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REPORT FROM:	CHIEF EXECUTIVE OFFICER	OPEN
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SUBJECT:	LOCAL GOVERNMENT RESOURCE REVIEW IN ENGLAND: <u>LOCALISING SUPPORT FOR COUNCIL TAX</u>	REF
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the Government's proposals for localising support for Council Tax, is considered.
- 1.2 That the Committee consider any comments it wishes to make as part of the Government's consultation and that these are structured into a formal response.

2.0 Purpose of Report

- 2.1 To set out details of the Government's proposals for changing current council tax benefit. This is part of a wider Government policy of decentralisation aimed at giving councils increased financial autonomy and a greater stake in their local economy.
- 2.2 The Government issued 2 consultation papers on 18th July (Business Rates) and 2nd August (Council Tax) with consultation periods running to 24th October and 14th October 2011 respectively.
- 2.3 As part of the consultations, the Government are seeking responses to a significant number of specific questions/points or general feedback and views on the main sections of each of the consultations.
- 2.4 The proposals are the 1st phase of the Local Government Resource Review which was announced by the Government in March 2011. This 1st phase is considering the way in which local authorities are funded.
- 2.5 This report considers council tax benefit. Proposals for business rates are detailed in a separate report elsewhere on this Agenda.

3.0 Detail

LOCALISING SUPPORT FOR COUNCIL TAX

Introduction

- 3.1 As announced in the Government's 2010 Spending Review, support for council tax will be localised from 2013-14 and overall national expenditure reduced by 10%. Relevant provisions were contained in the Welfare Reform Bill published by the Government in February 2011 to move towards a "Universal Credit."
- 3.2 This will bring together different forms of income-related support (Jobseekers Allowance, Pension Credits, etc.) and provide an integrated benefit for people in or out of work. This will include current Housing Benefit administered by local authorities.
- 3.3 The Welfare Reform Bill also provides for a new Single Fraud Investigation Service in 2013 and this will also have knock-on effects for local authorities. This consultation paper is focused on the abolition of council tax benefit. The effects of the wider Universal Credit will need to be considered separately once further details are published by the Government.
- 3.4 With the abolition of council tax benefit, the Government's proposals intend that local authorities will establish their own **local schemes** by **April 2013**. Local schemes will be aimed at providing support towards council tax for "eligible" persons.

The Broad Proposal

- 3.5 Instead of the Government setting the rules about how much support is provided towards a person's council tax bill, they are proposing that councils should be free to decide who should pay less council tax and how much less they should pay. However, this should be done so that pensioners are no worse off and people are generally better off working than claiming benefits.
- 3.6 The proposal includes giving councils an amount of money in advance and they will have to share that amongst those who are deemed to need it the most in their area. This may mean that people who receive support now may see it reduced.
- 3.7 The consultation is not about how much should be paid; rather it's about how councils could operate the system for offering support for council tax. There are no proposals for changing the current system of discounts and exemptions such as those applied for single person occupancy, empty homes, etc.

Why Localise Support

3.8 The Government has decided to localise support for council tax to:

- Simplify the current complex system of criteria and allowances.
- Provide councils with the opportunity to reform the system of support for working age claimants. In particular, to enable authorities to align the system of support for working age households much more closely with the existing system of council tax discounts and exemptions.
- Give councils control over how a 10% reduction in expenditure on the current council tax benefit bill is achieved.
- Provide incentives for councils to get people back into work.

3.9 Within this the Government proposes that, as a vulnerable group, **low income pensioners** should be protected from any reduction in support as a result of this reform.

The Government's Expectations

3.10 In broad terms, it is envisaged that local schemes will be developed within general parameters. These will include the framework for supporting eligible pensioners and supporting incentives to work.

3.11 Councils will be free to collaborate to reduce costs and develop schemes that support priorities shared by a number of neighbouring authorities. Whatever method is used, councils will have a statutory duty to run a scheme to provide support for council tax in their area.

3.12 The reform will be accompanied by a new Government grant to councils to fund local schemes. How this is utilised will be at the discretion of councils.

3.13 At present, council tax benefit paid by councils is reimbursed by the Government at 100% for correctly processed claims which they incur on behalf of eligible claimants. In future, the new grant will be fixed.

3.14 Councils will be free to decide who should pay less council tax and how much they should pay – as long as what they do means that pensioners are no worse off and people are generally better off working than claiming benefits. Councils will also be asked to consider ensuring support for other vulnerable groups.

