

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
17 July 2012

Subject: WELFARE REFORM APRIL 2013

All Ward(s)
Scrutiny Committees
Portfolio Holder for Revenue & Benefits: Councillor R Kirk

1.0 PURPOSE AND BACKGROUND:

- 1.1 To appraise Members of the impact on the Council's Budget, the Council's Collection Rates of Council Tax & Benefit Claimants following the introduction of changes to Welfare Reform from 1 April 2013.
- 1.2 To offer Members a number of options to establish 'direction of travel' in respect of these changes.
- 1.3 In the Spending Review 2010, the Government announced that it would localise financial support for Council Tax from April 2013. This means that council tax benefit, the current means of helping people on low incomes meet their council tax obligations will be replaced by a new localised support scheme.
- 1.4 These local schemes now have to be designed, implemented and managed by individual local authorities. (See appendix 1 for timetable).
- 1.5 Along with this major change Local Authorities are to be given (from April 2013) more discretion in the way they charge for Second Homes and properties that are empty and those undergoing structural alterations.
- 1.6 The main points of the reform are:
 - The amount of funding provided to District Councils to run a localised scheme will be approximately 10% less than the current Council Tax Benefit spend. On current information available this is £538,000 for HDC (a reduction of 11.9%). This figure relates to the full sum across all precepting authorities. Obviously a 'do nothing option will mean that all precepting authorities will need to subsidise their particular element of the charge. For North Yorkshire County Council this will be in the region of £2.6 million across North Yorkshire and will potentially leave the Council open to a legal challenge. All Councils across York and North Yorkshire (except Harrogate at present) are looking to design a scheme that will be 'cost-neutral' for all precepting authorities.
 - Support for pensioners will not be affected and local scheme rules will only apply to working age people, meaning that the burden of expenditure savings will fall entirely on working age claimants.
 - Vulnerable groups should be protected as far as possible (although no definition of vulnerable has been given)
 - Local schemes should, where possible, support work incentives and, in particular, avoid disincentives to work.

- 1.7 Any Local scheme has to be fully adopted by Members of the Local Authority after a comprehensive consultation exercise has been carried out. The local scheme must be agreed by Members at a full Council meeting (November 2012). Full impact assessments must also be carried out on all of the changes recommended.
- 1.8 A Local Authority must adopt a local scheme by 31 January 2012. If it fails to do so it defaults to the current national scheme at a substantial cost to the Council.
- 1.9 Any local scheme is set for a period of 12 months and cannot be altered part way through this period.

2.0 OPTIONS:

2.1 Four basic options exist to deal with this issue:

2.2 Option 1 – Absorb the cost and make savings in other service areas

- The claimants are amongst the most vulnerable in our communities and any reduction in their income is going to have a major impact on their lives. There are other possible knock on effects which could affect Council costs (housing, debt advice etc.).
- Effectively the scheme would leave eligibility unchanged, which may deter additional claimants if the message is 'no change'.
- Consultation would still be required.
- Significant impact on other preceptors as well as the Districts absorbing the cost.
- It could be a one year option whilst councils prepare for something different in year 2 having learned the lessons from others taking into account the challenging timeframe for introduction and unknowns such as collection rates.
- Minimal IT systems changes would be required.

The Precepting Authorities are extremely unlikely to agree to this option as it will cost them a substantial amount

2.3 Option 2 – Pass on the Cut to Working Age Claimants

It is not possible to pass on the entire cut to working age claimants, however some saving could be achieved this way.

- The cuts to benefits will be for people with low incomes and in difficult circumstances. Collecting small sums from people with low incomes will be difficult and trying to collect additional Council Tax in an already difficult climate, with the potential for resistance leading to non-payment or avoidance measures, could lead to additional administrative burdens and costs for the districts and a higher bad debt provision. Authorities can change the scheme annually.

2.4 Option 3 – Use changes to Council Tax Exemptions and Discounts to finance the cut in funding

- The Government has consulted on allowing more freedom over Council tax discounts and exemptions (but not the single person's discount). The following are relevant:
 - Second Homes (currently 10% discount)
 - Unoccupied undergoing structural repairs/alterations (currently 100% reduction for 12 months).
 - Unoccupied Dwelling (currently 100% reduction for 6 months)

- The scheme would remain unchanged, minimal changes to the existing IT system would be required.
- The risks to all preceptors is minimised.
- The announcement to allow authorities the flexibility over the discounts and exemptions is imminent.
- The principles fit with bringing homes into use quicker and may potentially benefit the council through the New Homes Bonus.

