

CABINET

Agenda Item 245

19 April 2012

Brighton & Hove City Council

Subject:	Preparations for Council Tax Support System		
Date of Meeting:	Cabinet 19th April		
Report of:	Director of Finance		
Lead Cabinet Member:	Cabinet Member for Finance & Central Services		
Contact Officer:	Name:	John Francis	Tel: 29- 1913
		Graham Bourne	29- 1800
	Email:		
Key Decision:	No	Forward Plan No:	
Ward(s) affected:	All		

FOR GENERAL RELEASE/ EXEMPTIONS

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The Government has decided that there will no longer be a national Council Tax Benefits system from 1 April 2013. Instead the council will need to introduce its own local Council Tax Support system. The Government's assumption following the last Comprehensive Spending Review is that there will be a 10% reduction in expenditure through these changes from 1 April 2013 and that it will be for local authorities to determine how to manage that funding reduction. Brighton & Hove City Council will receive approximately £2.5m less money from Government as a result of this change.
- 1.2 The council will need to consider a wide range of policy and financial issues in the design of the new system. There are important links to wider welfare reforms at a national level and existing council policies such as the Child Poverty Strategy, Housing Strategy, work on Financial Advice and Inclusion, Customer Access and Digital Inclusion. It also has a significant bearing on the council's corporate plan objective of reducing inequality,
- 1.3 The timelines set by the Government to develop and implement a new system are very challenging and there are a number of constraints on the choices available to the council which are outside the council's control. This report highlights some of the key issues that need to be considered and starts a process of strategic planning and widespread engagement and consultation to support the more detailed decisions that will be taken later in the year. It is important to note that there is key information from the government that will not be available for many months and so the timelines and assumptions in this report are provisional only and will be updated and improved as the year progresses.

2. RECOMMENDATIONS:

- 2.1 That options for a new local Council Tax Support system are modelled on the basis of a maximum discount scheme as set out in paragraph 3.14.

- 2.2 That the provisional timeline for decisions as set out in paragraph 3.20 be noted.
- 2.3 That the initial programme of engagement and consultation on the key issues set out in section 4 be agreed.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

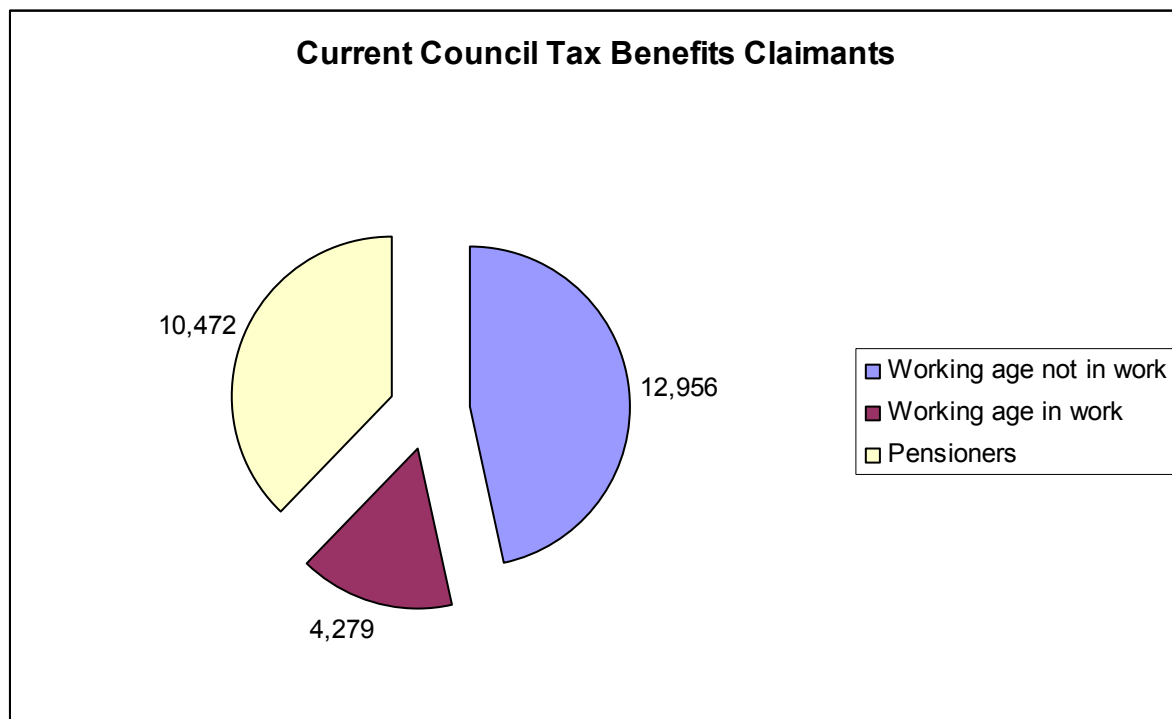
- 3.1 Currently Council Tax Benefits is a national system for low income households. You may get Council Tax Benefit if you pay Council Tax and your income and capital (savings and investments) are below a certain level. You may apply whether you rent or own your home, or live rent-free. You could qualify if you are out of work, or in work and earning a wage. Individuals apply for Council Tax Benefits through a single application process for Housing & Council Tax Benefits. If you are eligible for council tax benefits you will receive a reduction in your council tax bill and the council receives grant to pay for this.
- 3.2 The government is making major changes to the welfare reform system. As part of this Housing Benefits is transferring to a new national Universal Credit system. An outline of these wider changes is set out in the Appendix to this report. These changes will have a significant impact on households in the city, on council services and provision in the city. This report is not designed to explore this in detail but it is important context for the changes to Council Tax Benefits.
- 3.3 As part of the Comprehensive Spending Review the government announced plans to introduce a localised system of council tax support from 1 April 2013 and that expenditure would be reduced by 10% from that date. In December 2011 the government published its response to the consultation it had undertaken earlier in the year, reconfirming this timetable and expenditure reductions. That consultation response reiterates a number of principles that underpin the plans as follows:

