

APPENDIX C

GREATER LONDON AUTHORITY

Resources

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Dear Duncan

LONDON BOROUGH OF SOUTHWARK – DRAFT COUNCIL TAX SUPPORT SCHEME GREATER LONDON AUTHORITY RESPONSE TO CONSULTATION

Thank you for your email dated 18 July and attached documentation setting out the draft council tax support (CTS) scheme which the London Borough of Southwark was issuing for consultation with local residents and stakeholders as required under Schedule 4 to the Local Government Finance Bill. The draft scheme published for consultation is summarised in Appendix A to this letter. This letter sets out the Greater London Authority's formal response to this consultation.

Introduction

Firstly the GLA recognises that the determination of council tax support schemes under the provisions of a Local Government Finance Bill is a local matter for each London borough. Individual schemes will need to be developed which have regard to specific local circumstances – both in respect of the potential impact of any scheme on working age claimants (particularly vulnerable groups) and more generally the financial impact on the council and local council taxpayers – and the final policies adopted may differ therefore across the capital's 33 billing authorities for legitimate reasons.

This fact notwithstanding the GLA also shares in the risks and potential shortfalls arising from the impact of council tax benefit localisation in proportion to its share of the council tax in each London billing authority. It is therefore important that we are engaged in the scheme development process and have an understanding both of the factors which have been taken into account by boroughs in framing their proposals as well as the data and underlying assumptions used to determine any forecast shortfalls – which will inform their final scheme design.

We welcome the fact that the London Borough of Southwark's consultation document proposes the establishment a relatively accessible, simple and transparent scheme. The more detailed supporting documentation submitted to the GLA in advance of the formal consultation also provided significant details on the underlying assumptions and data used to frame the draft scheme.

Framing and Publicising Proposals

The Government has expressed a clear intention that in developing their scheme proposals billing authorities should ensure that:

- Pensioners see no change in their current level of awards whether they are existing or new claimants
- They consider extending support or protection to other vulnerable groups
- Local schemes should support work incentives and in particular avoid disincentives to move into work

The GLA concurs with those general broad principles and would encourage all billing authorities in London to have regard to them in framing their final schemes.

It is also essential that schemes are presented in a way which is transparent, understandable and accessible to claimants – and it is therefore desirable if draft and final schemes are accompanied by explanatory information which includes case studies illustrating the potential impact of the proposals on different categories of claimant. Given that the current level of awareness amongst working age claimants likely to be affected by the potential changes is relatively low and may not crystallise until these individuals receive their revised benefit notifications and council tax bills for 2013-14 early next year there remains a significant risk that collection rates will be affected adversely in the first year of the new system.

Financial Context

According to the consultation paper ‘Localising Support for Council Tax in England – Funding arrangements consultation’ issued by CLG in May Southwark is provisionally estimated to receive £18.1m in council tax support grant in 2013-14 with the GLA forecast to receive £6.1m in respect of the Southwark borough area and around £159m for London as a whole. Slightly less than 50% of this funding will be allocated to the business rates retention baseline and will thus have the potential to move in line with the NNDR tax take including the impact of the annual RPI uplift in the multiplier – with the balance being provided through revenue support grant (RSG). The RSG element has the potential to be reduced further over the next CSR period commencing in 2015-16.

In developing its proposals for consultation Southwark has identified a potential difference of around £2.6m between the cost of continuing to provide council tax support on the same basis at a present through the ‘default scheme’ for working age claimants and its expected level of council tax support grant. The forecast shortfall in respect of the GLA’s share is around £0.9m i.e. a total forecast shortfall for the borough of Southwark of £3.5m.

The Council’s draft scheme therefore seeks to identify approaches which would allow it to close the majority of this expected funding gap – with the core element of its proposals being that all working age claimants be required to pay at least 15% of their council tax liability.

Technical Reforms to Council Tax

The GLA considers that in formulating its council tax support scheme each billing authority should both consider and address how it intends to take advantage of the technical reforms to council tax set out in clauses 9-13 of the Local Government Finance Bill which will provide greater flexibility in relation to discounts, exemptions and premiums for second and empty homes. The additional revenues from the technical reforms could be used to reduce any shortfalls and thus the sums which need to be recovered from working age claimants via any changes to council tax support.

We note that the Council has not yet formally considered or determined its position on empty and second homes discounts. As a result this has not yet been considered as a potential revenue stream which could be used to reduce the impact of the council tax support changes on working age claimants. In the GLA's view final decisions on local council tax support schemes should not be divorced from those taken in respect of the technical reforms.

Protecting Vulnerable Claimants

Where boroughs choose not to adopt the default scheme and therefore pass on any shortfalls to claimants they should consider whether it would be desirable to offer protection to the most vulnerable and those in the most difficult circumstances – either within the framework of their scheme or through a hardship scheme.

The GLA notes that Southwark's draft scheme does not provide for any additional protection to any working age claimant group – although pensioners would continue to receive council tax support on the same basis as at present in line with the national framework set by central Government. In the Council's view to offer protection to all disabled and family groups for example would disproportionately impact upon the remaining small group of working age claimants.

Ultimately the decision as to which groups are designated as vulnerable is a matter for local determination having regard to the potential impact on other working age claimants or council taxpayers and service users more generally. We recognise that Southwark has complied with the policy framework set by central government in deciding not to offer protection to specific categories of claimant.

Incentivising Work

The GLA considers that a key priority for the design of a localised council tax support scheme is to ensure that it does not disincentivise those in work or those seeking to move into work. In order to ensure that schemes meet this objective billing authorities should therefore take particular care in determining their policies on earnings disregards and extended payment periods (i.e. run ons).

