Executive

Local Government Resource Review
and Welfare Reform Overview

2 July 2012

Report of Head of Finance and Procurement

PURPOSE OF REPORT

This report summarises the Local Government Resources Review project and provides a welfare reform overview

This report is public

Recommendations

The Executive is recommended:

(1) To note the contents of this report and the initial indications of the impact for the Council.

(2) To approve the suggested consultation and timetable for Council Tax support.

(3) To approve in principle an application for pooling with Oxfordshire councils for Business Rates localisation.

(4) To note that a further report will be presented in September 2012 outlining progress and the impact on the Medium Term Financial Strategy.

Executive Summary

1.1. This report provides members with an overview and the detailed information is contained in the appendices of this report:

Localised Council Tax Support – Appendix A
Business Rates localisation – Appendix B
Welfare Reform – Appendix C
Universal Credit – Appendix D

1.2. New data is being received all the time and, as such, regular reports and briefing notes with be drafted for members.

1.3. Members will be offered the opportunity to attend training seminars on the issues presented by both LGRR and Welfare Reform. There will be a selection of dates offered between July and September 2012.

Background Information

1.4. The Local Government Resource Review (LGRR) will consider the way in which local authorities are funded, with a view to giving local authorities greater financial autonomy and a greater stake in the economic growth of the local area. The first phase of the review includes plans to make changes to the way in which business rates are collected and distributed.

1.5. The Welfare Reform Act of 2011 legislates for the biggest change to the welfare system for sixty years including the introduction of Universal Credit and localised Social Fund. It also abolishes Housing and Council Tax Benefit and introduces localised Council Tax support to replace Council Tax Benefit.

1.6. Cherwell District Council (CDC) and South Northamptonshire Council (SNC) have initiated a joint project to look at the implications for each council of LGRR and Welfare Reform. The project is sponsored by Karen Curtin, Head of Finance and Procurement and will be managed by Belinda Green, Benefits Manager, on a part-time secondment basis. Member sponsorship is offered by Councillor Ken Atack and Councillor Debbie Pickford.

Key Issues for Consideration/Reasons for Decision and Options

This report provides members with information on the Local Government Resource Review and Welfare Reform and potential implications for the Council, residents and services.

Option One	To review and note the current situation and that further reviews will be likely.
Option Two	To approve or reject the recommendations above.

Consultations

None as yet however the Council Tax Support scheme must go to a full public consultation lasting for up to 12 weeks and this is detailed in the timetable.

Implications

Financial:	There are no financial implications associated with this report however the individual areas relating to council tax support scheme, localisation of business rates and other welfare reforms will have finance implications but these will be reported separately. The council tax support scheme will receive 10% less funding than the current council tax benefit scheme and there will also be a reduction in the administration grant as

	a result of the change. Alternative ways of funding the shortfall must be considered. The localised business rate scheme could allow the council to raise additional finance against potential business rates growth. However, there is still a lack of information as the exact detail of how the scheme may work. Other welfare reforms may have financial implication but as yet there is not enough detail to make an informed decision Comments checked by Karen Muir, Corporate Systems Accountant on 01295 221559
Legal:	A number of legal obligations and discretions are outlined in the Appendices to this report but, subject to this, there are no legal implications associated with this report at this stage. Comments checked by Kevin Lane Head of Law & Governance, 0300 0030107.
Risk Management:	There are a number of risks associated with the changes under LGRR and Welfare Reform. These include financial risks for both authorities, the risk to citizens, the reputational risk associated with introducing a new scheme and the risk to collection rates. Comments checked by Andy Taplin. Service Assurance Specialist – Revenues 01295 227030
Equalities:	An Equalities Impact Assessment must be undertaken as part of the council tax support consultation to ensure there is no adverse impact upon any particular people or groups of people. This will ensure that people are not disadvantaged due to race, religion, disability, sexual orientation, age or socio-economic background. Similar EqIA may be required for other welfare reform projects. Comments checked by Claire Taylor, Community and Corporate Planning Manager on 0300 0030113 x1563

Wards Affected

All

Corporate Plan Themes

The Local Government Resources Review covers several themes including District of Opportunity and An Accessible, Value for Money Council.

