

Scrutiny Panel A Draft Interim Recommendations of the Welfare Reforms Inquiry: Local Council Tax Support Scheme

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 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 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. Over 1 in 10 (11.5%) of the working age residents 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 the 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 of Scrutiny Panel A are being presented so they may be considered as part of the decision-making process for the Local Council Tax Support Scheme. 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 transition of the discretionary elements of the Social Fund to local authorities will also be happening in April 2013 and the Panel will be agreeing interim recommendations at its meeting on the 10th January 2013 in order to influence the budget decisions being made in February 2013.
9. The Welfare Reforms Inquiry Terms of Reference, agreed at Overview and Scrutiny Management Committee on 16th August 2012, were specifically amended to include consideration of the Local Council Tax Support scheme changes earlier in the Inquiry timetable. The interim recommendations are therefore only a reflection of the first three meetings of the Inquiry.
10. The final recommendations and report of the Welfare Reforms Inquiry are due to be agreed by the Panel on 7th 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.
11. The Panel has already raised concerns around claimants' awareness of the changes to their benefits. 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 meetings on the impacts and best practice examples that may support this.

The Executive's proposed Local Council Tax Support scheme

12. 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.
13. 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 proportion of pensionable age residents in the city (17%), the financial impact to the remaining claimants will be greater.
14. The current proposal for Local Council Tax Support is out for consultation until the 16th 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 21st August 2012.

<http://www.southampton.gov.uk/modernGov/documents/s13308/Council%20Tax%20-%20RPT.pdf>

15. The range of alternative options considered for the Local Council Tax Support scheme was reviewed by the Panel, including the protection of some groups. The Panel recognised the Council's statutory duties, in particular in relation to the Equality Act 2010.
16. Although it was clear that some groups may be more financially vulnerable than others, especially those on limited income eg young people, lone parents and disabled people, there was concern that the protection of one group, could result in a reduction of support for other claimants with a self funding scheme. On balance, the Panel did not believe this to be fair. The full list of alternatives models considered can be viewed at:
<http://www.southampton.gov.uk/modernGov/documents/s14887/Council%20Tax%20-Appendix%204%20v4.pdf>
17. The Panel raised concerns that the proposed Local Council Tax Support scheme would mean over half of current claimants (approximately 9,000 people) who had never paid before would now be expected to pay at least 25% of their Council Tax bill. People will be required to find an average of £3.67 per week extra; for some this could be considerably more. Feedback from the Local Council Tax Support scheme consultation was clear that "when people live on a very low income every £1 counts."
18. The reduction in Council Tax discount could result in hardship for those on low incomes requiring difficult decisions to be made on priorities for household budgets. For many who are already struggling with bills, this extra demand on their budget will mean people will simply struggle to pay. Concerns were raised about increased risk of people slipping into debt with the Council and other agencies.

The Discretionary Fund

19. 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 felt this offered a fairer system to support those who would struggle to pay and considered it essential that this Fund was included to bridge the gap for those who are suffering financial hardship to avoid increasing personal debt.
20. 79% of respondents to the consultation on the Local Council Tax Support scheme agreed that the Council should keep an amount aside to help individuals with exceptional needs.

The Government Transition Fund

21. The Panel also considered the opportunity for the Council to apply for a proportion of £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 currently estimated at £378,847. Taking the option of the grant could make the transition easier for the majority of the 15,000 claimants, in particular those who have never paid before.

22. 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.

Key issues considered by the Panel

23. Modelling and analysis was undertaken on a scheme meeting the transition fund requirements, comparing it with the Government’s Default Scheme and proposed scheme for Local Council Tax Support. Shifting to the transition scheme would be beneficial for the majority of claimants and would reduce the impact from Council Tax Support on the local economy by over £1.5 million.
24. The Panel agreed that the changes outlined above would be more acceptable and manageable for claimants – nearly two thirds (64%) of respondents from the Local Council Support scheme consultation did not agree with the reduction of support by 25% for all people of working age.
25. However there will be losers in the Transition scheme compared to the Council’s proposed scheme. Approximately 1,800 people will be an average of £90.80 per annum (£1.75 a week) worse off.
26. Creating a scheme that allows the Council to claim the £378,847 grant will cost an additional £914,000. Given the current budget constraints for the Council, the Panel recognised the difficulties of finding this one-off funding. The Panel did not reach a unanimous view on the funding source, although it highlighted that the money would not need to be identified on a cumulative year on year basis.
27. The Panel had concerns that the proposed Local Council Tax Support scheme was being devised within very limited timescales with calculations based on best estimates. The true impacts of people having to pay a proportion of their Council Tax for the first time would not be known until after the scheme starts on 1st April 2013.

