

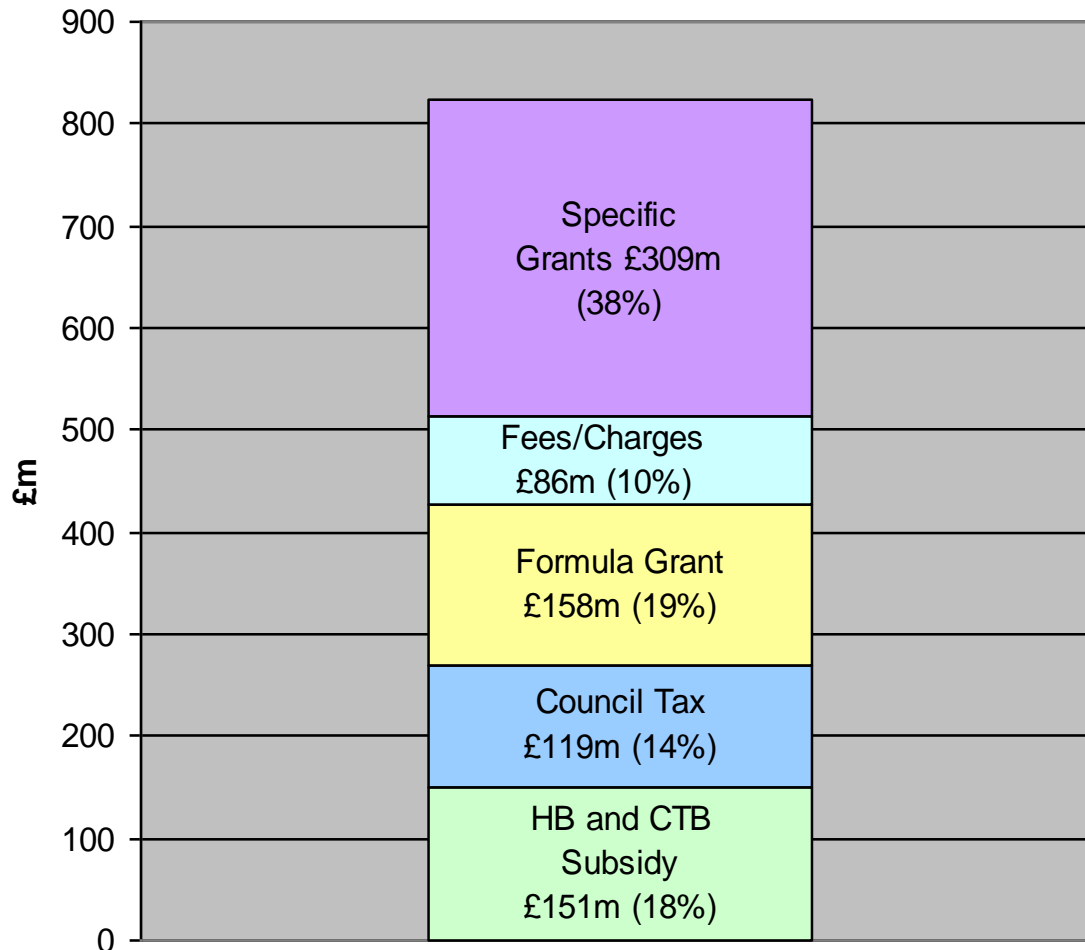


Welfare Reform: A Financial Perspective from a Local Authority

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Benefits and a Council's gross spend

Funding of CCC Gross Spend 2011/12
(£823m)



The importance of Welfare spend

- DWP – comfortably biggest public sector spend in the City
- HB and CTB Subsidy represent 18% of CCC's gross income/spend
- Approx £500 per head of population per year
- Massive issue for claimants
- Pretty significant to the local economy!

PLUS

- Approx 180 employees engaged in admin

Not a peripheral issue

HB Reform – general impact

- Social/economic impact of detailed changes
- Hits low income working families/those on the edge of economic activity
- Direct payments of UC– disincentive to developers/investors to build rented housing
- Impact on Housing policy
- Growth of rent arrears
- Loss of local knowledge/relationships with landlords

Welfare Reform and the direction of travel for LG Finance

- Continual diminution of LG role and functions over 50 years
- Loss of HB the next step
- Continued erosion of control over school funding – current DfE Consultation
- “Localism” not supported by the facts
- Business Rate Reform does not redress the trend

