

Key Decision Report

Details of Leadership Team meeting	Leadership Team 8 October 2020 Portfolio: Councillor Mary Weale, Lead Member for Finance and Customer Delivery	 THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
Forward Plan ref:	05708/20/K/A	
Report title	NEW COUNCIL TAX REDUCTION (CTR) SCHEME	
Reporting officer	Mike Curtis, Executive Director of Resources	
Key decision	Yes	
Access to information classification	Public	
Wards	All	

1. EXECUTIVE SUMMARY

- 1.1. This report asks the Leadership Team to agree to the introduction of a new Council Tax Reduction scheme for April 2021.
- 1.2. Under the current scheme, in place since 2013, residents who are in receipt of Universal Credit can end up receiving multiple Council Tax bills and frequent amendments to their Council Tax Payment plans.
- 1.3. This is further exacerbated by the fact that each time a new Council Tax bill is issued, the amount owed is profiled over the remaining months of the year with fewer payment instalments making it more difficult for residents to spread the cost of repayment.
- 1.4. As more of our residents move on to Universal Credit, it becomes increasingly important to address this.
- 1.5. A new scheme will help low income households to avoid Council Tax debt and will increase work incentives alongside Universal Credit. It will help the Borough to be a great place to live and work, and will support vulnerable residents, in line with our Council Plan.

- 1.6. The new scheme that officers propose is known as a banded income scheme and will reduce the number of repeat Council Tax bills that a resident on Universal Credit receives.
- 1.7. It should be noted that this scheme does not involve the implementation of any cap on the amount of relief for which a resident can apply. The Council's will continue to provide up to 100% relief for qualifying households.

2. RECOMMENDATIONS

- 2.1. It is recommended that the Leadership Team approves the proposed banded income scheme for residents in receipt of Universal Credit eligible for Council Tax Reduction.
- 2.2. It is recommended that this scheme is introduced from April 2021.

3. REASONS FOR DECISION

- 3.1. The current arrangement for Council Tax Reduction for Universal Credit customers is unsatisfactory because it makes the Council Tax difficult to pay and may lead them into debt. The reason that the banded income scheme is recommended is that it can be run efficiently with data already supplied to the Council by the Department for Work and Pensions (DWP). Other options for addressing this issue are labour-intensive and could not be run cost-effectively.

4. BACKGROUND

- 4.1. Until 2013 Council Tax Reduction was a national scheme. Since then councils have had the responsibility to develop their own schemes.
- 4.2. In developing their schemes the Government set out its expectation that councils should ensure:
 - Pensioners see no change in their awards whether they are existing or new claimants;
 - Consideration to extending support or protection to other vulnerable groups; and
 - That local schemes should support work incentives; in particular, avoiding disincentives to move into work.
- 4.3. In 2013, Kensington and Chelsea adopted the "Default Scheme" for working-age residents, equivalent to the pre-existing national Council Tax Reduction scheme. This scheme has worked relatively well, providing up to 100% Council Tax Reduction for residents with a low income.
- 4.4. However, the Default Scheme was devised before Universal Credit had become established. As the Universal Credit caseload has grown, it has become obvious that the Default Scheme does not work effectively for many residents on Universal Credit.

4.5. It is for this reason officers recommend that we start a new Council Tax Reduction scheme in April 2021.

5. OPTIONS ANALYSIS

5.1. Approximately one-third of our working-age residents who receive a Council Tax Reduction are on Universal Credit, the new welfare benefit administered by the Department for Work and Pensions (DWP). Over the next few years, almost all of our working-age residents on Council Tax Reduction will transfer to Universal Credit.

5.2. For residents in receipt of Universal Credit, the Council uses the amount of their Universal Credit, and the amount of any other income (including earnings according to the DWP) to calculate their Council Tax Reduction.

5.3. Because Universal Credit may be recalculated each month, a resident's Council Tax Reduction might also be recalculated each month, and a revised Council Tax bill issued. This is a problem particularly for workers on Universal Credit, whose earnings might fluctuate each month, due to variable working hours, or other factors.

5.4. Each time a new Council Tax bill is issued, a new payment instalment plan is offered, over-riding the previous plan before the first instalment of that plan has become payable. The new bill will divide the revised Council Tax among the remaining months of the financial year – one month less than the previous bill. Each month that this happens, the available instalments reduce by one. At the end of the year, the resident might well owe the entire year's Council Tax in one instalment.

5.5. Residents will, understandably, often find this difficult to pay. They might borrow money in order to pay it, creating personal debt, or they may default on the payment, causing Council Tax recovery action to be taken against them. The table below illustrates this; claimants of Universal Credit are nearly twice as likely to be in Council Tax arrears than other working-age people on Council Tax Reduction.

