



ARTICLE NO: 1D

**CORPORATE OVERVIEW &
SCRUTINY COMMITTEE**

**MEMBERS UPDATE 2011/12
ISSUE: 4**

Report of: Transformation Manager

Relevant Managing Director: Managing Director (Transformation)

Relevant Portfolio Holder: Councillor D Westley

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SUBJECT: LOCALISATION OF COUNCIL TAX SUPPORT

Wards affected: Borough wide

1.0 PURPOSE OF ARTICLE

1.1 To update Members on Central Government's proposed Localisation of Council Tax Support Scheme, due to be implemented from 1 April, 2013.

2.0 BACKGROUND

- 2.1 The Government announced its intention to abolish the current national scheme of Council Tax Benefit scheme in the Spending Review of 2010.
- 2.2 This forms part of the Government's wider 'localisation' agenda. The proposed replacement is intended to support public spending deficit reduction by reducing the amount available to local authorities to spend by 10% or circa £0.5 billion per annum nationally. This equates to approximately £903,000 per annum for this Council. However the methodology for distributing the grant has not yet been determined and will be the subject of a consultation in the Spring of 2012.
- 2.3 The existing scheme of Council Tax Benefit (CTB) will be abolished as part of the provisions of the Welfare Reform Bill that is currently before Parliament.
- 2.4 In late July 2011 the Government published a consultation document on the key elements of the proposed new scheme, which closed on 14 October 2011. The Government's response to the consultation was published in December 2011.
- 2.5 The Government intends that the new localised scheme will be operational from April 2013 and therefore it must be implemented in time for the Council Tax billing for 2013/14. The new scheme must be operational (and tested)

from no later than January 2013 to allow for preparation of rebated bills. However the detailed operation of scheme would need to be clear in October 2012 to allow for year-end planning.

- 2.6 The new scheme will be designed at a local level with certain national parameters. Initially it would be based around amending the existing Council Tax Benefit scheme. The Government has identified that there could be a range of benefits to billing and precepting authorities working jointly. The potential advantages highlighted include a consistent approach to promote shared priorities, reduced costs of administration and financial risk sharing. The paper went so far as to suggest that in two tier areas the County could coordinate the design of the scheme. This was a specific area of consultation.
- 2.7 The Government has indicated that certain policy priorities must be met within the new scheme. Specifically pension age customers (both current and future) must not suffer any reduction in their Council Tax rebate compared to the current scheme. This means that the reduction in available funding for Council Tax support to low income households will only affect working age households. Nationally around 50% of all customers receiving CTB are of pensionable age therefore the reduction in Council Tax support available for working age customers will be around 20%.
- 2.8 It now appears (subject to the relevant legislation) that local authorities may be allowed to use other funds to address the shortfall in benefit (and exceed the specific grant they will receive) should they decide to do so.
- 2.9 The Government has also indicated that the new scheme must align with the wider welfare reform agenda and support work adequate incentives by allowing customers to retain an adequate amount of earned income.
- 2.10 The implementation of the new scheme will require the development of local policies to determine awards.
- 2.11 The new scheme will be fundamentally different from the current demand led scheme in that it will be cash limited, requiring the authority to forecast and allocate limited expenditure based on anticipated demand and local priorities. It is likely that many low-income households will have to increase the amount of Council Tax they pay or have to pay Council Tax for the first time. This is likely to cause some hardship and the development of policy will need to be especially sensitive to the needs of the most vulnerable and the duty to prevent child poverty.
- 2.12 The requirement to collect additional Council Tax from low-income households will clearly result in additional recovery work for billing authorities and is likely to affect Council Tax collection. The potential implications of any reduction in collection rates (and impact on bad debt provision) on the authority's financial position will need to be estimated.
- 2.13 The Council will need to ratify a new scheme in adequate time to allow for publicity, staff training and configuration and testing of software. Prior to the ratification of the new scheme a period of public consultation will be required. Primary legislation will be passed in the Spring, secondary legislation in the Summer and consultation will need to take place in the 'early Autumn'

according to information provided by the Government. The legislation may prescribe how consultation should operate.

- 2.14 At present authorities responsible for the administration of Housing and Council Tax Benefits receive funding to support administrative costs of both Housing and Council Tax Benefits from the Department for Work and Pensions. The nature of the proposed future funding is yet to be determined.

3.0 OVERVIEW OF THE CURRENT COUNCIL TAX BENEFIT SCHEME

3.1 Entitlement Criteria

3.1.1 The current main Council Tax Benefit scheme determines entitlement based upon income and capital of the liable person and their household. It is generally only available to customers with savings of less than £16,000.

3.1.2 The amount of rebate is up to 100% where the customer is at or below a defined minimum income level. Typically these customers will be entitled to Income Support, Income based Job Seekers Allowance/ Employment Support Allowance or, if they are of pensionable age, Pension Credit Guarantee Credit.

3.1.3 In some cases entitlement is subject to 'non dependent deductions' ; where there is a financially independent adult in the household there is a deduction from entitlement that is intended to represent the contribution of the independent adult to these costs.

