scheme has been designed to protect the most vulnerable. It is estimated that just over 74% of our current LCTS caseload will receive the same or more support. For over half of those receiving less support, the reduction is less than £5.00 per week. Those households facing a reduction arise because their assessed income levels in relation to their eligible costs are greater than others receiving LCTS. As an example, from sampled cases, a typical two child household family income whose LCTS will reduce by £5 per week receive a household income of £29,000 for a single parent household and £40,000 per annum for a two-parent household.
- 7.3 Within the new scheme, it is proposed that an Exceptional Hardship Fund is established to protect individuals who experience financial difficulties. This will be available to all households in financial difficulty and 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.

8. Integrated impact assessment

Please find attached as Appendix 2.

9. Legal implications

9.1 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.

9.2 In addition, in order to set a new scheme, the Council is obliged to make a resolution by 11 March of the year prior to the scheme coming into place.

10. Director of Finance's comments

10.1 The number of Council Taxpayers receiving LCTS has mostly reduced each year as shown in the table below:

10.2 Council Tax Support - Number of LCTS claims awarded

Financial Year Commencing	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Working Age	17164	15054	15136	14547	13733	12823	11764	12116	11278	10917	11398
Pension Age	8838	8589	7748	7526	7082	6897	6459	6210	6324	6082	5940
Total	26002	23643	22884	22073	20815	19720	18223	18326	17602	16999	17338

10.3 The above clearly shows that pensioner claims have generally reduced year on year since 2013 and now stands at almost 32.7% below the 2013 figure. This is mainly due to the continued increase in pensioner income which, in the main, has been above inflation. In the case of the working age, claims have reduced significantly too with the current figure being 33.6% lower than when Council Tax Support commenced.

10.4 Since 2013, the overall cost of the scheme in relation to the Gross Council Tax Liability has typically reduced year on year. See Table below:

Total percentage of the Council Tax Support Scheme in relation to the Tax Base

Financial Year	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m
Gross CT Liability	101,479	101,975	102,553	107,025	112,713	119,593	127,023	132,563	139,526	144,732	153,085
LCTS	13,276	12,575	12,033	12,092	11,181	11,222	11,201	11,666	11,860	11,611	11,962
%age	13.08%	12.33%	11.73%	11.30%	9.92%	9.38%	8.82%	8.80%	8.50%	8.02%	7.81%

10.5 LCTS represented 13.08% of the council tax gross liability in 2013, it now represents 7.81% of the Gross Council Tax liability, a reduction of £1.350m in cash terms despite year on year increases in the levels of Council Tax.

10.6 The total cost of the LCTS is shared across the Council Tax preceptors as follows:

- Portsmouth City Council - 83.4%
- Hampshire Police & Crime Commissioner - 12.6%
- Hampshire and Isle of Wight Fire & Rescue Service - 4.0%

Whilst the overall cost of the LCTS scheme has reduced over the period, so has the funding provided from Central Government. The Portsmouth City Council share of the cost in 2023 amounts to £10.0m with funding estimated from Central Government of £5.7m leaving an overall shortfall of £4.3m which is effectively subsidised by all other Council Taxpayers.

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Signed by:

Appendices: Appendix 1 (Income Grid Model)

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Schedule 1A of the Local Government Finance Act 1992	Local Government Finance Act 1992 (legislation.gov.uk)

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by on

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Signed by: