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Dear Fern

LONDON BOROUGH OF HARROW – DRAFT COUNCIL TAX SUPPORT SCHEME GREATER LONDON AUTHORITY RESPONSE TO CONSULTATION

Thank you for your email dated 8 June and attached documentation setting out the draft council tax support (CTS) scheme which the London Borough of Harrow was issuing for consultation with local residents and stakeholders as required under Schedule 4 to the Local Government Finance Bill. The draft scheme published for consultation is summarised in Appendix A to this letter. This letter sets out the Greater London Authority's formal response to this consultation.

Introduction

Firstly the GLA recognises that the determination of council tax support schemes under the provisions of a Local Government Finance Bill is a local matter for each London borough. Individual schemes will need to be developed which have regard to specific local circumstances – both in respect of the potential impact of any scheme on working age claimants (particularly vulnerable groups) and more generally the financial impact on the council and local council taxpayers – and the final policies adopted may differ therefore across the capital's 33 billing authorities for legitimate reasons.

This fact notwithstanding the GLA also shares in the risks and potential shortfalls arising from the impact of council tax benefit localisation in proportion to its share of the council tax in each London billing authority. It is therefore important that we are engaged in the scheme development process and have an understanding both of the factors which have been taken into account by boroughs in framing their proposals as well as the data and underlying assumptions used to determine any forecast shortfalls – which will inform their final scheme design.

Framing and Publicising Proposals

The Government has expressed a clear intention that in developing their scheme proposals billing authorities should ensure that:

- Pensioners see no change in their current level of awards whether they are existing or new claimants

- They consider extending support or protection to other vulnerable groups
- Local schemes should support work incentives and in particular avoid disincentives to move into work

The GLA concurs with those general broad principles and would encourage all billing authorities in London to have regard to them in framing their final schemes.

It is also desirable that schemes are presented in a way which is transparent, understandable and accessible to claimants – and we therefore welcome the inclusion of working examples of the potential affects of its draft scheme on different claimant groups on Harrow’s consultation website. The GLA would also wish to compliment Harrow on the very extensive consultation which it has undertaken with local residents, stakeholders, charities and community groups in developing its proposals and communicating the potential impacts.

Even though this engagement has been extensive it is likely that the level of awareness amongst working age claimants likely to be affected by the potential changes in Harrow remains limited and may not crystallise until these individuals receive their revised benefit notifications and council tax bills for 2013-14 early next year. There remains a significant therefore risk that collection rates will be affected adversely in the first year of the new system as it will take time for some claimants to set up new or revised payment arrangements. The GLA therefore considers that before finalising their schemes billing authorities should consider the challenges which they will face in collecting relatively small sums of money from claimants on low incomes who may not be in a position to pay by direct debit or other automatic payment mechanisms.

Financial Context

According to the consultation paper ‘Localising Support for Council Tax in England – Funding arrangements consultation’ issued by CLG in May Harrow is provisionally estimated to receive £14.07m in council tax support grant in 2013-14 with the GLA forecast to receive £3.64m in respect of the Harrow borough area (and around £159m for London as a whole). Slightly less than 50% of this funding will be allocated to the business rates retention baseline and will thus have the potential to move in line with the NNDR tax take including the impact of the annual RPI uplift in the multiplier – with the balance being provided through revenue support grant (RSG). The RSG element has the potential to be reduced further over the next CSR period commencing in 2015-16.

In developing its proposals for consultation Harrow has identified a potential shortfall of around £3.5m between the cost of continuing to provide council tax support on the same basis at a present through the national ‘default scheme’ for working age claimants and its expected level of council tax support grant. Our assumption is that this includes a £0.7m shortfall in respect of the GLA’s share – although that is a purely illustrative figure as the actual figure will be dependent on the level of claims for council tax support during 2013-14 and in future years.

The Council’s has set out four potential models to identify approaches which would allow it to close this expected funding gap. The models vary in their components depending on the combinations used of the eight core council tax benefit rules set out in pages 4 to 5 of your consultation document. All four models incorporate the basic

principle that working age claimants should generally be required to pay between 10% – 35% of their council tax liability.

Technical Reforms to Council Tax

The GLA considers that in formulating its council tax support scheme each billing authority should both consider and address how it intends to take advantage of the technical reforms to council tax set out in clauses 9-13 of the Local Government Finance Bill which will provide greater flexibility in relation to discounts, exemptions and premiums for second and empty homes.

The additional revenues from the technical reforms could be used to reduce any shortfalls and thus the sums which need to be recovered from working age claimants via any changes to council tax support.

