
CONSULTATION ON COUNCIL TAX BENEFIT REFORM

**Responsible Cabinet Member – Councillor Veronica Copeland,
Adult Social Care and Housing Portfolio**

Responsible Director – Murray Rose, Director of People

SUMMARY REPORT

Purpose of the Report

1. This report gives an overview of the proposed changes to Council Tax Benefit, and seeks approval for the Council's response to the Government's consultation on this issue.

Summary

2. Darlington Borough Council is responsible for the administration of Council Tax Benefit (CTB) on behalf of the Department for Work and Pensions (DWP). Currently, there are just over 12,000 households in receipt of CTB in Darlington. In 2010/2011, the Council paid out £8.6 million in CTB to residents, which is credited directly to their Council Tax accounts. Currently, CTB can be paid on 100% of Council Tax liability.
3. From April 2013, the Government are proposing to replace CTB with local Council Tax rebate schemes designed and administered by Local Authorities, possibly within certain parameters. This will be in the form of a grant to Local Authorities, but the overall amount will be cut by 10% from existing levels.
4. A consultation paper "Localising Support for Council Tax in England" has been issued by the Department for Communities and Local Government (DCLG), seeking views on these proposals. This report sets out the details of this consultation document, the potential financial impacts for both Darlington residents and the Council, and seeks approval for the Council's response.

Recommendation

5. It is recommended that:-
 - (a) Cabinet note the content of this report and the areas of concern being raised about the proposed changes.
 - (b) Approve the response to the consultation document set out in paragraphs 14 to 36, the final version to be delegated to the Director of People to allow further work and consultation with colleagues in the region to be undertaken, prior to the response date.

Reasons

6. The recommendation is supported to ensure the views of Darlington Borough Council are fully heard in the consultation on the future of Council Tax relief for vulnerable and low income residents.

Murray Rose
Director of People

Background Papers

Localising support for Council Tax in England.

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S17 Crime and Disorder	There are no issues
Health and Well Being	The reduction in CTB may have an adverse impact on the health and well-being of low income groups
Carbon Impact	There are no carbon impact implications in this report
Diversity	Low income groups in receipt of CTB may be adversely affected by these changes
Wards Affected	All wards are affected, but in particular those with higher numbers of people claiming CTB
Groups Affected	Anyone claiming CTB may be affected by these changes, although pensioners may be protected
Budget and Policy Framework	The issues contained within this report do not represent change to Council budget or the Council's policy framework.
Key Decision	This is not a key decision
Urgent Decision	For the purpose of the 'Call-in' procedure this does not represent an urgent decision.
One Darlington: Perfectly Placed	This report has implications for the 'Healthy Darlington' and 'Prosperous Darlington' themes of the Sustainable Community Strategy.
Efficiency	The reforms to the CTB scheme represent a significant financial challenge to the Council.

MAIN REPORT

Information and Analysis

Proposed changes to Council Tax Benefit (CTB)

7. CTB will not form part of the new Universal Credit, which will replace all means tested benefits (including Housing Benefit) and Tax Credits from October 2013. Instead, the Government are proposing that from April 2013 CTB will be replaced by local schemes designed and administered by Local Authorities. This will be in the form of a grant to Local Authorities, but the overall amount will be cut by 10% from existing levels.
8. The DCLG have issued a consultation document “Localising Support For Council Tax in England”, which sets out the reasons for reform, which are to:
 - (a) Give local authorities a greater stake in the economic future of their local area
 - (b) Provide local authorities with the opportunity to reform the system of support for working age customers
 - (c) Reinforce local control over Council Tax
 - (d) Give local authorities a significant degree of control over how a 10% reduction in expenditure on the current CTB bill is achieved, allowing councils to balance local priorities and their own financial circumstances
 - (e) Give local authorities a financial stake in the provision of support for Council Tax.
9. The main proposals under this new scheme are that:
 - (a) Local authorities will have a duty to run a scheme to provide support for Council Tax in their area
 - (b) Pensioners will be protected from any reductions in their CTB, as they would not be expected to work to increase their income
 - (c) Local authorities should also consider ensuring support for other vulnerable groups
 - (d) Local schemes should support work incentives, and in particular avoid disincentives to move into work
 - (e) Processes should be aligned to other support for Council Tax, such as discounts and exemptions.