The Government is clear that localisation is the most effective means of ensuring sufficient local flexibility to secure the planned reduction in expenditure, reflecting local circumstance and priorities.

This is part of a wider set of reforms to the welfare system: improving the incentives to work and ensuring resources are used more effectively, so reducing worklessness and ending a culture of benefit dependency.

Localisation is part of a policy of decentralisation that will give local authorities increased financial freedoms and a greater stake in ensuring local tax payers are supported into work and how resources are used to achieve that. It is one of a number of reforms introduced by this Government to increase local financial accountability and decision-making, ensuring that councils benefit from the proceeds of growth and are accountable for decisions over council tax.

- 3.2 In Brighton & Hove, based on November 2011 caseload, there are nearly 28,000 claimants of council tax benefit at a cost of an estimated £25m. A 10% reduction in that spend therefore equates to £2.5m. The high level caseload by claimant type is shown in the diagram below:



Pensioner protection

- 3.3 The government has stated that council tax support for older people will not be reduced as a result of the introduction of this reform. This is because 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 support for their council tax. Pensioner protection will be achieved by keeping in place national rules.
- 3.4 The effect of pensioner protection means that the reduction in expenditure will need to be delivered across the other claimant groups. On average this would mean a reduction of £145.05 per annum, or £2.79 per week.

Vulnerable groups

- 3.5 The council needs to give consideration to vulnerable groups in the design of a new system. The government's consultation response appears to be less prescriptive about how this should be done than perhaps originally envisaged. Rather the government draws councils' attention to existing responsibilities including the Child Poverty Act 2010, the Disabled Person Act 1986 and the Housing Act 1996 as well as the public sector equality duty in section 149 of the Equality Act 2010.
- 3.6 The decisions about vulnerability will have to be made in the broader context of welfare reform which includes reductions in Housing Benefit levels and changes to national benefits. In addition the Council will assume responsibility from DWP for some aspects of Social Fund payments alongside increases in provisions for Discretionary Housing Payments. A single view of vulnerability over these

schemes will target resources appropriately and avoid duplication. The council will also need to look at other services which provide emergency payments including to prevent homelessness and to help support vulnerable families and prevent children entering the care system.

- 3.7 The proposed approach to community engagement and consultation and Equalities Impact Assessments will be an important part of this process.

