



Cabinet Report

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| Date | 10 NOVEMBER 2022 |
| Title | LOCAL COUNCIL TAX SUPPORT SCHEME 2023/24 |
| Report of | CABINET MEMBER FOR STRATEGIC FINANCE, TRANSFORMATIONAL CHANGE AND CORPORATE RESOURCES |

EXECUTIVE SUMMARY

1. Each year the council is required to review its local Council Tax Support (CTS) scheme in accordance with the requirements of the schedule 1A of the Local Government Finance Act 1992 and to either maintain the scheme or replace it
2. Council Tax Support was introduced from 1 April 2013 when it replaced the central government funded council tax benefit regime. From its inception, the funding available to the council from government has reduced year on year.
3. As with the majority of authorities within England, the council has changed its scheme each year for a number of reasons including:
 - adjusting the level of support in line with the funding available from central government; and
 - to aid administration
4. In the current year the Council itself is experiencing very significant financial challenges as a consequence of:
 - the on-going costs associated with the Covid-19 pandemic (in Care Services and Leisure Services)
 - the extraordinary levels of inflation which is substantially increasing the cost of delivering day to day council services
 - Increases in demand for council services from residents that are suffering from the effects of their increase in the cost of living
 - Rising interest rates and its impact on the viability of capital schemes

In the current year the Council is drawing on contingencies and reserves in the sum of almost £8m in order to accommodate these unbudgeted cost increases. Looking forward to next year (Financial Year 2023/24), existing financial pressures alongside continued inflationary and demand pressures for next year are currently

forecast to expose the Council to significant unfunded budget pressures which will need to be addressed in addition to the Council's £2m savings requirement.

5. It remains unclear the extent to which any Government support might be available for these extraordinary financial pressures through the Local Government Funding Settlement due to be announced in December 2022. The Government's 3 Year Comprehensive Spending Review indicates that no further funding is available and the Prime Minister and the Chancellor have indicated that there will be cuts to public spending alongside tax rises in order to address the national debt. Due to the substantial scale of the forecast unfunded financial pressures alongside the uncertainty of any additional Government funding, the Council is unable to consider any new policy initiative at this time that would increase the financial burden upon the Council.
6. This report details the proposed changes and makes recommendation to members for the 2023/24 scheme effective from 1 April 2023.

RECOMMENDATION

7. It is recommended that Cabinet/Full Council:
 - Option 1 – Record their preference to increase the maximum level of support for working age cases to 70 per cent (from the current maximum level of 65 per cent) subject to it being affordable to the Council and therefore considered alongside (and part of) the Council's overall Budget for 2023/24
 - Option 4 - To add a local welfare payment disregard to mirror housing benefit regulations
 - Option 5 - To disregard any increase in welfare benefit payments due to crisis or emergency provision.

BACKGROUND

8. The national Council Tax Benefit Scheme was abolished by central government on 31 March 2013. Under the national scheme claimants on very low incomes could get 100 per cent of their council tax paid. The government paid a grant in respect of the benefit allocation, which meant that there was no cost falling on the council.
9. Council Tax Support (CTS) was introduced by central government as a replacement for the Council Tax Benefit Scheme administered on behalf of the Department for Work and Pensions (DWP). As part of its introduction, the government in transferring the responsibility to individual councils set requirements, namely:
 - the duty to create a local scheme for working age applicants with billing authorities.
 - funding was initially reduced by the equivalent of ten per cent from the levels paid through benefit subsidy to authorities under the previous council tax benefit scheme; and