Lead Member

Councillor Ken Atack
Lead Member for Financial Management

Document Information

Appendix No	Title
Appendix 1	Council Tax Support
Appendix 2	Business Rates localisation
Appendix 3	Welfare reform issues
Appendix 4	Universal credit

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Appendix 1

Council Tax Support

Background

From April 2013 Council Tax Benefit will be abolished and will be replaced with a Council Tax support scheme. Unlike Council Tax Benefit (CTB) which is set by central government the new Council Tax support scheme must be defined by individual Local Authorities.

Funding for the new scheme will be a grant based on the current CTB expenditure with a reduction of 10%. For CDC this reduction is £744,495 and of this approximately 13.34% will be borne by the billing authorities district and parish councils] which equates to £99,613.

Implications

1. Local Authorities are required to set their own scheme by 31st January 2013. If they do not a default scheme will be imposed by Central Government on the basis of the current scheme, but with reduced resources.
2. As highlighted above the Government will only fund 90% of the cost of the scheme.
3. All financial risks will transfer to billing authorities and the major precepting authorities.
4. Currently the authority receives a grant of £942,787 in 11/12 for the administration of Housing and Council Tax Benefit. Central Government has indicated that changes to support for council tax and to Housing Benefit will impact on the level of administration grant we can expect to receive.
5. The Government has confirmed that pensioners must be protected from any change under the new scheme. For Cherwell District Council this equates to 48% of our existing caseload. Authorities are also required to consider what protection is appropriate for vulnerable groups and this will be at local discretion. This means that any reduction in cost will be borne by a smaller group of people.
6. Any local scheme should support the positive work incentives under Universal Credit
7. The timescales for implementation are very short and consultation must be carried out for a period of up to 12 weeks.

Options

Given the very short timescales it will not be possible to devise and implement a brand new scheme by 1st April 2013 particularly when considering the need for software suppliers to develop and deliver a bespoke system based on any new scheme.

This may mean that for year 1 the scheme will only be a variation on the current scheme with adjustments to enable savings to be made.

One of the challenges of the timescales will be whether to pass on the budget reductions and, if so, to which groups.

Financial modelling will need to be carried out to assess the potential impact of any proposed scheme and this work will also include identifying risks such as impact on the collection fund.

There are four options that may be considered:

Option 1 - No change
This would mean that the grant reduction would have to be absorbed in other ways for example through an increase in Council Tax or from other sources. If the default scheme is adopted then work would still be required to implement the scheme.

Option 2 – Brand new scheme
This option could include:

- Reducing support for all claimants (except pensioners) by only funding a percentage of council tax liability
- Restrict support to the level for a band D property
- Apply more aggressive means testing such as changing disregards and tapers.

Based on the timescales available and the implications for software suppliers this will not be an option for year 1 but could be considered for year 2 by which time there will also be good practice to adopt.

Option 3 - To adjust Council Tax Discounts and exemptions
This option would mean reducing or removing the following discounts and exemptions either as an authority or as part of a county wide scheme;

- Class A exemptions (for property undergoing major repairs)
- Class C exemptions (for empty and unfurnished properties for up to six months).
- Class L (mortgagee in possession)
- Second Home discount
- Long term empty property [when over 2 years empty we can charge additional 50% on top of full charge]

Option 4 – To increase Council Tax
Council Tax could be increased over a period of time to cover the shortfall in grant. However SNC have made a commitment within its Business plan not to increase Council Tax and any excessive increases could be subject to a local referendum.

Consultation
The council is required to submit the proposals for any new scheme to some form of public scrutiny and challenge. The normal period for consultation is 12 weeks. The council will also be required to work and consult with other precepting authorities including the County Council and Police Authority. Members are asked to note these requirements and to agree that consultation can be done.

