

Item No. 14.	Classification: Open	Date: 17 July 2012	Meeting Name: Cabinet
Report title:		Local Council Tax Support Scheme	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Finance, Resources and Community Safety	

FOREWORD - COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY

This report considers government's decision to abolish Council Tax Benefit, as part of its wide-ranging changes to the welfare state, and the council's role in providing the new local Council Tax Support scheme to replace it. Government is only providing funding for this scheme at 90% of the expenditure needed to provide Council Tax Benefit.

The council has been asked to develop a proposal for the Council Tax Support scheme. Given that government's annual settlements with the London Borough of Southwark have decreased substantially since May 2010 and are set to decrease significantly further in future years, it is unable to cover the estimated shortfall in funding of at least £2.8m without impacting on either services or the level of Council Tax. As government has directed that pensioners should receive 100% Council Tax Support, the council can afford to give 85% Council Tax Support to claimants of working age without detriment to services or the level of Council Tax.

The proposals set out in this report set out to do this. Cabinet is being asked to agree this as the proposed scheme for consultation with the public, before taking the final decision in October.

We recognise the difficulties that this government policy will create for some of the poorest communities and residents in the borough, and commit to continue to lobby government against these changes in funding arrangements

I am therefore asking the cabinet, after consideration of the officers' report set out from paragraph 1 onwards to approve the recommendations below.

RECOMMENDATIONS

That Cabinet:

1. Note that as Council Tax Benefit (CTB) is to be abolished from 1 April 2013, the council is required to adopt a Local Council Tax Support (CTS) scheme in its place by 31 January 2013 with a 10 per cent reduction in funding.
2. Approve the underlying principles to approaching this change in government funding as described in paragraphs 12-14.

3. Approve, subject to consultation, the proposed option for CTS, detailed at Appendix A (model 10) in this report, which will result in capping future council tax support to 85 per cent.
4. Approve the proposed consultation strategy and the 8 week consultation period.
5. Approve the principles underlying the consultation as outlined in paragraphs 45-52 of this report.
6. Approve in principle the proposal for the removal of the current second adult rebate element from the new scheme noting the need to consider again in October following the outcome of the consultation process.
7. Note that following consultation a further report will be presented to cabinet in October 2012 seeking recommendation to council assembly in November 2012 for adoption of the Local Council Tax support scheme.

BACKGROUND INFORMATION

8. Since the introduction of council tax in 1993, the council has administered a Housing and Council Tax Benefit Scheme. The purpose of the Council Tax Benefit (CTB) element of this was to assist those on low income to pay their council tax by way of a means tested benefit scheme. The benefit has been administered by councils in accordance with national legislation, under direction of the Department for Work and Pensions (DWP).
9. The government announced in the Spending Review 2010 that support for council tax would be localised with a 10 per cent reduction in funding. On 8 March 2012 the Welfare Reform Act 2012 received Royal Assent. The Welfare Reform Act contains the provisions for the abolition of CTB, paving the way for new localised schemes to be introduced from April 2013.
10. The government also issued a consultation in 2011 on proposed technical reforms to council tax. These included extending the power to councils to set discounts on 2nd homes between 0 per cent and 50 per cent and to abolish exemptions on the main classes of empty property and replace them with locally set discounts. Currently councils have power to award discounts of between 10 per cent and 50 per cent on 2nd homes; in Southwark the 2nd home discount is currently set at 10 per cent and 100 per cent exemption is granted on the main classes of empty property. The government published the response to the consultation in May 2012 and confirmed its intention to bring in regulations in the autumn of 2012 to allow Councils to charge full council tax on 2nd homes and to set locally set discounts of between 0 per cent and 100 per cent on empty property.
11. The Council will therefore consider separately the policy to be adopted on the level of discount to be awarded to owners of 2nd homes and empty property once the governments' intentions are captured within regulations. Whilst this may be considered a potential revenue stream to contribute to the reduction in CTS funding, collection is uncertain. The number of 2nd homes in Southwark is small, accordingly the potential revenue would be minimal at an estimated £180k compared to the reduction in grant proposed. Further in considering a policy on discounts for empty property the Council will need to be mindful of incurring its own liability in this regard.

