

## Wiltshire Council

### Cabinet

23<sup>rd</sup> July 2019

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**Subject:** Council Tax Reduction Scheme Review

**Cabinet member:** Cllr Philip Whitehead – Leader of the Council and Cabinet Member for Finance, Procurement and Economic Development

**Key Decision:** Yes

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#### **Executive Summary**

In 2013 Wiltshire Council introduced a local Council Tax Reduction Scheme which has been subject to a number of amendments since inception to bring it in line with other welfare benefits. Changes to the scheme's operation require consultation and the purpose of this report is to set out proposals for consultation to further adapt the scheme to improve administration and accommodate the effects of Universal Credit.

This report firstly describes costed options for changes to the scheme. These will then be subject to consultation and the results of the consultation will be brought back before Cabinet in time for the calculation and setting of the tax base for council tax purposes in time for implementation in April 2020.

It also sets out the financial impact of the current scheme and the current level of debt owed by those already in receipt of Council Tax Reduction in order to promote discussion regarding the generosity of the current scheme for those of working age.

#### **Proposal(s)**

The report sets out five options for Cabinet to determine one option as the basis for consultation. The results will be reported back to Cabinet in November 2019.

#### **Reason for Proposal**

Since 2013 the Council has operated two schemes to determine entitlement to council tax reduction. There is a default scheme for those of pensionable age, Council Tax Benefit and a local scheme offering a Council Tax Reduction for those of working age. Both schemes are affected by the roll out of Universal Credit which is managed by the Department of Work and Pensions (DWP) but the most significant impact has been felt by those of working age.

The introduction of Universal Credit has had a number of effects. It has changed the relationship between the council and the claimant, who in the past relied upon the council for all their housing costs. Now Universal Credit includes housing costs for the majority of tenants, lessening both the information local authorities hold and the urgency with which customers once engaged with local authorities. It is a benefit that that can be used to top up a low income. It can be claimed by those temporarily out of work as well as those unable to work. Around one third of all households in receipt of council tax reduction are already in receipt of Universal Credit with the expectation that another two thirds will migrate over the next four or five years. The overall impact of migration upon council services will be significant as many of these customers are also supported by Adult Social Care, Mental Health and Learning Disabilities Teams and the Court of Protection Team.

The sums paid to those in receipt of Universal Credit, in terms of the basic living allowances have also been frozen for the last three years, when in real terms, council tax has increased by 13%.

*According to a recent report by the Institute for Fiscal Studies “There are still substantial cuts planned for working-age benefits in the next years, especially because of the move from the ‘legacy’ benefits system to the overall less generous (in entitlements) universal credit system, which is now expected only to be fully rolled out by 2023–24,” it said.*

*“In combination with cuts to tax credits, this means that benefit entitlements are likely to shrink in real terms, pushing down the incomes of poorer households.”*

Methods of exchanging information between local authorities and the DWP have become more sophisticated. The point has been reached where much of the information sent populates the software system used by Revenue and Benefits. Typically 5,000 notifications are imported from the DWP each month for those on Universal Credit, alone. The current council tax reduction scheme is too sensitive to accommodate those changes. Each notification requires the claim to be looked at. Consequently claims for council tax reduction are subject to frequent amendments, often as a result of a relatively minor change in income. The council tax reduction scheme needs updating to better accommodate these changes.

In conjunction with the introduction of the local scheme in 2013 changes were made to other council tax discounts and exemptions over which the council were given discretion to change to best suit the authority. These changes offset some of the costs of the current scheme. The council have already maximised methods of income generation from local taxation and so any proposal to amend the scheme will have a direct impact upon the council's budget.

The estimated cost of the scheme in 2020-21 will be £24.65 million before any change is made to the scheme (still less than the scheme cost in 2013-14 when it cost £27million). This report sets out proposals for consultation to change the scheme. It provides costed options for a local council tax scheme which may offer better support to those who most need help, particularly those in receipt of Universal Credit. In doing so the council could minimise the administrative costs of maintaining claims for council tax reduction and the collection of arrears. Any proposal to increase the generosity of the scheme will however impact upon the formula used to calculate the tax base and will reduce the tax base which will have an impact upon all precepting authorities and levels of precepts.