- persons of pension age, although allowed to apply for council tax support, would be dealt with under regulations prescribed by central government and not the authorities' local scheme.
10. Since that time, funding for CTS has been amalgamated into the settlement funding assessment (SFA) for each local authority as determined by central government. The funding for Local Council Tax Support is not separately identifiable within the SFA and therefore has been exposed to cuts on the same basis. This implies a cut in funding equating to £6.7 million (56 per cent).
 11. CTS is not actually paid to claimants but is instead shown as a discount on their council tax bill. This reduces the council tax base and so the cost is not expenditure as such, but instead a reduction in income raising ability.
 12. Under the local scheme, the cost of CTS is expressed as a discount and results in a reduction in the council tax base. This has a financial impact on the Isle of Wight Council, as well as the Police and Crime Commissioner for Hampshire and the Isle of Wight, the Hampshire and Isle of Wight Fire and Rescue Service and local preceptors. For local town and parish council preceptors, the funding relating to them has been included with the Isle of Wight Council's funding which is then apportioned and passed on to individual town and parish councils.
 13. The current support scheme created by the council is divided into two schemes, with pension age applicants receiving support under the rules prescribed by central government, and the scheme for working age applicants being determined solely by the local authority.
 14. Pensioners, subject to their income, can receive up to 100 per cent support towards their council tax. The council has no powers to change the level of support provided to pensioners and therefore any changes to the level of CTS can only be made to the working age scheme.
 15. In 2013, the council broadly adopted the previous means tested council tax benefit scheme as the basis of awarding support. However, due to the reduction in funding, a number of changes have been made over the years to the working age scheme.
 16. A CTS exceptional hardship fund was introduced during 2016/17 to recognise the potential impacts to some low-income households that might be faced with genuine hardship as a result of the local CTS 2016/17 scheme changes agreed by Full Council on 20 January 2016. This provision was reviewed again by Full Council on 19 January 2022 and continues to provide support for those in genuine hardship. This requires individual applications and takes into account individual circumstances including the claimant's income and essential outgoings.

CORPORATE PRIORITIES AND STRATEGIC CONTEXT

17. Each year the council is required to review its Council Tax Reduction 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. The Isle of Wight council tax reduction scheme is known as the Local Council Tax Support (LCTS) scheme.

18. In the Full Council meeting of 19 January 2022, a commitment was made to review the maximum level of LCTS provided to residents in 2034/24 to increase support available to residents.

ECONOMIC RECOVERY AND REDUCING POVERTY

19. The LCTS scheme assists those on low incomes with payment of their council tax liability, which includes households with children. In doing so, the scheme helps to reduce effects of poverty on these residents. In addition, the exceptional hardship fund provides additional support to any households in receipt of LCTS and suffering hardship to receive extra assistance in paying their council tax.
20. The effects of recovery from the pandemic are still being seen, as well as the current cost of living crisis which is affecting residents across the island and particularly those in receipt in LCTS. Recovery from the economic situation may see more residents applying for LCTS for financial support which may increase spend of the scheme further.

IMPACT ON YOUNG PEOPLE AND FUTURE GENERATIONS

21. Any changes being brought about to the LCTS scheme could have financial impacts on any of those claiming or who may claim LCTS in the future. In addition, the income of a household affects children in those households, and this needs to be considered with any future changes to the scheme.

CORPORATE AIMS

22. The Local Council Tax Support scheme needs to be considered in the context of the council's overall financial position, budget strategy and the ability to continue to deliver public services on a sustainable basis. It also needs to be consistent with, and balance this with the Corporate Plan priorities that seek to ensure the following:
- Ensuring that we listen to people. We will do so by holding consultations in which we will have a proper discussion with residents about issues
 - Keeping the council solvent and take all the measures we can to improve the financial position of the council
 - COVID 19 recovery will be integral to everything we do for residents and Island business
 - Provide greater support to those on low incomes, including through the local council tax support scheme.

