



MKC Council Tax Reduction Scheme for working age claimants

Consultation on proposed changes from April 2021

Summary

The Council Tax Reduction scheme (CTR scheme) provides help for people on low incomes by reducing the amount of Council Tax they must pay.

The amount by which the Council Tax bill is reduced, depends on the income of the household.

The amount of Council Tax a low-income household must pay changes as their income goes up or down. Every time this happens the Council sends out a new bill telling them the new amount they need to pay. While this may be fair, it can be confusing for people who have frequent changes in income. It is also costly to keep sending out new bills.

The proposal

The Council wants to make a change to the scheme from 1 April 2021, so that working age residents do not get a new bill if the change in the amount they need to pay is less than £0.51 a week. We are calling this a “Tolerance Rule”. We would like to know if you agree or disagree with this proposal.

More details about the current scheme and how the award is worked out can be found at www.milton-keynes.gov.uk/CTR

Please note, this change will only apply to working age people. The rules for people who are pension age are set by central government. We cannot change the pension age scheme rules so they will not be affected by any changes made as a result of this consultation.

Does a £0.50 change in income change the bill by £0.50?

No. Generally, a change in income of £1.00 a week changes the Council Tax Reduction by £0.20 a week. This is referred to as a 20% taper on income.

So, to change the CTR award and, as a result, the Council Tax bill by £0.50 a week, a person's income would need to increase or decrease by £2.50 a week.

The table below shows how much income would need to change so that the bill increases or decreases by £0.50, £1.00, £2.00 and £5 a week and the monthly equivalent.

If income changes by this amount		The CTR award and the Council Tax bill will change by this amount <i>(up or down)</i>	
Weekly	Monthly	Weekly	Monthly
£ 2.50	£10.86	£0.50	£2.17
£ 5.00	£21.73	£1.00	£4.35
£ 10.00	£43.45	£2.00	£8.69
£ 25.00	£108.63	£5.00	£21.73

The earnings of Universal Credit (UC) claimants have to change by a higher amount to make a £0.50 difference to their Council Tax bill. This is because CTR for Universal Credit claimants is calculated differently. The net result is that for every £1 increase in earnings the CTR award changes by £0.07. Therefore a £0.50 per week tolerance rule would mean that for a UC claimant their earnings would need to change by £6.79 a week to change the CTR assessment by £0.50. That is the equivalent of £29.50 a month, which would change the bill by £2.17 a month.

The table below shows how much the Council Tax Bill changes with different levels of income change week and the monthly equivalent.:

If a Universal Credit claimants earnings change by this amount weekly		This is the amount that the CTR award and Council Tax bill changes weekly <i>(up or down)</i>	
Weekly	Monthly	Weekly	Monthly
£ 6.79	£29.50	£0.50	£ 2.17
£ 13.58	£59.01	£1.00	£ 4.35
£ 27.15	£117.97	£2.00	£8.69
£ 67.88	£294.95	£5.00	£ 21.73

How exactly will it work if a person has a more than one change in income?

When the CTR application is assessed for the first time or a new bill is issued for the start of the financial year in April, the award at the point is sets as a marker award, against which any future awards are compared. If any later awards differ from this initial marker award by £0.51 or more the new award will take effect only from the point the award changes by more than £0.50.

For example:

Mr. & Mrs X have a Council Tax liability for £1,565.29 a year, which is the equivalent of £30 a week.

They are awarded CTR of £10 a week from 1 April 2021, which reduces their bill to £1042.86 a year or £20 a week.

£10.00 a week is the initial marker CTR award.

- 1) Their income increases so that their CTR entitlement drops to £9.80 from 3 May 2021. The change is only £0.20 a week so their CTR award stays at £10 a week and no new bill is issued.
- 2) Their income increases again, so that their CTR entitlement drops to £9.40 a week from 7 June 2021.

As the award is now £0.60 a week less than the original marker award of £10.00, their CTR entitlement is updated from 7 June 2020 to £9.40 a week and a new bill is issued for £20.60 a week. In yearly terms his total bill is now £1068.40 for the year i.e. 67 days at £20 a week = £1364.30 plus 298 days at £9.40 a week = £2800.12.

The £9.40 CTR award is now the new marker award and any further changes will be compared to this award.

- 3) Mr. & Mrs X have another change in income which increases their award to £10.10, from 2 August 2021.

The change is £0.70 a week compared to the new marker award of £9.40, so a new bill is issued for £19.90 a week. The total amount they must pay for the year is now £1044.20. i.e. 67 days at £20 a week = £1364.30 plus 56 days at £20.60 a week = £1153.60 plus 242 days at £19.90 a week = £4842.40.

- 4) They have no further changes.

If the tolerance rule has not been in place, the total amount they would have had to pay for the year would have been £1045.20, compared to £1044.20 with the tolerance rule of £0.50 in place.