3.1.4 In addition there is also a much smaller scale scheme known as 'Second Adult Rebate'. This is available to single people who do not qualify for single person discount due to having another adult in their household, where the 'second adult' is on a low income.

3.2 Caseload

3.2.1 The existing caseload will inform the nature and availability of the new scheme of Council Tax support. Critical factors will include:

- The numbers of pension age households (who will suffer no reduction)
- The number of working households (i.e. those with earned income who should retain work incentives)
- The number of households with children (taking account of duties and requirements in relation to child poverty)
- Other groups that the authority may determine are vulnerable and therefore should receive some form of protection.

3.2.2 High-level approximate data (derived from DWP statistics from April and November 2011) shows the following number of claimants in West Lancashire:

Number of CTB Claimants	Percentage of Working Age Claimants	Reduction in CTS for Working Age
10,490	46%	22%

- 3.2.3 There will be complexity in developing a scheme that protects the vulnerable, avoids increasing child poverty and supports work incentives. Detailed financial modelling of alternative approaches will be required to determine the outcomes and costs.

4.0 OVERVIEW OF NEW LOCAL SUPPORT SCHEME

- 4.1 The new scheme will require that working age households receive less in benefits than is currently the case (as outlined above). However it is proposed that the Government will set the criteria, allowances and awards for pension age households. In practical terms this means that there are likely to be two schemes in operation; one for working age and separate arrangements for non working age customers. Initially both schemes will be based around the existing Council Tax Benefit scheme.

The Government has expressed a requirement that the local schemes:

- Support work incentives
- Identify and protect other vulnerable groups.

4.2 Impact on Local Households

- 4.2.1 Around 4,900 households in West Lancashire could experience a reduction in the level of support available to them.

- 4.2.2 Alternative approaches that could be considered in relation to application of the reduced funding include:

- Excluding certain groups from entitlement
- Applying reductions that affect all working age customers in a similar manner
- Applying a higher level of reduction to certain groups i.e. those deemed not to meet specific criteria such as, for example those without a disability or children.

4.3 Devising the Local Scheme

- 4.3.1 Clearly the design of the scheme will require the balancing of a number of policy objectives including:

- Maximising revenue collection and reducing financial risks
- Addressing poverty including duties in respect of child poverty
- The protection of the vulnerable including cushioning the impact of any changes
- Transparency and ease of administration
- Flexibility to meet the needs of the most vulnerable or to address extraordinary circumstances
- Ensuring the scheme meets equality objectives and does not disproportionately affect particular households or groups
- Alignment with discounts and exemptions.

- 4.3.2 Therefore any scheme will require detailed financial modelling and equality impact analysis. This will also require best estimates of demand and take up. Some form of contingency reserve may be required to support unexpected increases in demand.
- 4.3.3 Public consultation on the scheme will be required and could be undertaken jointly should councils enter into collaborative arrangements for devising (and possibly administering) the new scheme. There will clearly be a wide range of stakeholders who will participate in the consultation including advice agencies and organisations representing the interests of vulnerable groups.
- 4.3.4 A risk with schemes that include a high degree of discretion is that they become costly to administer due to lack of automation. In addition a high degree of discretion can result in a risk of inconsistent and subjective judgments, affecting the quality of administration. An overriding principle must therefore be to automate the decision making process where possible, whilst maintaining sufficient flexibility to meet particular needs of vulnerable customers.

4.4 Funding

- 4.4.1 As noted above the basis of allocating funds to support expenditure on Council Tax support remains to be confirmed. However it is clear that it will be based upon a fixed annual allocation.
- 4.4.2 Factors that the Government may wish to take account of in allocating funds are likely to include previous expenditure and the nature of the caseload (e.g. percentage of pension age). This could mean that the actual funding is reduced at a greater or lower level than 10% for an individual authority.
- 4.4.3 The grant will not be ring fenced meaning that the authority could in theory retain any under spend. However it is clear that the grant that replaces Council Tax Benefit will be paid to billing and precepting authorities in proportion to their share of the Council Tax.
- 4.4.4 The level of grant will need to be known in advance of the finalisation of any local scheme. The grant will be set annually in the first two years but the Government will consider setting the grant for longer periods in future years.

4.5 Support to the Costs of Administration

- 4.5.1 Authorities currently receive administration grant to support the costs of providing a Housing and Council Tax Benefit service.
- 4.5.2 In simplified terms, the amount of subsidy is determined based on the complexity of caseload and regional indices of business costs.
- 4.5.3 The manner in which future funding will be determined will be affected by planned phase out of Housing Benefit between 2014 and late 2017 (these dates may be altered in the coming months when further announcements are anticipated).
- 4.5.4 The Government has emphasised the need for councils to minimise the costs of administration and specifically refers to the potential for shared schemes and joint working in this context.

