

## **Discussion Document: Draft Interim Recommendations of the Welfare Reforms Inquiry**

### **Introduction**

1. The Welfare Reform Act (2012) represents the biggest change to the welfare benefit system for 60 years and will affect many residents in the city. The reforms cover a whole spectrum of welfare and housing benefits and will pave the way for the introduction of Universal Credit, which will begin to replace means-tested benefits for people of working age from October 2013.
2. The majority of welfare reforms are being implemented nationally with the aim of creating a simpler and fairer system supported by incentives to assist more people into work.
3. The Scrutiny Panel recognises that the ongoing transition period for the welfare reforms will require significant adjustments for people on benefits. Although one of the major drivers of the reforms is to 'make work pay' and ensure people have better prospects in the future, the Panel also recognises that the current economic climate makes this a significant challenge. Some of the groups 'hardest hit' will be young people, disabled people and lone parents - many of whom are experiencing real barriers in the accessing the labour market.
4. Levels of deprivation in the city remain high with nearly a quarter of people in the city, living in the 10% most deprived areas in England, 11.5% of the population of Southampton are on out of work benefits (19,550 people February 2012 NOMIS). Everyone on out of work benefits is going to be affected by the national welfare reforms. People who work and claim benefit will also be affected.
5. Some households and individuals will experience cumulative impacts of several reforms (for example, paying Council Tax for the first time, finding they are affected by the Bedroom Tax / Under- occupancy, finding themselves moved on to benefits with sanctions) resulting in a loss of total benefit income. This increases the risk of hardship and inability to manage 'income-shocks'. This is further compounded by increased costs of living (food, fuel and other utilities).
6. The cumulative impact of the Welfare Reforms and the ongoing economic situation could potentially create an increase in need and demand for crisis/emergency financial support locally.
7. The interim recommendations are being presented so they may be considered as part of the decision-making process. They relate specifically to changes to part of welfare benefit system which is being

directly transferred from Central Government to local authorities for April 2013.

8. The change is relates to the localisation of Council Tax Benefit – Local Council Tax Support
9. The transition of Social Fund to local authorities will also happening in April 2013 and the Panel will be commenting on this at its meeting on the 10<sup>th</sup> January, 2013 to make interim recommendations to Overview and Scrutiny Management Committee.
10. The Welfare Reforms Inquiry Terms of Reference, agreed at Overview and Scrutiny Management Committee on 16<sup>th</sup> August 2012, were specifically amended to include these changes earlier in the Inquiry timetable. The interim recommendations are therefore only a reflection of the first three meetings of the Inquiry.
11. The final recommendations and report of the Welfare Reforms Inquiry are due to be agreed by the Panel on 7<sup>th</sup> March 2013. These will be based on all the Inquiry meetings and evidence to the Panel, including the interim recommendations herein. These will include the implications of the Welfare Reforms Act (eg Housing Benefit, Universal Credit, benefit cap, under-occupancy and Personal Independence Payment) alongside the cumulative impacts on residents and organisations in Southampton.
12. The Panel has already raised concerns around claimants' awareness of the Reforms. The evidence to date suggests that there is a gap in levels of support available for residents to enable and encourage them to make the behavioural changes needed to manage the shift in their finances and develop their skills and confidence to gain employment and remain in work. Further evidence is still to be presented to future Panel meeting on the impacts and best practice examples that may support this.

#### **Local Council Tax Scheme**

13. The current Council Tax Benefit scheme is to be abolished from April 2013 and replaced with a Local Council Tax Support scheme. People of pensionable age are protected, but the Council must design its own scheme for people of working age.
14. The Council will receive at least 10% less from Central Government to fund the new scheme and there will be additional costs in collecting the tax. However, it is recognised that because of the higher proportion of pensionable age residents in the city (17%), the financial impact will be greater.
15. A range of alternative options were modelled and considered by the Panel, including the protection of some groups.