We note that Harrow has not yet determined how it intends to take advantage of the technical reforms. The additional revenues could be used to offset the shortfall and may allow Harrow to vary the scheme or provide greater protection to those affected.

Protecting Vulnerable Claimants

Where boroughs choose not to adopt the default scheme and therefore pass on any shortfalls to claimants they should consider whether it would be desirable to offer protection to the most vulnerable and those in the most difficult circumstances – either within the framework of their scheme or through a hardship scheme.

The GLA notes that Harrow's draft scheme does not provide for any specific protection to any working age claimant group at this stage – although pensioners would continue to receive council tax support on the same basis as at present in line with the national framework set by central Government.

Ultimately the decision as to which groups are designated as vulnerable is a matter for local determination having regard to the potential impact on other working age claimants or council taxpayers and service users more generally. We note that Harrow will take the results of its consultation into account before deciding to designate specific groups (if any) as vulnerable.

Incentivising Work

The GLA considers that a key priority for the design of a localised council tax support scheme is to ensure that it does not disincentivise those in work or those seeking to move into work. In order to ensure that schemes meet this objective billing authorities should therefore take particular care in determining their policies on earnings disregards and extended payment periods (i.e. run ons).

We note that one of Harrow's core principles would involve increasing the proportion of income which a claimant would be expected to contribute towards their council tax (above the minimum income they are considered by the Government to need to live on) and another the potential removal of extra benefit for those who work longer hours. While recognising the reasons for any such change we would encourage the Council to consider whether this has the potential to act as a disincentive to working

claimants. It is recognised, however, that this is accompanied by proposals which could require all non vulnerable claimants not in work to pay an additional contribution towards their council tax.

Other Elements of Harrow's Draft Scheme

The GLA also notes the other potential elements of Harrow's draft scheme as set out below and the potential variations of these set out as potential alternatives in Appendix A:

- Including Child Benefit as an income.
- Increasing contributions from other adult members of the household.
- Changing the amount of savings a person can have before benefits are given
- Capping the Council Tax Support to a Band D or E property
- Removing Second Adult Rebate

The GLA has no specific comments on these proposed variations at this stage as it regards them as being a legitimate matter for local determination – notwithstanding the need for the Council to consider the equalities impact of its final decision.

Setting the Council Taxbase for 2013-14 and Assumptions in Relation to Collection Rates

The Council will be required to set a council tax base for 2013-14 taking into account the potential impact of the discounts it will be offering in respect of council tax support and the changes in relation to the treatment of second and empty homes.

In practice this will mean the Council will need to make a judgement as to the forecast collection rates from those claimants and council taxpayers affected by both the changes to council tax support and second/empty homes exemptions and discounts. It is likely in respect of those working age claimants currently in receipt of 100% benefit that the recovery rates will be significantly below the average percentage collection for council tax as a whole. In addition it is probable that collection rates from properties formerly eligible for the class C exemption will also be lower than average – particularly in respect of the private sector rental market where landlords experience void periods. We also note that the Council does not intend at this stage to offer a hardship scheme – although if it were to this would also affect its revenues.

The GLA would encourage the Council to provide it with an indicative council tax base forecast as soon as options are presented to members for approval in December or January (if not before) in order that it can assess the potential implications for the Mayor's budget for 2013-14. This should be accompanied ideally by supporting calculations disclosing any assumptions around collection rates and discounts granted having regard to the final council tax support scheme design.

Varying Council Tax Payments in Year

The GLA is keen to develop a dialogue with all 33 London billing authorities as to how the budgeting, cashflow and accounting arrangements for council tax support (as well as business rates retention) will operate under the new system – particularly in order to manage the sharing of risks. These discussions would also need to address the

mechanisms and triggers under which billing authorities will be able to vary their instalment payments to preceptors (i.e. the GLA) in year where, for example, council tax collection rates are lower than anticipated or the actual demand for council tax support is greater than budgeted for.

We anticipate that the Government will address these issues in the secondary legislation on council tax support and business rates retention in the autumn – as similar issues are also likely to apply where business rates revenues are lower than forecast.

In the absence of any nationally prescribed policy the GLA would be keen to develop a common wide approach in London which would apply equally across all 33 billing authorities.

This could for example follow the current approach used for the Crossrail Business Rate Supplement where instalments may be varied no more than once per quarter with the trigger for any variation being where the forecast shortfall in revenues exceeds a set percentage of the total precept instalments payable for the year. This would recognise that there is a balance to be struck between cashflow and resource management and the additional administration which would result for both parties if instalment payments were to be changed.