We would encourage the Council to consider how its final scheme could be designed in a way which does not disincentivise work.

Other Elements of Southwark Draft Scheme

The GLA also notes the other proposed elements of Southwark's draft scheme as set out below:

- the withdrawal of the second adult rebate.
- the retention of the current arrangements for non dependant deductions i.e. the categories of non-dependant and the level of deductions by income band will be the same as in the council tax benefit default scheme regulations at the date the local scheme is created.

The GLA has no specific comments on these two proposed variation at this stage as it regards them as being a legitimate matter for local determination – notwithstanding the need for the Council to consider the equalities impact of its final decision.

Setting the Council Taxbase for 2013-14 and Assumptions in Relation to Collection Rates

The Council will be required to set a council tax base for 2013-14 taking into account the potential impact of the discounts it will be offering in respect of council tax support and the changes in relation to the treatment of second and empty homes.

This will require the Council to make a judgement as to the forecast collection rates from those claimants affected by the changes. It is likely in respect of those working age claimants currently in receipt of 100% benefit that the recovery rates will be significantly below the average percentage collection for council tax as a whole. We also note that the Council does not intend at this stage to offer a hardship scheme.

The GLA would encourage the Council to provide it with an indicative council tax base forecast as soon as options are presented to members for approval in December or January (if not before) in order that it can assess the potential implications for the Mayor's budget for 2013-14. This should be accompanied ideally by supporting calculations disclosing any assumptions around collection rates and discounts granted having regard to the final council tax support scheme design.

Varying Council Tax Payments in Year

The GLA is keen to develop a dialogue with all 33 London billing authorities as to how the budgeting, cashflow and accounting arrangements for council tax support will operate under the new system – particularly in order to manage the sharing of risks. These discussions would also need to address the mechanisms and triggers under which billing authorities will be able to vary their instalment payments to preceptors (i.e. the GLA) in year where, for example, council tax collection rates are lower than anticipated or the actual demand for council tax support is greater than budgeted for.

We anticipate that the Government will address these issues in the secondary legislation on council tax support and business rates retention in the autumn – as similar issues are also likely to apply where business rates revenues are lower than forecast.

In the absence of any nationally prescribed policy the GLA would be keen to develop a common wide approach in London which would apply equally across all 33 billing authorities.

This could for example follow the current approach used for the Crossrail Business Rate Supplement where instalments may be varied no more than once per quarter with the trigger for any variation being where the forecast shortfall in revenues exceeds a set percentage of the total precept instalments payable for the year. This would recognise that there is a balance to be struck between cashflow and resource management and the additional administration which would result for both parties if instalment payments were to be changed.

In practice – where in year forecast shortfalls are not material – the GLA would envisage that any deficits would be recovered through the collection fund deficit calculation in January in the normal way (and thus recovered in the following financial year in cash terms).

I would like to thank you for consulting the GLA and we look forward to working with the London Borough of Southwark over the coming months in order to ensure the successful implementation of the council tax support localisation reforms.

Yours sincerely

Martin Mitchell
Finance Manager

SUMMARY OF DRAFT COUNCIL TAX SUPPORT SCHEME PROPOSED FOR CONSULTATION BY THE LONDON BOROUGH OF SOUTHWARK

At present there are approximately 35,500 council tax benefit claimants in Southwark of which around 24,300 are of working age. Of these around 16,500 are working age claimants passported by DWP who therefore pay no council tax at present.

The Council has identified a potential £2.6m funding shortfall (the difference between providing council tax support to all claimants on the same basis as at present with its forecast council tax support grant of £18.1m). The GLA's potential shortfall in respect of Southwark is around £0.9m against its notional support grant allocation for that borough of £6.1m. This makes a combined total forecast shortfall according to the Council's estimates of £3.5m.

The Council launched its consultation on 18 July with a closing date of 12 September. The consultation was published at the following link

http://www.southwark.gov.uk/downloads/200442/council_tax_benefit_is_changing

The Council's draft scheme will apply a 85% cap to the current council tax benefit award for each working age claimant. This will have the effect of reducing benefit awards by 15% for the existing working age caseload of 24,300 claimants. The cap equates to an average loss of £116.08 in annual benefit award across all 24,301 working age customers, but the impact based on 2012-13 council tax levels ranges from an 8p annual change for one claimant receiving limited council tax benefit at present to as much as £344.77 (e.g. a claimant in a property in the highest council tax bands).

This draft scheme proposes to keep the current system of making deductions from the eligible council tax for each non-dependant person in the household. It proposes that the categories of non-dependant are set out as they are in the council tax benefit regulations at the date this scheme is created. It proposes that the income brackets may be altered in line with the general uprating arrangements in the scheme. As the final stage of the assessment, the 85% cap would be applied following any deduction made in respect of a non-dependent.

Consideration will be given by the Council as to how to determine income from benefits established under the Welfare Reform Act 2012, such as universal credit and personal independence payments, when appropriate regulations have been issued by central Government, setting out the method of calculation for these benefits.

The Council's scheme does not provide for any additional protection to any working age claimant group – pensioners would continue to receive council tax support on the same basis as at present in line with the national framework set by central Government. In the Council's view to offer protection to all disabled and family groups for example would disproportionately impact upon the remaining small group of working age claimants.

The Council also proposes to abolish the second adult rebate. This applies at present where a customer who is working and not receiving council tax benefit has another adult occupier in their property who is on a low income but who is not for example

their partner or a rent paying lodger/tenant. In this case the customer currently receives up to a 25% reduction in council tax due, equal to their single person discount.

Current data suggests that the withdrawal of the second adult rebate would affect 265 claimants in the borough – with an aggregate saving generated of £56,000.