Protecting the Vulnerable

3.15 The Government proposes to **prescribe** the criteria, allowances and awards to pensioners which will need to be provided in a local scheme. They are also likely to set out what other guarantees of support should be extended to other groups, for example, people who receive disability benefits, together with families on low incomes.

3.16 In addition, the Government expects that local schemes do not undermine the whole Universal Credit framework and push low earning workers into benefit.

Establishing Local Schemes

3.17 The key steps in establishing a local scheme will be:

- Design
- Consultation
- Feeding into the budget and council tax-setting processes.

3.18 It is proposed that the billing authority (i.e. South Derbyshire District Council) will lead on the design and administration of a local scheme in their areas because of their current responsibilities and expertise. The design stage is likely to be informed by:

- Government parameters
- Statutory responsibilities such as mitigating child poverty
- Local priorities such as unemployment
- Forecasts of demand for eligible groups
- Assumptions about take-up
- Overall funding available or that desired locally

3.19 Once designed, councils will be required to submit proposals for public scrutiny and challenge. This will need to include other preceptors (County Council, Police and Fire authorities) together with Parish Councils.

Joint Working

3.20 The Government suggests that councils consider joint working and perhaps design model schemes that can apply to neighbouring authorities or a scheme that is shared within a **county** boundary. This could then lead to centralised administration through a joint body.

3.21 Joint working could reduce costs and duplication, together with providing consistency. For example, the benefits of neighbouring authorities working together would be that residents who move across boundaries would not be affected by different schemes.

3.22 Joint working at a county level in a two-tier area would mean that the precepting authorities would not have to take into account several schemes. The proposals indicate that a County Council could take the lead for its area if that is the best option.

3.23 Clearly joint working would require that all authorities share the same needs and priorities. This may be achievable through a local economic partnership.

Financial Risk

3.24 The support for council tax is currently demand led. The resources to pay for support will, in the future, be fixed each year. Clearly, take-up could be

greater. In addition, collection rates from those households who experience a reduction in support towards their bill may struggle to pay.

- 3.25 This would lead to a shortfall in council tax revenue. An allowance for this will need to be made in the local scheme and consequently the budget. However, in order to protect billing authorities, the Government proposes that any financial pressure as a result of unexpectedly high increases in demand for support should be shared with major precepting authorities.
- 3.26 Effectively, this is really no different from that currently, where shortfalls in council tax revenue are shared between billing and precepting authorities in proportion to their share of the overall bill. The consultation reiterates that this method should be maintained.

Administering Local Schemes

- 3.27 The Government expects that local schemes will be more streamlined compared to the current benefit regime. They stress that councils should make local schemes fair and easy to understand for claimants. Issues with the current benefit such as administrative costs, errors and the risk of fraud should be minimised.
- 3.28 In setting local schemes, the Government is minded to assume that local authorities will be free to set their own income and capital thresholds for working age claimants.
- 3.29 It is proposed that support for council tax should be delivered as a new form of council tax discount which reduces liability once other discounts which the claimant is eligible to receive (e.g. single person discount) have been taken into account. It may be possible that some claimants may see their liability reduced to zero depending on the local scheme.
- 3.30 The Government considers that councils should continue to be free (within current legislation) to offer assistance in cases of financial hardship under local schemes. This could be in the form of alternative payment arrangements or a further discount.

Funding

- 3.31 As previously highlighted, funding will be in the form of a grant which will replace the current subsidy for benefit payments. Overall support nationally will be cut by 10%. Its allocation will be subject to separate consultation later in the year.
- 3.32 The grant will be fixed and the Government is consulting on 2 broad options for adjusting the allocations from year to year.
- **Reflecting as closely as possible levels of take-up or demand, by adjusting as frequently as is practicable to changes in these levels.** It is considered that this would achieve a better match between need and grant across councils and reduce financial risks.

- **Leaving the grant allocation unchanged for several years.** It is considered that this would provide councils with greater certainty about their allocation and help with financial planning. It would also enable councils to gain if liabilities under its scheme were to fall. This could incentivise councils to take steps to manage demand down by working to increase employment in their area.

3.33 Councils will however have the flexibility to put more or less resources into their local scheme over and above their grant allocation.

Administrative Costs

3.34 Besides direct subsidy for benefit payments, billing authorities also receive a separate grant towards administrative costs. Individual allocations are calculated annually based on a formula that is responsive to caseload.

3.35 However nationally, the grant only accounts for approximately half the total cost of administration across all councils. In addition, the contribution for council tax benefit is not disaggregated from the total housing benefit subsidy provided.

