

## Rother District Council

**Report to:** Overview and Scrutiny Committee

**Date:** 10 July 2023

**Title:** Council Tax Reduction Scheme

**Report of:** Chris Watchman, Revenues and Benefits Manager

**Ward(s):** ALL

**Purpose of Report:** Discussion paper on potential changes to the Council's working age Council Tax Reduction Scheme and the amount of Council Tax charged on second homes.

### Officer

**Recommendation(s):** It be **RESOLVED:** That:

- 1) the report and the further engagement session that will be held over the summer be noted; and
  - 2) the proposed timeframes for consultation on any new scheme be noted.
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### Introduction

1. Each year the Council is required to review its Council Tax Reduction Scheme (CTRS) in accordance with the requirements of schedule 1A of the Local Government Finance Act 1992 and to either maintain the scheme or replace it.
2. The CTRS cannot be amended in-year and can only be changed following consultation with the public and the major preceptors, East Sussex County Council (ESCC), Sussex Police and Crime Commissioner and East Sussex Fire and Rescue.
3. If the CTRS is to be amended for 2024/25, discussions need to start now to allow sufficient time for the formal consultation process to commence in the Autumn.

### Background

4. Council Tax Reduction (CTR) was introduced by Central Government in April 2013 as a replacement for Council Tax Benefit.

As part of the introduction, the Government:

- Placed the duty to create a local scheme for Working Age applicants with billing authorities.
- Reduced initial funding by the equivalent of ten per cent from the levels paid through benefit subsidy to authorities under 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 scheme.

5. However, since that time, funding for the CTRS has been amalgamated into other Central Government grants paid to Local Authorities and within the Business Rates Retention regime. It is now therefore generally accepted that it is not possible to identify the amount of funding provided from Central Government sources for CTR.
6. The current CTRS administered 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.
7. Pensioners, subject to their income, can receive up to 100% support towards their council tax. The Council has no power to change the level of support provided to pensioners and therefore any changes to the level of CTR can only be made to the working age scheme.
8. When CTR 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. However, due to the reduction in funding from Central Government, the Council has, since that time, also required working age applicants, even those on the lowest income, to pay a minimum payment of 20%.
9. Significant improvements have also been made to the working age scheme with the introduction of a banded scheme which has both simplified the scheme for applicants and reduced the administration burden caused by the introduction of Universal Credit.

#### **The issues with the current scheme**

10. The key issue is the requirement for low-income households to pay a minimum of 20%, significantly increasing the financial pressure on low-income households, particularly given all the wider economic pressures around the cost-of-living crisis.
11. Since 2013, the introduction of CTR, most authorities have required all working age applicants to pay a minimum payment. Under the previous scheme (Council Tax Benefit), almost 75% of working age applicants would not have been required to pay any Council Tax and would have received full (100%) support.
12. At present Rother and Eastbourne are the only Councils across East Sussex which have not reverted to a 100% scheme, so it is important that Members revisit the level of support provided, particularly following the COVID-19 pandemic and the cost-of-living crisis which have had a major effect on household incomes generally.
13. 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 CTR, the reality is that, since its introduction, low-income taxpayers, the poorest households, have struggled to pay the balance leading to additional costs, court, and enforcement action and, in some cases, the amounts demanded have been written off as uncollectable.

14. Whilst the overall level of Council Tax collection in Rother has remained relatively stable at around 98%, the collection levels for working age CTR applicants is significantly lower:

