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Meeting	Cabinet
Date	17 July 2012
<b>Subject</b>	<b>Consultation on options for Council Tax localisation</b>
Report of	Cabinet Member for Resources and Performance
Summary	<p>This report highlights the Government's proposal to replace Council Tax Benefit with localised Council Tax Support schemes. The funding of a local scheme is set at 90% of the current Council Tax Benefit expenditure. For the LB Barnet, this equates to a shortfall of £4.4m in 2013/14. This reform requires the council to design a new Council Tax Support scheme, undertake consultation, and adopt the scheme by 31 January 2013. The report recommends an extensive consultation approach to engage with residents, proposes a set of principles for the new scheme, and asks officers to complete comprehensive modelling and impact assessment.</p>

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Status (public or exempt)	Public
Wards Affected	All
Key Decision	Yes
Reason for urgency / exemption from call-in	
Function of	Cabinet
Enclosures	<p>Appendix 1: Current Council Tax Benefit scheme.</p> <p>Appendix 2: Proposed approach to consultation.</p> <p>Appendix 3: Changes to Council Tax exemptions and</p>

discounts

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## **1. RECOMMENDATIONS**

- 1.1 To note the changes contained in the Local Government Finance Bill, which was introduced to Parliament in December 2011.
- 1.2 To note the Government's proposal to cease Council Tax Benefit, replacing the system with Council Tax Support, to be designed and operated by the local authority with an unringfenced grant of 90% of current Council Tax Benefit expenditure.
- 1.3 To agree a range of options that forms the basis of an extensive consultation programme.
- 1.4 To endorse a programme of communication, consultation and engagement as set out in this report, and delegate authority to the Cabinet Member for Resources and Performance to agree the detailed scope of the consultation and proceed accordingly.
- 1.5 To agree that a future meeting of Cabinet receive a report on the consultation findings, proposals for a local Council Tax Support (CTS) scheme, with relevant impact assessments and a proposed implementation plan.

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 None.

## **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

- 3.1. Central Government have committed to a programme of welfare reform, aiming to simplify the benefits systems, create the right incentives to get more people into work, protect the most vulnerable, and deliver fairness to tax payers and to those claiming benefits. The reform makes a number of changes, including revisions to housing benefits scheme, the introduction of a cap on the total amount of benefits that can be claimed, and simplifies the existing benefit and credit schemes through Universal Credit.
- 3.2. The welfare reform programme promotes localisation, recognising that local authorities are well placed to design support schemes for Council Tax in way which promotes work and supports the most vulnerable. This presents a welcome opportunity for the Council to consult on, and establish, a support scheme which is aligned with local priorities.
- 3.3. The reform package also gives local authorities funding and responsibility for designing and implementing a Social Fund, replacing Crisis Loans and

Community Care Grants currently administered by the Department for Work and Pensions. The design of the new scheme gives additional flexibility to the Council to support the most vulnerable, develop incentives and encourage individuals and communities to develop resilience and support one another.

- 3.4. Despite large cuts to local government funding and continuing economic uncertainty, Barnet Council is in a strong position, with a robust three year plan to meet savings requirements, a track record of delivery of savings, and clear strategic direction. This considered approach to budget and business planning has enabled the Council to take prudent and measured decisions, for example, creating headroom to invest in early intervention to secure future savings and improved outcomes for families and residents. This approach will also be used when designing a Council Tax Support scheme, aiming to achieve cost reduction in a way which supports local priorities and gives capacity to protect the most vulnerable.
- 3.5. The localised Council Tax Support scheme should be designed to support the objective to deliver 'better services with less money', making the best use of a reduced grant for Council Tax Support, modeling future costs and implications to provide a scheme which best meets the needs of Barnet residents and current Council Tax Benefit claimants, and ensure a stable Medium Term Financial Strategy.
- 3.6. The new scheme should support the priority of 'sharing opportunities, sharing responsibilities' by considering the impacts of the scheme on different demographic groups and mitigating adverse impacts where possible. Consultation and engagement with residents will be designed to consider alternative options, and to assess opportunities for the organisation to work with the third sector, local providers, and residents to support a new scheme. Additional data analysis and modeling will review the impacts and implications of welfare reform on groups in the borough, existing support mechanisms and whether additional actions are required to support the vulnerable and deliver local objectives.

#### **4. RISK MANAGEMENT ISSUES**

- 4.1 The Department for Communities and Local Government (DCLG) recognise that timetable for implementation of a Council Tax Support scheme is tight, especially as it coincides with the Government's plans for implementing:
  - Business rate retention
  - The move to a capped system of welfare payments (the Benefits Cap)
  - The proposed reduction of benefit for any working age registered social tenant
  - The roll-out of Universal Credit.

Consequently, the time available to conduct consultation, design options, and implement our local scheme is limited. If Barnet does not have its scheme in place by January 2013, the DCLG's default scheme will take effect. In its first year of operation the default scheme will be the current Council Tax Benefit scheme, which would mean that the 10% cut in funding would have to be absorbed by Barnet and the Greater London Authority. We are mitigating this risk by forming a well designed project plan and putting in place dedicated

project management, and will buy-in additional support where needed.

4.2 Additional financial risks will arise from:

- The increased complexity of financial planning that could result from growing pressure from the CTS scheme if funding reductions are not fully addressed
- Lower Council Tax collection rate and bad debts
- Higher administrative costs
- Potential growth in the number of claimants.