**Becky Hellard**  
**Director of Finance and Procurement.**

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### Purpose of Report

1. This report provides a series of options for consideration and consultation in order to offer an appropriate, local, means tested, method of calculating a reduction in council tax to those on a low or fixed income, by April 2020, and meet the Government's recommendations for consulting upon those options, with a variety of stakeholders.

### Background

2. Currently almost 24,500 households in Wiltshire receive full or partial help with their council tax through the current scheme amounting to an estimated £24 million for the current financial year. Precise numbers are provided in Appendix 1 but the caseload has fallen since the local scheme was introduced in 2013-14 when almost 29,000 households qualified for a reduction in their council at a cost of £27million.
3. Welfare reform and efforts to reduce the cost of the welfare bill resulted in the abolition of a national council tax benefit scheme with effect from April 2013 for working aged households. The council currently applies the national scheme to those of pensionable age and a locally designed scheme for those of working age.
4. Currently 43% of households who receive council tax benefit are of pensionable age. Entitlement to a reduction in their council tax is determined by the national scheme where the rules are set by government. This scheme is also known as the 'default scheme', where the rules determine the means, criteria and levels of reduction up to 100% of the council tax due. Currently 10,500 pensioner households receive a means tested council tax reduction.
5. Analysis of the remaining 57% of caseload suggests that around 6,150 householders are deemed vulnerable and are in receipt of multiple benefits

which mean they currently receive a full council tax reduction. The remainder, around 7,800 recipients are either working or looking for work and are expected to contribute at least 20% toward their council tax. It is the degree of support offered to this group upon which this report will focus. Of the 14,000 working age household claiming CTR households, 5,000 are currently in receipt of UC.

6. Although the local scheme was successfully launched in 2013 efforts were made to keep the scheme cost neutral. The result was that many working age households were expected to make a contribution toward their council tax for the first time. Whilst this approach was widely adopted by many local authorities, it was not anticipated that the further welfare reforms and the freezing of benefit levels, specifically those in receipt of Universal Credit, would impact on the ability of a household to meet its basic costs.
7. Universal Credit has offered those claimants who can, greater flexibility in terms of working and claiming. The consequence of zero hours contracts and the variability in monthly income has, however resulted in a huge increase in the reporting of these changes by the DWP to local authorities, on which the local authority is expected to act. Typically Wiltshire Council receives 5,000 notifications per month.
8. This supply of information often leads to the amendment of any entitlement to council tax reduction, the production of new bill and the recalculation of instalments. In some cases this may happen four or five times a year. This causes confusion for the customer and a reluctance to pay.
9. As a result of changes to the scheme in 2015, a fund was created to award a discretionary council tax reduction to those who were least able to pay their council tax. Appendix 4 explains how much this scheme has cost since its introduction.

### **Main Considerations for the Council**

10. The council has to publish a draft local scheme, (if it intends not to use the default scheme) on which it must consult and ratify before full council and before implementation in January 2020 and deployment from April 2020.
11. In order to provide options for consideration the data currently held within the revenues and benefits system (Northgate) has been analysed using specially designed software. Analysis has enabled the modelling of planned changes and the costs of a range of options, shown at Appendix 2.

Through analysis, and engagement with neighbouring authorities as well as national bodies, five possible options and been offered for consideration, and within these options there are potentially variations on a theme. Costings for the options are set out in detail at Appendix 1.

1. Do nothing and leave the current scheme for the working aged as it is.
2. Enhance the existing scheme to better accommodate those in need to meet up to 90% of the council tax for those of working age who do not fall within a protected group.
3. Enhance the existing scheme to better accommodate those in need to meet up to 100% of the council tax for those of working age who do not fall within a protected group.
4. In addition to the current local scheme offer a new version to those on Universal Credit whereby the households' income falls into one of a number of bands. Entitlement will only be amended when income increases or falls below the sum set out in those bands. In this case we can also consider offering those with the lowest income a maximum of 80% council tax reduction.
5. Introduce a combination of the options whereby the existing scheme is enhanced to include a greater percentage of the council tax and a separate scheme is introduced for those on Universal Credit where entitlement is determined by bands of income.