CONSULTATION

23. A full and comprehensive consultation exercise was undertaken from 3 August to 28 September 2022 as follows:

| Stakeholders | Methodology |
|---|---|
| 1. Existing claimants (both working age and pensionable age, approximately 10,800). | Individual postcards to inform of the LCTS potential changes wording "If you receive Local Council Tax Support, new changes could affect you. The Isle of Wight Council is seeking your |

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| | <p>views on options to change the amount we award in Local Council Tax Support. There are a number of options being considered and we are asking for your input to help shape the decision. You can provide your views via a consultation from 3 August to 28 September at www.iow.gov.uk/lcts”</p> <p>Online survey via questionnaire explaining proposals and likely impact. Paper survey if requested.</p> |
| 2. Council taxpayers and service users generally | <p>Online survey via questionnaire explaining proposals and likely impact. Paper survey if requested.</p> |
| 3. Interested organisations and groups. | <p>The Anti-Poverty Group partners were emailed detailing the consultation on two occasions to circulate and raise awareness with their customers.</p> <p>People Matter consulted and agreed a simplified consultation document.</p> <p>Age Friendly Group provided with details of the consultation.</p> <p>Internal council services provided with details of the consultation</p> <p>Email to all parish and town council clerks to raise awareness and seek their views</p> <p>Letter sent to the police and crime commissioner seeking views.</p> <p>Letter sent to the Hampshire and the Isle of Wight Fire authority</p> <p>A total of 274 responses to the consultation were received.</p> |
| <u>General Awareness</u> | |
| Provision of information and awareness raising of changes and proposals | <p>www.iwight.com</p> <p>Press releases. Face to face communication at customer service points. The council's Facebook and Twitter sites (weekly promotions). Information on the front page of iwight.com.</p> |

24. Details of the consultation response analysis are set out in Appendix 1. The consultation was responded to by 274 residents (which for validation purposes provides confidence in the outcome of the consultation) of whom 58 per cent stated they were currently receiving LCTS. Respondents were also given the opportunity to provide additional comments when asked why they disagreed with an option and what alternatives they would like to see considered, which are set out in Annex 1a.
25. The consultation explored options to provide additional support for residents during the current financial climate.
26. The majority of respondents:
 - Agreed with increasing the maximum level of support to 70 per cent
 - Agreed with increasing the current earnings disregard level from £25 per week to £30 per week
 - Agreed with decreasing the level of non-dependant deduction from £2 per week to £1 per week
 - Agreed with disregarding local welfare payments as income
 - Agreed with disregarding an emergency increase in welfare benefit payments
 - Agreed with keeping the scheme the same as it currently is
 - Disagreed with reducing the maximum level of support to 60 per cent

The full details of the consultation analysis are set out in Appendix 1 and Annex 1a.

27. Annex 1b provides a summary of the responses received from town and parish councils in terms of their views on the options to change the LCTS scheme. There were nine responses received from the town and parish councils with the majority of these agreeing to providing increased support to low-income households, in particular supporting option 1.
28. Annex 1c provides the responses received from the Hampshire and Isle of Wight Fire and Rescue Authority and the Police & Crime Commissioner for Hampshire & Isle of Wight.
29. There remains provision through the Exceptional Hardship Fund which takes into account individual circumstances, including the claimants' income and essential outgoings for a claimant to demonstrate that they require an exceptional hardship award as a result of 'genuine hardship'. This discretionary assistance can be applied for by a claimant to help with any shortfall between their LCTS and council tax liability in accordance with the policy's intentions. This is a potential mitigation action where considered appropriate.
30. The equality impact assessment completed during 2022 has been updated following the consultation exercise and this is set out in Appendix 2 to this report. The equality impact assessment is based on the scheme options for 2023/24 including the recommended changes.
31. The government has determined that under the new CTS scheme arrangements that there can be no reduction for council tax support to pensioners, so the consulted options relate solely to working age claimants.