These issues are covered in more detail in Section 9.4. These impacts may be mitigated to varying degrees depending on the scheme adopted and this will be a consideration when evaluating the options.

4.3 The development and finalisation of any scheme adopted by Barnet must be compatible with various legal obligations.

Firstly, decisions taken by Cabinet need to be based on comprehensive consultation, to seek responses of residents and ensure that the final decision taken has due regard for the needs of local communities. To meet this requirement, a full communication and consultation programme will be developed, to engage with residents, claimants, organisations and other stakeholders and use this information before recommending a scheme.

Secondly, the proposed scheme must be supported by thorough equality impact assessment and due regard for equalities implications, and to ensure compliance with the Equality Act 2010. The Corporate Plan 2012 – 2013 sets out a commitment that major policies, functions and activities should be assessed for their equalities impacts. The communication and analysis activities should be used to assess potential impacts on different groups, evaluating impacts and considering mitigation. This will include engagement with representative groups of those with protected characteristics.

Thirdly, guidance from the DCLG recommends that the development of a local scheme has regard to the Child Poverty Act 2010, designing local tax reduction schemes in way which best meet local circumstances.

Fourthly, under the Housing Act 1996, homelessness legislation provides a safety net for families with children and vulnerable people who become homeless through no fault of their own. DCLG advise that local authorities consider how information about Council Tax reductions is made available to these households once they are secured accommodation, and have regard to vulnerable individuals for whom the local authority secures accommodation, or who are at risk of becoming homeless.

4.4 The IT system for operating the new scheme must be able to calculate the selected local scheme and must be implemented in time. The new scheme may bring increased administrative burdens and risk of fraud. We will be engaging with our existing supplier regarding system options to mitigate these risks.

4.6 Reputational risks will arise for the Revenues and Benefits Service if there is

reduction in speed and accuracy of processing claims or if Council Tax collection rates suffer as a result of implementing the new scheme. The design and implementation of the scheme will be managed in such a way as to minimise these risks. However, there will still be an impact of the 10% cut in Government funding for any working age claimants who are not protected. The risk is that this change is likely to result in an unfavourable perception of the new scheme for those of working age on lower incomes, and lead to an increase in customer contact, appeals and complaints and higher levels of bad debt. We will seek to mitigate this through an effective communications strategy. We will complete modelling of the anticipated impacts of changes, impacts and implications when considering how to best respond to welfare reform.

## **5. EQUALITIES AND DIVERSITY ISSUES**

- 5.1 The options under consideration for the proposed scheme (set out in section 9) are based on a set of policy objectives that support the Government's intention that pensioners should not be affected by this cut in spending and that there should be protection for other vulnerable groups.
- 5.2 The development of a proposal for a Council Tax Support scheme must incorporate a well-designed consultation and engagement programme which can identify and capture the views of our diverse communities. We will ensure that our consultation activities will enable us to understand the needs of Barnet's diverse communities.
- 5.3 The proposals will be assessed to ensure that due regard has been given to the public sector equality duty as enshrined in the Equality Act 2010 using the process set out in the Corporate Plan 2012-13. This fact-specific information will be presented for consideration by strategic decision makers.

## **6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)**

- 6.1 Currently, there are around 30,000 benefit claimants who receive help paying their Council Tax. Total spending on Council Tax Benefit in 2011/12 was £32.2m, which was matched by a Council Tax Benefit Grant of £32.2m.
- 6.2 Current indications from Government are that the initial funding will be set using a methodology that seeks to reflect the estimated cost of benefits for 2013/14, so that local authorities will not have to fully fund any growth in demand between now and implementation. However, once the funding is set it will be fixed and any in-year increase in demand will fall entirely on the Council, and this represents a significant new risk.
- 6.3 As the Council Tax collection authority, Barnet administers the benefits and receives the grant, which is shared with the Greater London Authority (GLA) in proportion to the GLA's share of the Council Tax. That share is currently Barnet 78.4%, GLA 21.6%. The new scheme will also have the effect of sharing the cost of the benefits and the funding pro-rata to Council Tax share.

- 6.4 Under the Government's proposals, Barnet's proportion of the grant will be cut by 10%. Allowing for changes in Council Tax rates and other parameters it is estimated that the funding gap to LBB will be £4.4m in 2013/14.
- 6.5 This report proposes a number of options for consultation in respect of a local scheme for Council Tax Support. The development of this scheme has the ability to close the funding gap set out in 6.4. The precise financial implications will be dependent on the options chosen, but indicative ranges of figures are set out in the tables in 9.8, these range from £1m deficit to £1.3m surplus.
- 6.6 There are risks associated with the position set out above. If take up increases by more than 5% to, say, 10%, the gap will increase by £1.3m. In terms of bad debt risk, the lower the discount offered, the greater the bad debt risk.
- 6.7 Costs will be incurred in respect of the software changes required to the existing IS system in order to operate the new support scheme, and will be determined by the extent of the changes necessary. We are also purchasing software to enable us to model various scheme options and are commissioning specialists to provide analytical services in respect of financial implications and the planning of scheme options. Specialist support will also be commissioned to support the consultation process and to provide legal advice on the writing of regulations of the new scheme.
- 6.8. An initial £84,000 in New Burdens funding has been given to Barnet and the DCLG has indicated that further grant may also be given to assist with one-off implementation costs, transition costs and the recurring costs for the first three years of operating the new system.