12. Government guidelines suggested any local scheme should:

- be relatively simple to understand from both the customer's perspective and from an administrator's perspective.
- must minimise the impact on vulnerable groups such as the disabled and those entitled to either war disablement or war widow's pensions.
- support the aim of making work pay.
- be feasible in terms of adapting existing software.
- be fully operational by January 2020 and embedded for the purposes of tax base setting in autumn, 2019.

13. In addition to these changes it should be noted that the overall council tax outstanding at the end of 2018/9 rose from £12.5 to £14.5m. Whilst there are many factors influencing this figure the sum due from those already in receipt of CTR rose from £3.9 to £4.2million. This information is set out in Appendix 3 to the report.

## **Consultation and Communication**

14. If the decision is taken to introduce a local scheme the Government have set out a series of steps that the council will need to follow:

*Before making a scheme the billing authority must in the following order:*

*(a) consult any major precepting authority which it has the power to issue a precept to it  
(b) publish a draft scheme in such a manner as it thinks fit, and  
separate consult such persons as it considers are likely to have an interest in the operation of  
the scheme*

*(This would include specifically the Police and Fire authorities as well as precepting  
authorities, staff, members, customers, and the voluntary sector, prior to finalising the  
scheme before full council)*

15. It is proposed that the Council undertakes consultation, regarding the proposed changes, as it has done in the past. The key stakeholders identified are:

- Current claimants affected
- All precepting bodies, (Parish/Town Councils, Police and Fire)

16. It is proposed that precepting bodies' attention is drawn to this matter by writing to them all with a link to the Council's website. Consultation will also extend to meeting with key claimant representative groups, such as Citizens Advice Bureau (CAB); as well as direct feedback facilities at hub offices and via the website. It is also proposed that the scheme options will also be raised for publication and awareness at Area Committees in the coming months.

Following consultation it is proposed to report back to Cabinet in November 2019 for a final decision to be taken ahead of the timetable for implementation in time for 1<sup>st</sup> April 2020 and those affected will be contacted.

17. Reference has already been made to the Council Tax Discretionary Fund. Traditionally this fund has been used to fund those in severe financial hardship and to encourage the payment of on-going debt through the writing off of historic debt. This discretionary scheme will continue alongside other local welfare schemes operated by the service. These include Discretionary Housing Payments and Local Welfare Provision.

## **Environmental and climate change considerations**

18. None

## **Equalities Impact of the Proposal**

19. An EQIA will not be completed until the options have been debated and have been the subject of a full consultation exercise.

## **Risk Assessment**

20. Changing any new scheme, specifically a local scheme, carries with it the inherent risk, in terms of its design, to minimise challenge and dispute whilst offering a simple and cost effective solution.
21. To reduce the risk of none compliance and / or acceptance the proposed schemed must be determined as soon as is practical in order that it can be the subject of consultation and impact analysis. Through consultation, awareness of the impending changes can be raised with those affected to help them prepare, as well as afford the Council time to develop software solutions, procedures and the communications to deliver this change.
22. The council has managed it's financial risk resulting from the introduction of a local scheme 2013 and met the challenge of collecting income from those entitled to a partial reduction in their council tax. However this risk is made greater going forward by the plans to move those households on legacy benefits to Universal Credit, either by natural or managed migration which will exacerbate the challenges already faced by the team and other services including Housing Management and Adult Social Care.

### **Risks that may arise if the proposed decision and related work is not taken**

23. There is a risk of inheriting further uncollectable council tax debt if the opportunity is not taken to review the current scheme.
24. Maintaining the default scheme as it is will mean the financial burden will continue to fall on those households whose income is fixed, in some cases falling, and in many cases are already in debt to the council.