12. Funding for local schemes will be provided by the Department for Communities and Local Government, by way of a grant to billing and precepting authorities in proportion to their share of the council tax payable. The funding in the first year will equate to an overall 10 per cent reduction in the projected current expenditure on CTB. Under the current scheme expenditure on CTB is fully funded by the Department for Work and Pensions.
13. At current levels of CTB expenditure a 10 per cent reduction in funding is estimated at approximately £2.8m for this council, (£2.1m Southwark element and £0.7m GLA precept). The council and the precepting authorities have to decide whether to pass on what effectively is a cut in benefit expenditure, in full or in part, to the people who currently claim CTB.
14. A local council tax support scheme (CTS) is therefore required and which in its administration and application recognises and provides for the 10 per cent reduction in benefit expenditure.

Local scheme parameters

15. The government has stated that people of pension age will be protected from these cuts so that if they currently receive full benefit entitlement they will not lose out under the new scheme. However, this does mean that if the burden of the 10 per cent cut has to be borne by the remaining working age benefit claimants, the overall cut will translate to a 15 per cent reduction in the current level of support applied to working age claimants.
16. Before adopting a local scheme for CTS, or changing a scheme once adopted, it is a statutory requirement to consult with taxpayers and stakeholders locally.
17. When designing local schemes, authorities should have regard to vulnerable groups and their responsibilities in respect of child poverty, disabled people, and homelessness. In addition, the local authority (LA) has clear duties set out under the Equality Act 2010.
18. There is no specific definition in law or guidance of the characteristics that make an individual 'vulnerable', and no guidance is provided for designing local schemes. The local authority must therefore consider the needs of its communities and in particular take account of relevant statutory duties in relation to the following:-
 - Part 2 of the Child Poverty Act 2010, sections 19-25, which places a duty on LAs to reduce child poverty in their area.
 - Section 1 of the Equality Act 2010: The LA must have regard to disabilities when exercising and when making decisions of a strategic nature to reduce any inequalities.
 - Section 149 of the Equality Act 2010: there is a duty on the LA to eliminate discrimination and advance equality of opportunity. The Equality Act 2010 also sets out those protected characteristics which must be considered as part of the Public Sector Equality Duty under s.149.
 - Homelessness prevention, and duties under the 1996 Housing Act to prevent homelessness.

19. Schemes will need to be consistent with the Universal Credit (UC) principles and should provide incentives to work. The scheme will also need to determine how to include UC in the assessment.
20. Furthermore there are additional requirements on local authorities to;
 - Deliver an operational scheme by April 2013, including financial assessment (means testing) for working age claimants;
 - Have a process in place for managing legacy council tax benefit;
 - Retain a local fraud service for the investigation of council tax fraud;
 - Having a financial contingency in case local support schemes are oversubscribed i.e. the pensioner caseload increases and also take up increases.
 - Enable council tax support to be applied as a discount to the council tax bill; and
 - Ensure a local scheme is agreed by council assembly after consultation with the public and other key stakeholders such as precepting authorities.

KEY ISSUES FOR CONSIDERATION

Default scheme

21. If authorities have not adopted a scheme for 2013/14 by 31 January 2013, then the current council tax benefit scheme will continue as the default position. This would mean that the whole of the financial impact of the 10 per cent funding reduction would fall to the Council and its preceptors and claimants would experience no change.

Approach to determining schemes

22. This report sets out a range of considerations detailing the impact for the council and to its residents.
23. Under the existing CTB provisions there are two categories of council tax benefit claims – Pension Age and Working Age for which different regulations apply. Within both these categories there are two ways of assessing claims – Passported and Non Passported (Standard claims).
24. Passported claims are those from households in receipt of a Passported Benefit. Their income has been means tested by the Department of Work and Pensions as being either below or in line with the minimum level of income the government says they need to live on. For pension age claims this is Guarantee Pension Credit. For working age it is out of work benefits i.e. income based Jobseekers Allowance, Income Support or Income related Employment Support Allowance.
25. Standard claims are those from households not in receipt of a Passported Benefit. They have income above the minimum the government says they need to live on. For pension age this may be a private or occupational pension or possibly some work. For working age this is generally people who are working but on low incomes which may be supplemented by tax credits.
26. Passported claims automatically receive 100 per cent council tax benefit unless they have an adult 'non-dependant' living in their home, in which case a non-

dependant deduction is taken from their benefit award. Standard claims are subject to a full means test by the council and are awarded council tax benefit, reduced by tapers according to the income they are assessed as receiving in excess of the minimum amount they need to live on.