## **7. LEGAL ISSUES**

- 7.1 Section 33 of the Welfare Reform Act 2012 abolishes Council Tax Benefit and support for Council Tax will not be included in the Universal Credit set up by Section 1 of that Act. The Local Government Bill makes provision for the localisation of Council Tax Support. The DCLG's Statement of Intent (published in May 2012) states that regulations will ensure that pensioners are not disadvantaged by the reform of Council Tax Benefit and also states that local authorities must have regard to their duties under the Equality Act 2010, as well as their duties in relation to disabilities, homelessness and child poverty. There is a requirement for an equalities impact assessment to consider the effect of the proposed local scheme on the classes of persons to be protected.

## **8. CONSTITUTIONAL POWERS (RELEVANT SECTION FROM THE CONSTITUTION, KEY/NON-KEY DECISION)**

- 8.1 The Local Government Finance Bill 2012, Section 8 (4), states that each authority must make a Council Tax reduction scheme no later than 31 January 2013.

- 8.2 The decision on the adoption of a Council Tax Support scheme is a decision for the full Council.

## 9. BACKGROUND INFORMATION

### 9.1 Summary

- 9.1.1 The council is required to design a local Council Tax Support (CTS) scheme, to take effect on 1 April 2013. This report highlights the current context and recommends opening a full consultation programme. It:
- Summarises the proposal to localise support for Council Tax
  - Proposes a set of principles to underpin a local scheme
  - Outlines the consultation and design activity required to develop a scheme, reporting back to Cabinet in December 2012.
- 9.1.2. The Government is proposing to abolish Council Tax Benefit (CTB) in 2013/14, with local authorities tasked to design and implement a local scheme. The objectives of this reform are to allow schemes to reflect local priorities, and to strengthen incentives to promote employment and growth.
- 9.1.3. Government funding available for a local scheme will be reduced by 10 per cent, creating a financial burden. For Barnet, this is anticipated to result in a shortfall of £4.4m in 2013/14 and could increase in future years, depending on demand and future increases in Council Tax.
- 9.1.4. The £4.4m shortfall in funding will need to be met through the design of the Council Tax Support scheme to avoid cuts to services or increased Council Tax bills for residents.
- 9.1.5. It is recommended that consultation is based upon a clear set of principles, offering incentives and protections to help deliver local priorities. The proposed principles are:
- A system based on fairness, with those with the ability to pay making a fair contribution
  - The scheme should incentivise work
  - Support for those in the most difficult circumstances
  - The most vulnerable should benefit from a level of protection
  - The scheme should be transparent and accessible.
- 9.1.6 It is proposed that the consultation is based upon a package of options, asking residents and stakeholders for their views on different options and taking this into account when proposing a recommended scheme:
- Removal of current discounts and exemptions such as second homes and empty properties (totalling £1.9m)
  - Reducing capital allowances
  - Removing second adult rebate
  - Restricting discounts above (e.g.) Band D or E
  - Consulting on a range of maximum discounts to Council Tax Support (based on a cap at between 90% and 75% of current CTB entitlement)

In designing a scheme, we will undertake analysis of the wider impacts of





## **9.2. Council Tax Support localisation**

- 9.2.1. Council Tax Benefit (CTB) is a national means-tested social security benefit to help people pay their Council Tax. CTB is designed by the Department of Work and Pensions (DWP) and administered by local authorities. It is paid (with a few exceptions, mainly related to the ineligibility of some persons from abroad) to anyone whose income is low enough and is liable to pay Council Tax. CTB is available to those who are pensioners, or of working age, people who are working, the self employed, and people who receive benefits and pensions.
- 9.2.2. Entitlement is calculated in such a way that, depending on family size and the number of other people in the household, the amount they must pay towards their Council Tax increases in line with their income up to a limit beyond which no benefit is payable. **Appendix 1** gives a brief explanation of the principles behind current calculations. This information will assist in understanding how individual options for the new scheme might work. CTB is administered by local authorities who currently receive grants from the Department of Work and Pensions (DWP) which cover 100% of the cost.
- 9.2.3. In its 2010 Spending Review, the Government announced proposals to reduce spending on CTB by 10% and to localise it, saving a total of £490 million a year from 2013 – 2014. The intention is that local authorities will have local schemes developed, consulted on and implemented by April 2013. Funding will be provided through an unringfenced grant of 90% of CTB expenditure. If any authority does not adopt its own scheme, the government will impose a default scheme along the lines of the current Council Tax Benefit scheme. The Government intends that support for pensioners will not be affected by this cut in spending and that there should be support for other vulnerable groups. In addition, local schemes should support work incentives, and in particular avoid disincentives to move into work.
- 9.2.4. For the London Borough of Barnet (LBB) this means that we will develop options for a new scheme, conduct a full and comprehensive consultation with residents, claimants and stakeholders, and implement a local scheme on 1 April 2013.

## **9.3. Welfare reform**

- 9.3.1. The Government's changes to Council Tax Benefit are taking place within the context of a broad programme of welfare reform, with the aim of making the benefits and tax credit system simpler and to remove disincentives to work. This programme is coupled with a challenging economic climate and reductions in public sector spending. Specific reforms will require London Borough of Barnet to make decisions on how to design and discharge new local support schemes, notably the new form of Council Tax Support and a local Social Fund (from April 2013).