### **Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks**

25. The Revenues and Benefits team have a reputation for delivering change projects. They are suitably equipped and have the skills, knowledge and connections with other service providers across the council to model and anticipate the impact of any change on mutual customers. Whilst the team as a whole manage debt and payment plans appropriately the scale in terms of the number of households in debt, the size of debts and limited ability to recover debt would place additional pressures and costs on the team, in terms of the need to recruit more staff to manage the most labour intensive part of income management, debt recovery.

| <b>Risk</b>     | <b>Action to mitigate the risk</b>   |
|-----------------|--|
| 1.Communication | Corporate communications plan and consultation   |
| 2.Cost          | Analyse all possible options<br>(See supporting papers)  |
| 3.Complexity    | Ensure understanding of staff & customers who will have to operate and claim for a growing number of benefit schemes |

## **Financial Implications**

26. It has been and will continue to be difficult to anticipate demand for the scheme. From the outset it was believed that caseload, particularly pensioners would grow. In fact the number of households claiming council tax reductions has fallen (from 29,000 in 2012-13 to 24,500) and there is an expectation that numbers will continue to fall. A number of factors are at play including the buoyant job market in Wiltshire, however it is anticipated that with the expected growth in new homes, the caseload will plateau at between 24,000-25,000 claims. This is based on the assumption that there is no significant increase in unemployment.
27. If Option 2,3 or 5 were adopted then based on caseload estimates, provision will need to be made for an increase in the cost of the scheme amounting to £1.9m for financial year 2020-21 plus any inflationary factor applied to the council tax. Any change to the scheme would directly affect the formula used to calculate the tax base and affect the overall number of band D dwellings for tax base setting purposes which in turn would have an impact on the Council's medium term financial strategy (MTFS) as current assumptions are based on the scheme remaining unchanged. Any change would therefore need to be built into the MTFS and budget setting process for 2020-21 and onward not only for Wiltshire Council but the Police, Fire and parishes.
28. The net cost of the options are set out in the table below and further explained in Appendix 1. These are based on estimated caseload at March 2020 before any changes are made and before any inflation factor, at an estimated cost of £23.9 million.

| Option   | Proposed Change                                       | Financial impact of proposal   | Total Estimated cost of scheme in 2020-21 |
|----------|---|--|---|
| Option 1 | The scheme remains unchanged                          | The scheme will increase only by inflation estimated to be 3%, adding £750,000 | £24.65m                                   |
| Option 2 | The scheme is changed to offer up to a 90% reduction  | This scheme will add £1.1m to the current scheme plus the inflation factor     | £25.75m                                   |
| Option 3 | The scheme is changed to offer up to a 100% reduction | This scheme will add £1.9m to the current scheme plus the                      | £26.55m                                   |

|          |  | inflation factor  |         |
|----------|--|---|---------|
| Option 4 | The scheme is changed for those on UC to offer income bands, but designed to be cost neutral | The scheme will only be impacted by the inflation factor estimated to be £750,000 | £24.65m |
| Option 5 | The scheme is changed to include a combination of these factors                              | The scheme could cost up to £1.9m plus inflation factor                           | £26.55m |

29. The implications of choosing Option 2, 3 and 5 are significant for both major precepting authorities (Police and Fire Services) as well as town and parish councils. It is vital therefore that the full impact of the proposals is discussed with precepting authorities as part of the consultation process. The outcomes will be reported alongside the Cabinet paper planned for December 2019 and inform the tax base setting process.

### **Legal Implications**

30. The Government has made provision that a local scheme may be introduced under the discretionary power bestowed upon local authorities by Section 13 (a) of the Local government Finance Act 1992 and will be used in conjunction with the default scheme. Proposals require the drafting and publication of a local scheme for non-pensioners which combines the needs for simplicity, savings and incentives to work.

