

Cabinet

18 April 2012

Localisation of Council Tax Benefit: Introduction of the Local Council Tax Reduction Scheme from 1 April 2013



Report of Corporate Management Team Don McLure, Corporate Director Resources, Portfolio Holder, Councillor Alan Napier

Purpose of the Report

1. To provide Cabinet with an overview of the Government's proposals to localise Council Tax Benefit, through the introduction of the Local Council Tax Reduction Scheme from 1 April 2013, and to highlight the potential implications for the Council and its residents.
2. The report sets out the key milestones and actions required, following the Government's response to the outcome of the consultation into these proposals, as set out in the Welfare Reform Bill, which is progressing through Parliament.

Background

3. As part of the Spending Review 2010 the Government announced that the current national Council Tax Benefit (CTB) system would be replaced by a localised Council Tax Reduction scheme from 2013-14.
4. As well as the transfer of responsibility from Central to Local Government, the Government is also proposing to cut the level of grant to local authorities by 10%. The Council's opening balance sheet for council tax for 2012/13 shows council tax benefit payments of circa £55m; therefore the cut in grant for Durham County Council is likely to be £5.5m.
5. On 17 February 2011, the Government published its Welfare Reform Bill, setting out some of the most significant proposed changes to the welfare system in decades. The Bill contains the provision to replace six working age benefits including Housing Benefit (HB), with the new 'Universal Credit' (UC). The Spending Review 2010 assumed that welfare reform changes would generate £11bn savings nationally in addition to those expected from the changes proposed to council tax benefit. In last month's budget the Chancellor announced a further £10bn savings would be required from the welfare budget though there are no details at present as to how these would be realised.
6. A key change in the Bill is the Government's proposal to abolish the national Council Tax Benefit system and replace with the implementation of a Local Council Tax Reduction scheme from 1 April 2013.

7. On 2 August 2011, the Communities and Local Government (CLG) consultation paper 'Localising Support for Council Tax in England' was published, setting out the Government's policy objectives with regards to these changes. It provided some guidance and detail of the framework, funding and design for local schemes. The deadline for the consultation responses was 14 October 2011 and the Council submitted a response in line with this deadline.
8. On 19 December 2011, the Government published its Local Government Finance Bill. At the same time, the Government also published responses to views expressed during the consultations on proposals for Localising Support for Council Tax.

Current Position in relation to Council Tax Benefit

9. CTB is a means tested benefit that is administered by local authorities on behalf of the Department for Work and Pensions (DWP). Claimants in receipt of means tested out-of-work benefits generally receive full assistance; eligible claimants who work or have other income are likely to get partial relief; around 60% of all pensioners are entitled to CTB, although not all who are entitled actually claim. Some key headline statistics are set out below:
 - Current expenditure nationally equates to approximately £4.8 billion
 - Over 5.8 million people claim CTB, more than any other means tested benefit.
 - Durham has over 63,000 claimants, with estimated net CTB in 2012/13 expected to be c£55m.
 - Almost half of all claimants in Durham are pensioners.
 - A quarter of claimants have dependent children.
 - A tenth of claimants are working on low incomes
 - Many people, who are currently entitled to claim CTB, do not actually claim the benefit they are entitled to. DWP research in 2009/10 showed that as many as 3 million people who would be entitled to CTB do not claim for whatever reason. Applying these national statistics proportionately to County Durham would produce a significant increase in caseload and therefore cost if these customers were to subsequently claim.

Government Policy Objectives

10. The Government has stated it has two underlying principles underpinning its approach to the localisation of Council Tax Benefits in England:
 - Localised schemes should provide support for the most vulnerable, including vulnerable pensioners.
 - Localised schemes should assist with lifting the poorest people off benefits and supporting them into work.
11. The Government believes localising Council Tax Benefits will provide local authorities with a financial stake in ensuring these principles are successfully supported.