2.5 **Option 4 – A combination of Options 2 & 3 above**

This is the preferred option as it spreads the burden across both paying and non-paying Council Tax accounts. It looks at both reducing the level of Support as well as increasing the amount payable on certain types of properties (2nd Homes / Empty Property)

3.0 **FUNDING AND PROFILING:**

3.1 All District Councils have been given a grant of £84,000 to write/consult/impact assess and introduce a local scheme from 1 April 2013. A substantial amount of this money needs to be held back for the necessary changes to the Council's Software to enable a scheme to be administered. The Council has allocated £2,667 to pay for a modelling tool produced by Consultants and a further £2,000 for a Consultant to write the technical parts of the new local scheme.

3.2 Substantial amounts of profiling has been carried out across all of the benefit claimants (bearing in mind that pensioners are safeguarded). We have been able to build in a number of varying scenarios to see what the affect would be on differing types of working-age claimants. We have looked at issues around fairness and equality. I attach at Appendix 2 a full list of proposals that we believe will be equally fair across the spectrum and give the Council the savings required.

3.3 In addition to the savings identified at 3.2 profiling work has been carried out in respect of changes to Council Tax Discounts and Exemptions (as mentioned in 1.6 above). These are also listed in Appendix 2.

4.0 **DECISIONS SOUGHT:**

4.1 Members to agree the basis of a Local Council Tax Discount Scheme effective from 1 April 2013 that will replace the current national scheme. The recommendations for the basis of this scheme are set out in 10 below.

5.0 **LINK TO CORPORATE PRIORITIES:**

5.1 This links into Resources.

6.0 **RISK ASSESSMENT**

6.1 Full risk assessments are to be carried out on the proposed actions along with a full period of consultation.

6.2 Risk in approving the recommendation(s)

Risk	Implication	Prob*	Imp*	Total	Preventative action
The amount of benefit paid out a local level exceeds the grant plus the measures taken to secure additional income/reduction in benefits payable.	Any monies paid out in excess of the measures taken would potentially create a deficit in the collection fund and ultimately would be a cost to the Council.	3	4	12	Careful monitoring of the scheme to remedy any impact for Year 2

6.3 Risk in not approving the recommendation(s)

Risk	Implication	Prob*	Imp*	Total	Preventative action
That a Local Scheme will not be adopted by Council within the timescales.	The Council would have to revert (for Year 1) to the National Scheme at considerable expense & risk a challenge.	5	5	25	To ensure that the Council adopts a Local Scheme for Year 1.

6.4 Overall the risk of agreeing with the recommendations outweighs the risks of not agreeing them and is considered acceptable.

7.0 **FINANCIAL IMPLICATIONS AND EFFICIENCIES:**

7.1 These are set out in Appendix 2 to this report.

7.2 The financial implication of the proposal may be summarised as follows:

Additional cost of withdrawal of Government Subsidy	£ 669,942
Less :	
Proposed Reduction in benefits payable	620,827
Additional Council Tax income	<u>127,169</u>
Surplus	<u>£78,054</u>

7.3 The surplus will be used to offset any non payment, a rise in claimant numbers and may be used as part of a hardship fund.

8.0 **LEGAL IMPLICATIONS:**

8.1 Any scheme will risk a Legal Challenge. The Framework of the scheme to be adopted will be broadly similar to schemes being adopted throughout the Country and is being compiled by a consultant who is an expert in this field and sits on joint working groups with Central Government.

9.0 **EQUALITY/DIVERSITY ISSUES:**

9.1 Comprehensive Equality Impact assessments will be carried out over the range of all claimant groups that will be affected i.e. Working Age/Working Age Vulnerable:

- A full 6 weeks period of consultation will be carried out with all precepting authorities followed by a further 6 weeks period of consultation with all relevant groups such as Disabled/Elderly/Vulnerable as well as our partners (CAB etc)
- The funding identified should be sufficient to hold some money in a contingency/hardship fund to offer assistance to genuine cases of hardship. The precepting authorities will also be asked to contribute towards this fund.

10.0 RECOMMENDATION(S):

10.1 It is recommended to Council that subject to a full and comprehensive period of consultation the following are to be included in the Local Council Tax Discount Scheme:

1. A cap on the maximum eligible benefit payable to claimants to 80% of the liability.
2. A full removal of all 2nd Adult Rebate Calculations.
3. A limit on the amount of benefit payable to that equivalent to a Band 'D' property.
4. Inclusion of Child Benefit as income in the assessment of entitlement.
5. Inclusion of maintenance as income in the assessment of entitlement.
6. Altering the non-dependant bands and charges to £10.00 for claimants in work and £5.00 for claimants out of work.
7. All War-Widows continue to be fully protected from the above.

10.2 In addition to those mentioned in 10.1 the following changes in respect of Council Tax liability are implemented:

1. The removal of a 10% discount from a 2nd home.
2. Empty Properties are to be awarded 50% discount for 6 months from the date the property meets the criteria (unoccupied & substantially unfurnished).
3. A Local Discount is created under Section 13a of The Local Government Finance Act 1992 at 50% for 1 month from the date the property meets the criteria (unoccupied & substantially unfurnished) and the financing of any local discount is shared with the precepting authorities in proportion to the Council Tax charged.

