

**Report to:** Budget Panel  
**Date of meeting:** 10 September 2013  
**Report of:** Head of Revenues & Benefits  
**Title:** Revenues & Benefit Finances

## **1.0 SUMMARY**

1.1 This report provides an overview of the Financial aspects of Revenues & Benefit with particular reference to Benefit Subsidy, Council Tax and Business Rate Collection Rates

## **2.0 RECOMMENDATIONS**

2.1 The report is noted and members invited to comment on its contents

### **Contact Officer:**

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## **3.0 INTRODUCTION**

3.1 The following report highlights the financial aspects of Revenues & Benefits and the implications for Watford Borough Council. The report concentrates on three specific areas; Benefit Subsidy, Council Tax Collection and Business Rate Collection.

## **4.0 BENEFIT SUBSIDY**

4.1 The Revenues & Benefits Service is responsible for the payment of Housing Benefit in the region of £36 million (2012/13) and Council Tax Benefit of £6 million (2012/13).

This expenditure is claimed back from Central Government at a starting rate of £1 per £1.

In certain aspects where the Government wishes to restrict expenditure, it will pay subsidy at a reduced rate (usually ranging from 0% to 60%) and this cost falls on the authority.

The Subsidy Return for 2012/13 has been submitted to the Department of Work & Pensions and is now subject to audit by the authority's external auditors, Grant Thornton, who will verify that the expenditure claimed has been lawfully incurred. The final, audited claim, has to be submitted to the Department of Work & Pensions by 30 November 2013.

Grant Thornton has the power to qualify or reduce subsidy claimed if errors are found.

- 4.2 The aim is to maximise subsidy so that it is as close to 100% as possible although this is not always possible as there are certain elements of expenditure (War Pensioners, Overpayments due to "claimant error" and "Exempt Accommodation" where we will always receive less subsidy than we pay.

Past performance of Subsidy claimed as a comparison to Housing Benefit expenditure is shown in the following table:

	2012/13	2011/12	2010/11
Rent Allowances	£36,595,125	£33,879,350	£31,576,927
Subsidy Claimed	£35,305,003	£32,769,228	£30,822,362
Gross Cost	£1,290,122	£1,110,122	£754,565
Percentage Recovered	96.47%	96.72%	97.61%

- 4.3 The significant areas of expenditure that attract a reduced level of expenditure are:

- Overpayments of Housing Benefit or Council Tax Benefit classed as "local authority error":

Subsidy is paid at either 100%, 40% or 0% depending on the volume of overpayments as a percentage of total expenditure.

- Overpayments as a consequence of "claimant error"

Subsidy is paid at 40%

- Overpayments of Council Tax Benefit classed as "Technical Overpayments"

Subsidy is paid at 0%

#### 4.3.1 **Overpayment of Housing Benefit or Council Tax Benefit classed as “local authority error”**

For an overpayment to be classed as “local authority error”, it has to be caused by the authority by an act, error or omission. This includes delay in dealing with a change in circumstances that may lead to an overpayment.

As payments are usually made every two weeks to a tenant (four weeks to a landlord), it is inevitable that there will be an element of overpayments classed as local authority error, if there is the slightest delay in dealing with a change.

To allow for this, the subsidy that can be claimed is tiered, based on its relationship to total expenditure.

The subsidy rates that can be paid are:

100% if the total of local authority error overpayments is below 0.48% of total expenditure (lower threshold)

40% if the total of local authority error overpayments is above the lower threshold but below 0.54% of total expenditure (upper threshold).

0% if the total of local authority error overpayments is above the upper threshold.

In cash terms, the lower threshold for 2012/13 was £198,025 and the upper threshold £222,778.

The authority still has the power to recover these overpayments by requesting that the sums be paid back.

#### 4.3.2 **Mitigation**

The impact on the authority of Local Authority Error overpayments can be addressed in two ways:

- a) reducing the delay in dealing with changes in circumstances, and
- b) greater uses of powers to suspend payment of Housing Benefit when we are aware that a notified change will lead to an overpayment of Housing Benefit

#### 4.4 **Overpayment as a consequence of Claimant Error**

People in receipt of Housing Benefit have to advise us of a change in their circumstances that may affect the level of Housing Benefit that they receive such as a wage increase or a change to their tax credits.

If we subsequently become aware of these new circumstances, we will amend the Housing Benefit paid and if this means that the claimant is due to receive less Housing Benefit, the overpayment of benefit for this period will be classed as “claimant error” and can be recovered.

If the failure to notify us of a change is significant, an investigation may be undertaken to establish whether this was a fraudulent act.

In cash terms, overpayments of Housing Benefit as a consequence of “claimant error” amounted to £1,564,604.

We only received 40% of this in subsidy, £625,841 so the cost to the authority was £938,763.

The authority has the power to recover these overpayments and takes action to see that they are repaid.

The cost to the authority is offset by the fact that almost £1.9 million of overpaid Housing Benefit was recovered during 2012/13 relating to that and subsequent years.

