

Report to: Cabinet
Date of meeting: 20 March 2012
Report of: Managing Director
Title: Local Council Tax Benefits

1.0 **SUMMARY**

1.1 In the Spending Review 2010 the Government announced that it would localise support for council tax from 2013-14, reducing expenditure by 10%. A consultation paper has been issued which sets out proposals on key elements of a framework for local support for council tax. This framework has been established in a local government finance bill due to be enacted imminently. It is intended that local authorities will establish their own local schemes by April 2013 having developed them in the summer and undertaken consultation with residents in the autumn.

1.2 The Council will need to decide how it wants to develop its scheme, and whether to do so in partnership with the County or other districts.

2.0 **RECOMMENDATIONS**

Cabinet is recommended to:

2.1 Consider the option of supporting the development of a County wide scheme;

2.2 Provide guidance on the process for developing a Watford scheme including how to best engage with members.

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3.0 **DETAILED PROPOSAL**

3.1 The intention of the local scheme is for local authorities to provide support for council tax for the most vulnerable in society, including pensioners. The localisation of support for council tax is taking place within a wider programme of welfare reform which is supposed to help move people back into work. However, there are certain low-income groups, in particular pensioners, whom the Government does not expect to work to increase their income and therefore intends protecting pensioners from any change in award as a direct result of this reform.

3.2 At this stage there has been no guidance as to how “pensioners” and “vulnerable” will be defined.

3.3 Where someone of working age receives council tax benefit, there will be changes which will affect them from April 2013. The changes will affect how they claim support with their council tax bill and may affect how much support they can claim. The Government has suggested that councils should be free to decide who should pay less council tax and how much less they should pay, as long as what it does means that pensioners are no worse off and people are generally better off working than claiming benefits.

3.4 Councils will have the discretion to require council tax benefit claimants to pay more of their council tax than they currently do. This will have to be carefully considered as customers that receive 100% council tax benefits will struggle financially if their benefit is reduced and they are asked to pay increased council tax. The implications for both Three Rivers District Council and Watford Borough may well be a reduction in council tax collection as pursuing customers with little money for a proportion of their council tax will prove expensive, and will increase arrears.

4.0 **FINANCIAL ARRANGEMENTS**

4.1 **Current Arrangements**

4.1.1 Subsidy is received in two forms; Administration Subsidy and Housing Benefit/Council Tax Benefit Subsidy.

4.1.2 Administration Subsidy is a specific grant paid to local authorities to help meet the cost of administering Housing Benefit/Council Tax Benefit. Individual allocations to local authorities are calculated annually based on a formula that is responsive to caseload. The funding contribution for the council tax benefit element is one element of this (together with elements for verification and fraud).

4.1.3 The current and future Administration Subsidy for each authority is:

<u>Financial Year</u>	2011/12	2012/13
Three Rivers DC	£509,275	£472,518
Watford	£715,379	£679,971

4.1.4 Local Authorities have already experienced reductions in Administration Subsidy over the past two years and it is anticipated that this trend will continue especially with proposals for the Universal Credit to be administered by the DWP / HMRC from October 2013, and the creation of a Single Fraud Investigation Service also from 2013.

4.1.5 Housing Benefit/ Council Tax Benefit Subsidy is paid in respect of the benefits paid out and both authorities are reimbursed at 100% for correctly processed claims. Payments are made on a monthly basis based on initial workload estimates submitted to the Department for Work and Pensions during the year (revised each August). A final subsidy claim is submitted the following year and subject to external audit.

4.2 **Future Funding of Council Tax Benefit Administration**

4.2.1 Changes to both housing benefit and support for council tax will have implications for their administration. The government has stated that it does not intend the administration of local schemes to put pressure on local government finances and they will therefore work with local authorities to assess the net impact of housing benefit centralisation and localisation of support for council tax, including the transitional costs of moving to the new arrangements.

4.3 **Proposed Funding Arrangements**

4.3.1 In future local authorities will need to design schemes for working age claimants, taking into account available funding and the support to be provided to pensioner claimants. There will be a new government grant to local authorities from the Department of Communities and Local Government and not the Department of Works and Pensions.

4.3.2 The government intends to reduce the funding for council tax benefit by 10%, and allow local authorities to develop their own ways of paying it. Pensioners will be protected from any cuts by this policy (as will the "vulnerable" claimants) but this does not affect the overall scale of the funding cut, so those below pension age and not vulnerable will suffer disproportionately.

Each authority will be affected differently depending on the size of the pensioner caseload as shown in the following table.

4.3.3

Authority	Pensioner Case-load	Ctax Benefit Currently Paid £k	Less 10% Reduction £k	Ctax Benefit to Pensioners £k	Remaining Benefit paid £k	Reduction in Benefit Payable
Three Rivers	47%	5,364	536	2,521	2,307	18.86%
Watford	39%	7,818	781	3,049	3,987	16.39%

4.3.4

Working age benefit claimants would therefore be expected to pay an additional 18.86% or 16.39% council tax depending on which authority they live in. The council tax payable on a band D property in Three Rivers (unparished) is £1,458, so this could potentially mean that an additional £275 per annum, £5.29 per week from working age claimants. For Watford the respective figures would be £1,516 band D meaning an additional £248 p.a. or £4.77 per week.