The wider context

- Fundamental Challenge to our society:
- (the recession and) the ageing population and the pressure on the health and social care economy
- Major financial pressure for most LAs – and most families
- Though many families don't yet realise

The Policy response needed

- A people focused view of need
- Joined up reform of welfare, pensions, health and social care
- An affordable strategy to meet individual need
- An understanding of what the state pays for and what the individual pays for

The Policy response we have:

- Welfare Reform driven by an efficiency/savings agenda
- Health reform driven by structural change and focused on de-monopolising provision
- A social care approach – the Dilnot report – in the long grass?
- Public sector pension reform driven by need for cuts
- No coherent approach

An example: Bridget

- Bridget is 80, frail, single and lives in sheltered Housing Association Accommodation in Warwick.
- She worked all her life in low paid employment, has savings less than £5k and no assets
- She has no work related pension
- She does not understand the bureaucracy – thinks its all done “by the Welfare”

State Support for Bridget - now

- State pension - DWP
- Pension Credit – means tested DWP
- Attendance Allowance – non means tested DWP
- Housing Benefit – means tested DWP via Warwick District Council
- Single Person CT Discount - non means tested Warwick DC
- Council Tax Benefit – means tested DWP via Warwick District Council
- Social care package – 1 hour twice a day – free following means test by Warwickshire CC
- Free Health Care on demand - NHS

State Support for Bridget - Post UC

- State pension – UC
- Pension Credit – means tested UC
- Attendance Allowance – non means tested UC
- **Housing Benefit – means tested UC**
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Evaluation for Bridget

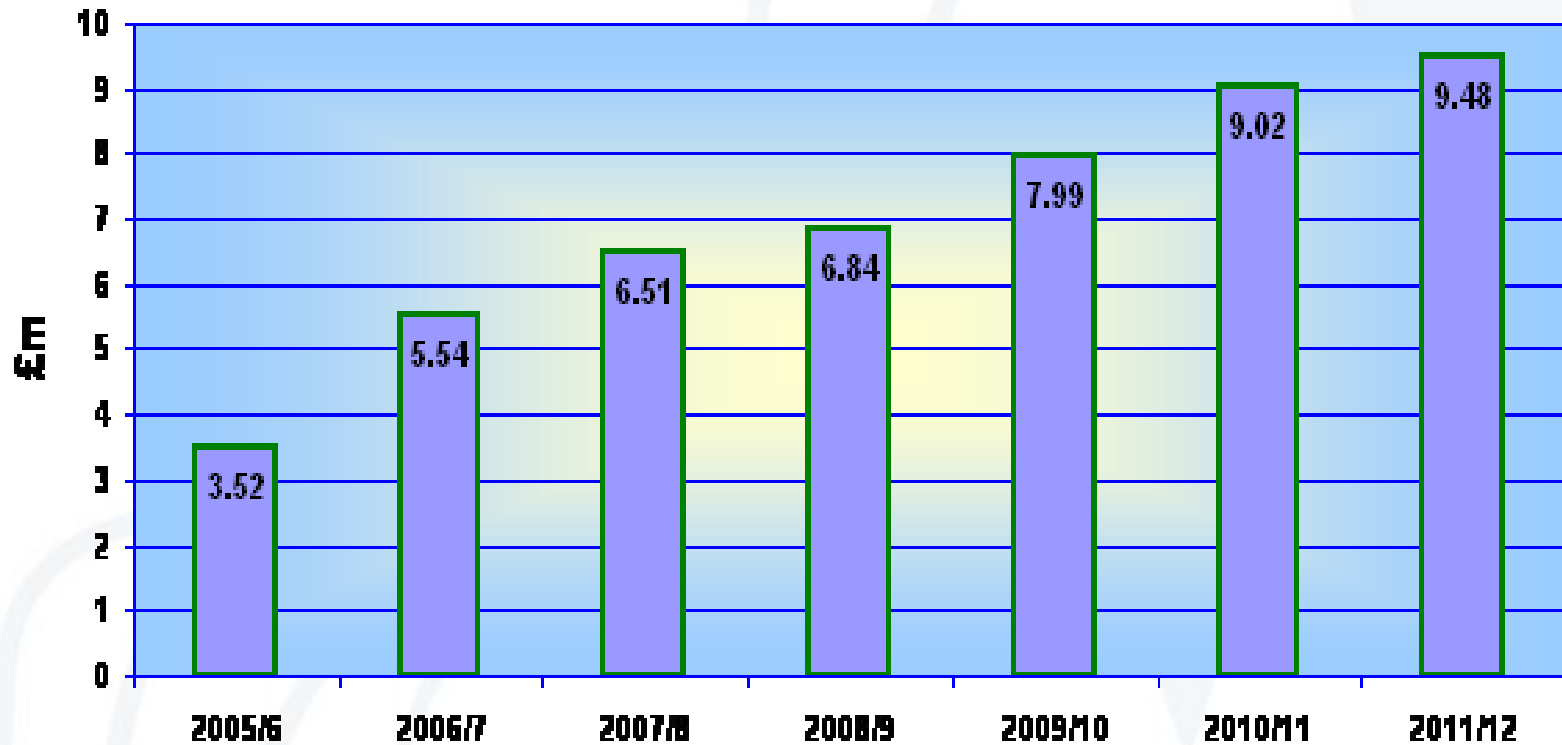
- Surprisingly little impact!
- This *could* be better for Bridget – but depends how well DWP gets its internal act together
- Service access by phone/internet a potential issue
- Will her rent be paid direct? If not how?
- Still lots of channels to negotiate
- Social Care and health issues likely to be of more pressing significance
- If Residential Care is next – a confusing minefield
- This is a simple example – many more complex ones
- And a lot of age related issues in the pipeline...