3.36 Changes to both housing benefit (being centralised under Universal Credit) and support for local schemes will have implications for administration. The Government intends to work with councils to assess the impact including the transitional costs of moving to the new arrangements. However in doing this, the Government intends to take into account scope for councils to minimise administration through joint working.

Transition and Implementation

3.37 Subject to the consultation process and the introduction of a new Local Government Finance Bill, the Government intends to work with councils on developing model schemes over the winter of 2011/12. It is not expected that the appropriate legislation will be in place until the end of summer 2012, in about 12 month's time.

3.38 However by then, councils will have been required to have designed and commenced consulting on their local scheme. From that date, councils will need to establish the final scheme in order for it to co-exist with setting budgets in early 2013. Implementation is planned for 1st April 2013.

3.39 The Government envisages a one-off transition to the new arrangements. Ideally, people already in receipt of council tax benefit will transfer across to the new system, although this will depend on the terms of the local allowance scheme. Preparation for this transition will take place alongside that for required for Universal Credit.

Key Messages

3.40 There appear to be several clear messages in the consultation concerning the protection of pensioners. It is expected that joint working and joint schemes will operate and that local schemes will be as simple as possible. It is almost

certain that this will be assumed in the funding arrangements to reflect the proposed 10% reduction in the national cost.

- 3.41 Consultation is also a key aspect for the Government as is the expectation that the local scheme will enable people to be in work. However, the Government is keen to work nationally and locally to ensure that local schemes are consistent.

Consultation Seminars

- 3.42 The Government is currently running a series of seminars across the Country on the different aspects of the proposals. The Council has been represented at these events. Generally, responses have been more negative than positive both in principle and regarding the administrative arrangements.
- 3.43 As regards the administrative arrangements, initial feedback has focused on issues of insufficient timescale, the need to change software in current collection systems, together with the lack of guidance for formulating a local scheme.
- 3.44 In addition, concern has been raised on fairness and whether the allowance will in effect become a discount. This is a key point because if this becomes the case, the cost will be borne more directly amongst the general body of taxpayers by reducing the council tax base.
- 3.45 Officials at the seminars have indicated that other discounts (for example the discount for single occupancy) will not be reviewed to determine whether the overall cost can be contained in other ways. Although the principle of joint working is generally agreed, disparity of schemes between neighbouring authorities could cause inadvertent movements in population.
- 3.46 Points have also been raised around data sharing especially if means testing the allowance continues to be used by councils. With the introduction of Universal Credit, this will rely on information regarding income being passed across to councils from the DWP in different data sets, this data currently being held locally.

Consultation Questions

- 3.47 A full list of the consultation questions is shown in **Appendix 1**; this is an extract from the Government's document.
- 3.48 Several of the questions are administrative, technical and how fraud will continue to be dealt with. It is recommended that a general, albeit important, point is made that the system should be easy to understand and be as efficient as possible administratively, avoiding the current complexity.
- 3.49 Where data can be corrected and safely shared between central and local government, it is considered that this should continue.

3.50 The questions are grouped around the various issues contained within the consultation. Therefore, in formulating a response, it is recommended that the Committee focus on the broad areas as set out in the following table.

Consultation Issue	Points to Consider
Protecting Pensioners and other Vulnerable Groups	<ul style="list-style-type: none"> • Should this apply to all Pensioners? • Should they be guaranteed the current level of support? • What other “vulnerable” groups should be protected?
Establishing Local Schemes	<ul style="list-style-type: none"> • How should consultation on a proposed local scheme take place and who with? • Should any “special” consultation take place at all? • Should schemes be changed year to year or on a less regular basis? • How can work incentives be supported both nationally and locally?
Joint Working	<ul style="list-style-type: none"> • View on joint working / joint schemes– county-wide or with neighbours? • Who should have responsibility for defining and administering the scheme? • Should major precepting authorities be involved – should they have overall responsibility? • Should Parish Councils be involved /consulted?
Managing Risk	<ul style="list-style-type: none"> • Should the financial risk be shared as now? • What if a local scheme operates across boundaries?
Administration	<ul style="list-style-type: none"> • Should the power to provide discretionary support, e.g. for financial hardship be maintained? • Should any transitional protection be implemented following changes?
Funding	<ul style="list-style-type: none"> • Should councils be free to allocate whatever funding they wish to the local scheme (save that any Government guarantees are covered)? • Should schemes and funding remain unchanged for several years or be amended each year?
Administrative Costs	<ul style="list-style-type: none"> • How could these be minimised through joint working?
Transition	<ul style="list-style-type: none"> • Is a one-off change to the new system preferable? • How could a transition period take place if funding is being reduced?