27. There is a further category of council tax benefit within the current scheme known as second adult rebate where benefit is paid to a Council Tax payer not eligible in their own right. It is granted to a single resident who lives with another non dependant adult on a low income, usually a family member such as a grown up child or elderly parent. The fact that the eligibility criteria is based upon the second adults income makes this a complex scheme for customers to understand and complex to administer and take up is historically low. In 2011/12 only 265 applications resulted in payment, with a value of £56k.
28. It is required that local schemes will protect all pensioner claimants therefore the 10 per cent reduction can only be found from the working age.
29. The analysis of the current council tax benefit caseload is shown in the following tables:

Figure 1.

Caseload – Council Tax Benefit (CTB) – May 2012 data

Caseload type	All ages	Working Age	Non-Working Age
Number of claimants	35,577	24,301	11,276
Expenditure	£27.6m	£18.8m	£8.8m

Figure 2.

Working Age (WA) caseload analysis

Passported benefit	Non-passported benefit	Claimant or partner working	Claims with children	Lone parents	Households with a disability
16,813	7,319	4,872	10,895	8,579	4,155

Fairer Future principles

30. The council set out its Fairer Future promises including keeping council tax increases below inflation and also making best use of its money to deliver a fairer future for all. In considering these principles it is necessary to understand how any scheme will impact upon all working age recipients irrespective of the household group whilst striving to ensure that an increase in council tax is not required.
31. Consideration has therefore been given to the local scheme parameters outlined above and the councils stated promise to not increase council tax beyond inflation. Taking these elements into account it may not be possible to avoid passing on the impact of the changes to the working age claimants, whatever their personal or household position. Indeed the impact of the changes on working age claimants in Southwark could be greater than for some other boroughs because of the high number of claimants who are pensioners

and who are therefore protected from any cuts. Furthermore this could mean collecting council tax for the first time from some working age claimants on low incomes.

Modeling activity

32. In common with the majority of authorities therefore modelling activity has been undertaken using the existing working age CTB data. The purpose of this modelling activity has been to drill down into the detail of data to identify individual benefit entitlements, to identify household groups, to identify how many claims are made from those groups and to identify income types and income levels. This information enables the council to determine which combination may be used to support a local scheme. Appendix A sets out an analysis of the working age claimant entitlement together with detail of the models developed.
33. Appendix A also captures the detail of the models developed. Models 1-9 demonstrate that they either do not deliver the level of saving in expenditure required to achieve the 10 per cent reduction, identify too great a saving or are considered so disproportionately unfair among the claimant groups that they could not be considered as a potential proposal.

Preferred option

34. As a consequence of the activity described above only one proposal has emerged which would deliver both the level of reduction in expenditure required to achieve the 10 per cent cut and which does present a level of fairness across the 24,301 working age claimants given the boundaries of the parameters within which the council must work whilst acknowledging the council principles discussed above.
35. This proposal will have an impact across all working age claimant groups, including those in both family and disabled households, to offer protection to all disabled and family groups would disproportionately impact upon the remaining small group of working age recipients. It recognises that all working age claimants occupy households that sit in various council tax bands, therefore the level of council tax support offered is proportionate to level of council tax charged irrespective of the household and band. The proposed scheme also adapts the existing council tax benefit scheme which already offers protection to disabled and family households and also offers work incentives through extended payments.
36. This proposal is recommended as the fairest and preferred approach to achieving the 10 per cent cut in expenditure and the scheme which should be the focus for the consultation with the GLA and our wider consultation audience. The scheme headlines are captured in the table below. The full detail of the impact of the scheme is included in Appendix A Model 10.

Figure 4.

