

REPORT TO: Corporate Policy & Performance Board

DATE: 31st July 2012

REPORTING OFFICER: Operational Director – Finance

SUBJECT: Localisation of Council Tax Support

PORTFOLIO: Resources

WARD(S): Borough-wide

1. PURPOSE OF REPORT

1.1. To enable the Board to recommend to Executive Board to consider the 'Localisation of Council Tax Scheme' for public consultation.

2. RECOMMENDATION: That the Localisation of Support for Council Tax outlined in this report be recommended to Executive Board for public consultation

3. BACKGROUND

3.1. As part of the 2010 Spending Review the Government announced an intention to localise support for Council Tax from 2013-14 and to reduce expenditure on this benefit by 10%. The Welfare Reform Act 2012 provides for the abolition of Council Tax Benefit. Provisions for the localisation of Council Tax support are included the Local Government Finance Bill which is currently before Parliament. It is expected that a one-off transition to the new localised schemes of support will take place in April 2013.

3.2. Although the proposals are for each Local Authority, either on its own or in partnership with other authorities, to draw up its own scheme there are certain areas which the Government is not leaving to local discretion.

3.3. The Government has stated that there will be a 10% overall reduction in the amount of expenditure on this scheme. The implications of this are that there will be approximately £1.4m less paid out in help towards Council Tax in Halton.

3.4. The Government has made clear its intention that no pensioner will be worse off when Council Tax Benefit is abolished. This is to avoid low-income pensioners experiencing any increase in their Council Tax liability as a result of the reform and will also ensure that future eligible pensioners will have the same support as existing eligible pensioners.

- 3.5. At present, Halton has a Council Tax Benefit caseload of some 15,400. Of these 6,400 are pensioner households. This means that for non pensioner households the overall reduction will be closer to a reduction of some 17%.
- 3.6. There may also be other groups who could struggle to pay Council Tax who the Government may wish to ensure that local authorities offer support. Decisions to extend protection to other groups will need to be balanced by the need for local authorities to manage the financial implications of offering support for Council Tax, and the potential impacts on Council budgets and other Council Tax payers.
- 3.7. At present these groups are not defined, but the implication is that each local authority may choose to define groups of people most in need who will warrant protection as well. The consequence of widening any protection is that there will be even less help available to the remaining caseload.
- 3.8. The new scheme needs to be in place by April 2013. In reality, due to the setting of Council Tax and billing process, a new scheme would need to be in place by October 2012. If a local scheme is not agreed by the 31st January 2013 then a default scheme will be imposed by the Government. The default scheme is to all intents and purposes the existing scheme and would leave the Authority with a £1.4m shortfall.
- 3.9. Once a draft scheme has been agreed by Executive Board the scheme needs to go out to public consultation.

4. GRANT ALLOCATION

- 4.1. On 17th May 2012 DCLG issued a consultation and statement of intent covering Council Tax funding arrangements and a statement of intent in respect of localising support for Council Tax. The papers set out how DCLG will make funding available at a level consistent with 90% of the forecast Council Tax Benefit expenditure for 2013/14, estimated by the Office of Budget Responsibility (OBR). The OBR forecast a 2.3% decrease in the volume of Council Tax subsidy claimants up to 2013/14; this has left local government with a likely greater than 10% cut on the actual level of expenditure in 2012/13. Therefore those areas which will see an increase in the number of Council Tax Benefit claimants will be further disadvantaged.
- 4.2. DCLG have estimated that the total level of expenditure available for distribution as part of the Council Tax Support Grant will be £3,697m to billing and major precepting authorities based in England. The total amount of available funding will then be distributed according to the 2011/12 annual subsidised expenditure on Council Tax Benefit for each billing area.
- 4.3. Within each billing area, the proportion of funding made available to billing and major precepting authorities will be based on their shares of Council Tax for 2012/13.

- 4.4. The consultation on funding arrangements for the Council Tax Support Grant set out the indicative allocations that would be allocated to each billing and major precepting authority under the Government's intended approach. The indicative allocation for Halton is £8.278m, which is a £1.1m (11.73%) decrease on the annual subsidised expenditure for 2011/12 of £9.378m. The indicative grant allocation (relating to Halton) for Cheshire Police is £1.093m (a decrease of £0.2m), for Cheshire Fire is £0.483m (a decrease of £0.1m), and for Parish Councils is £11,000.
- 4.5. The reason for the increase being greater than the 10% headline reduction is due to the OBR forecast reduction in the number of claimants, no allowance is given for regional variations in claimant numbers.
- 4.6. The indicative allocations are subject to change dependant on revised forecasts of subsidised Council Tax Benefit expenditure. In areas where expenditure on Council Tax Benefit forms a relatively high proportion of overall revenue expenditure the government proposes minor adjustments to the way funding is distributed. This is to ensure that no local authority faces a revenue budget pressure greater than a specified percentage as a result of the reduction in funding. Ceiling and floors will be created so that no authority faces a cut due to Council Tax Support of greater than 0.86% of their revenue expenditure.
- 4.7. Halton will not be affected as a result of the proposed policy as it is estimated that the cut in grant is 0.39% of revenue expenditure.
- 4.8. The introduction of Council Tax Support grant in 2013/14 will reduce the authority's Council Tax requirement and tax base and therefore will reduce the ability for the authority to generate additional income via Council Tax. For example, the 2012/13 Council Tax requirement for Halton is £43.468m; a 1% increase to Council Tax would increase income by £0.435m. Using indicative allocations, in 2013/14 the Council Tax requirement will be reduced by the Council Tax Support grant to £35.190m, each additional 1% increase to Council Tax will now only generate £0.352m.