4.0 Financial Implications

The Current System

- 4.1 Councils administer council tax benefit in accordance with national criteria set by the Department for Work and Pensions (DWP). They are fully reimbursed by the Department for the rebates that are determined in this way.
- 4.2 In respect of individuals claiming benefit, for people of working age there is a savings limit of £16,000. Those who claim means tested out of work benefits generally receive full assistance and do not pay any council tax. Those on low income who are in work or have other income can still receive benefit but this is likely to be less than the full amount and depends upon their earnings.
- 4.3 For pensioners who claim Pension Credit there is no savings limit and they will not normally pay council tax. Pensioners with higher incomes up to around £400 per week can also qualify depending on their circumstances.

National Figures

- 4.4 Nationally, £5bn is currently paid out for council tax benefit. A quarter of claimants have dependent children and a tenth are low earners. It is estimated that around 60% of pensioners are entitled to claim benefit but the actual is much less. Nationally, almost half of all actual claimants are pensioners.
- 4.5 Current funding is demand led and fully reimbursed. From 2012/13, funding will be in the form of a cash limited grant. In contrast to a cut in overall funding (10%) latest Government statistics show that expenditure is rising as the number of claimants increases. If this trend continues, it will provide local challenges in deciding where reductions in benefit will need to be made.
- 4.6 Some modeling has already taken place on the potential effects nationally. If all pensioners and those currently receiving 100% benefit are fully protected, the 10% reduction would be restricted to 9% of the total paid out.

South Derbyshire

- 4.7 Council Tax Benefit (CTB) currently paid by the Council and reimbursed by the DWP is approximately **£5.1m** per year. This is paid to around 6,200 claimants of which 3,800 (over 60%) qualify for full benefit, i.e. they pay no council tax.
- 4.8 Of the 6,200, over 3,000 (about 50%) are pensioners, of which 1,800 are assessed as “low income” and pay no council tax. The number of pensioners and those claiming full benefit, together, total just over 5,000 which is approximately 82% of the 6,200 claimants. In addition, there are around 300 working age claimants who also receive disability benefits for care and mobility.
- 4.9 The Council also finances a local scheme for recipients of war pensions. Future proposals for similar schemes are not specifically mentioned in the current proposals.

Further Analysis by Case Type

- 4.10 The table below details a further breakdown of CTB cases identifying those pensioner and working age cases entitled to 100% CTB and those entitled to less than 100% CTB.

Claimant Group	Number	Total Entitlement Being Paid	Average per claimant (per year)	Average per claimant (per week)
A – pensioners - 100% CTB	1,800 (29%)	£1,650,000	£917	£17.63
B – pensioners < 100% CTB	1,350 (21%)	£950,000	£703	£13.52
C – working age – 100% CTB	1,950 (31%)	£1,680,000	£862	£16.58
D – working age earners < 100% CTB	1,200 (19%)	£830,000	£692	£13.31
TOTAL	6,300	£5,110,000		

Indicative Protection Arrangements

- 4.11 Based on the Government proposals, if Group A is protected in full, this will mean a **15%** reduction in current entitlement to other claimants. Protecting Groups A and C would mean other groups, currently paying some council tax, facing up to a **30%** reduction in current entitlement under the proposed funding arrangements.

Funding Arrangements

- 4.12 The funding mechanism of the new grant is yet to be decided. However, based on the Government's proposal to reduce national funding by 10%, this would mean a loss of resources for paying benefits locally of over **£1/2m**. However, how this will eventually be allocated across individual authorities remains to be seen.
- 4.13 The Council's Administrative Grant is currently **£485,000** per year. This includes support for administering current council tax benefit. Again, the future level of this grant is still to be decided and will also be impacted by the new Universal Credit system.

5.0 Corporate Implications

- 5.1 The Council will work closely with Northgate as the Council's service provider for administering benefit.
- 5.2 Northgate have access to a central technical team within their wider organisation which supports their business to deal with change within revenues and welfare reform. It is expected that the Council will gain some benefit by having access to this resource to help in designing and administering a scheme.

6.0 Community Implications

- 6.1 Clearly, the proposals will have an impact upon residents of the District who currently claim benefit or in the future may become eligible for support under a local scheme. The local scheme should be subject to an Equality Impact Risk Assessment in accordance with Council Policy.