9.3.2. The Welfare Reform Act 2012 makes a number of significant changes to the benefits system, as it:

- Introduces Universal Credit
- Caps the total amount of benefit that can be claimed
- Restricts Housing Benefit entitlement for social housing tenants whose accommodation is larger than they need
- Up-rates Local Housing Allowance rates by the Consumer Price Index
- Seeks to reduce abuse of the Social Fund system by giving power to local authorities
- Limits the payment of Employment and Support Allowance to a 12-month period
- Amends the forthcoming statutory child maintenance scheme
- Introduces Personal Independence Payments, replacing Disability Living Allowance.

Many of these changes will affect those on the lowest incomes. The Council will consider ways in which the authority can make the most of localising Council Tax Support to promote enterprise and employment, develop community resilience, and consider the impact on those groups who are hardest hit.

9.3.3. Local authorities will be given responsibility for designing and implementing a Social Fund, replacing Crisis Loans and Community Care Grants currently administered by the Department of Work and Pensions (DWP). This will take effect in April 2013. This provides an opportunity to align this funding with a new Council Tax Support scheme and other forms of support, and consider options to enhance community-level resilience, encourage greater independence and support amongst residents.

#### **9.4. Financial implications of Council Tax localisation**

9.4.1. Currently, there are around 30,000 benefit claimants who receive help paying their Council Tax. Total spending on Council Tax Benefit in 2011/12 was £32.2m.

9.4.2. The changes from April 2013 come with a cut of at least 10% in government funding, so from April 2013 Barnet Council will have a gap of £3.2m. Of this amount, £0.7m is attributable the Greater London Authority, leaving a gap of £2.5m for Barnet.

9.4.3. As the Council Tax increase is assumed to be 2.5% next year, £0.7m of this increase will not be collectable as a result of these changes, increasing the Barnet gap to £3.2m.

9.4.4. There is additional uncertainty over this budget in the future, as it will not be “fixed”, it will vary depending on take up, economic conditions, and so on. Over the last five years claimant numbers and the cost of claims have grown as shown in Table 1.

**Table 1: Number of CTB claims and cost of claims**

Year end	CTB claimants	% increase
2008	25,581	
2009	26,773	4.7%
2010	28,466	6.3%
2011	29,010	1.9%
2012	30,099	3.8%

9.4.5 On top of historic increases in take up, the move from a benefit to a discount may see more people take advantage of this new entitlement. Assuming a 5% increase in take up, this significantly increases the Barnet gap, by a total of £1.2m. This leaves a revised gap of £4.4m. The calculation of this overall gap is shown in the table below:

**Table 2: Funding gap for Barnet in 2013/14**

	£M
10% cut based on £32.2m 2011/12 spend	3.2
Less: GLA element	(0.7)
Add: effect of 2.5% Council Tax increase	0.7
Add: 5% increase in take up	1.2
<b>Total</b>	<b>4.4</b>

9.4.6 The funding for Council Tax support is fixed therefore a number of factors could vary this position year on year:

- This gap will increase to the extent that Council Tax is increased in future years.
- A pick up in the economy and a reduction in caseloads will see a reduction in the gap.
- The greater the cut that is passed on, the greater amount that is likely to be written off as bad debt. There is an additional risk of a “culture of non-payment”, whereby people who currently pay Council Tax (our overall collection rate is 98.5%) may stop paying Council Tax as a result of the introduction of this scheme and the associated collection problems that may be created.
- The proportion of claimants who are of working age has been declining over recent years and this trend is likely to continue with an ageing population. Since pensioners are exempt from any new CTS scheme, the impact of any measures to collect a portion of Council Tax will fall disproportionately on those of working age.
- The fact that Council Tax Benefit is being replaced by a range of discounts and exemptions may also have an impact on take-up, since these discounts may not have the stigma associated with benefits in the eyes of some claimants.

## **9.5. Assumptions**

The assumptions applied are below broadly in line with those adopted by other London Boroughs and include:

- An annual increase in Council Tax of 2.5%
- Following an assumed increase in the number of claimants of 5% in 2013/14, no further increases in claimant numbers or growth in the cost of claims
- The percentage of claimants of working age – this is significant as pensioners are exempt from any scheme that Councils can put in place to recover the 10% shortfall in Government funding.

## **9.6. Designing a Council Tax Support scheme**

### **9.6.1 Principles of a new scheme**

In addition, the design of the local scheme should reinforce the aims and objectives of Welfare Reform, incentivising work and aligning with local priorities. It is recommended that the draft scheme for consultation is based upon a clear set of principles, offering incentives and protections to help deliver local priorities. The proposed principles are:

- A system based on fairness, with those with the ability to pay making a fair contribution
- The scheme should incentivise work
- Support for those in the most difficult circumstances (e.g. considering how we can maintain support for those in intensive programmes such as those in the Troubled Families programme)
- The most vulnerable should benefit from a level of protection
- The scheme should be transparent and accessible.

### **9.6.2. Options for a new scheme**

Councils have flexibility to develop a local scheme to address the funding shortfall. Options that many boroughs are considering are as follows:

- Removal of certain exemptions and discounts.
- Reduction of the capital limit. Currently, those with savings of over £16,000 are not eligible for CTB, and this could be reduced further.
- Limit support to a specific Council Tax band. An amendment could be made that limited support to those in properties over (e.g.) Band D.
- Change the basis of the amount of support provided to claimants by one of two methods:

1. **Apply a Council Tax discount based upon a set percentage of the current Council Tax Benefit award.** This has the effect of reducing the claimant's current benefit by a set percentage. Under this method, the amount of benefit each claimant receives would be capped at a set percentage (e.g. between 75% and 90%) of their current entitlement), and equates to a reduction between 10% and 25% of their current benefit entitlement, rather than requiring a fixed-rate contribution to the Council Tax bill. This option allows claimants at higher levels of income to keep more of their additional income and therefore provides more of an incentive to work.
2. **Apply a Council Tax discount based upon a percentage of the Council Tax bill.** Under this method, claimants would receive a maximum discount against their Council Tax bill (e.g. a discount of a maximum of 75% and 90% of the bill). The claimant would be required to pay a set contribution toward their Council Tax bill (i.e. between 10% and 25% of their bill), rather than a reduction in their current benefit.