5. COST TO HALTON

- 5.1. Under the existing scheme, the authority is reimbursed 100% on the amount of Council Tax Benefit paid out correctly, with the exception of the discretionary War Pensions Scheme. Under the new arrangements the authority will be given a cash specific sum. Therefore any expenditure above the cash limited sum will have to be met pound for pound by the authority, resulting in either a large Council Tax increase or further cuts in local services.
- 5.2. Under any new scheme the demand for assistance would have to be gauged when deciding the scheme if the authority wants to remain within budget. The demand for assistance cannot be determined with any certainty especially at times of economic difficulty. The proposed fixed grant to local authorities represents a significant financial risk as it will not include any provision to manage increased take up and demand.

- 5.3 Due to the reduction in overall payments some Council Tax payers who have previously had their Council Tax met in full by benefit may, under any local scheme, be billed for the first time. This will have a major impact upon the recovery of Council Tax, with implications for recovery procedures, staffing levels and the cost of recovery, in addition to confusion for many Council Tax payers in the Borough. Dependent upon the local scheme there may also be the challenge of collecting relatively small amounts of Council Tax from these people with all the associated problems which were highlighted under the Poll Tax.
- 5.4 The introduction of the new scheme will have implications with regard to the IT system currently used for paying Council Tax Benefit and the Department of Works and Pensions are in discussions with the major software suppliers. At the present moment Northgate, the Councils supplier of the Revenues and Benefits system, are anticipating to make amendments to the system to accommodate the proposed change. This will not be deliverable until the autumn and hence cannot be guaranteed until that date
- 5.5 The Government has stated that local authorities can collaborate to develop schemes. However, much of the design of the scheme will depend upon local circumstances and make up of caseload.
- 5.6 The Government is clear that it is essential that any local scheme aligns with Universal Credit and reflects the key principles for incentivising people to work:
- People should get more overall income in work than out of work.
 - People should generally get more overall income from working more and earning more.
 - People should be confident that support will be provided whether they are in or out of work, that it will be timely and correct, and that claiming will not be a complicated and frustrating experience.
- 5.7 Details of Universal Credit however are still at a high level and in any event the localised scheme will have been introduced in advance of Universal Credit.

6.0 FUNDING ALTERNATIVES

6.1 There are 3 alternatives to meet this cost:

- Increase the Council Tax. This would mean an increase of 3½ % to recoup the shortfall in grant. Each year the Government set out an increase that is deemed excessive and therefore subject to local referendum. The required increase may be deemed excessive and any increase directly supporting benefit may result in an adverse reaction from Council Taxpayers. In addition any increase would mean there would be little or no opportunity to increase Council Tax to balance the budget if this option were taken.

- Cut budgets. The Council has already been faced with big cuts in budgets in the last 2 years and is faced with a further £25m over the next 2 years.
- Ring fence within Council Tax Benefit. This would mean reducing benefit payments in the Borough.

7.0 PROPOSAL

- 7.1 The existing regulations relating to Council Tax Benefit are used as the basis of the Local Support Scheme for Halton. This will ensure that existing support for claimants with disabilities, claimants with children and claimants who are working are maintained.
- 7.2 At the end of the existing calculation an appropriate percentage reduction is made from every non pensioner award of benefit to cover the shortfall in the government grant allocation for Halton. This deduction will be in the region of 21.55%. This would ensure that the bulk of the shortfall would be contained within the overall support awarded to claimants. This percentage is to be reviewed later in the year when the actual grant allocation is known. Further reviews to take place on an annual basis.

8.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

- 8.1 As the Council administers over £11m of Council Tax Benefit, changes to this scheme will have major implications both for recipients of any new scheme, as well as for Council Tax payers generally. It has the potential to affect all Council priorities.

9.0 RISK ANALYSIS

- 9.1 In view of the proposed new funding arrangements the Council carries the risk that the cost of any scheme which exceeds the Government's grant allocation will need to be borne in full by the Council. This will therefore be reflected in the Medium Term Strategy.
- 9.2 The introduction of the new scheme will have implications with regard to the IT system currently used for paying Council Tax Benefit and the Department of Works and Pensions are in discussions with the major software suppliers. At the present moment Northgate, the Council's supplier of the Revenues and Benefits system, are anticipating to make amendments to the system to accommodate the proposed change. This will not be deliverable until the Autumn and hence cannot be guaranteed till that date. The risk will be reduced by working closely over the coming months with Northgate Information Solutions, who supply the existing Revenues and Benefits system, to make best endeavours that the adaptations for Halton are deliverable on time.
- 9.3 Due to the reduction in overall payments some Council Tax payers who have previously had their Council Tax met in full by benefit may, under any local

scheme, be billed for the first time. This will have a major impact upon the recovery of Council Tax, with implications for recovery procedures, staffing levels and the cost of recovery, in addition to confusion for many Council Tax payers in the Borough. Dependent upon the local scheme there may also be the challenge of collecting relatively small amounts of Council Tax from these people with all the associated problems which were highlighted under the Poll Tax. This will therefore be reflected in the Medium Term Strategy.

10.0 EQUALITY AND DIVERSITY ISSUES

10.1 Any local scheme would need to ensure that no particular groups of individuals were adversely affected by the change and take into account that pensioners are to be protected. An Equality Impact Assessment will need to take place once the Scheme is agreed.

11.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

Document	Place of Inspection	Contact Officer
Localising support for Council Tax in England DCLG Consultation document	Revenues & Benefits & Customer Services Division Kingsway House Widnes	Peter McCann