Financial issues - HB reform

- Unpicking massively complex subsidy system
- Impact on Council house rent collection
- Staffing:
 - – TUPE?
 - – Redundancy?
 - – Loss of Admin Grant?
 - – Split with CTB?
- Overpayments

Overpayments

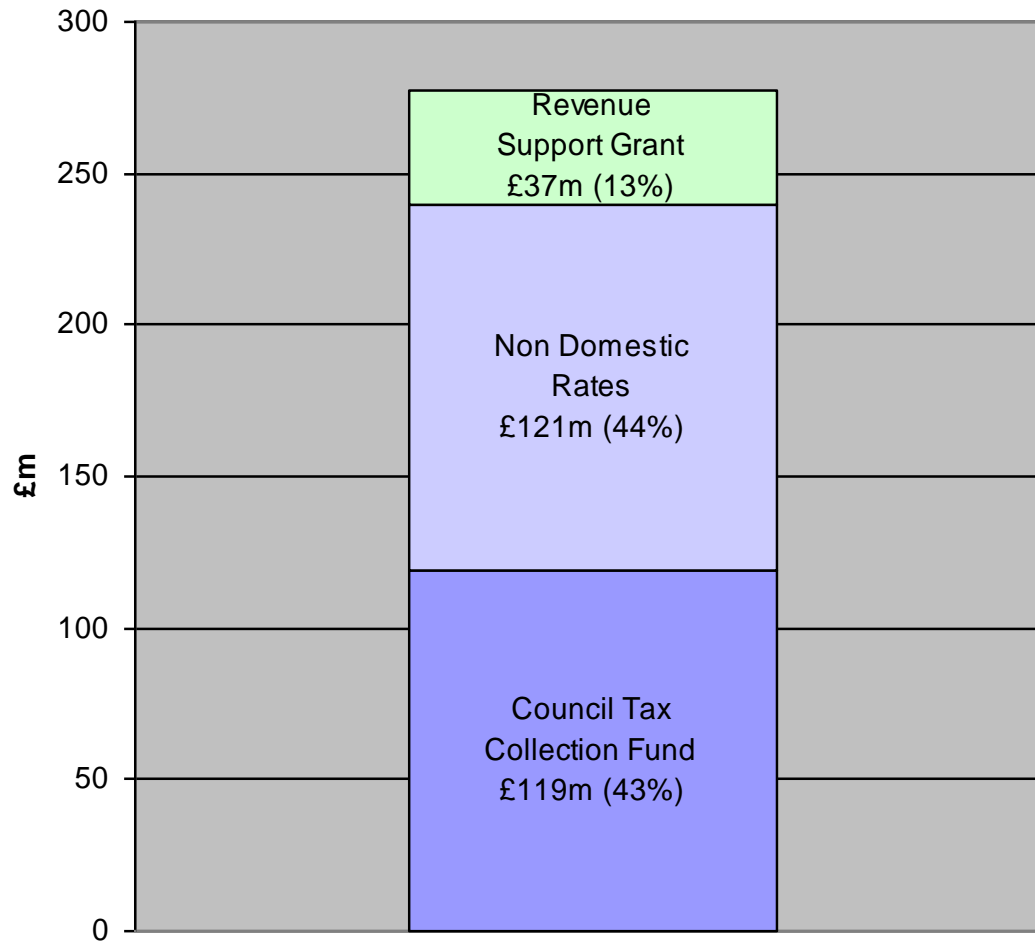
Treatment post UC??