Work incentives

- 3.8 The government sees the council tax support reforms as part of the wider set of changes to reform the welfare system, particularly supporting work incentives. It envisages that localisation gives local authorities a financial stake in the provision of support for council tax and a strong interest in helping to move local taxpayers into work.
- 3.9 There will be significant challenges for the council in designing a scheme that complements the Universal Credit's work incentives principle particularly given that the council tax support changes come in advance of detail on how Universal Credit will work. There are also administrative complexities and costs in achieving this and indeed the council has previously made representations that it would be more efficient for council tax support to be part of Universal Credit rather than separate local schemes.
- 3.10 There are a number of ways that the council could support work incentives, for example "run-ons" where council tax support awards continue unchanged after someone returns to work. However the council will need to balance the financial cost of supporting incentives to work with the additional savings this would require from claimants out of work and its duties towards vulnerable groups. Understanding the options in this area and the potential consequences will be part of the next stage of analysis.

Design of the new scheme

- 3.11 Any tax and benefits scheme needs to consider the trade off between simplicity and transparency and fairness and policy objectives. In addition to the overarching financial considerations the parameters of the new scheme will need to have regard to:
- Government requirements
 - Local economic conditions
 - Local policy priorities
 - Demographic changes
 - Compliance with legal duties and risk of legal challenge
 - Software constraints, particularly in the short term
 - The consequences of behavioural change by individuals
- 3.12 The timescales for implementation are extremely challenging and there will be limits on the scheme design choices available to the council at least in the short term. It will be important for the council to closely monitor the impact of its first scheme in order to ensure it can be refined and improved over time.
- 3.13 Three high level options have been identified for a possible scheme design:

- Minimum payment
- Changes to means testing
- Maximum discount

These are explained in more detail in Appendix 1 including examples and advantages and disadvantages. In simple terms a minimum payment scheme is one where everyone pays a certain minimum amount towards their council tax irrespective of their income and circumstances. Changes to means testing would alter who is eligible for support. A maximum discount scheme effectively puts a ceiling on the amount of council tax support that can be received in a given circumstance.

- 3.14 It is proposed that a maximum discount scheme is used as the basis for developing the next series of options. A variety of potential models within this will be explored and be considered as part of the next stage of decision making.

Working with neighbouring authorities

- 3.15 The option is open to the council to work with neighbouring authorities to design a council tax support scheme that covers a wider geographical area. It is likely that counties and districts will need to work together in their area to design single schemes because of the complexity of precepting arrangements. It is important to note that there is a significant difference in the demographics and policy priorities of our urban city environment to those of our generally more rural neighbours.
- 3.16 Given these factors and the governance and decision making challenges of working cross local authority boundary in the timeframes available it is proposed that the council works on the basis of designing its own local scheme at least initially. Officers however will remain in close contact with neighbouring authorities, other unitaries and colleagues in London to ensure we share best practice wherever possible.

Timetable

- 3.17 The Welfare Reform Act 2012 states that Council Tax Benefit will be scrapped from April 2013. Provisions for Council Tax Support are included in the Local Government Finance bill. Detailed draft regulations on the scheme are expected in June or July with the regulations provisionally timetabled to be laid in autumn. The Finance Bill states that the Council must have a scheme in place by 31st January 2013., the default being the current scheme continuing in 2013/14 with the Council absorbing the funding shortfall.
- 3.18 Our current software suppliers have committed to develop a system based on the draft regulations, it is anticipated they will seek to share the risk to the development resources invested. Limits in the capabilities of the system, especially in the first year, may restrict what can be delivered irrespective of local preference. Our current understanding is that pricing levels will not invoke European Union tender requirements
- 3.19 The Revenues and Benefit services send Council Tax bills to 120,000 residents in March. Lead in time for this work is four months and includes the calculation of

Council Tax Benefit/Support. In practice this means an agreed scheme will need to be in place by the beginning of December 2012.