##### 4.4.1 Mitigation

The impact on the Local Authority of Claimant Error Overpayments can be addressed in two ways:

a) a more proactive approach by the Revenues & Benefits Service in contacting claimants in advance of predicted changes, i.e. known events such as annual pension upratings or wage rises, and

b) efficient and effective recovery of overpaid Housing Benefit within the restricted parameters set out in legislation

#### 4.5 **Overpayment of Council Tax Benefit classed as “Technical Overpayment”**

The correct term for overpayments of Council Tax Benefit is “excess benefit” but for clarity’s sake they are described in this report as overpayments.

It is worth pointing out that the Council Tax legislation requires an authority to issue a bill on the assumption that the circumstances that are present on the date of issue will subsist throughout the year. The consequence of this is that when a bill is issued, it is done so on the assumption that the

Council Tax Benefit calculated will be in payment for the entire year.

If there is a change in circumstances mid-way through the year that means the Council Tax Benefit is to be reduced, the amount of benefit originally due, but now to which there is no entitlement, is classed as an overpayment. If this relates to a future period, then that overpayment is classed as a technical overpayment. No subsidy is paid in respect of this overpayment for the reason that no Council Tax Benefit has actually been paid.

This can be best explained by the following example:

Mr A is awarded £1000 Council Tax Benefit for 2013/14 and this is used to reduce his Council Tax bill. On 1 July, he advises us that he is moving out of Watford and will no longer be liable for Council Tax.

The Council Tax Liability is reduced as there is no Council Tax due from 1 July and consequently the Council Tax Benefit is also reduced (by £750.00) as with no liability to Council tax, there is no entitlement to Council Tax Benefit.

The Council Tax Benefit that had been awarded for the period from 1 July (amounting to £750.00) is an overpayment and has to be classed as a "technical overpayment" and attracts no subsidy.

There is no way that this can be mitigated against. However, a new liability will be raised for the new occupier and their liability will be either collected or covered by a new award of Council Tax Benefit (and subsidy claimed)

## **5.0 Council Tax Collection**

- 5.1 Watford Borough Council is a billing authority and will collect Council Tax for its own purposes as well as precepting authorities; Herts County Council and Hertfordshire Police Authority (now Police and Crime Commissioner)
- 5.2 Out of each £1 of Council Tax, £0.74 is paid to Herts County Council and £0.10 to the Police & Crime Commissioner. In total this amounts to £32.91m to Herts County Council and £4.35m to the Police & Crime Commissioner with £7.35m required for Watford BC purposes.
- 5.3 These payments have to be made to the relevant bodies irrespective of whether we have collected that money from a Council Tax payer which heightens the importance of efficient tax collection on our part to ensure that there is no detrimental effect on our cashflow.
- 5.4 To mitigate against any issues caused by non-payment, two principle actions are taken.

Initially, when setting the Council Tax each year, the tax base is calculated. This is an assessment of all domestic property in Watford and results in a figure assuming that all property is assessed as a Council Tax Band “D” property.

Once this figure has been calculated, an allowance for non-payment is applied, as with all prudent organisations. Cabinet approved the figure of 97% at its meeting on 21 January 2013 (minute 63)

Secondly, the Revenues & Benefits department will effect all reasonable methods to collect the Council Tax due. Taxpayers can pay over 10 or 12 monthly instalments but if these instalments are not paid then reminder notices or final notices are issued. If payments are not brought up to date then a summons for non-payment is issued enabling the authority to apply for a “liability order” at the Magistrates’ Court

To this end, 10,349 reminders or final notices have been issued (some taxpayers may have received more than one) and 2847 summons issued to date.

The additional costs incurred by the authority in dealing with these cases are added to the debt. We will levy a fee of £100.00 in relation to each summons issued to cover these costs and also the costs charged on us by the Magistrates’ Court.

If a liability order is obtained, this allows the authority to use further powers for recovery such as the use of a bailiff, attachment to earnings, attachment to benefits, charging order, bankruptcy or ultimately committal to prison.

However, throughout this process, if a mutually agreed arrangement is accepted, this will be used to avoid further action listed.

## **6.0 Non-Domestic Rates – Collection**

6.1 The introduction of the Business Rate Retention Scheme has placed an increased importance on the collection of Business Rates at a local level. It is no longer a case of collection Business Rates on behalf of Central Government.

Business Rates now are a key part to local authority finances.

6.2 As with Council Tax a loss on collection is assessed and for 2013/14, this is 2.5%

6.3 The nature of Business Rates Retention is that Watford Borough Council now gets to keep a portion of the increase in Business Rates due to growth in the Borough and it is important to its finances to collect that increase. We have not reported on this position in this report due to still waiting for clarity from the Government on how certain items are to be treated when

calculating the amount which will be retained by the Council, but we are keeping the situation under review.

- 6.4 To ensure that collection rates remain high, the same recovery methods are used as for Council Tax and where accounts have not been paid, a summons will be issued with associated costs.
- 6.5 429 debts remain outstanding in relation to 2012/13 with 121 of those currently with a bailiff for collection
- 6.6 97% of the Business Rates due in 2012/13 was collected in that year.

The latest collection rate (as at 31 July) for 2013/14 was 42.3%, up on the same point as last year when it was 41.8%