9.6.3 Other local authorities are investigating options for a localised scheme. Brent and Harrow are both considering scheme options that are broadly similar to those proposed for consultation in this report. For example, Brent are proposing to raise additional revenue to fill some of the funding gap by making reductions in Council Tax reliefs for empty properties and to reduce benefit costs by requiring working age claimants to pay a minimum element of their Council Tax bill (percentages between 15% and 30% being considered). Protections for certain groups and work incentives have also been built in. Other local authorities recognise the risk of non-collection, and projections vary between 25% and 50% of the additional amounts billed.

## 9.7. Summary of options

- 9.7.1 A number of options are available to develop a new Council Tax Support scheme to align with the principles above, and to meet the funding gap. When modelling potential options for a new Council Tax Support scheme, a projected collection rate should also be applied to the model to aid the accuracy of the estimated income that can be generated from each model. The high-level models provide a summary of the financial implications of different options for Council Tax Support, and an indication of the effect of fully protecting specific groups (i.e., maintaining their benefit at the current level). The models are based upon variations of the current CTB scheme.
- 9.7.2 We have commissioned a specialist research and analysis organisation (Coactiva) to enhance our existing modelling, drawing together different data sets to provide richer intelligence on different models and the impacts of different models. Full modelling and impact assessment of the scheme – and viable variations – will be completed in advance of Cabinet decisions on the proposed scheme in autumn 2012.
- 9.7.3 There are two potential sources to meet the shortfall, and taken together they can meet the £4.4m shortfall:

1. **Removing exemptions and discounts** (maximum contribution of £1.9m)
2. **By amending the current Council Tax Benefit scheme** (requiring a contribution of £2.5m to meet the shortfall).

### 9.8.1. Removing exemptions and discounts

The first option is to include the use of additional powers in relation to Council Tax exemptions and discounts (Class A and Class C exemptions, and second home discounts). This policy option would support the principle of ‘A system based on fairness, with those with the ability to pay making a fair contribution’. Exemptions are currently awarded to properties that are unoccupied and unfurnished for a maximum of six months (Class C) and to properties unoccupied and unfurnished undergoing or requiring major structural repair to render them habitable, or that are undergoing structural alterations (Class A). For second homes, Barnet currently allows the minimum reduction of 10%. Further details of these current discounts and exemptions are provided in **Appendix 3**.

Removing these discounts and exemptions could generate up to £1.9m per annum, as shown in Table 3 below.

**Table 3: Estimated yield from removal of discounts and exemptions**

	<b>Total income generation per annum</b>	<b>Barnet share of income per annum</b>
Class C exemption	£1.54m	£1.21m
Class A exemption	£0.56m	£0.44m
Second home discount	£0.32m	£0.25m
<b>Total</b>	<b>£2.42m</b>	<b>£1.90m</b>

It is recommended that the option to remove discounts and exemptions is included within the consultation programme. If these discounts and exemptions are removed, the funding gap is reduced to £2.5m, to be met through a new Council Tax Support scheme.

### 9.8.2. A new Council Tax Support scheme: Council Tax discount capped as a set percentage of current CTB award.

The options modelled below set out the financial implications of applying a Council Tax discount based upon a set percentage of the current CTB award (i.e. to cap the discount at between 75% - 90% of current Council Tax Benefit).

This option seeks all claimants (excluding protected pensioners) to make a contribution towards their Council Tax bill, based on a percentage reduction on the current amount of benefit they receive.

### 9.8.3. Changes to current method of benefit calculation

Several options are available to align with the principle of 'a *system based on fairness*':

#### **A) Removing the second adult rebate**

Second adult rebate does not take the income and savings of the taxpayer into account. It is designed to compensate the tax payer who loses the 25% single person discount because there are other adults in the household who have a low income.

#### **B) Reducing capital limits**

The Council Tax Benefit scheme has a capital limit of £16,000. Any capital between £6,000 and £16,000 is presumed to generate tariff income of £1.00 per week for each £250 capital above the lower limit of £6,000 income. Capital is made up of savings, shares and property (except the one lived in). A suggestion is to reduce the capital limit to £8,000 as this aligns with the expected capital limit in Universal Credit.

The tables below (Tables 4a and 4b) do not include the option to limit Council Tax to (e.g.) Band D or E. It is recommended that this forms part of the consultation with residents and key stakeholders.

### 9.8.4. Summary of options to design Council Tax Support

Tables 4a and 4b below summarise the extent to which potential options for Council Tax Support meet the funding shortfall. The Council will use an external modelling tool provided by Coactiva to further assess the impacts and implications of different options, to test and challenge initial assumptions, and refine the models of different options. The recommended method to amend how we provide support is to offer a Council Tax discount based upon a set percentage of the current Council Tax Benefit award. This gives stronger incentives for those on slightly higher income as it protects more of their income. The modelling is based on a range of collection rates which are lower as the discount reduces. Two models are proposed, in addition to the removal of exemptions and discounts. These models would be the basis of consultation with residents and key stakeholders, seeking responses to each of the levels of discount (between 90% and 75% of current CTB entitlement), other potential components of the scheme, and any options for protecting specific groups.