Timetable for Implementation

July 2012

- Initial report to Executive

July to September 2012

- Options appraisal
- Consultation
- Financial modelling
- Discussions with software suppliers
- Regular reports to Executive Committee

September/October 2012

- Update report to Executive

October 2012 to November 2012

- Implementation planning

December 2012

- Final scheme recommendations to be considered by members

Financial Implications

1. The 10% reduction in funding which, based on 13.34%, equates to approximately £100,000 for CDC

2. A reduction in the administration grant – figures not yet known

3. The impact on collection rates and a possible increase in the cost of collection

4. Potential cost of designing a new scheme for year 2 and possible transitional protection if the scheme is changed from year 2.

5. The impact on resources if the number of applications for support should increase dramatically.

Next steps

- Financial modelling to be done for all of the options
- Consultation with stakeholder to be carried out if possible with neighbouring authorities
- Recommendation report to Executive committee
- With agreement from members a consultation process on options should take place
- Implementation planning for new scheme
- Final recommendations to members

Appendix 2

Business Rates Localisation

Background

The first phase of LGRR includes plans to change the way in which Business Rates are collected and distributed from April 2013. Currently £19 billion in Business Rates is collected by Councils and pooled by central Government. This is then redistributed across all local authorities via Formula Grant. Some councils receive more from the pool than they contribute and some receive less.

CDC collects £69.8 million but receives only £8.8 million from NNDR in the form of formulae grant.

Under new proposals councils would retain some of their locally raised Business Rates. The scheme is designed give local authorities an incentive to promote growth over the longer term and reduce dependency on central government.

Authorities can choose to form pools and be treated as a single authority under the new scheme. Pooling arrangements will be voluntary and it would be for the pool members to decide how to distribute revenues within the pool. If we decide to pool we will also need to decide if we want to nominate ourselves to administer the pooling arrangements.

There will be no change to the way businesses pay rates and central Government will retain the rate-setting powers (i.e. continue to set the business rate multiplier nationally) and there will be no change to the current system of business rate reliefs.

The Government intents to establish a baseline position in 2013/14 for each local authority in terms of the amount of money they receive from central government and the level of business rates that is collected.

Using this baseline position the Government will develop a process of tariffs and top-ups – so those areas that generate business rates revenue in excess of their baseline position will be required to pay a tariff, while those with a business rates yield below their baseline will receive a top-up.

The Government has confirmed that there will be no cap on the amount of resources an authority can receive through the local retention of business rates but the Bill includes the provision to introduce a levy where a fixed proportion of the business rate growth may have to be returned to Central Government. This will be used as a safety net for business rates reductions for authorities that see their rate levels drop below a set percentage below the baseline figure. Authorities will still be required to meet any reductions up to the level of the safety net.

The Bill also enables local authorities to carry out Tax Increment Financing (the ability to undertake borrowing against future business rates growth).

Implications

1. The timescale for implementing such a major change is very short and the financial implications for the authority are not yet clear. Firm figures are not likely to be known until later this year when the baseline figures are confirmed.

2. Once the baseline is set it could underpin the system for up to ten years. The 2012/13 grant will therefore impact for years.
3. It is unclear how the baseline and tariffs and top-ups will change in future and this may impact on the finances of the council.
4. Local authorities can choose to form voluntary pools within the system allowing them to share the benefits of growth and lessen the impact of economic instability.

Options

1. To pool with other local authorities. This has two potential benefits in that it could enable us to make additional increases in growth by taking advantage of economic efficiencies and it could also help to manage volatility by sharing the fluctuations across a wider economic area. There are also challenges in pooling in making them work. For example, getting the geographies right and reliance on co-operation between the member authorities. Initial modelling within Oxfordshire FO group shows a potential benefit to pooling but further work is required.