Working-age claim type	Percentage of people beyond the "Billing" stage
Non-Universal Credit group	21%
Universal Credit group	40%

Council Tax recovery action, RBKC 2019

5.6. This report proposes that the scheme is revised so that it does not, as an unintended consequence, lead people into financial difficulty or act as a disincentive to take-up, or stay in, employment.

5.7. The options that officers have considered are set out below.

5.8 **An income tolerance scheme**

Changes in the resident's income are ignored if they fall within a certain "tolerance" range. For example, if the new income was less than £50 different to the previous month's, the change would be ignored, and the Council Tax Reduction would remain unchanged.

This option is not recommended as it would involve significant manual intervention and thus be resource-heavy.

5.9 **A "Housing Benefit-style" scheme**

When calculating Housing Benefit, the council takes an average level of earnings where these fluctuate. This is a manual process and staff are required to judge a fair period over which to make the average.

This option is not recommended as staff would be required to estimate both an average earnings figure and an average Universal Credit figure which would leave the scheme open to inconsistency and inaccuracy.

5.10 **A banded income scheme**

The income of the resident is placed in a band of income. If, in a subsequent month, the income changes but still remains within the same band, the Council Tax Reduction would remain unchanged. This allows for smaller fluctuations in Universal Credit without an impact on agreed Council Tax repayment plans.

5.11. Such a scheme can be run efficiently using data supplied by the DWP's Universal Credit service; residents would not have to notify us of changes to their income.

5.12. The scheme will not in all cases resolve the generation of a new Council Tax bill and payment plan that shortens the time over which payment is required (and therefore increases the monthly payment). That is to say, where a resident falls into a lower band this will still be the case. However, it is hoped that it reduces the frequency with which this currently occurs and minimises the impact on residents of small fluctuations in income.

5.13. This disadvantage can be mitigated to some extent by ensuring that the reduction at any point in the income band is more generous than the current scheme.

5.14. The banded income scheme is recommended. It can be automated and will ensure consistency of approach and reduce the negative impact on individual residents of minor fluctuations in income.

6. PROPOSAL

6.1. It is proposed that the banded income scheme is applied only to residents on Universal Credit.

6.2. Pensioners are unaffected by this proposal.

How the banded income scheme would work

6.3. Officers will calculate the income of a resident, using their income as recorded by the DWP on a Universal Credit calculation in any month. In order to ensure that all residents are assessed fairly and equitably, the following elements of Universal Credit will be disregarded when making this calculation:

- An amount equal to the Housing Costs Element
- An amount equal to the Carer Element
- An amount equal to the Limited Capability for Work Element
- An amount equal to the Childcare Element

6.4. This will ensure that there is not any disproportionate impact on anyone qualifying/not qualifying for this income.

6.5. This figure will then determine the income band relevant to the resident which, in turn, will determine the percentage reduction from the Council Tax to which they are entitled.

6.6. The proposed income bands are indicated in the table below and set out in more detail in Appendix 1. These have been developed by officers by analysing existing claims and attempting to ensure that, on the basis of this evidence, a resident should not receive more than 4 Council Tax bills in any one year. The aim is to strike the right balance between a span broad enough to allow for minor fluctuations in income, but narrow enough to ensure that these fluctuations do not significantly disadvantage a resident in terms of the reduction available.

6.7. The income band widths increase with the Council Tax bands. For example, at Band A, the income band width is £19, but at Band H it is £58. This is to ensure that the increased rates at higher Council Tax bands are accounted for and a resident on Council Tax Reduction pays the same amount of Council Tax for their level of income, regardless of which Council Tax band they are in.

6.8. As a worked example: if a single person, in a Council Tax Band D property had income of £100 per week, they would receive an 83% Council Tax Reduction:

Percentage CT reduction ->	100%	83%	66%	49%	32%	15%
CT Band A	Up to £95pw	£96 - £114	£115 - £133	£134 - £153	£154 - £172	£173 - £191
CT Band B	Up to £95pw	£96 - £117	£118 - £140	£141 - £162	£163 - £185	£186 - £207
CT Band C	Up to £95pw	£96 - £121	£122 - £146	£147 - £172	£173 - £197	£198 - £223
CT Band D	Up to £95pw	£96 - £124	£125 - £153	£154 - £181	£182 - £210	£211 - £239
CT Band E	Up to £95pw	£96 - £130	£131 - £165	£166 - £201	£202 - £236	£237 - £271
CT Band F	Up to £95pw	£96 - £137	£138 - £178	£179 - £220	£221 - £261	£262 - £303
CT Band G	Up to £95pw	£96 - £143	£144 - £191	£192 - £239	£240 - £287	£288 - £335
CT Band H	Up to £95pw	£96 - £153	£154 - £210	£211 - £268	£269 - £325	£326 - £383

6.9. Appendix 1 sets out the full range of income bands and reductions. These have been developed for households of different sizes to ensure that the income is not measured without any regard to household cost.