12. The Government has stated that it will continue to engage with local authorities to support their work in preparing for the introduction of local schemes, which need to be in place by 1 April 2013.

The New Framework for Council Tax Support Scheme

13. Financial support for low income council tax households will become fully integrated into the Council Tax system, with support being offered as reductions on Council Tax bills rather than a benefit awarded against their full Council Tax liability. This means that local decisions about which vulnerable groups should qualify for council tax support, including the reduction on income grounds, will need to be taken as part of the Council tax-setting process.
14. Billing authorities (DCC is the designated billing authority in County Durham) will be the default lead for the implementation of the local Council Tax Reduction Scheme support. However, billing authorities will be able to:
 - Collaborate with other billing authorities to develop schemes together;
 - Develop schemes on behalf of one or more authorities.
15. In developing their local scheme Councils will need to know:
 - The scheme grant allocation – the expectation is that grant will be paid to billing and major precepting authorities pro-rata to their share of Council tax, thereby reducing each authority's Council Tax requirement
 - The potential caseload – prior year data will be available to initiate the process of decision making about the operation of local schemes. The authority will need to model caseload and to analyse the effects of changing variables including the factors which could lead to an increase in demand across certain groups.
16. Any new Local Scheme will need to :
 - Detail the Council tax reduction available / to be awarded locally;
 - Include categories of claimant entitled to a Council tax reduction and the Council tax reductions which are to apply to those categories. The Secretary of State will be given powers to specify categories of persons and the reduction they will be entitled to, but the Government intend to only use this power to prescribe support to be provided to pensioners;
 - Set out procedures for applicants to follow in making applications;
 - Set out procedures for appealing decision (it is intended that the Valuation Tribunal is the independent appeal body)
17. In advance of the new scheme being agreed by the Cabinet, the Council will need to undertake consultation with:

- Major precepting authorities. In our case these are the Police and Fire Authorities, who will share the effects of any increases or reductions in demand for Council tax benefits and costs based on the local scheme offered
 - The public. The Council will need to carry out a public consultation on the content of its proposed scheme during the summer/autumn. The Government will consider if it should prescribe in regulations how the public consultation will operate as the Bill progresses.
18. The Council's scheme will have to be approved by Cabinet by 31 January 2013. This timetable is going to be very tight and the Government is being lobbied to release the new regulations as soon as possible.
 19. Where billing authorities do not adopt a scheme by 31 January, then the Government's default scheme will need to be used which will be set out in Regulations. This default scheme will retain the criteria and allowances in the current Council tax benefit scheme. It will also contain default procedures that the local scheme must cover. There are however significant financial disincentives for local authorities to avoid using the default scheme.
 20. From 2014/15 onwards, if a billing authority still fails to adopt a new scheme, the scheme in operation in the previous year will continue.

Financial Implications - Funding the Local Scheme

21. Government's funding of the new scheme in 2013/14 is expected to equal 90% of the Council's spend on CTB in 2012/13. The funding will be allocated in advance of 1 April 2013 to enable Councils to plan ahead. The Council will be expected to consider any contingency arrangements for unplanned increases in demand and take-up which it will have to fund from within existing resources.
22. The Government intends to publish a technical note in "Spring 2012" on how the new grant will be distributed for the first two years of the scheme. The Government is currently minded to base the distribution on "historic Council tax benefit expenditure patterns".
23. Annual allocations will be provided for the first two years of the scheme and Government will consider if a new basis of funding is required from 2015/16 onwards; and whether multi-year allocations would provide greater certainty and allow local authorities to benefit financially where demand for support reduces over several years.
24. The Government will base funding levels, in the first two years of the scheme, on Office of Budget Responsibility (OBR) forecast for spending on Council Tax Benefit. The Government states that these forecasts already include assumptions about underlying demographic changes and Council tax increases.

