

CABINET

Welfare Reforms – Localisation of Council Tax Support

04 September 2012

Report of Head of Resources

PURPOSE OF REPORT			
To inform Members of the changes being proposed from April 2013 in respect of council tax benefit, and to endorse the approach regarding consultation on the new localised scheme.			
Key Decision	<input type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>
		Referral from Officer	<input checked="" type="checkbox"/>
Date Included in Forward Plan	N/A		
This report is public.			

RECOMMENDATIONS OF COUNCILLOR BRYNING:

- (1) That the report be noted and the plans regarding consultation for a local council tax support scheme be endorsed.

1 BACKGROUND

- 1.1 The Welfare Reform Act 2012 contains provisions for the abolition of Council Tax Benefit (CTB), paving the way for new localised schemes to be implemented. This follows on from the Government's 2010 Spending Review.
- 1.2 The Local Government Finance Bill ("the Bill") is currently progressing through Parliament and is expected to receive Royal Assent in the autumn. The Bill imposes a duty on billing authorities to make a localised Council Tax Support (CTS) scheme by 31 January 2013. Assuming that the Bill is enacted, the commencement date for the new scheme will be 01 April 2013.
- 1.3 The amount of Government funding provided to local authorities annually for their new localised systems will be approximately 10% less than current spending on CTB. The expected reduction for the Lancaster district is £1.112M.
- 1.4 The new arrangements should align support more closely with the existing system of council tax discounts and exemptions by reducing the amount of council tax payable – sometimes down to zero.
- 1.5 There are three principles that all local Council Tax Support schemes should follow:
- Pensioners will be fully protected.

- Vulnerable groups should be protected as far as possible, as determined locally.
- Local schemes should support the positive work incentives that will be introduced through universal credit for working age people.

1.6 The protection of any group means that in order to reduce cost of the scheme by 10%, the percentage reduction on support for other groups must be greater than 10%.

1.7 The key milestones for the Council are detailed in the table below:

Task	Deadline
Design of Local Scheme (proposals)	July / August 2012
Consultation with major precepting authorities and public on the proposed scheme	Summer 2012
Bill receives Royal Assent	Expected September 2012
Issue of secondary legislation	Expected September 2012 onwards
Publish draft scheme and consult other interested parties	Autumn 2012
IT suppliers develop software changes for local scheme	Autumn 2012
Consider and respond to consultation	Late Autumn 2012
Final approval of new scheme by Members	Council meeting 12 December
Statutory deadline for agreement of new Scheme	31 January 2013
Scheme commencement	01 April 2013

2 OPTIONS FOR CONSULTATION ON THE NEW SCHEME

2.1 Should the Council fail to introduce a Council Tax Support scheme within the statutory timescale, effectively the Bill dictates that the existing scheme must be introduced as the default scheme.

2.2 Given the financial pressures that would result, maintaining the existing arrangements is not considered financially viable.

2.3 An operational working group of Revenues and Benefit Managers across the county have been considering the possible options for a new scheme, taking into account the constraint of major changes to software systems in the limited timescales available, and with the aim of reducing the total amount of council tax support provided to manage the reduction in Government funding. Three options have been identified and these are outlined below. Key advantages and disadvantages are also set out but these are by no means exhaustive.

2.4 For all options, pensioners would not be affected by the proposals and therefore any reference to 'claimants' excludes this particular group.

2.5 **Option A: Apply a Flat Rate Minimum Charge for Council Tax to Claimants**

2.5.1 Applying a 'flat rate' minimum charge for council tax to claimants would mean that:

- those claimants in receipt of 100% support would still need to pay this minimum charge;
- for those in receipt of a lower percentage of support, the amount they pay would increase by this minimum charge; and

- any claimants that would have been due to receive support of less than the minimum charge would lose their entitlement altogether.

2.5.2 As an indication and in order for the costs of the scheme to match expected Government funding, the standard flat rate additional charge payable by working age claimants may average at a minimum of £157 per year (or £3 per week). This calculation does not take account of the impact of those losing their entitlement; the actual reduction would require further modelling.

Advantages:

- It appears that the software suppliers are likely to make this option available and it should therefore be practical to administer.
- Easy to explain to customers and front line services
- It would also be relatively easy to communicate to customers and stakeholders as additional £3 per week or so for claimants to pay.

Disadvantages:

- A flat rate charge may be subject to challenge on the basis that it fails to differentiate between affected groups:
- Imposition of a minimum charge would remove all entitlement to support from those currently receiving CTB at a rate equivalent to less than the proposed minimum charge. This might be construed as disproportionately affecting these customers.
- An across the board cut takes no account of those most vulnerable.
- Debt management would be difficult for those with existing debts.
- A separate risk with any approach based on achieving the minimum levels of expenditure reduction is that it does not provide contingency for economic changes, other than to increase the flat rate charge.