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|-------------|--------|--------|--------|--------|-------|-------|-------|-------|
| Pensioner | 6,341 | 5,385 | 5,214 | 4,842 | £5.93 | £5.99 | £6.14 | £6.16 |
| Working age | 6,995 | 5,356 | 5,346 | 5,433 | £5.65 | £4.05 | £4.11 | £4.14 |
| Totals | 13,336 | 10,741 | 10,560 | 10,275 | £11.6 | £10.0 | £10.3 | £10.3 |

38. A breakdown of the current CTS cost is shown below:

| | Pension age | Working age |
|-------------------------------|--------------------|--------------------|
| No. of claimants | 4,751 | 5,316 |
| Cost (as at 30.9.2022) | £6.1 million | £4.2 million |

39. It can be seen from the above tables that the total number of claimants and spend has remained relatively constant since 2018, which has been managed through reductions of LCTS to ensure the cost of the scheme remains constant. However, changes to the scheme over the past years to reduce the level of support, given the overall financial pressures, has meant that more claimants are struggling to pay their remaining council tax liabilities.

40. The current scheme requires all working age claimants to pay a minimum of 35 per cent of their council tax. As such, the reduction in support through LCTS over the last few years has seen the level of debt amongst LCTS claimants increasing.

LEGAL IMPLICATIONS

41. The council will need to set a lawful and balanced budget and council tax level for 2023/24 at the Full Council meeting on 22 February 2023.

42. The Local Government Finance Act 1992 (as amended) stipulates that for each financial year, each billing authority must consider whether to revise its scheme, or to replace it with another scheme. The authority must make any revision to its scheme no later than 11 March in the financial year preceding that for which the revision or replacement scheme is to have effect.

43. In finally deciding what form the local LCTS should take, the council will need to take into account the equality impact assessment of the options, what mitigating actions can be taken to reduce the impact, the results of the consultation exercise, the wider budget position, and the potential impact on council taxpayers and users of services.

44. There must be proper consideration of the impact of the proposals on relevant groups and Full Council members are required to have read the equality impact assessment to enable them to have due regard to the public sector equality duty before making a decision.

45. CTS schemes are dealt with under 13A of the Local Government and Finance Act 1992 and was added by section 10 of the Local Government and Finance Act 2012 so that, in respect of dwellings in England, a person's liability to pay council tax is reduced in accordance with the billing authority's LCTS. Liability may be reduced "to such an extent as the billing authority thinks fit". Billing authorities can apply a

reduction in particular cases or by determining a class of case. Liability for council tax can be reduced to nil.

46. The framework within which billing authorities must devise their council tax reduction schemes is contained in section 13A of the Local Government Act 1992 (as amended).

EQUALITY AND DIVERSITY

47. The council has to comply with section 149 of the Equality Act 2010. This provides that decision makers must have due regard to the elimination of discrimination, victimisation and harassment, advancing equalities, and fostering good relations between different groups (race, disability, gender, age, sexual orientation, gender reassignment, religion/belief, pregnancy and maternity, and marriage/civil partnership). An equality impact assessment has been completed in respect of relevant proposals as part of the decision-making process to enable members to take into account and if necessary, mitigate the impacts as part of the decision-making process.
48. The equality impact assessment for the proposed Local Council Tax Support Scheme is attached at Appendix 2 to this report and is required to have been read by Full Council members before making any decision on the scheme.
49. The equality impact assessment at Appendix 2 shows that with the proposed options for this year, there is no negative impact on any particular groups of claimants, as the proposals seek to increase support in different ways.
50. Furthermore, the council has already introduced an exceptional hardship scheme since 2016 and allows any claimant to apply for additional support up to the full level of their council tax and will continue to provide mitigating actions to those deemed to be in genuine hardship and requiring additional support above the LCTS scheme provision.

OPTIONS

51. In relation to all options, the Council must have due regard to the Council's current financial position which currently forecasts significant unfunded budget pressures in order to continue to deliver "steady state" services in addition to the need to identify £2m of previously approved budget savings. In this context, the Council must consider the rationality of any decision it approves in relation to both financial management and continued delivery of council services.
52. There are five options to consider as detailed below:

OPTION 1 - The need to review the level of support, given the overall costs of the scheme and whether the maximum level of support for working age cases should be increased to 70 per cent (from the current maximum level of 65 per cent)

The projected gap between the government grant and the estimated cost of council tax support if the current scheme was left unchanged for 2022/23 is estimated to be £3.04 million.