Scheme or Element	Saving achieved	Customer Impact
85% cap applied to current award of Council Tax benefit. Cap equates to a 15% reduction of current benefit award across all working age customers.	£2.8m	Cap equates to an average loss of £116.08 in annual benefit award across all 24,301 working age customers, but ranges from £0.08 to £344.77.

37. Whilst it remains uncertain exactly what approach is being adopted around London it is known from benchmarking and attendance at professional forums that this scheme approach has significant support amongst a number of councils. If adopted this will present some uniformity for customers and claimants and will probably mitigate against “benefit moves” whereby claimants may look across boundaries to see which authority is offering the best local support scheme.
38. The nature of the CTS scheme is one that will require entitlement to support to be shown as a discount on council tax bills from April 2013. Therefore in order to ensure that the scheme is factored into the tax base calculation for 2013/14 the local scheme will need to have been formally approved by the council no later than November 2012. A further report will therefore be presented capturing the outcome and evaluation of the consultation response and seeking formal adoption of the CTS scheme in November 2012.
39. In addition the timescales for implementation are extremely challenging and there are limits upon 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 that it can be refined and improved over time.

Proposed application process from 2013

40. Under Universal Credit, Housing Benefit will begin to be phased out from October 2013 at the earliest and the New Housing Benefit scheme will then be addressed under Universal Credit from April 2014.
41. The requirement under the local scheme is that council tax support shall be a means tested discount, therefore as applications for housing benefit will continue “as is” in 2013 the existing processes and systems can be adapted. The advantages of this are numerous both for the claimant and the council including established access channels, systems and processes and staff familiar with processing.
42. It is not proposed therefore to develop a new application process at this time. The existing application process will therefore remain in place, however this position will remain under review in 2013/14 as the plans for the introduction of universal credit emerge.

Technical changes to include in local scheme proposal

43. The introduction of a local scheme does present an opportunity for the technical elements of the existing CTB scheme to be reviewed; such as those which are complex for both the customer and the council or areas where there is very low take up. Consequently the following initial technical change is proposed to be included within the Local scheme for consultation:-
- Removal of second adult rebate entitlement. In common with the majority of London authorities it is proposed that this category of support should not exist within the local council tax support scheme from April 2013. Appendix A Model 9 provides the detail but in summary there were only 265 claims in 2011/12 from working age claimants with a value of £56k. This is complex for customers to understand as it is based upon the income of the second adult's income who is usually a grown up child or elderly parent. However whilst there is no requirement to offer second adult rebate for working age customers, it must be retained in its current state for pensioner age claimants.

Impact on technology

44. As a result of the very limited time available for implementation of a local scheme by April 2013 the advantage of this proposal is that it can be based on the current software system. Our supplier is already working on a range of expected changes to ensure the IT system is capable of delivering the scheme together with any changes to core entitlements in preparation for this date. A full testing programme will form part of the established end of year and annual billing processes.

Consultation approach

45. Before determining a local council tax support scheme local authorities are required to consult with precepting authorities, the public and stakeholders. The GLA have confirmed that they require notice of the approach on which the councils proposes to consult a minimum of one week being before public consultation commences.
46. Although the approach to the consultation is not prescribed, representations about the proposed scheme are to be sought from those likely to be affected by decisions about the design of the scheme and from the groups representing them.
47. The council has reviewed and considered a number of elements that could form part of the scheme, however, it is presenting a preferred approach for consultation. Whilst the approach to the scheme affects all working age claimants it does reduce the impact for all. The consultation with open questions will enable interested parties to comment on the approach and suggest alternatives as appropriate.
48. The timetable for the consultation is set out in the primary timetable below; this reflects the challenging timescales that exist to ensure a scheme is properly adopted.
49. Whilst a 12 week consultation would have been preferable an 8 week window is reasonable given that direct communication and engagement with stakeholders

and support agencies commenced in June preparing them for the commencement of the formal consultation period and alerting them to the support they may provide in that period.