2.6 **Option B: Apply a Percentage Reduction to the Support Award based on the Current CTB Scheme – eg. Reduce Current Entitlement by around 18%**

2.6.1 This is based upon a fairly straightforward amendment to the current scheme whereby support is calculated in accordance with current CTB rules but a percentage reduction is applied at the end of the calculation. As an indication, the minimum percentage reduction required may be approx 18% in order to deliver the required savings across working age claimants.

2.6.2 It would be possible to increase the percentage reduction in benefit and this might allow some funds to be treated as available for contingency, and / or special cases of hardship.

Advantages:

- Simple and easy to explain to claimants and front line services
- Easy to administer – no retraining of assessment staff
- Fair scheme for Equality Impact Assessment purposes
- Software suppliers will make this option available as it requires minor changes to existing parameters
- Aligns with other needs assessments e.g. care
- Aligns with the basic principle for any new scheme to create work incentives

Disadvantages:

- No additional recognition of special groups although protection is built into the existing rules
- Creates difficulties in collecting small amounts of council tax

2.7 **Option C: Limit the Amount of Council Tax Eligible for Support – eg. Setting around 80% as the Maximum Allowable**

2.7.1 The principle of limiting the amount of tax eligible for benefit would deliver the required savings whilst retaining the core calculation associated with Council Tax Benefit. It would restrict the amount of council tax eligible for benefit to a given percentage. This is very similar to applying a percentage reduction in support. However, due to the effect of the ‘taper’ within the CTB calculation this method of approach would reduce benefit slightly more steeply for those customers above minimum income levels (‘non-passported cases’).

Advantages:

- Simple and easy to explain to claimants and front line services
- Easy to administer – no retraining of assessment staff
- Forecasting for future years is a simpler process
- Software suppliers will make this option available as minor changes to existing parameters

Disadvantages

- Less incentives to work
- No additional recognition of special groups although protection is built into the existing rules
- Creates difficulties in collecting small amounts of council tax
- This reduces the number of claimants qualifying for benefit

3 **SUMMARY APPRAISAL**

3.6.1 The option of a ‘flat rate’ charge (Option A), whilst initially appearing fair, would have the consequence of removing all entitlement from those who would otherwise be due support at less than the flat rate figure. This would have a disproportionate effect on claimants with an income above minimum ‘living allowances’, including those in work. Given that this option raises significant concerns regarding the principle of fairness, it is not recommended to be taken forward as a feasible option, unless consultation or further modelling suggests otherwise.

3.6.2 The remaining two options (Option B & C) are to restrict support, either by (B) using the existing benefit calculations, and applying a percentage reduction to the award at the end of the calculation; or by (C) applying a ceiling to the maximum rebate.

3.6.3 Whilst these two options are similar, initial analysis suggests that the effect of a ceiling approach (Option C) would reduce the number of claimants that qualify for support under the new scheme.

3.6.4 A scheme designed under Option B would help protect those customers whose income is slightly above minimum ‘living allowances’, providing greater work incentives in line with the basic principles required of any new scheme.

3.6.5 The preferred option is Option B, matching recommendations recently presented to the Lancashire Leaders Group. This would be one of the simpler schemes to administer.

3.6.6 A modelling tool will be used to assess the impact of these options on existing claimants within the authority, alongside the consultation process.

4 VULNERABLE PERSONS

4.1 The existing CTB scheme already provides protection for certain groups within the underlying rules, providing for:

- disability premiums;
- benefit disregards for child benefit, attendance allowance and disability living allowance;
- additional personal allowances for children and for a small amount of earned income to be ignored in the calculation of benefit, dependant on household circumstances.

4.2 It is also intended that any new scheme will retain a local arrangement for war pensions to be disregarded in full. By keeping existing income disregards/premiums and allowances, the local authority would be protecting vulnerable people, as the support calculations would reflect their specific needs.

5 CONSULTATION REQUIREMENTS

5.1 The Bill sets out the preparatory measures that must be carried out by a billing authority, prior to the making of a localised Council Tax Support Scheme. Those provisions provide that a billing authority must, in the following order:

- consult any major precepting authority that has power to issue a precept
- publish a draft scheme in such a manner as it thinks fit, and
- consult such other persons as it considers are likely to have an interest in the operation of the scheme.