For this year the cost of the scheme to date stands at 10.3 million and may increase depending on the economic crisis currently being faced and the potential for more residents to apply for LCTS.

OPTION 2 - To increase the earnings disregard to £30 from the current £25 per week

Currently where applicants (or their partner, if they have one) have earnings, an earnings disregard of £25 per week is deducted from their total weekly income before their remaining income is taken into account in the calculation for eligibility to a reduction in council tax liability. This proposed option would increase this disregard to £30 per week which would mean those working would have more of their income taken into account when calculating their LCTS entitlement.

In the current economic climate, this would affect the most vulnerable or those experiencing the most hardship and therefore to increase the disregard would assist these residents during these difficult economic times. This option provides support to those working and has minimal cost impacts on the scheme as demonstrated in the table at point 34 above.

OPTION 3 - To decrease the non-dependant deduction rate to £1 from £2 per week

Currently where an applicant (and their partner if they have one) have other adults living with them such as adult sons, daughters, elderly relatives, or another person over the age of 18, their LCTS may be reduced. Any charge made is called a non-dependant deduction. In theory, the applicant should look to recoup this deduction from those adults, however keeping to the current levels alleviates financial pressure on any non-dependants' income. The current charge for a non-dependant deduction is £2 per week and decreasing this level will increase the level of support provided and has minimal cost impacts on the scheme as demonstrated in the table at point 34 above

OPTION 4 - To add a local welfare payment disregard to mirror housing benefit regulations.

In the current national financial position as a result of events such as the COVID-19 pandemic, the war in Ukraine and the rising cost of energy prices, central government has begun to implement targeted financial support to households through local welfare payments. Payments such as the 'Homes for Ukraine - thank you payments' have been disregarded as income from housing benefit calculations, meaning that if a claimant receives this, it is not counted in the calculation of their entitlement. There is currently no such provision within the LCTS scheme, and so if this proposed option was adopted, it would enable the council to disregard these payments as income in the LCTS calculation.

OPTION 5 – To disregard any increase in welfare benefit payments due to crisis or emergency provision.

Normally, any increases in state welfare benefit amounts are implemented by central government at the start of the financial year and take into account factors such as inflation. However, in the current national financial position as a result of events such as the COVID-19 pandemic, the war in Ukraine and the rising cost of energy prices, central government may look to increase the basic amount of welfare benefit payments issued to claimant's part-way through a financial year. If this happened, it

would mean that LCTS entitlement could decrease because a higher income was being taken into account. This proposed option would mean that claimants' LCTS entitlement would not be affected as the increase in welfare benefits would be disregarded.