**Table 1 – Collection Rates Working Age CTR applicants**

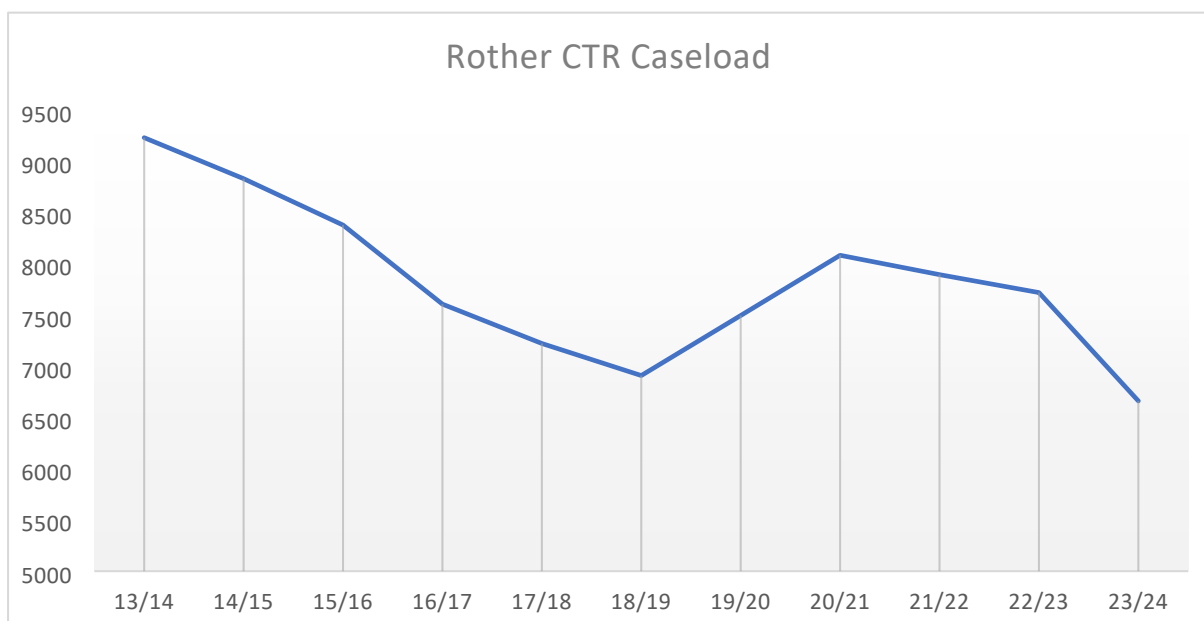
Financial Year	2016	2017	2018	2019	2020	2021	2022
Collection Rate	84.1%	85.9%	83.9%	84.5%	79.3%	81%	82.5%

15. The collection rate over the last three years has only been maintained primarily due to Central Government initiatives such as the Council Tax Hardship Fund. Without this additional support for those on low incomes, the collection rate for this group, is likely to have reduced further. This is significant and increases the cost to the collection fund by the need to increase the Council’s bad debt provision.
16. In addition, the cost of administration of these cases by the Council has increased significantly over the years. These costs are borne by Rother District Council. With the difficulties experienced, the relatively low level of payment and the high administration costs incurred, it may no longer make the amounts economically viable to collect, notwithstanding the negative effects to those poorest households.
17. Any potential change to increase the maximum level of support available would bring the Council's scheme in line with the majority of the other CTR schemes in East Sussex.

**The financial effect of Council Tax Reduction on the taxbase**

18. Since its inception, the number of Council Taxpayers receiving CTR has reduced as shown in graph below:

**CTR Caseloads**



19. The above shows that the caseload has reduced year on year since 2013 and now stands at over 27% below the 2013 figure. This is mainly due to the continued decrease in pensioner cases which has been reflected nationally.
20. In the case of the working age cases, the numbers did increase temporarily due to the COVID-19 pandemic, but they are also now reducing year on year.
21. The costs of the schemes have reduced in terms of the CTR as a percentage of the Council Tax Base due to both the changes in caseload and the change (increase) in Tax Base.
22. Table 2 shows how the level of CTR, as a proportion of the Council Tax Base, has reduced each year whilst at the same time the actual base has increased:

**Table 2 – CTR as a percentage of Council Tax Base**

	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	21/22	22/23
Gross Tax Base	37,692	39,602	39,797	40,082	40,324	40,534	40,759	40,856	41,068	41,298
CTR	5,765	5,512	5,242	4,377	4,142	4,011	3,998	4,262	4,228	4,163
%age	15.3%	13.9%	13.2%	10.9%	10.3	9.9%	9.8%	10.4%	10.3%	10.1%

23. The current scheme costs the collection fund c£8.2m. If it was decided to change the scheme for 2024/25 to increase the working age maximum to 100%, it is estimated that the cost to the collection fund would increase to c£8.95m. However additional modelling and analysis would be required before actual costs could be confirmed.
24. It should be noted the cost of the scheme are borne directly in accordance with the percentage received from the collection fund. A comparison is shown below as to the relative costs for both the current scheme and estimate of a new 100% scheme.

**Table 3 – Increase in costs for a 100% CTRS (2023/24 & 2024/25 comparison)**

	%age from collection fund	Cost of CTR scheme 2023	Cost of changing to 100% scheme	Difference
	%	£m	£m	£m
ESCC	74.45	6.11	6.66	0.55
Sussex Police	10.55	0.86	0.94	0.08
East Sussex Fire and Rescue	4.59	0.38	0.42	0.04
Rother District Council	8.73	0.72	0.78	0.06
Parish/Town Council (example)	1.68	0.13	0.15	0.02
<b>Total</b>	<b>100</b>	<b>8.2</b>	<b>8.95</b>	<b>0.75</b>

25. As can be seen from the table above the cost of this potential change would be most significant for ESCC (£0.55m), with the cost to Rother at approximately £0.06m.
26. If it was decided to change the Council's CTRS for 2024/25 to increase the working age maximum support to 100%, the cost of the CTRS would increase. However, it is expected that the increase in the tax base generally (based on historic performance) for the same year would offset some of this cost irrespective of any other change.