2. Not to pool with other authorities.

Timetable

July 2012

- Analysis of gross rates payable figure
- Analysis of business rates income in potential pooling authorities and how this may change.
- Pooling expressions of interest by 27th July 2012

September/October 2012

- Update report to Executive and impact on medium term financial strategy and future funding

Financial Implications

The full financial implications for the authority are not yet known. Once the baselines are set, future changes in budgets will be linked to business rates growth and not aligned to a new assessment of need until any reset of the baseline, tariffs and top-ups.

Next steps

- To undertake financial modelling
- To consider whether to pool with other authorities and submit an expression of interest.

Appendix 3

Other Welfare Reform issues

Background

1. The paper provides a brief review of the Welfare Reform Act 2012 and raises the potential impacts on the council and the county including:
   - The potential increase in families that are classed as 'intentionally homeless'.
   - The potential impact of housing benefit changes on supported housing facilities and their residents.
   - The potential longer term impact of a shifting population as families and individuals attempt to find affordable rents. This could affect schools in particular.
   - The potential impact on young people of working age who, as a result of the government's protection of benefits for under-16s and pensioners, are likely to be disproportionately impacted by the reforms.
   - The transfer of Council Tax Benefit responsibilities from central government to billing authorities resulting in localised Council Tax benefit support schemes.

   It is envisaged that the largest impact of the changes will be on the following groups:
   - young single unemployed people
   - people in supported housing
   - large families
   - disabled people

2. Under the Act the county council takes on a new responsibility for managing the replacement of the discretionary element of the Social Fund by a localised assistance programme ('Local Welfare Assistance') from April 2013.

It should be noted that the changes highlighted below are being considered as part of the normal workloads of the Benefits team including working with all interested stakeholders and establishing a strong communication channel for the changes.

1. **A brief review of the Welfare Reform Act**

The main elements of the Act are listed below.

A. **Size eligibility criteria extended to social housing**

Size eligibility criteria, currently in place in the private rented sector, is to be extended to social housing. This means that any working-age household deemed to be under-occupying their home will either have to move to a smaller property or lose part of their Housing benefit from April 2013. The deductions for under-occupancy will be 14% for one room and 25% for two or more rooms.

DWP admit it is likely that there will be a mismatch between properties available and the make-up of households, meaning that insufficient suitable properties exist, stopping a move even if tenant and landlord were willing. In this instance benefit will still be reduced.

Key groups likely to be affected by this policy:

- Unemployed, young single people –the amount of money a young individual can claim for housing benefit relates to the cost of a single room in a shared household (the 'shared room rate'). The age range to which this applies has been increased from 24 years to 34 years. As a result single people between the ages of 25 and 34 will see a significant reduction in their benefit income and be deemed to be 'under occupying' if currently living in a standalone residence. (People of pensionable age are excluded from this change in size-eligibility criteria.)

- Couples or individuals whose children have moved out– but still live in a 'family' home.

Work is being undertaken to identify affected cases and to work with the housing providers to lessen the impact of this change.

B. **Benefits cap**

Benefits for out of work households are to be capped from April 2013 onwards. Until the UC system is introduced this cap will be enforced by district authorities through Housing benefit.

The cap will be set at a working household's average net earnings – currently expected to be £26k per year for lone parents or couples with children and around £18k for single childless people.

Key groups likely to be affected by this policy:

- Large families - the measure for calculating the maximum benefit has been criticised as it does not take into account household size, household circumstances, or variations in housing cost, meaning the change will mainly affect large families (those requiring four bedrooms or more).

This could see a rise in families classed as 'intentionally homeless' i.e. where families have deliberately done (or not done) something that causes them to leave accommodation which they could otherwise have stayed in. These families become the responsibility of the county council due to its statutory duties in relation to ensuring children are not homeless.

It has been suggested that families may choose to migrate to cheaper areas as a result of the Act, potentially across authority boundaries. Any resulting movement of benefit claimants will have an effect in terms of ensuring continuity of services.