3.20 A high level timetable for formal decision making and public engagement and consultation is proposed as follows:

May 2012:	Preliminary engagement and consultation on high level principles and issues
July 2012:	Proposed scheme agreed by Policy & Resources Committee for formal consultation
August/September 2012:	Formal consultation on proposed scheme
October 2012:	Final scheme agreed by Policy & Resources Committee
November/Dec 2012:	Software and systems design Final financial implications included in budget planning for 2013/14
January 2013:	Testing for annual billing run Council Taxbase set Specific communication with 28,000 affected households setting out changes
February 2013:	Council sets its budget
March 2013:	Council tax bills issued

There is a detailed project plan that incorporates a wide range of other tasks.

4. COMMUNITY ENGAGEMENT AND CONSULTATION

- 4.1 It is intended to split the planned engagement and consultation into two phases. Firstly there will be a preliminary look at the high level principles and issues. Discussions are ongoing with the Community & Voluntary Sector Forum about options for structuring that dialogue with a wide range of communities of interest. The council will also seek engagement from the Advice Partnership. While feedback will be sought on the options for the council tax support system, this will be done in the context of the implications of the wider welfare reforms and other national and local policy direction. As an example, strong links will be made with the council's work on financial inclusion, child poverty, vulnerable adults and reducing inequality. This will provide the council with important information about how its other services can respond to these issues.
- 4.2 The council is required to hold a public consultation on its proposed scheme and this will be the second part of the process. The government has said that it will consult with local authorities and other groups whether it is desirable to prescribe in regulations how the public consultation will operate.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 The total cost of the current council tax benefits system in Brighton & Hove is estimated at £25m in 2011/12 and a 10% reduction in that expenditure equates to £2.5m. Council tax benefit relates to support for the council tax bill as a whole which includes precepts from Sussex Police Authority (SPA) and East Sussex Fire Authority (ESFA) as well as the council's element (which is the largest at 85% of the total). The new funding mechanism for council tax benefit will reduce the resources collected through the collection fund and distributed to the three authorities. Each authority will receive grant for council tax support from 1 April 2013 to replace this reduction after allowing the 10% saving, and the government is currently considering the options for distributing this grant for the first two years of the scheme. This means that both SPA and ESFA share the risks and benefits of fluctuations in demand for council tax benefit, and have a significant financial interest in the new local scheme. A detailed technical consultation on the funding is expected shortly. It is not clear how the government intends to deal with increases in council tax and demographic pressures in future years including changes to economic conditions and changes to take up rates. It would be reasonable to assume given the stated principles for the scheme including localism that there would be significant risk transfer to local authorities through this process.
- 5.2 The introduction of new benefit related discounts will also reduce the taxbases for Rottingdean Parish and the Enclosure (Garden Squares) Committees. This would mean that in order to raise the same amount of money there would need to be a consequent increase in council tax for the residents of Rottingdean and those living around the garden squares. The size of the increase would depend on the proportion of discounts attributable to these areas. CLG are currently considering various options which minimise the administrative burden and potentially avoid the need to raise the council tax for these residents.
- 5.3 The council will also receive funding for the administration of the new council tax support system. The grant for the administration of the combined housing and council tax benefits system is £3.0m for 2012/13. It has been estimated by DWP that around 75% of those costs are shared across the two systems. While there will be savings for DWP of incorporating housing benefits into Universal Credit, in net terms there will be an increase in the administration costs for the council of the new council tax support system and it is not clear whether this will be fully funded although the CLG approach to funding new burdens suggests that it should be. It is however clear that the planned savings on council tax benefit cannot in these circumstances be made through administrative efficiencies.
- 5.4 The council will have to design a new council tax support system that achieves a balance between delivering the expenditure reductions required and managing any adverse knock on financial consequences on other council budgets, for example homelessness. It will also need to consider the impact on collection rates for council tax as there will be a significant increase in the volume of individuals paying small amounts of council tax. The council has a good track record in efficient council tax collection and takes a firm approach to ensuring those who can pay do. However there may be an increase in the number of

those households who find it difficult to pay because of the cumulative impact of this, other welfare reforms and other changes to household income and costs. A small reduction in the council tax collection rate has already been included in the council's medium term financial strategy as a consequence but provision of high quality financial advice and support both by the council and by advice agencies will be essential to ensure that this does not become more problematic.