### **Options Considered**

31. The options for consideration are set out in Appendix 1.

### **Conclusions**

32. The landscape of welfare benefits has greatly changed since the introduction of the local council tax reduction scheme in 2013. Perhaps the most significant issue has been the freezing of national benefits for the last three years. The impact has been felt across the Council as a whole. At the same time households on legacy benefit continue to experience other reductions in welfare benefits, further limiting their ability to pay council tax.

33. The council tax reduction scheme was designed to limit the financial impact of paying council tax on those least able to afford it, but despite the schemes provisions, it is now considered too sensitive to fluctuation in a households' income. The proposals for consultation are made based on a better understanding of Universal Credit and concerns regarding the ability to

collect outstanding council tax from those already receiving a council tax reduction.

34. Whilst there is no simple council tax reduction scheme any adaptation of the must uphold the principle that any scheme should be equitable across all groups and offer incentives for those who can to work, wherever possible. It is hoped that that these proposals will lead to the revision of the scheme and provide a more appropriate scheme for Wiltshire residents.

## **Recommendations**

35. Of the options provided in Appendix 1 it is recommended that the consultation seeks opinions on Option 4. The consultation will therefore ask two main questions. The first is whether those working age households should pay less council tax and secondly, whether the scheme should be adapted to include income bands to simplify the scheme and avoid unnecessary adjustments.

**Becky Hellard**  
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## **Background Papers**

### **Financial models analysing impact of Options 1-5.**

## **Appendices**

Appendix 1 = Scheme Options

Appendix 2 = Caseload and Costs for four options.

Appendix 3 = Breakdown of outstanding council tax debt, debt owed by those on CTR and debt owed by those on CTR and UC

Appendix 4 = Annual expenditure on council tax discretionary scheme.

## **CTS Modelling**

## **Appendix 1**

|                         |   |
|-------------------------|---|
| Base data @<br>17/06/19 | Caseload:<br>Pension Age: 10511<br>Working Age Employed: 2399 |
|-------------------------|---|

|                         |   |                   |                        |   |
|-------------------------|---|-------------------|------------------------|---|
|                         | Working Age Vulnerable: 4464 (including those in receipt of PIP, War Disablement Pension or War Widows Pension)<br>Working Age Other: 5349  |                   |                        |   |
| Note:                   | CTR posted @ 01/04/19 = £24,900,384. Caseload and cost of the scheme is expected to fall to £23.9 during the current financial year   |                   |                        |   |
| <b>Caseload trend:</b>  | <b>April 2012</b>   | <b>April 2019</b> | <b>April 2020(est)</b> | <b>Notes</b>  |
| All claims              | 30388   | 24,423            | 24559                  | There is no reason to expect any greater increase in caseload, which has been gradually falling since 2014 other than that generated by the building of new homes (Est 0.5%)  |
| Pensioners              | 12756   | 10,511            | 10545                  |   |
| Vulnerable              | 1252  | 6164              | 6164                   |   |
| Working age on benefits | 10153   | 5,349             | 5379                   |   |
| Other                   | 6227  | 2,399             | 2471                   |   |
|                         |   |                   |                        |   |
|                         |   |                   |                        |   |
|                         |   |                   |                        |   |
|                         | <b>Scheme Description</b>   |                   |                        | <b>Notes</b>  |
| <b>Option 1</b>         | <p>Leave scheme as is but include inflationary factor of 3%.</p> <p>Those with Capital/assets of over £6,000 will not be entitled to CTS</p> <p>Non-Dependant deduction standardised at £2.50 per week</p> <p>Earnings taper £0.20 deduction for every £1.00 earned, above need assessment.</p> <p><i>(for cases of hardship we would still offer the discretionary council tax reduction scheme which currently costs £150k per annum)</i></p> |                   |                        | <p>Estimated net cost will be £750K more based on a 3% increase but this option will miss the opportunity to simplify the scheme and still mean collecting council tax from households on the lowest income.</p> <p>This proposal will mean the CTR scheme as a whole will cost approximately £24.65m in 2020-21.</p> |
| Note                    |   |                   |                        |   |
| <b>Option 2</b>         | Maximum eligible amount is increased to 90% of the Council Tax chargeable to all except those in protected groups who would retain a 100% reduction (which includes those in receipt of disability premium and war widows disablement pension)  |                   |                        | Will be a net cost of £1.1 million (plus inflation) but miss the opportunity to simplify the scheme and   |