4.5.5 The level of funding for administration will be a financial risk to authorities administering the scheme.

5.0 ADMINISTRATION OF CASH LIMITED FUNDS

5.1 Administering a cash limited fund will require a range of new financial processes separate from the current scheme.

5.2 Each authority's proposed policy in relation to the new scheme will have to be underpinned by a financial model that identifies the proposed level of expenditure and associated contingency.

The model will be based upon a number of assumed variables including:

- The level of Council Tax charged
- The Council Tax base
- The caseload requiring support and the expenditure associated with it
- The assumed level of overpayments that will arise and be recovered in year
- The pensioner caseload (that will continue to be protected from reductions)
- Any monies set aside for exceptional cases and successful appeals
- The cost of any transitional arrangements
- The level of government grant (although this will be fixed in year).

5.3 With the exception of the level of grant each factor will need to be reviewed periodically to map projections against actuals and to adjust future estimates.

6.0 TRANSITION AND IMPLEMENTATION REQUIREMENTS

6.1 The details of how existing claimants (and their entitlements) will transition to the new scheme remain the subject of further work, however it has been confirmed that there will be a 'one-off' transition from April 2013 (i.e. it will not be staggered).

6.2 The programme plan for implementation will require the following work streams:

- Policy
- Financial modelling
- Consultation
- Publicity
- Process design
- Software
- Training
- Fraud
- ICT — specifically software

6.3 It would be prudent for the Authority to develop a draft programme plan for implementation during before the primary legislation is passed. A programme team will need to be established.

7.0 IMPACT ON COLLECTION RATE & RECOVERY

- 7.1 The introduction of the local scheme is likely to have a detrimental affect on collection rates as many customers who have in the past-received 100% entitlement to Council Tax Benefit (CTB), will have a liability to pay Council Tax for the first time. Indicative figures on the annual loss of CTB for the Council are £903,000.
- 7.3 Many customers will pay the amount outstanding through the statutory instalment scheme. Those customers who do not make payments in accordance with the scheme are subject to recovery action. Although customers should be given every opportunity to make an alternative arrangement, there are many customers who will not make contact or make regular payments and in those cases authorities apply to the Magistrates Court for a Liability Order. This course of action sees an additional costs and charges added to the overall liability (increasing the customer's debt). This course of action is necessary before the Service can apply for direct deductions to be made from Jobseeker's Allowance, Employment and Support Allowance and Income Support. It is not possible to apply for direct deductions from Incapacity Benefit, Disability Living Allowance and Attendance Allowance.
- 7.4 There will be an additional workload for the local authority recovery processes and customers subject to liability order will incur additional costs.

8.0 COSTS

- 8.1 Although it is too early to cost these changes (for example software suppliers have not begun to formulate their approach to pricing), the areas where costs may arise include:
- Software
 - Training
 - Consultation
 - Publicity and notifications
 - Additional recovery processes
 - Case re-assessment
 - Administration of new discretionary funds.

9.0 CHANGES TO COUNTER FRAUD WORK

- 9.1 As part of its wider Welfare Reform agenda, the Government intends to centralise counter fraud work for the proposed Universal Credit and other social security benefits into a single national entity known as the Single Fraud Investigation Service (SFIS).
- 9.2 This is a key part of the Government's approach to developing a new 'integrated strategy' to address and radically reduce the level of fraud and error.
- 9.3 The Government proposed four options in relation to the future position of Local Authority (LA) benefit fraud investigation services in a consultation with LA Chief Executives:

1. LA fraud investigation staff remain in the LA but operate under SFIS powers, processes and priorities.
2. Staff remain within the LA but second to DWP so would operate under SFIS management.
3. Staff transfer their employment to DWP but remain physically based in the LA.
4. Staff transfer their employment to DWP and move to DWP premises.

9.4 Following overwhelming support for option 1 above, it has been proposed that this will come into effect from April 2013 until at least 2015, at which point this position will be reviewed in light of progress of implementation of the Government's wider welfare reforms.

10.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY

10.1 As there are no recommendations within this report there are currently no significant sustainability impacts associated with this article and, in particular, no significant impact on crime and disorder. The article has no significant links with the Sustainable Community Strategy

11.0 FINANCIAL AND RESOURCE IMPLICATIONS

11.1 Dependent on the financial modelling agreed as part of the new Scheme, there may be significant financial implications for the Authority and affected customers, as a result of these changes.

12.0 RISK ASSESSMENT

12.1 This item is for information only and makes no recommendations. It therefore does not require a formal risk assessment and no changes have been made to risk registers as a result of this report.

Background Documents

The following background documents (as defined in Section 100D (5) of the Local Government Act 1972) have been relied on to a material extent in preparing this Report.

<u>Date</u>	<u>Document</u>	<u>File Ref</u>
August 2011	Department of Communities & Local Government Localisation of Council Tax Support Consultation Paper	
16 th December, 2011	Localising support for council tax in England: Government's response to outcome of consultation	

Equality Impact Assessment

There is anticipated to be a significant direct impact on members of the public and stakeholders. Therefore an Equality Impact Assessment would be required as part of any future decision made in respect of this matter.

Appendices

None