Applying for a reduction under the banded scheme

6.10. Under the Council's current scheme, there are various ways for someone on Universal Credit to apply for Council Tax Reduction:

- On-line through the RBKC website;
- Completion of a 4-page paper form; or
- Completion of a DWP Council Tax Reduction form.

6.11. All these methods are replicated in the proposed scheme.

6.12. For any resident eligible for Council Tax Reduction, the Council will maintain their claim by using monthly Universal Credit notifications that the DWP automatically provides. The resident will not have to notify us of changes to their income whilst they are on Universal Credit.

7. CONSULTATION AND COMMUNITY ENGAGEMENT

7.1. The Local Government Finance Act, 2012, requires us to consult with any precepting authority, and then with "such other persons as it considers are likely to have an interest in the operation of the scheme", before making a Council Tax Reduction scheme.

7.2. **Greater London Authority (GLA)**

The GLA response is attached at Appendix 2.

7.3. **Advice Agencies**

Officers circulated details of the proposed banded income scheme to the main advice agencies in the borough, and to Kensington and Chelsea Social Council (who circulated this among the smaller organisations).

There was broad support for an approach that mitigated against fluctuations in income, but concern about the impact of moves within bands where income decreased but there was no corresponding amendment to Council Tax. (As flagged in item 5.12 above).

As is noted in item 5.4 above, a scheme that provides for these would be labour intensive and require estimation in terms of future income and is therefore not recommended within this report. Nevertheless, in response to this feedback, we propose to add a new paragraph to the Council's Discretionary Council Tax Relief policy, giving officers the discretion to write-off Council Tax arrears caused by the way fluctuating earnings have been treated by the Council Tax Reduction scheme.

7.4. **Public Consultation**

The public consultation ended on 13 September 2020.

There were 144 responses. The key themes emerging were as follows:

- Over three quarters (77%) think the Council should actively address the impact of fluctuating Universal Credit on Council Tax reduction, whilst only 4% disagreed.
- Of those that think the Council should address the issue, a large majority (84%) think that the banded income scheme is the best way to address this, whilst only 6% of respondents do not think this proposal is the best way to address the issue at hand.
- Over two thirds (68%) of respondents felt that the Council should introduce the banded income scheme for Universal Credit recipients in April 2021 to address the issue of fluctuating Universal Credit on council tax payments, whilst just under a third (32%) of respondents felt the council should 'continue with the current scheme without any changes'.

7.5. The full report of the public consultation is at Appendix 3

8. LEGAL IMPLICATIONS

8.1. Section 49 of the Local Government Finance Act 1998 gives the charging authority discretion to reduce or remit the whole of an amount a person is liable to pay to it, provided the authority is satisfied that:

- a) the ratepayer would sustain hardship if the authority did not do so, and;
- b) it is reasonable for the authority to do so, having regard to the interests of the persons subject to its Council Tax.

8.2. The proposals within this report are consistent with the exercise of this discretion.

9. FINANCIAL, PROPERTY, IT AND ANY OTHER RESOURCES IMPLICATIONS

IT Software

9.1. The proposals in this report will change the current Council Tax Reduction Scheme to one which is income banded. Implementation will require a change in IT software. There will be a one off cost of £52,700 which consists of £44,100 licence fee and a £8,600 enhancement fee to ensure that the system will disregard the disability elements, childcare element and carer element of Universal Credit as required. These set-up costs will be funded from the Council's grant income from DWP.

9.2. In addition to the one off set up costs there will be an annual software maintenance fee of £11,025 and this can be funded through existing service budgets.

The cost of the scheme

9.3. The current Council Tax Reduction Scheme does not well support households who are now in receipt of Universal Credit for the reasons set out in the report.

9.4. The new scheme will be at least as generous as the current scheme and in some cases the level of council tax reduction applied to households will increase. No household will be worse off as a result of the new scheme.