|  |   |  |
|--|---|--|
|  | <p>Those with Capital/assets of over £6,000 will not be entitled to CTS</p> <p>Non-Dependant deduction standardised at £4 per week</p> <p>Earnings taper £0.20 deduction for every £1.00 earned, above need assessment.</p> <p><i>(for cases of hardship we would still offer the discretionary council tax reduction scheme which currently costs £150k per annum)</i></p>   | <p>mean the team continue to face the two challenges of debt collection and coping with the reported changes to UC.</p> <p>This proposal will mean the CTR scheme as a whole will cost approximately £25.75 in 2020-21</p>   |
| <p><b>Option 3</b></p> <p><i>Notes</i></p> | <p>Maximum eligible amount is increased to 100% of the Council Tax chargeable limit to</p> <p>Those with Capital/assets of over £6,000 will not be entitled to CTS</p> <p>Non-Dependant deduction standardised at £4 per week</p> <p>Earnings taper £0.20 deduction for every £1.00 earned, above need assessment.</p> <p>Approx no. of claims affected: 5500</p> <p>*It is less likely that there would need for a discretionary council tax reduction scheme and the current costs of £150K would be offset against the additional cost of this scheme.</p> | <p>Will be a net cost of £1.9 million* (plus inflation). This will reduce the administrative burden and avoid the need to instigate debt recovery for those already receiving CTR.</p> <p>This proposal will mean the CTR scheme as a whole will cost approximately £26.55M in 2020-21</p> |
| <p><b>Option 4</b></p>                     | <p>Maintain the existing scheme but offers those on Universal Credit a scheme based on the household income which offers 80% maximum entitlement but limits the number of adjustments made to the claim each year.</p> <p>Entitlement will be based on a number of income 'bands'.</p> <p>Those with Capital/assets of over £6,000 will not</p>   | <p>The scheme will be designed to be cost neutral other than to include a factor for the overall increase in council tax.</p> <p>This proposal will mean the CTR scheme as a</p>   |

|                        |  |  |
|------------------------|--|--|
| <p><i>Notes</i></p>    | <p>be entitled to CTR</p> <p>Non-Dependant deduction standardised at £4 per week</p> <p>Approx no. of claims affected: 5,500</p> <p><i>(for cases of hardship we would still offer the discretionary council tax reduction scheme which currently costs £150k per annum)</i></p> <p><i>This option will require more specialist software changes with a one off cost of £10,000.</i></p>   | <p>whole will cost approximately £24.65m in 2020-21.</p> <p>It will mean that some households on UC will have to pay council tax and there will still be the challenge of recovering debt from households who are on a very low income, but the costs and impact of changes to UC entitlement will be reduced.</p>                                   |
| <p><b>Option 5</b></p> | <p>Maintain the existing scheme and provide a separate scheme for those on Universal Credit which offers up to 100% maximum entitlement but limits the number of adjustments made to the claim each year.</p> <p>Entitlement will be based on a number of income 'bands'.</p> <p>Those with Capital/assets of over £6,000 will not be entitled to CTR</p> <p>Non-Dependant deduction standardised at £4 per week</p> <p>Approx no. of claims affected: 5,500, there should however be less reliance on the discretionary council tax reduction scheme.</p> <p><i>This option will require more specialist software changes with a one off cost of £10,000.</i></p> | <p>This scheme would be a net cost £1.9 million* (plus inflation). This option will reduce the administrative burden, once the claim is up and running and reduce the need to instigate debt recovery for those already receiving CTR and UC but the team will have to operate another scheme.</p> <p>This proposal could mean the CTR scheme as</p> |

|  |  |   |
|--|--|---|
|  |  | would cost approximately £26.55M in 2020-21 |
|--|--|---|