## **Second Home Premiums**

27. Within the Levelling Up and Regeneration Bill that is currently going through parliament, it is the Government's intentions to:
  - A – reduce the minimum period for the implementation of a long-term empty premium from two years to one year; and
  - B – to allow Councils to introduce a premium in respect of second homes (dwellings that are unoccupied but furnished), (Class A and B), of up to 100%.
28. In the case of (a), the changes can be introduced with effect from 1 April 2024, if Royal Assent is granted. In the case of the second homes premium (b), this will require a notice period of one year and therefore the expected start date will be 1 April 2025.
29. Should the Council decide to adopt the new premium regime offered by the Bill; additional income would potentially be available to the Council and all preceptors in line with their share of the collection fund. This additional income could possibly offset some of the cost of any changes to the CTRS.
30. However, it is difficult to model the effect of the new legislation and estimate the additional income that may be generated at this point. Guidance from Central Government on the implementation of the changes has not yet been provided. In particular, it is unknown what additional powers, if any, local authorities will be given to help identify properties being used as second homes. Without additional powers it may be difficult to realise the benefits.

## **Conclusion**

31. The Council's CTRS is currently at odds with most of East Sussex and while there may be an additional cost to making the scheme more generous this must be offset against the financial hardship currently being faced by a number of our residents.
32. There is the potential for increased growth in the tax base to at least partly offset this cost, but the detailed modelling has not yet been completed to properly inform this discussion.
33. It is therefore recommended that a Member Briefing session is held with Members over the summer to increase the understanding of the issues around this subject prior to a more detailed, costed report being brought forward in the autumn for further consideration. A proposed reporting and consultation timeline for this is as follows:

<b>ACTIVITY</b>	<b>DATE</b>	<b>PURPOSE</b>	<b>RESPONSIBILITY</b>
OSC	10/07/23	Report to update Members on the potential changes to the CTRS and premiums	Revenues & Benefits Manager
OSC Member Briefing	Summer 2023	To increase awareness of the issues and challenges being faced prior to any further report being considered and to consider any potential impact of any changes	Revenues & Benefits Manager
OSC	11/09/23	Cost options in moving between 80% and 100% for CTRS. Outline of potential for 100% premium around second homes and issues with delays on Levelling Up Bill	Revenues & Benefits Manager
Cabinet	09/10/23	To consider recommendations from OSC, agree a provisional draft scheme and authorise start of consultation	Revenues & Benefits Manager
6-week consultation – period TBC	10/10/23 – 24/11/23	6-week consultation period (length of consultation to be confirmed, no apparent minimum timescales). Please note that to fit with the reporting timetable and to provide an adequate consultation period any request for a call-in will not be actioned by the Chief Executive	Revenues & Benefits Manager
Cabinet	11/12/23	To consider results of consultation and make final recommendations to Full Council	Revenues & Benefits Manager
Full Council	18/12/23	Final approval of revised scheme	Revenues & Benefits Manager
Budget process	Winter 2023	Feed in any financial impacts into budget setting process and share proposals with ESCC	Interim Deputy Chief Executive (s151)
Cabinet/Full Council - Council tax	Feb 2024	Include financial impacts of new CTRS and any potential recommendations for April 2025 in respect of second homes premium	Interim Deputy Chief Executive (s151)

34. As no decisions have yet been made there is no requirement to undertake an Equalities Impact Assessment (EqIA). If however changes are ultimately recommended by Members following the next report, then a full EqIA will be

undertaken which will also need to give due regard to the socio-economic duty set out under the Equality Act 2010 voluntarily adopted by the Council in May 2023.

35. The report in September will also provide the latest update in relation to the Levelling Up and Regeneration Bill that is currently going through parliament, and the final decisions relating to long-term empty property and second home premiums.
36. It is hope that the guidance as to how these premiums will operate in practice will be available at that point which will then also allow further work to be undertaken around any potential additional income that the Council might expect if the decision was taken to maximise these opportunities.

<b>Other Implications</b>	<b>Applies?</b>	<b>Other Implications</b>	<b>Applies?</b>
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	No	Access to Information	No
Risk Management	No	Exempt from publication	No

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Appendices:	None.
Relevant Previous Minutes:	None.
Background Papers:	None.
Reference Documents:	None.