For CDC the early indications are that around 45 cases will be impacted upon by the Benefit cap of which the highest loss will be over £185 per week.

The DWP have written to the customers who may be affected and both SNC and CDC will also be working with the customers and housing providers to help with the impact of the Benefit cap.

C. **Application of the Consumer Price Index (CPI) to Local Housing Allowance (LHA)**

LHA is payable to those on a low income who are renting from a private landlord. In April 2011, LHA payments were reduced to cover the cost of the cheapest 30% of local rents, rather than the average rent. From April 2013, as a result of this Act, it is to be increased annually by the lesser of either CPI or rent officer review. The intention is that this will help keep private rents at more affordable levels.

Key groups likely to be affected by this policy:

- Households in areas where rents are expensive – the impact will be high in the Cherwell area.
- Individuals who live in supported housing - It is a possibility that some supported housing schemes will no longer be viable as a result of this reform. If unsupported, the clients of these schemes will likely either become homeless or call on other county council services. There has been no response as yet from the Department of Work and Pensions (DWP) to the consultation that closed in the Autumn of 2011 on the issue of Supported Housing in the context of Housing benefit reform, so the details of how the Act will impact on this group is yet to be confirmed.

D. **End of direct benefit payments to social housing landlords**

Payment of Housing benefit will no longer be paid direct to social housing landlords. Instead, tenants will receive the benefit as part of their UC every month from October 2012. The idea behind this is to replicate the experience of receiving a monthly salary. The only exception to this will be for 'vulnerable' people where direct payment may be facilitated.

Concerns about the possible impact of increased levels of arrears for tenants and increased costs for landlords in arrears recovery and write-offs have led to six demonstration projects being set up, including one at Oxford City Council. These are aiming to establish ways to protect landlords' finances and to help with clarification of those who count as 'vulnerable'.

Key groups likely to be affected by this policy:

- Households in areas where demand for private rental properties is high - those on Housing benefit will become even less desirable clients for private landlords. Again, this will be particularly acute in Oxford City and in the South Northamptonshire area.
- Families in debt or vulnerable to accruing rental arrears - A further risk is that there could be an increase of 'intentionally homeless' families as the result of the potential spiral of debt; advice providers are already reporting increases in homelessness enquiries and growing numbers using credit cards to pay their housing costs.

CDC is currently paying benefit directly to 361 landlords who will be impacted upon by this change.

E. **The Disability Living Allowance (DLA) to be replaced by the Personal Independence Payment (PIP)**

Working age people currently receiving the DLA will have to make a fresh claim to receive the new benefit that replaces it from April 2013, PIP. The budget for PIP will be 20% less than DLA so the aim is to focus funds on the most disabled. It follows that there will be working age people who qualified for DLA that will not qualify for PIP. DLA will continue for children under 16 and people over the age of 65.

Key groups likely to be affected by this policy:

- Working-age people who previously received DLA - a consultation on the new assessment criteria for the benefit ends on the 30th of June. (38% of DLA claimants are pension-aged and they will be unaffected.)

Although exact numbers are not yet known we are actively working with the DWP to identify the people who may be negatively affected by this change.

F. **Localisation of Social Fund**

Community Care Grants and Crisis Loans which are currently administered by DWP will be abolished from April 2013 and will be replaced by new local assistance. The local assistance will be administered by local authorities.

Funding will be transferred from DWP to local authorities and will not be ring-fenced. The funding will be going to the County Council and work will be carried out as to how the budget is to be allocated and the way in which people can apply and claim for emergency provision in the area.

Implications

1. It is envisaged that the largest impact of the changes outlined above will be on the following groups and they will need an increased level of support for which there will need to be a good communication strategy:
    - young single unemployed people
    - people in supported housing
    - large families
    - disabled people

2. There are implications arising from the localisation of social fund as these payments have historically supported the most vulnerable people in the district.