<http://www.southampton.gov.uk/modernGov/documents/s14887/Council%20Tax%20-Appendix%204%20v4.pdf>

16. The current proposal for Local Council Tax Support is out for consultation until the 16<sup>th</sup> December 2012. The scheme is designed to be self-funding. This means that people of working age can expect to receive 25% less towards their Council Tax – many having to pay for the first time. The Panel discussed the full report presented to Cabinet on the 21<sup>st</sup> August 2012.  
<http://www.southampton.gov.uk/modernGov/documents/s13308/Council%20Tax%20RPT.pdf>
17. Transitional Grant: On 16<sup>th</sup> October the DCLG made an announcement regarding an additional £100m “transitional funding” being made available to local authorities “to help support them in developing well-designed council tax support schemes and maintain positive incentives to work”. The Southampton share of this grant is £378,847.
18. This is a one year grant with no indication that a similar offer will be made next year. To meet the grant conditions the Council must design a scheme which meets the following criteria:
  - Claimants who would be on 100% support under current council tax benefit arrangements must pay between zero and no more than 8.5% of their Council Tax liability;
  - The taper rate must not increase above 25%; and
  - There must be no sharp reduction in support for those entering work - for claimants currently entitled to less than 100% support, the taper will be applied to an amount at least equal to their maximum eligible award.
19. Modelling and analysis was undertaken on this, comparing it with the Government’s Default Scheme and proposed scheme for Local Council Tax Support. Shifting to the transition scheme would be very beneficial for the majority of claimants and would reduce the impact from Council Tax Support on the local economy by over £1.5 million. However there will be losers compared to the Council’s draft scheme. Approximately 1,800 people will be an average of £90.80 per annum (£1.75 a week) worse off. Creating a scheme that allows the Council to claim the £378,847 grant will cost an additional £914,000.
20. The Panel raised concerns about the proposed scheme as people who had never paid before would be expected to pay at least 25%. However, taking the option of the Government Grant could make the transition easier for the 15,000 claimants, 9,000 of whom have never paid Council Tax before, who will be required to pay an average of £3.67 per week extra under the current proposed scheme.
21. The reduction in Council Tax discount could result in hardship for those on low incomes and difficult decisions to be made on priorities

for household budgets. Some people will simply struggle to pay. Concerns were raised about them slipping into debt with the Council and other agencies.

22. It is very difficult to predict the impact of the current proposed Local Council Tax Scheme on the Council's Council Tax collection rate. Certainly in the short term there is likely to be a drop in receipt, although it has been estimated that there will only be a slight drop in the eventual rate of collection following other debt recovery methods.
23. In addition, the Panel were presented with an outline for a Discretionary Fund to be included in the Local Council Tax Support final proposal to Cabinet. The Panel believes it is essential that this Fund is included to bridge the gap for those who are suffering financial hardship to avoid increasing debt. It may also act as a buffer to prevent increasing debt recovery costs to the Council and others.
24. The legislation requires Full Council to adopt a Local Council Tax Support Scheme by the end of January 2013. This is to ensure implementation of the local scheme for the following financial year starting 1<sup>st</sup> April 2013.
25. Given the options and concerns outlined above, the Panel are asked to discuss and clarify its position in relation to the current proposed Local Council Tax Support and the Government's Transition Grant. The Panel should agree if they wish to add any recommendations or comments in relation to this.
26. Scrutiny Panel A recommends:
  - a. The endorsement of a Discretionary Fund for Local Council Tax Support which is aligned with Discretionary Housing Payments, with recognition of vulnerable groups.
  - b. For all current and future discretionary funding to be aligned/centralised to ensure it is co-ordinated and directed at the most vulnerable.
  - c. To ensure that principles of fairness are applied to the Discretionary Fund. This will include:
    - i. A transparent approach to decision making for any application for the Fund
    - ii. An adequate complaints process is in place
    - iii. That the fund is operated in line with the Public Sector Equality Duty. An Equality and Safety Impact Assessment must be completed and made available before the Council considers the recommended local scheme.