In practice – where in year forecast shortfalls are not material – the GLA would envisage that any deficits would be recovered through the collection fund deficit calculation in January in the normal way (and thus recovered in the following financial year in cash terms through the 10 precept instalments paid to the GLA).

I would like to thank you for consulting the GLA and we look forward to working with the London Borough of Harrow over the coming months in order to ensure the successful implementation of the council tax support localisation reforms.

Yours sincerely

Martin Mitchell
Finance Manager

SUMMARY OF DRAFT COUNCIL TAX SUPPORT SCHEME PROPOSED FOR CONSULTATION BY THE LONDON BOROUGH OF HARROW

At present there are approximately 17,400 council tax benefit claimants in Harrow of which around 10,710 are of working age. Of these around 5,440 are working age claimants passported by DWP who therefore pay no council tax at present.

Based on the GLA's interpretation of its numbers the Council has identified a potential £3.5m funding shortfall (the difference between providing council tax support to all claimants on the same basis as at present with the total forecast council tax support grant for the Harrow borough area of £17.7m of which £3.6m notionally relates to the GLA and £14.1m to Harrow Council). Of this shortfall we estimate that £0.7m relates to the GLA.

The Council launched its consultation on 11 June with a closing date of 21 September. The consultation was published at the following link

www.harrow.gov.uk/ctbconsultation

The Council's consultation on its draft scheme, which seeks to recover this shortfall, offers four model schemes that use a combination of one or more of the following rules as set out below:

Rule 1 - Introducing a maximum limit to the amount of Council Tax Benefit that can be paid (Model Schemes 1-4)

In the current council tax benefit scheme the Council can give people on the lowest incomes help to pay all of their Council Tax.

The Council is considering changing this so that people can only get help to pay part of their Council Tax, no matter what their circumstances are. This would be applied across all benefit claimants which would mean everybody would have to pay 10% to 35% of their Council Tax bill.

Rule 2 Changing the rate at which Council Tax Benefit is withdrawn where a person has more income than the law says they need to live on (Model Scheme 2)

In the current council tax benefit scheme the amount of help someone receives will depend on how much money they have coming in. If they have more money coming in than the minimum the law says they need to live on they are expected to pay 20p a week for every extra £1.

Model Scheme 2 proposes raising this to 25p for every extra £1 they have in income. In Harrow, this change is forecast to make savings of up to £260,000.

Rule 3 Removing extra benefit for people who work longer hours (Model Scheme 3)

Currently when a person, usually a full time or part time worker with a disability or a single parent, is working and getting help to pay their Council Tax the Council is able to disregard some of their earnings.

The Council is considering stopping this extra benefit (as reflected in model scheme 3) and forecasts this would make savings in Harrow of up to £365,000.

Rule 4 - Including Child Benefit as an income (Model Scheme 4)

Currently Child Benefit is payable for each child in a household regardless of the parents/carers income. In the present Council Tax Benefit scheme Child Benefit is not taken into account as income. This option is incorporated in model scheme 4

The Council is considering changing this so that Child Benefit is included in the assessment of Council Tax Support. This rule change is forecast to make savings of up to £800,000 in Harrow.

Rule 5 Increasing contributions from other adult members of the household (Model Scheme 3)

Council Tax benefit is assessed on the needs of the claimant, partner and dependant children. Other adults within the household are expected to contribute towards the Council Tax bill.

The Council is considering changing this so that these adults contribute more towards the Council Tax bill. Model Scheme 3 illustrates a potential increase of 50%. It is forecast that this change would generate savings of up to £250,000 in Harrow.

Rule 6 – Changing the amount of savings a person can have before benefits are given (Model Schemes 2 and 3)

In the current scheme a person is not entitled to Council Tax Benefit when their, or their partner's, savings are more than £16,000.

The Council is considering changing this - in Model Scheme 2 the savings limit is £6,000 and in Model Scheme 3 the limit is changed to £10,000. This change is forecast to make savings of up to £165,000 for Harrow depending on which Model Scheme is adopted.

Rule 7 - Capping the Council Tax Support to a Band D or E property

In the current scheme, a person could get 100% Council Tax Benefit no matter how large their house is.

Harrow could change this so that a person's Council Tax Benefit is limited to the level that would be given for a smaller house. This change is forecast to make savings of up to £665,000 for Harrow.

Rule 8 – Removing the second adult rebate

Currently if a person can afford to pay Council Tax but lives with someone on a low income they may be able to receive help with their Council Tax.

The Council are considering not offering this discount and forecast to make savings of up to £28,000.

Harrow recognises that only the first rule listed above could achieve the full savings required by the reduction in council tax support. The other rules would require a combination of measures to achieve the savings.