50. The consultation will ensure that those groups representative of those most likely to be impacted by the changes are directly engaged and have the opportunity to express their views on the proposal. They will also be in a position to encourage and support individual engagement into the process from the groups they represent. The schedule will also ensure that there is sufficient time for the response and results to be properly considered and evaluated in preparation for inclusion within the final report.
51. The formal consultation commencing in July will be focused on our local scheme proposal and those wishing to engage will be directed to the council's website to participate.
52. The detail of the consultation plan is captured at Appendix B confirming the groups and level of engagement expected. The questions which will form the basis of the consultation are captured in Appendix C. This report therefore recommends this consultation approach for the local CTS scheme in Southwark.

Primary timetable for local scheme implementation

53. The timetable for implementation is as follows:-

Figure 5.

Activity	Lead	Date
Develop scheme proposals	Revenues and benefits officers	May –June 2012
Model scheme impacts	Revenue and benefits officers	May- June 2012
Develop consultation approach	Revenues and benefit officers/legal and communications	June 2012
Prepare consultation material	Revenues and benefits officers	June/July 2012
Equalities Impact Assessment	Revenues and benefit officers	June – Sep 2012
Share CTS scheme with GLA	Revenues and benefits officers	10 July 2012
Report to cabinet to agree proposed CTS scheme and consultation approach	Strategic Director of Finance and Corporate Services	17 July 2012
Confirm decision with GLA	Revenues and benefits officers	18 July 2012
Activity	Lead	Date
Consultation period	Revenues and benefits officers	18 July – 5 September 2012
Consultation results		6 September to 20

Activity	Lead	Date
gathered and evaluated		September 2012
Primary Legislation passed	DCLG	September 2012
Report to cabinet for recommendation to council assembly	Strategic Director of Finance and Corporate Services	23 October 2012
Report to council assembly to adopt local scheme	Strategic Director of Finance and Corporate Services	28 November 2012
Plan implementation for CTS scheme following decision and DCLG regulations	Revenue and benefit officers	November 2012- March 2013
2013/14 Council Tax base agreed	Council	January 2013
2013/14 Budget agreed	Council	February 2013
Issue 2013/14 Council Tax Bills	Revenues and benefits	March 2013
Go Live with CTS scheme	Revenues and benefits	April 2013

Financial implications 2013/14

54. The current subsidy budget for council tax benefit is £27.8m, some 22 per cent of the total council tax yield. This includes the GLA element, Southwark's share being some £20.8m.
55. The government announced in the 2010 Spending Review that government resources to fund council tax benefit would be reduced by 10 per cent. The government is proposing to replace council tax benefit with grant funding. The council estimates that in consideration of our current benefit caseload and benefit trends the future grant should be £24.8m leaving a potential gap of £2.8m against the current £27.6m if the scheme continues without change.
56. The latest government projections however suggest that this grant will be £24.1m, (£18.0m Southwark and £6.1m GLA), leaving a potential larger funding gap of £3.5m against the current £27.6m if the scheme continues without change. Officers are currently unable to reconcile the government figures and in the absence of confirmed regulations it is unclear how the government has approached their calculations and projections. Officers will continue to keep this under review and will continue to press government for justification of their projections.
57. The government suggests it has based its proposed level of funding for 2013/14 on our projected level of spend and this is lower than our actual spend in 2011/12. The level of spend will be determined by the number of claims made for council tax support in payment, influenced by the number of pensioner and working age claimants, therefore there is an assumption within government that our caseload will decrease this is not however representative of our caseload or caseload trends. However in the alternative if this assumption is

proved wrong and there is a significant increase in claims from working age claimants the council will be required to meet this additional cost.

58. The approach for the localised scheme included in paragraph 34 provides for the deficit being fully funded through reduced benefits to working age claimants.
59. There is a risk that council tax arrears will increase as a result of this new scheme as less support will be available to residents on a low income which will affect their ability to pay the balance outstanding.
60. An initial tranche of £84k in New Burdens funding has been given to Southwark and the DCLG has indicated that additional funding may follow to assist with one-off implementation costs, transition costs and the recurring costs for the first 3 years in operation of the system. The initial grant will be used towards the immediate costs associated with implementation of the new system, consultation, process re-design and any associated staff training.
61. The government intend that the local scheme should be applied by way of a discount, and this will reduce the council tax base. Current estimates show that the discount will be equivalent to approximately 20,400 band D equivalent properties. In an ideal situation, the value of council tax lost from the discount would equal the council tax support grant awarded by the government, however a significant factor in this methodology is that the reduced tax base would reduce the amount that could be raised through a one per cent increase in council tax by some £186k.