Overall, with a £0.50 a week tolerance rule no one could be better or worse off by more than £26.00 a year. That would only happen if their award changed once by £0.50 from 2 April and stayed the same until 31 March. In a leap year the loss or gain would be no more than £26.14 a year.

How many households could this rule affect?

Approximately 17,400 households in Milton Keynes currently receive a reduction because they are on a low income. 12,000 of these households are working age. Only working age household would be affected.

As more people move onto Universal Credit, we have found that the number of times we need to send a new bill has increased. This is mostly because Universal Credit changes every time a person's wages change. The Council is told about the change by the Department of Work and Pensions and as a result the Council Tax Reduction changes as well.

We looked at how often this happened between 1 November 2019 and 31 March 2020. Covid 19 has increased the number of changes in income people are experiencing but we have not used the statistics on changes since April 2020 as the levels may not be representative of the situation from April 2021.

CTR changes / revised council tax bills in Period 1 November 2019 to 31 March 2020

	Working age Universal Credit Claimant	Working age not claiming Universal Credit	Total Working Age
Total award changes in 5-month period	1941	1997	3938

If we assume that the number of changes will continue at the same rate next year then this would be number of CTR changes per year by value;

Amount by which CTR award changed <i>(plus or minus)</i>	Working age Universal Credit Claimant	Working age not claiming Universal Credit	Total Working Age <i>(=potential reduction in bills issued per year)</i>
£0.50 or under	492	720	1212
£1 or under	888	1104	1980
£2 or under	1416	1800	3216
£5 or under	2088	3696	5796
Over £5	2568	1092	3660
All changes total	4656	4788	9456

Due to the impact of Covid-19, the number of changes producing a bill across all categories has risen sharply since April 2020. For example, in the peak month ending June 2020, there were a total of 1448 changes that generated a revised council tax bill, of which 326 were for a weekly change of £0.50 or less. These figures have not been included as they are not thought to be representative going forward. However, the rise in CTR cases where the claimant is receiving Universal Credit means that the figures provided in the table above are minimum numbers affected. The table below shows projected increases by January 2024, if the Universal Credit roll out continues as scheduled.

Projected number of CTR changes per year if 90% of working age CTR caseload receives Universal Credit

Amount by which CTR award changed <i>(plus or minus)</i>	Working age Universal Credit Claimant	Working age not claiming Universal Credit	Total Working Age <i>(=reduction in bills issued per year)</i>
£0.50 or under	1920	96	2016
£1 or under	3408	144	3552
£2 or under	5484	240	5712
£5 or under	8088	240	8568
Over £5	2568	1092	3660
All changes total	12516	1284	13812

What other options are there?

Option 1: Continue the scheme as is and send a new bill every time a CTR award changes.

Option 2: Introducing a tolerance rule at an alternative level, for example £1 a week.

- The higher the tolerance level the fewer revised bills will be issued but the greater financial impact on the recipient.
- A lower tolerance level will result in more bills but will have a lesser financial impact on the recipient.

At this stage, we believe a lower level will give us a change to assess the impact of the change, which can be built on in future years if required. However, if the results of this consultation give a clear indication that the public opinion is that the initial level should be higher the £0.50 a week, we will consider using that higher level from April 2021.

Option 3: Introduce a tolerance rule but only where the change means the amount of would have led to a higher Council Tax bill. i.e. send out the bills that have reduced but not the ones that have increased.

- This would increase the cost of the scheme overall as increased awards would not be offset by the decreased awards, as is the case for the proposed change.
- A higher tolerance level would be needed to reduce the number of bills to the same level
- The higher the tolerance level, the more the cost of the scheme would increase. The Council would have to finance this increased cost and so it would impact on the overall level of Council Tax.

The table below shows the **potential additional cost** at each tolerance level to the Council in 2021/22 if bills that had reduced were issued but bills that had increased were not.

The cost would increase each year as more people moved onto Universal Credit.

Amount by which CTR award changed (plus or minus)	<i>Potential reduction in bills issued per year if neither reduced nor increased bills issued</i>	<i>Potential reduction in bills issued per year if only reduced bills issued</i>	Approximate additional cost in year 1
£0.50 or under	1212	606	£7,900
£1 or under	1980	990	£17,550
£2 or under	3216	1608	£64,560
£5 or under	5796	2898	£296,170
All changes	9456	4728	£1,146,370

Option 4: Consult on introducing a Banded Scheme for all working age cases from April 2022.

- Although a banded scheme is likely to reduce the number of bills that are reissued, it creates cliff edges that can have a greater financial impact on CTR recipients than a tolerance rule, in that a £0.01 change in income can increase or decrease a bill significantly for some cases.
- In all cases the LA still has to maintain a traditional CTR scheme for their pension-age caseload so are running two completely different schemes in parallel and as such increase complexity in terms of staff training or in explaining the assessment to the applicant, particularly where a Housing Benefit assessment is also required, the rules of which are broadly similar to those used to assess entitlement to a Council Tax Reduction.