Implications of the proposed changes

25. Council Tax benefit currently received by pensioners must not be reduced as a result of the introduction of the new council tax support scheme. The Government wants to ensure that low income pensioners, who would struggle to pay Council tax without additional support, and whom the Government does not expect to work to increase their income, will continue to receive the same level of support against their council tax bills.
26. The consultation paper highlights that Councils need to protect vulnerable groups, although the Government has not fully specified its intentions in this regard other than to say *'Local authorities already have clearly defined responsibilities in relation to, and awareness of, the most vulnerable groups and individuals other than pensioners in their areas'* This includes, for example, through their responsibilities under:
- The Child Poverty Act 2010
 - The Disabled Persons (Services, Consultation and Representation) Act 1986, and Chronically Sick and Disabled Persons Act 1970
 - The Housing Act 1996, which gives local authorities a duty to prevent homelessness with special regard to vulnerable groups.
27. In developing the local scheme the Government's expectation is that Councils should seek to protect customers who receive some form of disability income, such as Disability Living Allowance, Attendance Allowance, Severe Disablement Allowance, Carers Allowance and Employment Support Allowance. Benefit entitlement for these customers could be calculated using the same method of calculation used in the current scheme.
28. The Government's expectation is that the Council should seek not to undermine the principle of the new Universal Credit scheme which aims to incentivise people move from benefit into work. People should therefore have more overall income in work than out of work.
29. The following table provides a summary breakdown of the current Council Tax Benefit payments by client type in Durham in 2012/13:

Client Type	Total CTB Awarded	% of CTB Awarded
Pensioners	27,027,000	49.14%
Working Age (Income Related Benefit)	20,108,000	36.56%
Family Premium	3,470,500	6.31%
Disabled	2,618,000	4.76%
Other (e.g. workers)	1,644,500	2.99%
2 nd Adult Rebate	132,000	0.24%
	£55,000,000	

30. It is recognised that the proposed council tax benefit changes are far-reaching and should not be under-estimated. It is recommended that a project team be set up to:
- Consider which groups of low income households would experience the largest increases in their Council Tax liability.
 - Council Tax collection costs could rise and collection rates could fall should the Council need to collect council tax from the most disadvantaged. This would impact on the Council Tax base thereby potentially increasing council tax charges for all council tax payers or alternatively, leading to a cut in services;
 - The Government's consultation indicates that the un-ringfenced grant may remain unchanged for only 2 years with the intention of incentivising Councils to influence job creation and getting people back into work. However the likelihood is that claimant volumes will change from year to year and, where they increase due to higher unemployment, successful take-up campaigns and increasing incidence of retired population. The financial risk will lie with the Council, not Government;
 - The Council will be expected to consider and fund itself, any contingency arrangements for unplanned increases in demand and take-up.

Conclusion

31. Government have set all councils a very demanding challenge of:
- Introducing changes to an already complex council tax benefit system within a very short time scale;
 - Understanding the potentially far-reaching implications of changes on a large number of vulnerable people, financially dependent upon the benefits system;
 - Assuming financial risks that would necessarily accompany increases of benefit take-up. This is the first time that local government rather than central government would assume these risks. Clearly authorities with a high proportion of people on benefits face higher risks than those serving less deprived areas. This increased risk comes at a time of unprecedented reductions in resources available to local authorities;
 - Ensuring that all changes made are compliant with relevant legislation such as the Equalities Act.
32. Due to the scale of the challenge, the financial risks to the authority and the potential impact on the local community, it is important that the Council prepares as early as possible and the next steps are set out below.

Next Steps

33. A high level project plan showing the Government's key milestones to deliver the localised scheme is set out at Appendix 2. In practical terms the following actions will be required to achieve a 1 April 2013 implementation:
- Establish a Project Board to develop options and work through detailed implications, including equality impact assessments
 - Project Board work through detailed implementation plans and requirements to achieve 1 April 2013 implementation;

- Preparation of a communication strategy, including stakeholder consultation plans / requirements
- Proposed scheme, consultation requirements and detailed equality impact assessment to be presented to Cabinet in July 2012 and the Council's Medium Term Financial Plan be updated as required;
- Outcome of consultation and final proposals to be presented to Cabinet in December 2012, with the final scheme being approved by Full Council in January 2013.