28. It is 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.
29. Overall, the Panel agreed that in principle there were some clear benefits in applying for the Transition Funding Grant. In particular these were:
- a. The burden on the majority of residents to pay a proportion of their council tax for the first time will be reduced, many of whom will already be suffering from the cumulative impacts of the Welfare Reforms and other increasing living costs due to the economic climate.
 - b. To allow more time for a final scheme to be developed would enable the impact of changes to be monitored ensuring a system is devised based on real data and the needs of the most vulnerable residents in the city.
 - c. A reduction in Council Tax Support could be phased in over two stages should the Council agree to adopt the currently proposed Local Council Tax Support scheme.
30. Respondents to the Local Council Tax Support scheme consultation were also divided in their views on whether funding to support people to pay their Council Tax should be found from other budgets, with 37% supporting a self-funding scheme. 40% of respondents did not support this approach; however, no viable alternative were suggested through the consultation.
31. The Panel, however, also had concerns over applying for the Transition Funding Grant. In particular these were:
- a. Where the final net cost of applying for the Transition Grant, currently estimated at £914,000, would be found in the 2013/14 budget.
 - b. The Transitional Grant would support residents for one year. Only those currently paying zero Council Tax would be eligible to pay 8.5% of their bill.
 - c. The Grant is not guaranteed, and would still need to be applied for creating a low level of risk. If awarded, the timescale of being notified of an award could have an impact on the timescales of setting the Council Tax.
 - d. The timescales of the award could prohibit effective consultation of any suggested new scheme.
32. 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 1st April 2013.

Financial Implications

33. Given the short timescales the Panel had to consider these matters, they have not been able to review the full financial implications on the budget for 2013/14, although they recognised the financial difficulties that may arise from applying for the transition funding.

Conclusion

34. There was no clear agreement reached by the Panel on whether the Transition Funding Grant should be applied for, however all Panel members agreed that a large number of residents would be hit financially in the current proposals for the Local Council Tax Support scheme.
35. The Transition Fund offers the Council a chance to devise a scheme based on real data, and provides relief, albeit for one year, for those already feeling the cumulative impact of other benefit changes and increasing living costs. The Transition Grant offers a two staged approach to the financial implications of the proposed Local Council Tax Support scheme.
36. However, the Panel recognises that the financial constraints the Council faces make it difficult to identify the one-off funding of £914,000 needed to apply for the Transitional Funding Grant and could result in other financial pressures on the 2013/14 budget.
37. The inclusion of a Discretionary Fund in the Local Council Tax Support scheme, however, provides a long-term sustainable approach to residents in exceptional circumstances which may result in them finding it difficult to pay.

Recommendations

38. Scrutiny Panel A recommends:

Recommendation 1:

- a. A Discretionary Fund for Local Council Tax Support is established and aligned with Discretionary Housing Payments.
- b. Discretionary funding is directed at the most vulnerable.
- c. To ensure that principles of fairness are applied to the Discretionary Fund. This should include:
 - i. Development of a transparent approach for determining applications for the Fund
 - ii. An appropriate complaints process
 - iii. A fund that is operated in line with the Public Sector Equality Duty.

Recommendation 2:

That the Cabinet gives further consideration to applying for funding from the Government's Transitional Grant scheme, in the context of the Final Grant Settlement for Southampton, taking into account the benefits and concerns highlighted by the Panel in this report. In their considerations, the Panel recommends that the decision should be in accordance with the principles of 'making work pay'.