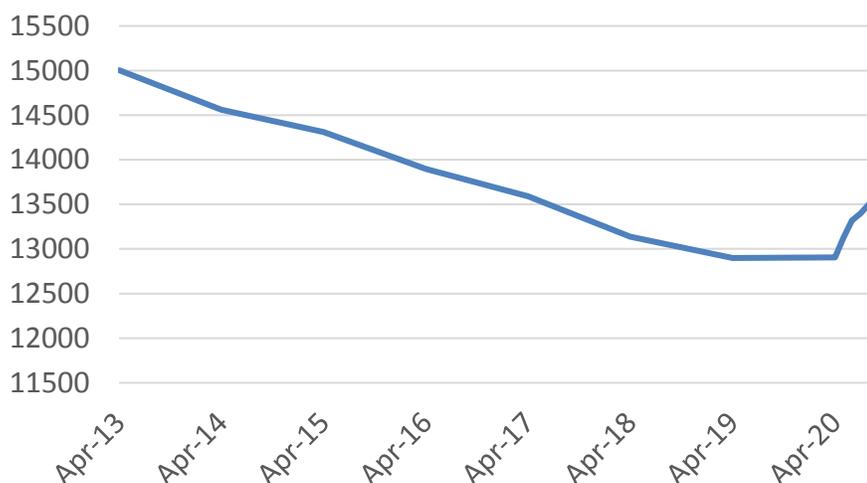
9.5. From analysis, the current extra cost is expected to be £86,000 per year and is based on comparing the 2,956 households currently on Universal Credit with average of 33% of the working-age households who are in receipt of council tax reduction.

9.6. Over time, Government plans are for all eligible households to have migrated to Universal Credit by 2024. Extrapolating from the current data, when 100% of the households are in receipt of Universal Credit, the additional cost will be £260,000 per year. This assumes the profile of households that are yet to migrate to Universal Credit is the same as those who already have and the rate of migration remains

steady – both assumptions will remain under review. The profile of cost increases from £86,000 in 2021 to £260,000 in 2025 when all households will have migrated to Universal Credit is shown in the following table.

Year	Extra cost per year (£)
2021	86,000
2022	150,000
2023	200,000
2024	260,000
2025	260,000

9.7. The current 100% Council Tax Reduction Scheme costs the Council on average £13m per year. Although there will be an additional cost from the proposed changes, there is an overall downward trend in the number of people claiming Council Tax Reduction as shown in the following graph and therefore spend is reducing overall.



Number of people claiming Council Tax Reduction in RBKC

9.8. The impact of Covid-19 is starting to show an increase (13,520 during Covid-19) in numbers and this could increase further during the second wave and the challenging economic conditions ahead. However, it is still well below the 15,000 people who claimed in 2013. This equates to £1.2m less spend that in 2013.

9.9. The Council also plans to increase the Council Tax empty homes premium to 300% for homes empty for over 10 years from April 2021 in line with Government

guidance. Additional revenue (estimated at £250,000 per year) from this measure will be used to support the increased costs from the new scheme.

- 9.10. The additional cost of the banded income scheme is shared between the Council and the Greater London Authority (GLA) proportionately (the precepting authority). The GLA have been consulted on this proposal and their response is included in Appendix 2.
- 9.11. The new scheme will ensure that people on Universal Credit find it easier to pay their Council Tax and reduce the numbers falling behind with payments and getting into debt.

10. HUMAN RESOURCES IMPLICATIONS

- 10.1. There are no Human Resource implications.

11. EQUALITIES IMPLICATIONS

- 11.1. Financially, no one will be left worse-off by the new scheme, compared with the current scheme. There will be a transitional protection scheme with no time limit, to ensure that no-one is worse off. People who are working will usually receive more Council Tax Reduction under the proposal than the current scheme, and families and disabled people in work will receive significantly more. Furthermore, by solving the problem of multiple bills, all Council Taxpayers on Universal Credit will potentially benefit from this proposal. The Equalities Impact Assessment (Appendix 4) shows that no group in the community is adversely affected by the proposal financially, or in terms of accessing the scheme.
- 11.2. However, there is some evidence that the scheme is difficult to understand.
- 11.3. There is also evidence that suggests that people with disabilities may be more concerned than the general population about a change to the scheme.
- 11.4. The action plan for addressing these concerns is included in Appendix 4.

Mike Curtis Executive
Executive Director of Resources

Local Government Act 1972 (as amended) – Background papers used in the preparation of this report

- Further examples of income bands and percentage reductions for different households: Appendix 1
- The response of the precepting authority (The Greater London Authority) to the proposal: Appendix 2
- The report of the consultation exercise and the appendices to that report: Appendix 3 and Appendix 3a
- The Equalities Impact Assessment: Appendix 4

Contact officer: Andrew Wilson, Benefits Service Training Manager, 077393 16098, andrew.wilson@rbkc.gov.uk.

Mandatory clearance requirements for all Key and Executive Decision reports

Cleared by Finance (officer's initials)	BW
Cleared by <u>Corporate</u> Finance (officer's initials)	TE
Cleared by Director of Law (officer's initials)	MC
Cleared by Communications (officer's initials)	NT