7.0 Background Papers

- 7.1 **Localising Support for Council Tax in England**, Communities and Local Government Consultation (July 2011)
- 7.2 **Welfare Reform Bill 2011**, Department for Works and Pensions, details and further reading
<http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/welfare-reform-bill-2011/>

List of consultation questions

Section 5:

5a: Given the Government's firm commitment to protect pensioners, is maintaining the current system of criteria and allowances the best way to deliver this guarantee of support?

5b: What is the best way of balancing the protection of vulnerable groups with the need for local authority flexibility?

Section 6:

6a: What, if any, additional data and expertise will local authorities require to be able to forecast demand and take-up?

6b: What forms of external scrutiny, other than public consultation, might be desirable?

6c: Should there be any minimum requirements for consultation, for example, minimum time periods?

6d: Do you agree that councils should be able to change schemes from year to year? What, if any restrictions, should be placed on their freedom to do this?

6e: How can the Government ensure that work incentives are supported, and in particular, that low earning households do not face high participation tax rates?

Section 7:

7a: Should billing authorities have default responsibility for defining and administering the schemes?

7b: What safeguards are needed to protect the interests of major precepting authorities in the design of the scheme, on the basis that they will be a key partner in managing financial risk?

7c: Should local precepting authorities (such as parish councils) be consulted as part of the preparation of the scheme? Should this extend to neighbouring authorities?

7d: Should it be possible for an authority (for example, a single billing authority, and county council in a two-tier area) be responsible for the scheme in an area for which it is not a billing authority?

7e: Are there circumstances where Government should require an authority other than the billing authority to lead on either developing or administering a scheme?

Section 8:

8a: Should billing authorities normally share risks with major precepting authorities?

8b: Should other forms of risk sharing (for example, between district councils) be possible?

8c: What administrative changes are required to enable risk sharing to happen?

8d: What safeguards do you think are necessary to ensure that risk sharing is used appropriately?

Section 9:

9a: In what aspects of administration would it be desirable for a consistent approach to be taken across all schemes?

9b: How should this consistency be achieved? Is it desirable to set this out in Regulations?

9c: Should local authorities be encouraged to use these approaches (run-ons, advance claims, retaining information stubs) to provide certainty for claimants?

9d: Are there any other aspects of administration which could provide greater certainty for claimants?

9e: How should local authorities be encouraged to incorporate these features into the design of their schemes?

9f: Do you agree that local authorities should continue to be free to offer discretionary support for council tax, beyond the terms of the formal scheme?

9g: What, if any, circumstances merit transitional protection following changes to local schemes?

9h: Should arrangements for appeals be integrated with the new arrangements for council tax appeals?

9i: What administrative changes could be made to the current system of council tax support for pensioners to improve the way support is delivered (noting that factors determining the calculation of the award will be prescribed by central Government)?

Section 10

10a: What would be the minimum (core) information necessary to administer a local council tax benefit scheme?

10b: Why would a local authority need any information beyond this “core”, and what would that be?

10c: Other than the Department for Work and Pensions, what possible sources of information are there that local authorities could use to establish claimants' circumstances?

Would you prefer to use raw data or data that has been interpreted in some way?

10d: If the information were to be used to place the applicants into categories, how many categories should there be and what would be the defining characteristics of each?

10e: How would potentially fraudulent claims be investigated if local authorities did not have access to the raw data?

10f: What powers would local authorities need in order to be able to investigate suspected fraud in council tax support?

10g: In what ways could the Single Fraud Investigation Service support the work of local authorities in investigating fraud?

10h: If local authorities investigate possible fraudulent claims for council tax support, to what information, in what form would they need access?

10i: What penalties should be imposed for fraudulent claims, should they apply nationally, and should they relate to the penalties imposed for benefit fraud?

10j: Should all attempts by an individual to commit fraud be taken into account in the imposition of penalties?

Section 11:

11a: Apart from the allocation of central government funding, should additional constraints be placed on the funding councils can devote to their schemes?

11b: Should the schemes be run unchanged over several years or be adjusted annually to reflect changes in need?

Section 12:

12a: What can be done to help local authorities minimise administration costs?

12b: How could joint working be encouraged or incentivised?

Section 13:

13a: Do you agree that a one-off introduction is preferable? If not, how would you move to a new localised system while managing the funding reduction?

13b: What information would local authorities need to retain about current recipients/applicants of council tax benefit in order to determine their entitlement to council tax support?

13c: What can Government do to help local authorities in the transition?

13d: If new or amended IT systems are needed what steps could Government take to shorten the period for design and procurement?

13e: Should applications, if submitted prior 1 April 2013, be treated as if submitted under the new system?

13f: How should rights accrued under the previous system be treated?