Financial Implications

10. In 2010/2011 the Council collected £38.7 million of Council Tax and in addition rebated £8.7 million in CTB and £6.8 million in discounts, exemptions and other reliefs. The 10% reduction in CTB would add a further £870,000 to be collected. However, demand for both Housing Benefit and CTB has increased significantly over the past few years, with overall caseload levels increasing from 10,930 in 2008 to 13,050 in 2011 (a 19% increase). Based on the increasing levels of demand, the additional amount to be collected could exceed £900,000 (see table 1 below).

Table 1 – Estimated CTB expenditure and income

	Actual	Estimated		
	2010/2011	2011/2012	2012/2013	2013/2014
	£'k	£'k	£'k	£'k
Expenditure	8,660	8,722	8,984	9,253
Income	-8,724	-8,787	-9,050	-8,389
Net Amount	-64	-65	-66	864

11. The Council could decide to pass the additional cost to Council Tax payers. Based on the current number of chargeable dwellings and levels of Council Tax, the additional annual amount would be approximately £18 per household (and represents an average 1.6% increase on the 2011/2012 charges). This amount would have to be in addition to the planned increase in Council Tax of 3% for 2013/2014. However, as the Government announced in February 2011 that increases above 3.5% would be considered excessive, the Council may not even be able to consider this option.
12. A further point to make is that this cut in CTB funding may impact on the financial gains from increases to Council Tax. For example, we may not be able to benefit from all the increase in income agreed by Council, as we will need to fund a proportion of this for people on benefit. Currently, any increase in Council Tax for people on benefit is met in full by CTB and fully subsidised by the Government. If the amount of grant the Council receives for Council Tax rebate is capped, then this increase for people receiving rebate will have to be met by the Council, which could mean that only 80% of the increase will be collected. So where we currently benefit around £400k per 1% increase in Council Tax, this could reduce to £320k.
13. What is of most concern is that the 10% cut in CTB will have a disproportionate impact on Councils which are in areas of high deprivation, with the most affected losing more than 4 times as much per dwelling as the least affected. In Darlington, the average annual cost is £18 per dwelling. Amongst the worst affected are Councils with higher levels of deprivation including; Haringey (£37 per dwelling), Hackney (£33 per dwelling), Hartlepool (£30 per dwelling) and Liverpool (£28 per dwelling). This compares to Councils least affected by the cut in more affluent areas of the country; City of London (£5 per dwelling), Hart (£8 per dwelling), Wokingham (£8 per dwelling) and Fareham (£9 per dwelling)¹. Table 2 below shows the financial impact on Tees Valley authorities.

Table 2 – Financial impact on Tees Valley Authorities

Local Authority	Per dwelling		Per CTB recipient	
	Rank (nationally)	Annual Cost £	Rank (nationally)	Annual Cost £
Hartlepool	5 th	30	177 th	88
Middlesbrough	11 th	28	223 rd	85
Redcar and Cleveland	36 th	23	212 th	85
Stockton-on-Tees	80 th	20	273 rd	81
Darlington	131 st	18	311 th	76

¹ New Policy Institute – CTB: The effect of a 10% cut

Response to the consultation

14. The consultation document lacks detail as to how a new localised Council Tax rebate scheme will operate. However, it does raise a number of significant areas of concern, which the Council would wish to include in its response to the consultation.

Allocation of the Grant

15. Currently, CTB is subsidised by the DWP, mostly at 100% of expenditure. This means that the amount Darlington Borough Council receives in subsidies reflects actual expenditure and can respond to increases in demand, as we have seen recently as a result of the economic downturn. The Government are proposing that under a new scheme, the funding distributed to local authorities would be cash limited, reduced by 10% and paid in the form of an unringfenced grant.
16. The Government are proposing that a separate detailed technical consultation will be held on how the grant will be allocated to local authorities, based on the relative size of eligible customer groups and previous expenditure. However, it is not anticipated that local authorities should change or withdraw schemes part way through the billing year. Therefore, this raises significant risks for Darlington Borough Council in how and when the grant will be allocated. As part of the response to the consultation, we would need greater clarity as to how the grant allocation could respond to unexpected levels of demand.
17. In particular, we would need assurances that the grant allocation:
 - (a) Will reflect as closely as possible the potential levels of take-up or demand and how this will be calculated
 - (b) Will be flexible enough to respond to unexpected high levels of demand, for example the closure of a local large employer
 - (c) Will allow for the increased take-up of traditionally low claiming groups, such as pensioners
 - (d) Will be allocated in a timely manner to allow for sufficient financial planning and changes to the design of any local scheme.
18. Based on the figures contained in table 1 expenditure estimates for 2013/2014 are around £9.2 million. If the grant allocation is not based on accurate and up to date data (for example, current levels of expenditure), the cut in funding could actually be around 15%.
19. The Government are proposing that local authorities should have contingency plans in place for any unexpected demands on the Council Tax support grant. In effect, this means that the Council will need to plan for a cut in expenditure in excess of 10%, to allow for this. So, for example, based on an expected expenditure in 2013/2014 of £9.2 million, the Council can expect to find savings in excess of £1 million.