Work is underway with the County Council to decide who is best placed to deliver the service. One of the options may be for the Council to volunteer to administer this on behalf of the other districts.

Timetable

July 2012
- Forums with Social landlords on welfare reform changes
- Data collection from social landlords for size criteria work
- Data matching for size criteria and high level details communicated to housing providers
- Identify cases affected by DLA/PIP changes

August - September 2012
- Work with housing providers on impact of reform
- Working with County Council on the administration of localised Social fund
- Communication plan to be devised

September-November 2012
- Communication to those affected cases
- Update reports to Executive as required

Financial and resource implications

- Impact on the Discretionary Housing Payment budget
- Impact on homelessness and resources for the Housing Options teams
- Increased customer contact as people face hardship
- Increase in the number of cases referred to debt and money advice service in CDC area

Appendix 4

Universal Credit

Background

The White Paper of November 2010 sets out the Coalition Government's plans to introduce legislation to reform the welfare system by creating a new Universal Credit with the aim of radically simplifying the system and reducing expenditure as well as improving work incentives. The draft regulations underpinning UC have now been published.

Universal Credit is a single benefit for working age customers that will replace all the current means tested benefits including Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, Job Seeker's Income Based and Employment Support Allowance from October 2013.

The claim process will be based on claimants using the internet and call centre technology which may present a challenge to some of our customers. It will be calculated and delivered from a number of support centres electronically with real time information from an upgraded HMRC system.

Payment of UC will be via a single monthly payment directly to the customer. This presents real concerns about management of budgets, rent arrears and impact on homelessness

Recent intelligence indicates that the implementation of UC is on track and within budget. The development of the real time IT is also progressing well.

Phase one of the migration to Universal Credit will begin in October 2013 with new claims and cases that have a relevant change. For example a change in tax credit will mean migration to Universal Credit. Phase two will commence in April 2014 with the start of a managed migration based on people who would benefit most from Universal Credit. The final stage will be all other cases to transfer before 2017.

The DWP and the Local Government Association (LGA) have recently issued a prospectus calling on local authorities in England to deliver pilots to support residents in preparation for Universal Credit. The pilots which are expected to start in autumn will focus on delivering face to face support. Cherwell District Council and South Northamptonshire Council have submitted a joint bid to become a pilot authority focused on promoting access to online support and helping the claimants to access work. Decisions will be made on the pilots in summer 2012.

Universal credit will be trialled in the North East and North West from April 2013 with approximately 1500 new claimants.

Implications

1. The Government is assuming that 80% of people will apply for UC on line. This may present a real risk to some of our most vulnerable citizens who do have access to a computer or who cannot use one.

2. There will be no 'front face' for UC although the Government have indicated that there may be a role for local authorities in the delivery of UC – for example

supporting people in accessing UC and supporting work incentives. We need to consider what this role may be and what the service may look like.

3. There will be HR issues relating to the introduction of UC. The Government has already indicated that the will be no TUPE arrangements for UC.

4. There is also a risk around the delivery of such as big IT change particularly as UC is so dependent on the delivery of real time PAYE details from HMRC. If the IT is not in place this may cause a delay in the assessment of UC.

Timetable

July 2012

- Draft regulations for UC
- DWP to confirm successful bids for pilots – CDC have submitted a joint bid with SNC

August – September 2012

- Details of administration grant to be published
- Details of transfer to UC to be confirmed for each authority

April 2013

- Pilot authorities for live UC claims to be introduced

May –June 2013

- Work to identify cases that may transfer to UC
- HR issues - staffing/resources

October 2013

- New claims and relevant changes claims transfer to UC

April 2014

- Managed migration to UC
- Pension claims transfer to Pension Credit

April 2015 – 2017

- Remaining cases transfer to UC

Financial implications

- Reduction in administration grant from April 2013
- Cost of providing a service until all the cases have migrated to UC.
- Potential costs of reducing the Housing Benefit service – redundancy costs etc
- Potential cost of providing a ‘front facing’ service for UC