

## **Post spending review lobbying: welfare reform**

### **Purpose of report**

For discussion and direction

### **Summary**

The Government's proposals for welfare reform will reallocate responsibilities for welfare benefits between central and local government; possibly affect local housing and jobs markets; and potentially allow councils to decide who pays more council tax, and who less. The government has decided its headline policy. But a lot of decisions remain to be taken that will affect local benefit claimants and councils' benefit role. We have already told Ministers they must take those decisions with a real understanding of their impact on claimants and councils; with the Executive's guidance, officeholders and officers will now engage in detail to secure the best possible outcome for local communities.

### **Recommendation**

That the Executive agree the lobbying objectives at paragraph 12.

### **Action**

Lead members and officers to pursue these issues with DWP and CLG, working with the other GB local government associations, and report on progress to the Executive.

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## **Post-CSR lobbying: welfare reform**

### **Background**

1. The Government published a Welfare Reform White Paper on 11 November and intends to legislate in the coming Session.

### **Universal credit, housing and unemployment**

2. The government wants to replace all non-contributory working-age benefits and tax credits, except council tax benefit, with a Universal Credit. This Credit would cover both living and housing costs, be claimed online, and offer a clearer cash gain from taking work. It would start to be rolled out for new cases from autumn 2013.
3. The immediate implication for councils is that we would progressively lose our housing benefit administration role. But at this stage we do not know how fast this might happen, and Ministers are anyway not proposing a total break. The White Paper suggests a possible continuing council role for (a) pensioners' housing benefit – although we expect the government may consider extending the credit model to them, too - and (b) “complex cases”. Until that role is clarified, it will be hard for councils to plan the future of their benefit departments.
4. We believe councils are best placed to help clients with complex needs. The evidence of the City Strategy, Total Place, and our own “Hidden Talents” work, demonstrates that. But we have so far found that central government is reluctant to reflect this in the way its initiatives are delivered. Universal Credit potentially changes the game by offering a chance to restructure roles altogether. It would be possible to imagine a model under which JobCentre Plus was the national back-office, while local areas – councils, or partnerships, or voluntary and community organisations commissioned by councils – provided services centred on clients who need more support than a simple online claim form. Some councils we have consulted find this attractive - but others don't. Key issues include whether changing roles would be the most efficient use of local taxpayers' money, and whether authorities with better benefit processing times than JobCentre Plus achieves will be happy for service to be determined by the national agency.
5. Other implications are:
  - 5.1 claimants will receive a single cash payment; it will be necessary to ensure that does not lead to higher rent arrears;

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- 5.2 the housing element will be based on local market rents; and claimants will be able to keep any savings from renting more cheaply; this is likely to have an impact on where people choose to live;
- 5.3 the government has proposed a single fraud inspectorate to go with the new system: this implies changes that will affect council fraud staff.

**Council tax benefit localisation**

- 6. The government wants to localise the funding of council tax benefit (CTB), but allow councils to take decisions about the benefit, and about council tax discounts. This would go with a 10% cut in the amount of funding for the benefit. This is a great deal better than the main alternative - including CTB in Universal Credit - which we fear would have risked a large increase in non-payment of council tax. But it raises three immediate concerns:
  - 6.1 how will the 10% cut in cost be achieved? and, linked to that,
  - 6.2 how much real discretion about council tax relief will be devolved; and
  - 6.3 what risks will transfer along with the funding for CTB? The largest risk is a future increase in the caseload; that might be driven by both future unemployment levels and by a growing number of pensioners.
- 7. 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:
  - 7.1 its bands, which make it look like a very simplified tax on how much housing taxpayers occupy;
  - 7.2 its discounts, which give a tax break to single people and second home owners (this is neither progressive nor consistent with Ministers' views on rewarding marriage in the tax system);
  - 7.3 council tax benefit, which – with its 90% withdrawal rate – offers limited protection for those on low incomes.
- 8. Localisation has the potential to change all this. Some councils with a democratic mandate to pursue fairness might wish to restructure discounts and benefits locally in order to make the tax more progressive in relation in income. Others, pursuing economic growth, might want to use council tax as an economically rational housing tax that encouraged those with little income but great housing wealth to trade down, freeing up homes for first-time buyers. 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 successive governments

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have feared to attempt. Rate reliefs were standardised nationally as long ago as 1966 - is it doctrinaire localism to think such freedom is worth restoring?

**The Social Fund**

9. The government is considering localising part of the Social Fund, probably including community care grants and crisis loans. This would carry financial and reputational risks for councils and we have not detected great enthusiasm for taking it on. Whether it really makes sense would depend, in part, on what the future role for councils in “complex cases” might be, as discussed in paragraph 4 above.

**The Group’s position so far and issues we now need to address**

10. LG Group members and officers have had contacts with DWP Ministers, and officials in DWP and CLG, on the issues set out in this paper. Based on discussions with member councils, we have told them:
  - 10.1 the simplification and improved work incentives represented by Universal Credit are attractive in principle, but we need, quickly, to help the government understand in much more detail how a new system will work and where the costs and risks of transition may fall;
  - 10.2 we recognise that Council Tax localisation could be an important strategic devolution: but it raises huge questions about whether councils will be able to absorb the proposed funding cut and manage the future risks that might be transferred;
  - 10.3 we need convincing that localising the social fund will work.
11. The Executive is invited to endorse the following objectives for the next phase of our activity on these issues:
  - 11.1 to seek rapid clarity on the future council role in housing benefit for pensioners and “complex cases”, and work constructively with the government to make sure there is a proper assessment of the implications of change for councils – including for example the costs of changing contracts with software suppliers – and an evaluation of alternatives such as administering Universal Credit through council systems;
  - 11.2 to make the case for the council role around frontline customer contact that recognises that it is more efficient to join up locally around the customer, especially those with complex needs;
  - 11.3 to argue that devolution of council tax benefit would require councils to have maximum discretion in order to manage the cost savings and risks, and to seek a fair allocation of future risks with the Exchequer;

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11.4 to argue that devolution of the risks inherent in the social fund would only make sense as part of a clearer vision of joined-up, locally-determined, frontline support to customers, and so is linked to points (i) and (ii).

**Financial Implications**

12. This work can be carried out within the group's existing resources.