Economy and Transport Programme Board
20 January 2011

Item 4

Universal Credit and localising Council Tax

Purpose of report

The report updates the Board on the introduction of the universal credit, the implications for local government and the LG Group Executive's discussion of the issues on 9 December.

Summary

The government is introducing a major reform of the benefits and credits system to improve work incentives. This report takes stock of those reforms, explores the implications for local government and invites members' views.

Recommendation(s)

The Board is invited to comment on the paper.

Action

Officers to reflect members' suggestions in future engagement with the government and in future advice to the LG Group Executive.

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Local Government Group

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1. The Government published a Welfare Reform White Paper on 11 November 2010 which made wide ranging proposals to restructure the benefits system for working age people. It intends to legislate to implement its proposals in the coming session of Parliament and to begin to introduce the new benefit arrangements from 2013.

2. The reforms the government proposes would:

   2.1 End councils' responsibilities for housing benefit for working-age claimants;
   2.2 Make councils responsible for the structure and funding, as well as the administration, of council tax benefit, within a 10% smaller funding envelope;
   2.3 Pass to councils responsibility and funding for Community Care Gants and Crisis Loans as part of a wider reform of the Social Fund;
   2.4 Introduce a single benefit/credit – Universal Credit – to replace income and housing costs.

   But the proposals also leave unresolved:

   2.5 The long-term future of housing benefit for pensioners;
   2.6 Benefit arrangements for "complex cases", as well as the definition of what "complex cases" might include.

3. The combination of clear proposals and undecided questions means councils face the certainty of major changes in their role, but also some very large uncertainties about their future role. We need both to press for greater clarity, swiftly, but also do what we can to shape what remains to be shaped in the interests of local taxpayers and benefit claimants.

Universal credit, housing and unemployment

4. The government wants to replace all non-contributory working-age benefits and tax credits, except council tax benefit, with a Universal Credit. This new payment is intended to:

   4.1 Cover both living and housing costs;
   4.2 Apply to households rather than individuals;
   4.3 Be simple to administer, collecting information about a household only once (Ministers want this to be online) and making only one payment;

4.4 Abolish the existing rules on working hours and smooth out the current mixture of income rules into a single “taper” that reduces benefit payments at a constant rate as income rises, making it easier for claimants to see the gains from working.

5. Taken together, these changes are intended to reduce the disincentives to work caused by the complexity of the current system, as well as reducing the cost of administering it. The new Credit would start to be rolled out for new cases from the autumn of 2013, although the government intends to phase the migration of existing claimants over a long period.

6. The immediate implication of the introduction of Universal Credit for councils is that we will progressively lose our housing benefit administration role for mainstream housing benefit claims by people of working age. There is a parallel reform of pension credit that will embrace housing benefit which means losing the role for non-working age people. But at this stage we do not know how fast the reforms will happen, or how much of a role we will retain, particularly for “complex cases”. At this stage, it will be very difficult for councils seeking efficiencies – and possibly considering contractual commitments as part of that – in their housing benefit departments.

7. Other implications are:

7.1 Claimants will in principle be paid a single cash amount; it will be necessary to ensure that does not lead to higher arrears on council or social landlords’ rents – although officials are alive to the risks around re-directing payments to tenants;

7.2 The housing element of payments will be based on local market rents; and claimants will be able to keep any savings they make from renting more cheaply; this is likely to have an impact on where and in what kind of home people choose to live.

Council tax benefit localisation

8. The government wants to localise the funding of council tax benefit (CTB), along with decision-making about the structure of the benefit and council tax discounts, from 2013. This would go with a 10% cut in the amount of funding for the benefit.

9. This is a great deal better than the main alternative - including CTB in Universal Credit - which we fear would lead to a return to Community Charge-style levels of non-payment. But it raises three immediate concerns:

9.1 How will the 10% cut in cost be achieved;

9.2 How much real discretion about the structure of future council tax relief will be devolved; and

9.3 What risks will transfer along with the funding for CTB? The largest financial risk, of course, is a future increase in the caseload; that might be driven by both future unemployment levels and by a growing number of pensioners.

10. But there is also a huge strategic issue in CTB localisation. The council tax isn't a very clever tax from a distributional or economic point of view. The distributional equity and the economic impact of the council tax are determined by three things:

    10.1 Its bands, which make it look like a very simplified progressive tax on the consumption of housing;
    10.2 Its discounts, which give a tax break to single people and second home owners (this is in effect permanent transitional protection for taxpayers who gained from the Community Charge 21 years ago, and is neither progressive nor consistent with the government's views on rewarding marriage in the tax system);
    10.3 Council tax benefit, which – with its 20% withdrawal rate – offers limited protection for those on low incomes.

11. Localisation offers the potential to change all this. Some councils with a democratic mandate to pursue fairness might wish to restructure discounts and benefits locally into a single package that makes the tax much more progressive in relation in income. Others, pursuing economic growth, might want to turn council tax into an economically rational housing tax that encouraged those with little income but great housing wealth to trade down, freeing up family-size homes. Some rural authorities might want to focus on deterring second home ownership, or at least taxing it more heavily to fund services to week-round residents. But councils that made such choices would be adjusting the distributional impact of the council tax – something that many successive governments have feared to attempt.

The Social Fund

12. The government is considering localising aspects of the Social Fund, specifically community care grants and crisis loans. The main logic of this proposal seems to be that these schemes, which depend on meeting immediate personal needs, are ill-suited to JobCentre Plus's model, which is based on high-volume remote processing and standardisation.

13. This localisation would carry a number of financial and reputational risks for councils, particularly given that the benefits system is not in steady state, there is a risk on caseload volumes and the administration is complex. We have not detected great enthusiasm for taking it on. Whether it could work would depend, in part, on what the future role for councils in "complex cases" might be.

The LG Group Executive

14. The Executive discussed welfare reform at its meeting on 9 December. They were supportive of the need to reform benefits to improve work incentives and noted the impact of the reforms on employment and poverty in communities, and on housing markets. At this stage they identified four key concerns:

14.1 The need for clarity about the proposed operational delivery model for processing and customer contact under Universal Credit – how to achieve the best value for money solution, and the best customer experience. Many councils think local administration could be more effective;

14.2 The financial risk transfer that may be involved in localising council tax benefit;

14.3 The financial and delivery risks of localising Community Care Grants and Crisis Loans within the Social Fund;

14.4 The implications for council staff of the proposed single fraud inspectorate.

15. We have subsequently written to Tony Moran, the senior DWP official responsible for the introduction of universal credit, about our concerns at this stage and Baroness Eaton is meeting him on 20 January. A copy of that letter is attached at **Annex A**.