Combinations of options are highlighted as follows:

- **Red:** Income raised through this option does not meet the £4.4m funding shortfall
- **Amber:** Income raised through this option comes close to meeting a £4.4m funding shortfall
- **Green:** Income raised through this option does meet the funding shortfall

**Table 4a and b: Income from Council Tax Benefit changes<sup>1</sup>**

Scheme: Council Tax discount to be a set percentage of current entitlement (CTB)	Projected income			
	Option A: Set discount at 90% of CTB	Option B: Set discount at 85% of CTB	Option C: Set discount at 80% of CTB	Option D; Set discount at 75% of CTB
<b>Model 1:</b>				
	£m	£m	£m	£m
<b>Total funding shortfall</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>
Income generated by applying Council Tax discount as a set percentage of the current Council Tax Benefit award	(2.2)	(3.0)	(4.2)	(5.4)
Additional income from removing exemptions and discounts	(1.9)	(1.9)	(1.9)	(1.9)
<b>(Surplus)/deficit range:</b>	<b>0.3</b>	<b>(0.5)</b>	<b>(1.7)</b>	<b>(2.9)</b>
<b>Assumed collection rate of income generated from discount</b>	70%	60%	50%	40%
Non-collected Council Tax discount	0.7	0.9	1.3	1.6
	<b>1.0</b>	<b>0.4</b>	<b>(0.4)</b>	<b>(1.3)</b>

Scheme: Council Tax discount to be a set percentage of current entitlement (CTB)	Projected income			
	Option A: Set discount at 90% of CTB	Option B: Set discount at 85% of CTB	Option C: Set discount at 80% of CTB	Option D; Set discount at 75% of CTB
<b>Model 2:</b>				
	£m	£m	£m	£m
<b>Total funding shortfall</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>	<b>4.4</b>
Income generated by applying Model 1 (above) &: - Removing second Adult Rebate - Simplifying Non-Dependant Charges - Limiting capital at £8,000	(2.4)	(3.4)	(4.4)	(5.4)
Additional income from removing exemptions and discounts	(1.9)	(1.9)	(1.9)	(1.9)
<b>(Surplus)/deficit range:</b>	<b>0.1</b>	<b>(0.9)</b>	<b>(1.9)</b>	<b>(2.9)</b>
<b>Assumed collection rate of income generated from discount</b>	70%	60%	50%	40%
Non collected Council Tax discount	0.7	1.0	1.3	1.6
	<b>0.8</b>	<b>0.1</b>	<b>(0.6)</b>	<b>(1.3)</b>

<sup>1</sup> Assuming Council Tax increase of 2.5% and caseload increase of 5%



## 9.9. Offering protection to specific groups

- 9.9.1. The Government's proposals protect pensioners and single occupants from any financial impact arising from any new scheme. Analysis from the Institute for Fiscal Studies and the Joseph Rowntree Foundation shows that schemes to reduce current entitlement will impact on lower income households, as 85 per cent of CTB goes to the lower-income half of households, and almost half of CTB goes just to the lowest-income fifth. Any scheme to recoup the 10% reduction in funding is therefore likely to disproportionately impact lower-income households and can adversely impact collection rates.
- 9.9.2. The impact of restricting Council Tax benefits to between 75% and 90% of current Council Tax benefit would equate to a reduction of between 10% and 25% in current entitlement for claimants. This effect could be partly mitigated for specific priority groups, depending on availability of additional resources to meet this need.
- 9.9.3. Table 5 below provides an illustrative summary of the projected costs of offering full protection (i.e. not capping Council Tax discount at between 75% - 90% of current CTB). These options can be adjusted to provide part protection (e.g. a lower reduction in support). The cost of protection has been estimated from various sources. The current Council Tax Benefit scheme has an extended payment scheme to enable those who were receiving Income Support or Jobseekers Allowance and start work to retain their previous level of benefit for 4 weeks. This has been increased by 2.5% to take account of a possible rise in Council Tax and adjusted depending upon the length of the extended payment and percentage reduction in maximum benefit.
- 9.9.4. Data on troubled families is limited. The first 85 families are all on maximum benefit. There are approximately 700 families in the programme. The cost of protection has been calculated by assuming that the distribution of those household is the same as that of other Council Tax Benefit recipients accrues the Council Tax Bands. The figures have then been adjusted to take account of a prospective increase in Council Tax and a percentage reduction in maximum benefit.

**Table 5: Approximate additional cost of protecting defined groups**

£M		90% scheme	85% scheme	80% scheme	75% scheme
Increase run-on period for workers from 4 weeks to:	1 month	£0	£0	£0	£0
	2 months	£100k	£100k	£100k	£100k
	3 months	£200k	£200k	£200k	£200k
Apprentices		£0	£100k	£100k	£100k
Troubled families		£100k	£100k	£200k	£200k
Those with disabilities		£500k	£700k	£900k	£1.1m
Carers		£100k	£200k	£300k	£400k
Volunteers		£200k	£300k	£400k	£500k
<b>Total cost of full protection for all groups (assuming 2 month run-on for workers)</b>		<b>£1m</b>	<b>£1.5m</b>	<b>£2m</b>	<b>£2.4m</b>

9.9.5. More work will be undertaken to model different options to protect specified groups. We will conduct further analysis to assess the potential for a combined effect of welfare reform on a small number of residents who could be impacted by different strands of the welfare reform programme. This aims to bring additional insight to aid the use of the local Social Fund (to be designed), Discretionary Housing Payments and other schemes, reviewing existing support packages (e.g. for those younger people out of work) and options to support the most vulnerable.