4.3.5

There is a worst-case scenario and that will depend on the definition of “vulnerable claimants”. At present, claimants in receipt of Income Support (IS), Employment Support Allowance (Income Related) (ESA (IR)) and Jobseekers Allowance (Income Based) (JSA (IB)) currently receive 100% council tax benefit. If these claimants come under the definition of “vulnerable” and as a result be protected from any reduction, it increases the protected caseload to 80% for Three Rivers and 84% for Watford and consequently increases the impact of the 10% reduction.

4.3.6

The government envisages funding to be paid to local authorities in the form of an unringfenced special grant. This means that councils who experience lower than expected demand, or who are able to hold down demand by encouraging people into work, are able to use any surplus to help reduce the impact of these changes. There is however a distinct possibility that the total value of benefits subsidy actually paid exceeding the value of the grant received from the government. This is because the grant will be based upon a forecast prior to the start of the financial year and may not anticipate unexpectedly high levels of demand for support from eligible claimants.

4.3.7

Changes to the local scheme will not be permitted part way through the year so it is likely that authorities will need to make provision for increases in demand for the financial impact to be neutralised. Should an authority not do this then a shortfall will occur which would need to be financed from reserves or council tax generally. Any shortfall would be shared between the council and the precepting authorities (HCC and HPA).

5.0

EXPLANATION - PRINCIPLES OF THE SCHEME

5.1

The Welfare Reform Bill contains provisions for council tax benefit in its current form to be abolished across the whole of Great Britain by March 2013.

- 5.2 Local authorities will have a duty to run a scheme to provide support for council tax in their area. Any local scheme set up needs to align with universal credits and is supposed to support work incentives, and in particular avoid disincentives to move into work. For pensioners there should be no change in the current level of awards, as a result of this reform. Local authorities have also been advised to consider ensuring support for other vulnerable groups.
- 5.3 As a first step it will be necessary to establish the parameters of the new scheme taking into account the funding likely to be received from Government and includes:
- 5.3.1 The framework set by central government: in particular requirements relating to support for pensioners and ensuring work incentives are supported.
- 5.3.2 Other duties and responsibilities, including the requirement under the Child Poverty Act to reduce, and mitigate the effects of, child poverty.
- 5.3.3 Local priorities, such as tackling unemployment.
- 5.3.4 Assumptions about take-up, including the assessment of the proportion of potential eligible groups that will actually apply for support.
- 5.3.5 The level of grant available, including any other sources of funding, and any estimated impact on council tax yield, for example as a result of non-collection.
- 5.3.6 An appeals process.

6.0 **CONSULTATION**

- 6.1 Both Three Rivers District Council and Watford Borough Council will need to submit individual schemes to some form of public scrutiny or challenge, including making the data underpinning the scheme publicly available. This could include formal public consultation as well as sign-off by elected Members. We will also need to ensure that the County Council and the Police have an appropriate role in this process. It would also be prudent to seek the views of the External Auditor to help ensure our scheme is robust.

7.0 **COUNTY-WIDE SCHEME**

- 7.1 The Hertfordshire Chief Finance Officers are considering whether a County wide scheme could have benefits for both residents and ease of administration and a further report will be produced in due course.
- 7.2 Chief Finance Officers and Chief Executives considered the attached report (**Appendix 1**) at their meeting of 1 March and agreed to refer the issues to the Leader's meeting taking place on 8 March.

8.0 **IMPLICATIONS**

8.1 **Financial**

8.1.1 The Head of Strategic Finance comments that the revenue budget for 2012/2013 has made provision for the reduction in Housing Benefit Administration subsidy referred to within the body of the report.

8.1.2 With regard to the financial arrangements to apply from 1st April 2013, this was referred to as a key risk within the Draft Revenue Estimates Report to Cabinet on 16th January 2012 (paragraph 10.7 referred). A 10% reduction in Central Government support for housing benefit equates to circa £700K but the draft regulations, as currently framed, indicates that Watford would only experience 16% of this reduction (£112k), with HCC facing 74% and HPA 10%. It is always possible however that this may change as regulations are finalised.

8.2 **Legal Issues (Monitoring Officer)**

8.2.1 The Head of Legal and Property Services comments that the legal implications are included in the body of the report.

8.3 **Equalities**

8.3.1 As this will be a new policy for the Council it will be necessary to carry out an equality impact analysis to ensure the Council can meet it's equality duties before the policy is approved and implemented.

Appendices

Appendix 1 – Briefing Note to Hertfordshire Chief Executive Group and Hertfordshire Chief Finance Officer Group 1st March 2012