- 5.5 The council will experience a funding reduction from this change, irrespective of the amount of savings it plans to deliver through any new scheme. Therefore if it does not make savings in council tax support equivalent to the £2.5m funding reduction, additional savings will need to be found from other council budgets to compensate. As part of the next stage of the planning process, officers will explore the new freedoms for certain council tax discounts and exemptions and identify options for generating additional income that can be considered alongside the council tax support changes. Decisions on the new scheme and its financial implications will be made in advance of formally setting the 2013/14 budget.
- 5.6 The council has set aside in its 2012/13 budget £750,000 of one off resources to support the move to the new council tax support scheme. Part of this may be needed for implementation costs, depending on whether that is fully funded by central government. Those implementation costs will include things like project management, consultation and engagement and significant ICT costs from software design, implementation and testing. Aside from this the one off resources is intended to be available to support the transition process, for example it could be used to smooth the impact on those claimants worst affected through some form of transitional relief. These options will be considered as part of the next stage of the planning process.

Finance Officer Consulted: James Hengeveld

Date: 19/03/12

Legal Implications:

- 5.7 The current Council Tax Benefit system is abolished by Section 33 of the Welfare Reform Act 2012, which received Royal Assent on 8th March 2012. The Local Government Finance Bill (the Bill) contains the proposal for the replacement of Council Tax Benefit with local "council tax reduction schemes" to be designed by individual local authorities. The Bill prescribes certain steps in the design of the local scheme, such as consultation and publication, and enables the Secretary of State to introduce both Regulations and Guidance relating to the local schemes. The Government has indicated that Regulations will ensure that pensioners will not lose or gain relative to the current system.
- 5.8 It is intended that all provisions in the Bill will have effect from 1st April 2013 and local authorities, as the timetable currently stands, will be required to have their schemes in place by 31st January 2013.
- 5.9 As set out in the body of the report, the timescales for designing, consulting on and implementing a new scheme are tight. The proposals set out in the report reflect the position as it is currently known and present the Council with appropriate first steps to being in a position to comply with the new requirements. A detailed impact assessment will be required to be considered alongside the

new scheme. There will also be a need for an internal and external appeals system.

Lawyer Consulted: Elizabeth Culbert

Date: 22/03/12

Equalities Implications:

- 5.10 Careful consideration will need to be given to the assessment of the equalities implications throughout the design and implementation of the new scheme. A thorough consultation and engagement process is being designed to support this. A full Equalities Impact Assessment will be prepared to support the decision on the proposed scheme and this will be refined following feedback from the formal consultation process and used to inform the decision on the final scheme.

Sustainability Implications:

- 5.11 The design of the new council tax support system impacts on the One Planet Living Principle of “Equity and Local Economy” and this will be considered in the next stage of the planning process.

Crime & Disorder Implications:

- 5.12 No direct crime and disorder implications have been identified at this stage in the planning process.

Risk and Opportunity Management Implications:

- 5.13 The introduction of this new scheme has wide ranging risk management implications and it has already been included on the council’s corporate risk register. A range of risks associated with the scheme have been identified in the main body of this report. A detailed risk assessment will undertaken as part of the next phase of the planning process and a risk log will be maintained and reviewed through the project management arrangements.

Public Health Implications:

- 5.14 Alongside the Equalities Impact assessment it is proposed to undertake a formal Health and Wellbeing Impact assessment.

Corporate / Citywide Implications:

- 5.15 These changes have far reaching consequences for the city and for council services including for the council’s priority to reduce inequality. The next stage of the planning process including the engagement and consultation activity will help to identify these in more detail.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 6.1 At this stage no formal decisions are being taken on the proposed scheme, although the preferred approach of a maximum liability design has been set out alongside the potential alternative options. Any decision not to implement a new scheme would have very significant financial consequences for the council.

7. REASONS FOR REPORT RECOMMENDATIONS

- 7.1 To commence the process of designing a new council tax support system for implementation from 1 April 2013.

SUPPORTING DOCUMENTATION

Appendices:

1. High level scheme design options
2. Update on wider welfare reforms

Background Documents

1. Localising support for council tax in England: Government's response to the outcome of consultation (CLG December 2011)