5.2 The rationale for consulting with major precepting authorities first is to ensure that they have been involved in shaping the initial proposals within the draft scheme that will be put out to the public for consultation. Consultation letters have been issued to all three major precepting authorities and their responses are attached to this report at **Appendix A**.

5.3 Given the Bill has not yet received Royal Assent, provision is made within the new Schedule 1A to provide that the consultation requirements will not be rendered invalid simply because the relevant provision has not yet been enacted. Failure to conduct meaningful consultation may leave the Council open to judicial review.

5.4 Arrangements are currently being developed for undertaking a public consultation, which will cover both working age benefit recipients and existing council tax payers as well as other stakeholders. The timescales are tight, given that a scheme must be made by 31 January 2013. In recognition of this, arrangements are in hand for the Leader and Cabinet Portfolio Holder to sign off the consultation documents; this is due to be completed prior to the Cabinet meeting. The consultation will include all three options set out in this report, although Option B will be identified as the preferred option at this stage.

5.5 It is important that the proposals are simple and can be understood by consultees, to enable them to give an informed response. The Council must ensure it allows adequate time for conscientious consideration of the consultation responses in order that these may inform the final proposals.

6 OPTIONS AND OPTIONS ANALYSIS (including risk assessment)

6.1 As this report is presented primarily for information no options for decision are presented at this stage, although Cabinet is asked to endorse the plans regarding consultation. Member decisions on the scheme will be sought later this year, when the outcome of the consultation is known.

7 CONCLUSION

- 7.1 The development and implementation of localised council tax support is challenging in many ways. The consultation process is an essential part of managing this challenge, helping to inform people of the planned changes as well as seeking their views on options for the new scheme. The consultation documentation will indicate that Option B is preferred at this stage, although Options A and C will also form part of the consultation programme. Modelling work will continue to develop a more detailed understanding of the wider impacts of all three schemes during the consultation process.
- 7.2 The countywide Officer Working Group concluded that vulnerable groups should continue to receive protection within the underlying rules of the existing scheme, but that no additional protection was necessary as this would merely reduce the available benefit for other claimants still further. It is planned that this too will be covered in the consultation.
- 7.3 The Council must ensure that it has due regard to equality in making its local scheme, including how it will remove or minimise any disadvantage suffered by people with a protected characteristic (by way of age, disability, gender, race, religion etc). A comprehensive equality impact assessment will be carried out as part of the consultation process.
- 7.4 Ultimately it will fall to full Council to make final decisions on the new scheme, having due regard to the outcome of consultation.

RELATIONSHIP TO POLICY FRAMEWORK

The proposals within this report link to Corporate Plan provisions regarding welfare reforms, whilst also supporting the Council's budget and council tax targets.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

Not yet completed at this stage, although the aim is to develop a cost neutral Council Tax Support scheme, which supports the objectives of simplicity, protecting the most vulnerable people and assisting with incentives to work. It is recognised that there are many sections of the community that could suffer difficulties because of these changes and opportunities to mitigate against this will continue to be explored.

FINANCIAL IMPLICATIONS

As mentioned previously, it is estimated that the reduction in grant funding for the costs of Council Tax Support in this district will amount to approximately £1.112M.

The financial arrangements for the new scheme will be different to those in place now:

At present, the City Council pays all council tax benefit claims covering the full council tax bill (including County, Fire, Police, Parish) and receives all of the Government funding to meet these costs.

In future, the award of council tax support to claimants will reduce the amount of council tax income for each authority in proportion to their precepts and to compensate, each billing / major precepting authority will receive funding directly from Government – albeit at 10% less than the total currently awarded for the district as a whole. As yet, it is unclear whether any special arrangements will be provided for parishes and this will require further consideration. Other than allowing for inflation, Government funding is not expected to change should the amount of support awarded change – and therefore there will be 'bottom-line' implications for all councils, with by far the greatest impact being felt by the County Council.

It should be noted that once the scheme is devised for any year it cannot be amended during that year, even if there is a large increase in claims for support. The financial modelling undertaken should therefore include a financial contingency to cover increased caseload. The Council will need to closely monitor the cost of the scheme and keep other authorities updated.

Clearly there are financial implications for major precepting authorities (County, Police and Fire) and parish precepts as a result of the potential changes in funding, although Government has yet to confirm all details. Furthermore, the resourcing of administration will need reviewing.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has contributed to this report and has no further comments.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

Welfare Reform Act 2012:
<http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/welfare-reform-bill-2011/>

Local Government Finance Bill:
<http://www.publications.parliament.uk/pa/bills/cbill/2010-2012/0265/en/2012265en.htm>

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