

APPENDIX 2

GREATERLONDONAUTHORITY

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Dear Paul

LONDON BOROUGH OF HAMMERSMITH AND FULHAM – DRAFT COUNCIL TAX SUPPORT SCHEME GREATER LONDON AUTHORITY RESPONSE TO CONSULTATION

Thank you for your e-mail setting out the draft council tax support (CTS) scheme which the London Borough of Hammersmith and Fulham 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.

The GLA would therefore encourage Hammersmith and Fulham to provide illustrative numbers on the forecast financial implications of its final local council tax support scheme when this is published in January 2013. This should clearly identify the respective risks and forecast shortfalls assumed for the GLA and the Council.

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 clear and straightforward consultation on Hammersmith and Fulham's website reflecting the simplicity of the proposed scheme.

Given that the current level of awareness amongst working age claimants likely to be affected by any changes is relatively low 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 risk that collection rates will be lower in the first year of the new system in those authorities intending to reduce support to working age claimants. The GLA notes that this risk of low collection rates was one of the reasons for Hammersmith and Fulham adopting the default scheme.

Financial Context

According to the consultation paper 'Localising Support for Council Tax in England – Funding arrangements consultation' issued by CLG in May Hammersmith and Fulham is provisionally estimated to receive £10.77m in council tax support grant in 2013-14 with the GLA forecast to receive £4.23m in respect of the Hammersmith and Fulham 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 Hammersmith and Fulham has identified a potential shortfall of around £1.0m between the cost of continuing to provide council tax support on the same basis at present through the national 'default scheme' for working age claimants and its expected level of council tax support grant. The forecast shortfall in respect of the GLA's share is around £0.3m, resulting in a total shortfall for the borough area of approximately £1.3m. This is a purely illustrative figure, however, as the actual shortfall will be dependent on the level of claims for council tax support during 2013-14 and in future years. This analysis also assumes the £1.0m shortfall identified by Hammersmith and Fulham does not include any element in respect of the GLA share.

The Council are proposing to implement the default scheme as their council tax support scheme for 2013-14. This would mean that recipients of council tax support would continue to receive their current benefits and continue to be assisted. Hammersmith and Fulham have recognised the need to absorb the forecast shortfall. We would of course encourage the Council to model the potential financial effects of its final scheme on both itself and the GLA and supply us with this analysis.

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 could be used to offset the shortfall and may allow Hammersmith and Fulham to avoid having to seek savings elsewhere, reduce reserves or raise the overall amount of council tax in order to fund the default scheme.

We recognise, however, that the Council has still to determine its precise final policies in respect of the technical reforms. The GLA would encourage the Council to inform the GLA as soon as possible once these have been agreed in order to assist us in assessing the potential impact on the Mayor's funding and tax base for 2013-14 and future years.

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 Hammersmith and Fulham's proposed scheme is to adopt the default scheme and therefore any potential shortfall will not be passed on to

claimants – so there will be no requirement to consider whether any vulnerable groups should be protected.

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 the adoption of the default scheme by Hammersmith and Fulham should mean that there will be no adverse impact on work incentives – compared to the current council tax benefit system.

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 any potential changes the Council may introduce regarding the changes to the treatment of second and empty homes. The GLA appreciates that the preferred default scheme should not have any repercussions in the council tax base.

However, the GLA notes that the proposed scheme may be amended slightly depending on the outcome of your consultation. If a slightly amended scheme is adopted 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 any 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 any of the previous exemptions will also be lower than average. We 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 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 Hammersmith and Fulham over the coming months in order to ensure the successful implementation of the council tax support localisation reforms.

Yours sincerely

Martin Mitchell
Finance Manager

Appendix A

SUMMARY OF DRAFT COUNCIL TAX SUPPORT SCHEME PROPOSED FOR CONSULTATION BY THE LONDON BOROUGH OF HAMMERSMITH AND FULHAM

At present there are approximately 19,400 council tax benefit claimants in Hammersmith and Fulham of which around 12,300 are of working age. Of these around 8,490 are working age claimants passported by DWP who therefore pay no council tax at present.

The Council has identified a potential £1.0m funding shortfall (the difference between providing council tax support to all claimants on the same basis as at present with its forecast council tax support grant of £10.77m). The GLA's potential shortfall in respect of Hammersmith and Fulham is around £0.3m against its notional support grant allocation for that borough of £4.23m. This makes a combined total forecast shortfall for the Hammersmith and Fulham area of £1.3m.

The Council launched its consultation on 16 August with a closing date of 15 October. The consultation was published at the following link

http://www.lbhf.gov.uk/Directory/Advice_and_Benefits/Council_tax/Who_has_to_pay/174433_Council_Tax_Support_Scheme.asp

The Council has put forward the default scheme as its draft scheme for the borough – and therefore all claimants will continue to receive support broadly on the same basis as currently. This means that Hammersmith and Fulham (and the GLA in respect of its local share of council tax) will be required to absorb any funding shortfall arising from the localisation of council tax support.