Protected Groups

20. Under proposals, the Government will prescribe criteria for Council Tax support to ensure that low-income pensioners will not experience any increase in their Council Tax liability and will therefore be outside the scope of any local scheme. Pensioners are being protected in this way because the Government does not expect work to increase their income.

21. However, applying these same principles in a local Council Tax support scheme, will mean that other vulnerable groups may need protection, such as:
 - (a) People with disabilities
 - (b) Carers
 - (c) Lone parents with young children
 - (d) Pregnant women
22. In addition, the Government also want local schemes to support work incentives for people in work, or moving into work, to reinforce the principle that people should get more overall income in work than out of work. There is a risk that the advantages of a single Universal Credit taper could be lost if there is a separate and overlapping withdrawal of Council Tax support through localised schemes.
23. However, in Darlington 46% of the people receiving CTB are pensioners. Other vulnerable groups listed in paragraph 16 above represent a further 13%, with 12% working and receiving CTB. This means that for Darlington, only 29% of the people currently claiming CTB would be subject to a local scheme. Therefore, if the cut in funding is spread equally, a working age person not in a protected group would be subject to a cut in support of around 20%, equivalent to losing £185 a year for a band A property.
24. The majority of these working aged people who do not fall within a protected group will be unemployed and receiving a means tested benefit such as Income Support or Jobseekers Allowance. Under the current CTB scheme these people do not pay any Council Tax because, by definition the amount of money they have to live on is at 'safety net' levels. It is difficult to understand therefore, why certain groups should be automatically protected under these proposals. The Council is therefore proposing that any protection for eligible groups, including pensioners, should be decided by the Council under a local Council Tax support scheme. This will allow greater flexibility in deciding how a 10% cut in support can be managed.

Collection Rates

25. As detailed in paragraph 19 above, the impact of a reduction in Council Tax Relief for people on low incomes, will mean that for some residents, they will be required to pay Council Tax where they currently pay nothing. This will represent further challenges for the Council.
26. The Council has some experience of the difficulty of collecting small amounts of money from people living on minimal levels of income. The Community Charge (or 'Poll Tax') of the early 1990's imposed a minimum charge on all citizens, whatever their income or status. The maximum amount of Community Charge Benefit that a person could receive was 80% of the charge, so that the Council had to trace and collect money from everyone living in the Borough. While the property base for Council Tax will make the task somewhat easier, that experience showed the difficulty of moving away from full rebates for the poorest.
27. Administering the scheme, therefore is likely to be more expensive, with many people affected opting for weekly or monthly payments. There is always the possibility of mass non-compliance as occurred with the Poll Tax, where significant numbers of people on benefit refused to pay the 20% shortfall. In addition, the Council may come under criticism for pursuing debts from those it has already assessed as not having the means to pay them. Contingency plans referred to in paragraph 15 will need to take into account increased costs in Council Tax collection, reduced levels of recovery and increased amounts of debt to be

written-off. The Council will also want to know what support, if any, will be offered by the Government to help with increased administration costs.

28. Other concerns around administration costs include how efficiencies can be achieved by operating locally designed Council Tax support schemes. For example, bespoke IT systems may need to be designed and there may have to be separate processes to claim support for rent and Council Tax, resulting in duplication. This may also inhibit opportunities to share administration costs with other Local Authorities. In addition, once Housing Benefit has been abolished and help with rent is included in Universal Credit, this may mean people will have to claim from two separate organisations, the DWP for help with rent and the Council for help with Council Tax.