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Background papers: NONE

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Local Council Tax Scheme - Timetable

	Scheme Modelling	Provisional Funding	Draft Regulations
May 2012	Scheme written (Policy) & Risk Register	Vulnerability & Work Incentive Policy	Equality Impact Assessments written
June 2012	Cabinet Briefing		
26 June 2012	Full Cabinet to agree Scheme		
17 July 2012	Scheme out for full public consultation	Draft Member Approval (early July)	Precepting Authorities sign off scheme
July – September 2012			
October 2012	Response to Consultation	Final Scheme Amendments	Legislation Expected
November 2012	Full Council 'sign off' of Scheme		
December 2012	Delivery of Software	Design of Forms / Changes to leaflets etc,	Council Tax Base (council)
January 2013	Software Testing	Design of Forms / Changes to leaflets etc,	
	Local Scheme adopted		
February / March 2013	Council Tax Setting & Annual Billing	Design of Forms / Changes to leaflets etc,	
1 April 2013	Local Scheme Goes Live		

Council Tax Support Profiling – Recommendations (HDC)

All figures assume a 2.5% increase in Council Tax from 1 April 2013

The following changes to the current Council Tax Scheme were applied to the adjusted baseline data to measure the overall cost of the proposed scheme and the impact on particular client groups.

Applying the Local Council Scheme options would potentially achieve the following reductions:

Option	Individual Potential Saving	Potential No of cases affected
Removal of 2 nd Adult Rebate	£9,631	59
Maximum support limited to 80% of liability	£435,749	2251
Restriction to the level of Band D Council Tax Liability	£41,943	142
Include Child Benefit Income in assessment of entitlement	£108,743	1,095
Include maintenance income in assessment of entitlement	£25,907	147
Alter the non dependant bands and charges	£43,176	527

The accumulated effect of these changes could mean a total reduction on the current level of payments made to customers of £620,827 in year 1 of the Local Scheme.

The effect of the changes on the different client groups is indicated in the table below:

Accumulated effect on the average weekly award under Local Council Tax Scheme							
	Current numbers	Current Average weekly award (including 2.5% raise in Council Tax)	Removal of 2 nd Adult Rebate	Maximum Support of 85%	Restriction to Band D level of Council Tax	Inclusion of Child Benefit and Maintenance Income	Changes to Non Dependant Charges
		£	£	£	£	£	£
Working Age currently with full benefit entitlement	683	18.63	18.63	14.87	14.73	14.73	14.46
Working Age where a disability premium is currently applied	116	16.92	16.88	12.84	12.44	12.44	11.38
Working age - other	553	14.19	13.98	10.11	9.67	9.67	7.03

Summary of Proposals Affecting Benefit Claimants

1. Cap maximum liability to all working-age claimants at 80%, giving potential savings of £435,749.00
2. Remove Second Adult Rebate (2AR) completely giving potential savings of £9,631.00
3. Cap maximum benefit payable equivalent to a Band D Charge giving potential savings of £41,943.00
4. Include Child Benefit in income when assessing claims giving potential savings of £108,743.00
5. Include maintenance income in assessment of entitlement giving potential savings of £25,907.00
6. Alter the non dependant bands and charges giving potential savings of £43,176.00

The accumulative affect of these changes would be £620,827 in year 1 of the Local Scheme

Summary of Proposals Affecting Council Tax Liability

1. Removal of all 2nd Home Discounts (currently @ 10% discount) – potential income of £58,000.00
2. Amending the charges on Empty Properties – currently No charge for 6 months & then 100% thereafter To 50% Discount for the first 6 Months (Scheme Charge) as well as 50% for the 1st month (Local Discount – Section 13A Local Government Finance Act 2004). This might be subject to the precepting authorities funding their proportion – potential income £122,982.00 (Band C)

The Summary is therefore as follows:

Loss of Funding = £538,131.00

Plus: Additional Benefit Payable on 2.5% Council Tax Rise = £131,811.00

Total Shortfall = £669,942.00

Proposed Reduction in Benefit Payable = £620,827.00

Proposed Additional Council Tax Income = £180,982.00 less 10% un-collectable (£538,131.00 @ 10% = £53,813) = £127,169.00

Total Shortfall = £669,942.00

Total of Changes proposed = £747,996.00

Excess = £78,054.00

It is fully accepted that in the current economic situation, properties are not selling quickly and the changes proposed for Class C exemptions in 2 above may cause financial issues. We would therefore propose that if a particular case is brought to our attention where the owner has done everything possible to sell a property –

We would hold any recovery action subject to a solicitors undertaking that any outstanding Council Tax is paid from the proceeds of the sale of the property (property cannot be in negative equity)