#### **9.10. Proposed consultation options**

The report recommends that a comprehensive consultation programme is initiated, coupled with extensive modelling and impact assessment of options. It is proposed that the consultation is based upon a package of options, including:

- Testing the principles which underpin the local scheme
- Removal of current discounts and exemptions (totalling £1.9m)
- Reducing capital allowances
- Removing second adult rebate
- Limiting discount to the level of (e.g.) Band D or Band E
- Consulting on a range of maximum discounts to Council Tax (based on a 10% - 25% reduction in current entitlement)
- Seeking views on potential protection or support mechanisms for specific groups.

#### **9.11. Consultation**

To ensure a full communication and consultation programme is in place, a 12 week consultation period is proposed. This is proposed to open on 18 July and run until 10 October. A full communications programme will be developed and implemented, using the local media, council buildings and resources, online resources, and working with partners to cascade information to service users, recipients and residents. In addition to the information and communication campaign, the process will draw on consultation and engagement activities. This aims to seek the views of all residents, current recipients, those likely to be impacted by changes, and those with protected characteristics. This will include:

- Questionnaire (online and paper copy) available to all residents and organisations
- Information events across the borough, to help residents (and current benefit recipients) understand the planned changes
- Focus groups with sample groups of current Council Tax Benefit recipients, representing different demographic groups and those with protected characteristics.

£50,000 is allocated to support this consultation activity, with the findings of consultation informing the final recommendation to Cabinet.

Further details of the proposed consultation approach are in **Appendix 2**.

## 9.12. Project plan and key milestones

The timetable for implementation is extremely tight. For the scheme to go live in April 2013, several milestones will need to be achieved. These are:

<b>Milestone</b>	<b>By</b>
Decision by Cabinet on the programme of communication, consultation and engagement proposed in this report	17 July 2012
Work by Coactiva to identify hardest-hit population groups for various options	August 2012
Consultation	18 July to 10 October 2012
Analysis and consideration of consultation results Final scheme design agreed in principle	October – November 2012
Cabinet/Cabinet Resources Committee agree new scheme	17 December 2012
Full Council agree new scheme	22 January 2013
Legal deadline for a Local Authority to agree a scheme	31 January 2013

Whilst these are the key dates, significant work on writing the rules for the new scheme, software testing, training and development will be undertaken in parallel.

## 10. LIST OF BACKGROUND PAPERS

- 10.1 Appendix 1 provides a summary of the current Council Tax Benefit scheme.
- 10.2 Appendix 2 provides a summary of the proposed approach to consultation.
- 10.3 Appendix 3 details the legislative changes to Council Tax exemptions and discounts

<b>Cleared by Finance (Officer's initials)</b>	
<b>Cleared by Legal (Officer's initials)</b>	

# APPENDIX 1: The current Council Tax Benefit scheme

## Breakdown of current claims

	Number	Percentage of total
Pensioners	9,940	34.65%
Working age	20,479	65.35%
<b>Total</b>	<b>30,428</b>	<b>100.00%</b>
<b>Working age breakdown:</b>		
Couple one or both over 18	1,131	3.53%
Single claimant age 25 or over	8,278	20.70%
Single claimant 60 - 64	107	0.33%
Single claimant 65 or over	1	0.00%
Couple one or both state pension age to 64	22	0.09%
Family one or both over 18	9,461	18.29%
Single claimant 18 - 24	435	1.00%
Single claimant under 18	5	0.01%
Lone parent	11,464	21.34%
Lone parent 60 - 64	6	0.02%
		<b>65.31%</b>

## Current calculation method

1. If a claimant is passported (i.e. the DWP have approved Income Support or Job Seekers Allowance) then the Council pays CTB at 100%.
2. For non-passported claims, the following process applies:

**Step 1:** If an applicant has savings in excess of £16,000, then there is no entitlement. For applicants with less than £16,000 savings go to Step 2.

**Step 2:** The applicant's income is calculated. This includes all sources of income including earnings, benefits (including Child Benefit) and tax credits. The applicant's income is then adjusted by applying certain disregards e.g. Child Benefit is fully disregarded, £17.10 of Working Tax Credit. This gives an adjusted income figure which is used at Step 3.

**Step 3:** The applicable amount for the applicant is then calculated. This is the amount that the Government thinks the applicant needs to live on and is dependant on the applicant's circumstances – married/single, children, disability, etc. The adjusted income figure is then compared to the applicable amount. If the income is less than the applicable amount, then full CTB is due. If the income is greater than the applicable amount then 20% (known as the taper) of the excess must be used to pay towards Council Tax. Hence, CTB is reduced by 20% of the excess income.

## APPENDIX 2

### Proposed consultation approach

#### 1. Background

The Government is abolishing the Council Tax Benefit scheme and is asking councils to replace it with their own locally run service called Council Tax Support. Each council must design its own Council Tax Support scheme and eligibility criteria to award support. Next year, Barnet will have ten per cent less money for Council Tax Support than it currently spends on Council Tax Benefit.