Options for Delivery

29. Under these proposals, Darlington Borough Council may have to make very large savings from working age residents to meet the Government's savings target. One approach would be to impose an 'equal pain' rule and reduce all benefit payments by the same proportion, but this brings its own difficulties, as set out above.
30. Another option could be to completely remove entitlement to help with Council Tax from some groups. As well as helping with the administration problems outlined above, this approach has two advantages. First, it means that particularly vulnerable groups, such as people with disabilities or children, can be protected from the cuts. Second, it is the most effective way of increasing work incentives for particular groups, as it will make them poorer when unemployed and no worse-off in employment.
31. There are a number of groups who might be candidates for removing from entitlement altogether. For instance, one possibility would be to restrict eligibility for support to tenants, so that owner occupiers were expected to pay the full amount of Council Tax whatever their circumstances. In terms of collection it might be possible to treat unpaid Council Tax as a charge against the value of the property, so that people who could not pay would effectively find arrears added to their mortgage. Low earning owner-occupiers are one of the main groups to benefit from Universal Credit, enjoying help with mortgage payments where none is available currently, creating a further reason for treating this group less favourably.
32. However, a criterion based on tenure-type would necessarily affect claimants with children or disabilities, two groups who the Council would hope to protect (and, in the former case, which we have a statutory duty to protect under child poverty legislation). A more attractive route might therefore be to remove from Council Tax support all working age people who do not meet certain criteria, such as having dependent children, living in a household where someone is disabled, being pregnant or a full-time carer. Such conditions would largely mirror the conditions for claiming Income Support and Employment and Support Allowance, so that in effect claimants of Jobseeker's Allowance would be excluded from the scheme.
33. The harshness of such an approach cannot be denied. A single unemployed person without children or disabilities currently receives £67.50 a week to live on, and forcing them to pay Council Tax would reduce this to closer to £50 a week. It is difficult to see how they will make ends meet, and collection of Council Tax from this group is likely to be a severe problem. Nevertheless, maintaining support for people with children or disabilities, and avoiding the potential administrative nightmare of imposing 'equal pain', will necessarily involve making difficult choices such as this.

34. A final option is to persuade the government that the kind of cuts envisaged above are unacceptable and that the parameters of the scheme need to be altered. In particular, the consultation paper makes no mention of localising the current system of Council Tax discounts and disregards. This is against the spirit of the reform, both in terms of allowing Councils choice and making for greater simplicity. Though the legislation establishing discounts is separate from that for CTB there is no reason for not including them in the new scheme. It is worth remembering that the single person's discount (SPD) is a remnant of the Community Charge and that, twenty years on from its abolition, there are good reasons for returning to a tax based wholly on property value.
35. A substantial amount of money could be raised by abolishing automatic discounts for particular categories and wrapping all support into one comprehensive means-tested scheme. The most important of the current categorical discounts is the 25% reduction for single people. Just over a third of Council Tax payers in Darlington (17,678 people) qualify for this discount, which is worth £232 a year for a band A property. 7,396 of these are also in receipt of CTB, so would retain this entitlement under a means tested discount scheme. However, even after taking into account its interaction with CTB, abolition of the SPD would yield two or three times more than the Government savings target.
36. The Council are therefore proposing that a localised scheme for Council Tax support should include all current discounts, exemptions and reliefs, ensuring that:
 - (a) Support can be maintained for the most vulnerable,
 - (b) Work incentives for low earners can be maintained,
 - (c) The Council will have sufficient scope to make the required 10% savings, and
 - (d) Additional administration and collection costs can be minimised.

Process for Responding to the Consultation

37. The closing date for responses to the consultation document is 14th October 2011. Cabinet are being asked to delegate responsibility for the response to the consultation document to the Director for People, in accordance with paragraph 5(b) of the summary report. A regional response is being drafted by Northumberland County Council on behalf of the Association of North East Councils (ANEC), which will take into consideration the views and concerns of all 12 Councils in the region. The Director of People will have the opportunity to include the views of members in the response. However, depending on the content of the ANEC response, a decision will also be made as to whether a separate response from Darlington Borough Council will be submitted before the deadline.

Outcome of Consultation

38. No consultation has taken place.