Recommendations

34. It is recommended that Cabinet note the report and agree that:

- A Project Board is set up to undertake the work outlined above and to report back to Cabinet in July 2012
- Discussions be held through the Association of North East Councils on the impact of the changes in the Region.

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Background Papers:

- Welfare Reform Bill (February 2011)
- Localising Support for Council Tax in England (Government Consultation paper : August 2011)
- Localising Support for Council Tax in England : Government's response to the outcome of consultation (December 2011)
- Welfare Reform : Implications for Durham County Council – Report to CMT 1 February 2012

Appendix 1: Implications

Finance

The Council will receive a 90% un-ring fenced grant based on 2012/13 CTB spend when the localised scheme is introduced in April 2013. The grant will be fixed for a number of years.

The Council will need to develop a local scheme, based on its own policy objectives, but reflective of protections afforded to vulnerable clients such as pensioners, who are to be protected on existing criteria.

The Council will be subject to greater financial risk as a result of the proposed changes.

Reduction in collection rates for council tax could impact on the collection fund which would mean an increase in council tax charges or a corresponding further cut in services.

Staffing

An increase in council tax recovery staff may be required as a result of these changes.

Risk

The report sets out in detail a range of financial, reputational and legislative risks surrounding the implementation of the Governments proposals. The most significant concerns at this stage are with regards to the ability to achieve an implementation date of 1st April, given the timing of the publication of the required regulations, associated consultation requirements and systems upgrades in order to implement the changes.

Equality and Diversity/Public Sector Equality Duty

The benefits service provides a service to vulnerable client groups. These include some of the protected characteristics as defined by the Equality Act 2010 such as people with a disability and older persons. A full equality impact assessment will need to be undertaken against any proposals developed in response to these changes.

Accommodation

None

Crime and disorder

The reduction in Council Tax support alongside other welfare changes could see an increase in crime as customers seek to increase their income to make up for the benefits lost.

Human rights

None

Consultation

The Council will need to consult with the public, partner organisations and internally on any proposed localised scheme. Consultation requirements will be prescribed in future regulations.

Procurement

None

Disability Discrimination Act

See above.

Legal Implications

Any proposed scheme will be required to meet the requirements as set out by the legislation. At this stage many of the specific requirements have not yet been released, however, a local scheme will need to be adopted by 31 January each year. If a Council does not adopt a local scheme then the defaults will be retention of the existing scheme.

Appendix 2: Timetable / Key Milestones

The Government's response to the consultation included a timetable for the implementation of the Local Council tax Support Scheme, which envisaged that the local schemes were in operation by "Spring 2013", the following timetable has been published by CLG:

When	Proposed action
Autumn/ winter 2011/12	<ul style="list-style-type: none"> • Government publishes response to consultation • Introduction of Local Government Finance Bill (including provisions for localisation of the support for Council tax) • Central and local Government begin working on model schemes
Spring 2012	<ul style="list-style-type: none"> • Primary legislation in passage through Parliament • Government preparing and publishing draft secondary Legislation • Technical consultation on grant distribution
Summer 2012	<ul style="list-style-type: none"> • Primary legislation passed • Secondary legislation prepared • Local authorities designing local schemes, • Begin scoping IT changes with software companies
Autumn/winter 2012/13	<ul style="list-style-type: none"> • Secondary legislation passed (early Autumn) • Grant allocations published • Local authorities establishing local schemes – consulting with major precepting authorities and public, revisions to scheme • Technical changes to systems begin • Local authorities setting budgets • Local authorities adopt schemes • Testing of software begins
Spring 2013	<ul style="list-style-type: none"> • Annual billing including Council tax support undertaken • Local scheme in operation