Each local authority must carry out a consultation exercise concerning their draft scheme proposals and must define and publish its local Council Tax Support scheme by 31 January 2013. If the scheme is not defined and published by this date, a default scheme will be imposed by the government and the funding reduction will need to be met from other means including for example, from the council reserve, increasing Council Tax levels or reducing other service expenditure.

The council will undertake consultation on proposals for a Council Tax Support scheme between the period 18 July and 10 October 2012. This timescale has been determined following receipt of policy statements of intent published by the Department for Communities and Local Government (DCLG) on 17 May 2012 and to permit sufficient time to evaluate responses received and to align with the council's budget setting timetable.

Barnet proposes to retain much of the existing national Council Tax Benefit scheme within its local Council Tax Support scheme. However, changes are proposed to some of the key principles, and these proposed changes will form the basis of our consultation.

#### 2. Consultation objectives

The consultation approach aims to ensure all residents in the borough (including organisations and voluntary groups) have an opportunity to have their say about the potential replacement for Council Tax Benefit.

The objectives of this consultation and engagement programme are to:

- Communicate the need to design a local Council Tax Support scheme to replace Council Tax Benefit, with a 10% reduction in funding
- To understand the views, priorities and impact on existing Council Tax Benefit recipients; and the views and priorities of residents, organisations and voluntary groups
- To assess responses to the principles underpinning a future scheme, views on the proposed model, consideration of potential incentives and protection
- To use the consultation data to shape a final recommendation to Cabinet and full Council, completing relevant impact assessments and designing an effective, efficient and sustainable scheme.

The project will use a range of, consultation and engagement tools, and expertise to generate a evidence base to inform the development of a recommended option for Cabinet and full Council to consider later in 2012.

### **3. Proposed approach**

#### **3.1. Communication**

This element of the consultation approach focuses on initiating a major communication programme with residents, Council Tax benefit recipients, different stakeholder groups, local media, voluntary organisations, and practitioners). This will highlight the changes proposed by government, the implications for Barnet and residents, principles underpinning any new scheme, and asking residents to engage in consultation activities.

#### **3.2. Communication methods**

The communications programme will include:

- Press releases placed with the local media, and advertisements
- Information provided through 'Barnet First' magazine to all residents
- Dedicated part of the council website, including a summary of the context, proposals, FAQs, relevant information and access to an online questionnaire
- Information flyers placed in council and partner buildings, and hard copy questionnaires made available through face to face council sites
- Communication to all third sector organisations in the borough
- Targeted communications to organisations (e.g. Barnet Homes, Job Centre Plus, colleges, schools), seeking to cascade information to service users and recipients
- Targeted communications to other council directorates (e.g. Children's Services and ASCH) to cascade information to our other council service users
- Internal communication to our employees

#### **3.3. Engagement and consultation**

The process will use consultation and engagement. This aims to seek the views of all residents, current recipients, and those likely to be impacted by changes. This will include:

- Questionnaire (online and paper copy) available to all residents and organisations
- Information road show events across the borough, to help residents (and current benefit recipients) understand the planned changes
- Focus groups with sample groups of current Council Tax Benefit recipients, representing different demographic groups and those with protected characteristics

### **4. Timescales**

The creation of a Council Tax Support scheme is likely to attract significant attention, given the potential implications for residents and current Council Tax Benefit recipients. A 12 week consultation period will be used to ensure that respondents have opportunity to access relevant information and make an informed response. This information will then be used to shape a recommendation to Cabinet and full Council.

### **5. Cost and management**

This project will require adequate resources to ensure success, to manage the various communication activities, develop and implement the consultation activities, complete analysis of the results, and use a project management to execute the project effectively. It is recommended that parts of the consultation programme (e.g. focus groups) are commissioned from external providers. A budget of £50,000 has been allocated to deliver an effective consultation programme.

## APPENDIX 3

### Council Tax exemptions and discounts – potential options

The figures used in this appendix should be regarded as indicative only.

#### Reduce exemption C to nil

Exemption Class C is awarded to properties that are unoccupied and unfurnished for a maximum of six months. In 2010/11, Barnet Council awarded £2.2m worth of Class C exemptions.

Although Exemption Class C can be granted for up to six months, a large proportion of awards are given to landlords for short periods between tenancies. There is a risk that we create a large number of small debts that are difficult and expensive to collect. For this reason, the initial modelling assumptions are for a relatively low collection rate of 70% for this type of debt.

This would yield £1.54m in additional Council Tax income, assuming the same level of exemptions in the future.

#### Reduce exemption A to nil

Exemption Class A is awarded to unoccupied and unfurnished properties undergoing or requiring major structural repair to render them habitable, or that are undergoing structural alterations. In 2010/11, Barnet Council awarded £0.8m worth of Exemption Class A.

Assuming a 70% collection rate, this change could yield an additional £0.56m.

#### Reduce Second Home discount to nil

Currently Councils have the option to allow between 10 and 50% as a reduction for second homes. Barnet currently allows the minimum reduction of 10%. Under the localisation of Council Tax Support, the Council has the option to reduce this to 0% which could yield a further £0.4m in Council Tax.

Assuming an 80% collection rate the yield would be £0.32m.

These figures are summarised in the table below, which also shows the expected share of the yield to Barnet (78.4% of the total):

	<b>Yield £million per annum</b>	<b>Barnet share £million per annum</b>
Class C exemption	1.54	1.21
Class A exemption	0.56	0.44
Second home discount	0.32	0.25
<b>Total</b>	<b>2.42</b>	<b>1.90</b>