Consultation

62. There is a legal requirement under the provisions of the Local Government Finance Bill (currently finishing its second reading in the House of Lords) to consult on the proposed scheme to be introduced. The approach to consultation is described in the body of the report.

Community impact statement

63. An Equalities Impact Assessment (EIA) for the proposed changes to council tax benefit is in the early stages of development. Activity has however already commenced as a consequence of the modelling activity which has taken place to date. However national impact assessments on these changes and the wider welfare reforms will also inform this local EIA.
64. The EIA document will be reviewed continually throughout the consultation process by the service. The decision maker will be provided with comprehensive analysis of the equality implications arising from the proposal and during the stages of the decision making process; this is to ensure that the decision maker has due regard to the implications arising and the public sector equality duty set out under s.149 Equality Act 2010.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Legal Services

65. Cabinet is asked to note the legal basis for the proposed scheme. S.33 of the Welfare Reform Act 2012 provides for the abolition of the council tax benefit. The Local Government Finance Bill went through its second reading in the

House of Lords on 12 June 2012 and sets out to amend the Local Government Finance Act 1992 by inserting a requirement for local authorities to put in place a scheme for council tax support by 31 January 2013. If a scheme is not in place, a default scheme will be imposed on the council.

66. Cabinet is advised that the manner of consultation is set out in Schedule 4 of the Bill and Best Value statutory guidance was published in September 2011 to assist local authorities in conducting the consultation.
67. Cabinet will note the commentary on the proposed consultation contained within paragraphs 43-50 above. The guidance is clear that in order to ensure an effective consultation, the local authority will need to ensure that interested parties can provide their views and influence the design of the final scheme. An 8 week consultation period is permissible, provided that reasons are provided, the reasons are detailed in the report
68. Cabinet is recommended to approve the publication of the consultation.
69. Any decision regarding implementation of a scheme must be taken by full council. Decision makers will be presented with the detail of any proposed scheme and an analysis of the views of interested parties. The legal implications in respect of child poverty and homelessness will also be analysed and presented for consideration by full Council. Decision makers will also be presented with a full analysis of the equality implications. Members are advised that any decision must be taken with due regard to the equality implications outlined; in accordance with the Equality Act 2010 and the public sector equality duty at s.149.

Strategic Director of Finance and Corporate Services

70. The Strategic Director of Finance and Corporate Services notes the recommendations to this report, and that the option proposed will reduce the amount of council tax support by £2.8m by applying an 85 per cent cap on benefit awards to all working age claimants.
71. The Strategic Director of Finance and Corporate Services also notes
 - the potential £800k gap referred to in paragraph 54 between the indicative grant announced by the government and the cost of council tax support if the proposed option is approved, this in effect being a 13 per cent total reduction.
 - that officers will continue to seek clarification from the government on their grant calculation methodology.
 - that the figures included in this report are based on current workloads that may change before final decisions are made in November.
 - the reduction in tax base resulting from the new council tax support relief discount, and its effect on future council tax income and impact on additional resources that would be generated from increases in council tax.
 - that the policy to be adopted on changes to exemptions and discounts through the technical reforms will be subject to a separate report

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Legislative documents (including Welfare Reform and Local Government Finance Act)	www.parliament.uk	

APPENDICES

No.	Title
Appendix A	Working age recipients analysis and models
Appendix B	Consultation plan
Appendix C	Consultation questions

AUDIT TRAIL

Cabinet Member	Councillor Richard Livingstone, Finance, Resources and Community Safety	
Lead Officer	Duncan Whitfield, Strategic Director of Finance & Corporate Services	
Report Author	Mike Lynch, Improvement and Development Manager	
Version	Final	
Dated	5 July 2012	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
	Officer Title	Comments Sought
	Director of Legal Services	Yes
	Strategic Director of Finance and Corporate Services	Yes
	Cabinet Member	Yes
	Date final report sent to Constitutional Team	5 July 2012