RISK MANAGEMENT

53. The financial risks relate to the uncertainty of future growth in cases and eligibility and the potential impact on council tax collection rates, with additional pressures due to Covid-19 and the cost-of-living crisis from an increase in caseload and spend. The projected level of support with estimated collection rates will be included within the council tax base calculations in determining the total of council tax income for 2023/24.
54. The total council tax collection as of October 2022 has increased from this time last year due to the rise in the council tax base, however, on a percentage recovery compared to this time last year, collection is the same at 56.4%. This figure includes the sum paid to council tax accounts for the energy rebate scheme. Adjusting for these payments like for like collection has reduced by 0.5%. The council tax base continues to increase meaning there is more to collect and therefore a like for like comparison to previous years is not reflected on the same tax base. However, for September 2021 the level of council tax collected was £64 million compared to September 2022 being £67 million (inclusive of the energy rebate payment of £690k).
55. The assumption is that overall ultimate collection levels will remain broadly the same of the additional council tax to be collected from working age claimants impacted. This is uncertain but considered prudent.
56. The retrospective debt for LCTS cases going back to 2013 now equates to £2.02 million with collection continuing for prior years. From analysis, the highest amount of debt outstanding is from those on a passported benefit (Income Support, Jobseekers Allowance and Employment and Support Allowance) of which 2,119 claims have a liability order awaiting payment for debt outstanding on council tax accounts. Therefore, further reductions in support may create additional debt to ultimately collect or write off.
57. The options being put forward as recommended for adoption as changes to LCTS for 2023/24 are options 1 (subject to affordability), 4 and 5.
58. Option 1 (subject to affordability) will impact on the council's overall collection rate levels, however with the level of debt, which is increasing on LCTS cases, the current analysis provides that residents in receipt of LCTS are struggling to pay the current levels of council tax, and therefore this option provides some additional support by reversing the levels to 70 per cent.
59. Options 4 and 5 safeguard the scheme against changes which are being brought into effect for the housing benefit scheme and therefore these measures mirror welfare changes being brought in by central government, providing fairness in the scheme.
60. Any risk in collection rates are minimised and mitigated in part by the exceptional hardship fund which is available to assist any claimants suffering from severe

hardship, and is available for LCTS customers to apply for help and support in assisting to pay shortfalls in their council tax liability. Over the course of the past two years there has been an increase in the number of requests for exceptional hardship fund assistance.

EVALUATION

61. Each year the council must undertake a review of the LCTS scheme for working age applicants, to reflect the funding available to support the scheme, as well as the flexibility to design the scheme according to need.
62. Since the LCTS scheme commenced in 2013, the level of debt has slowly been increasing as the level of support has been reduced. As LCTS residents are struggling to pay the residual level of council tax after support has been awarded, Option 1 (subject to affordability) has been put forward to increase the current maximum award of 65 per cent to 70 per cent to provide further support.
63. Implementing Option 2 would provide an increased earnings disregard to those residents currently in work, which would support with the cost of living. However, based on the number of residents this would affect and the small increase of disregard, this option is considered to be of little overall advantage within the scheme.
64. Implementing Option 3 would provide an increase in LCTS entitlement to those with a non-dependant living in their household. However, based on the number of residents this would affect and the small decrease of the deduction, this option is considered to be of little overall advantage within the scheme.
65. Adopting Option 4 would align the LCTS scheme with Housing Benefit regulations, making administration simpler and also ensuring that residents in receipt of such welfare payments would not be negatively affected. There would be no cost to the scheme with this change.
66. Adopting Option 5 would provide protection to LCTS claimants if central government were to bring in any emergency increases to their welfare benefits which, if left unaccounted for, could result in a loss of entitlement to LCTS. There would be no cost to the scheme with this change, but it would benefit the resident experiencing an uplift in their welfare benefit entitlement.
67. To support claimants, the council introduced an exceptional hardship scheme in 2016 which allows any claimant to apply for additional support up to the full level of their council tax liability and will continue to provide additional support above the LCTS scheme provision to those deemed to be in genuine hardship. This scheme is offered to claimants and published widely to offer help and support.

APPENDICES ATTACHED

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| Appendix 1: | Summary of responses to consultation. |
| Annex 1a: | Additional written text responses to the consultation. |
| Annex 1b: | Comments received from town and parish councils to the consultation. |
| Annex 1c: | Comments received from the police and fire authority. |
| Appendix 2: | Equality impact assessment council tax support scheme. |
| Appendix 3: | Examples of impact on claimants. |

Appendix 4: Draft local scheme policy based on proposed option.

Appendix 5: Draft exceptional hardship fund policy.

Contact Point: Debbie Vallas, Benefits Operational Manager – Tel (01983) 823950
e-mail debbie.vallas@iow.gov.uk

CHRIS WARD

Director of Finance and S151 Officer

CHRIS JARMAN

*Cabinet Member for Strategic Finance,
Transformational Change and Corporate
Resources*