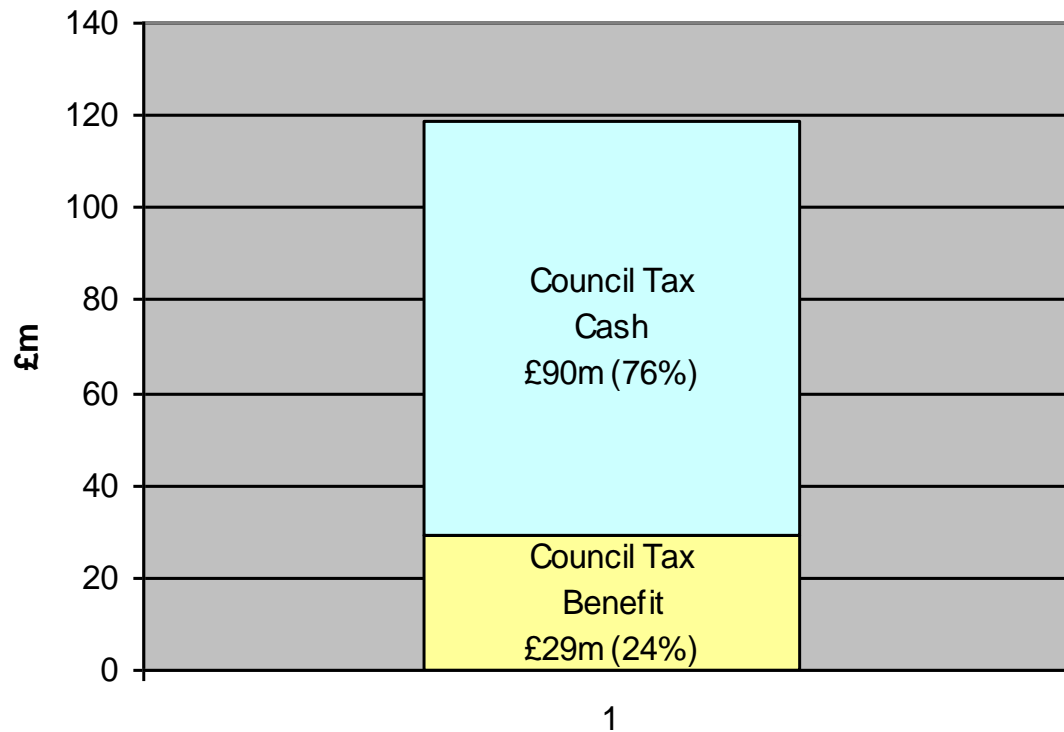
In summary

- Strong likelihood of significant one off and ongoing residual costs

Funding of CCC Net Spend 2011/12 (£277m)



Make-Up of CCC Council Tax Collection Fund (£119m)



CTB Reform and the Collection Fund

- Council Tax and CTB a vital component of funding LA net spend
- In Coventry's case funds 10.5% = £29m
- Risk on cost/caseload volume currently borne by DWP in subsidy system

How a Council sets its budget

- Add up spending needs
- Deduct fees, charges, specific grants
- Arrive at net spend
- Deduct Formula Grant (Business rates + RSG)
- =
- Amount needed from the Collection Fund
- (of course you can do this the other way!!)

How a Council sets its budget

- Collection Fund contribution determined by:
 - Tax base
 - Collection rate
 - Precepts
- At present CTB is a positive factor as:
 - Risks held by DWP
 - Entitlement is deducted from amount due
 - It pushes up Collection rates
 - LAs incentivised to maximise take up

The new system

- CTB subsidy goes - replaced by new cash limited grant
- 10% cut nationally - £460m, locally - £3m
- Grant each LA gets may or may not be close to current level of subsidy – rules for total and distribution not known!
- CTB in future a discount not a benefit
- The cut of 10% will have to be paid by people as an additional cost
- As pensioner and “vulnerable” protected disproportionate impact on other low income households

The new system - implications

- Bound to reduce Collection Rates
- This WILL mean cuts to services
- Do we need to plan bigger than 10% reductions in benefit to make up shortfall?
- Some LAs will backfill the cut to benefits/Collection fund shortfall from service cuts/higher Council Tax increases
- Council tax freezes
- How will the new grant rise year on year?

What if the Government freeze the new grant?

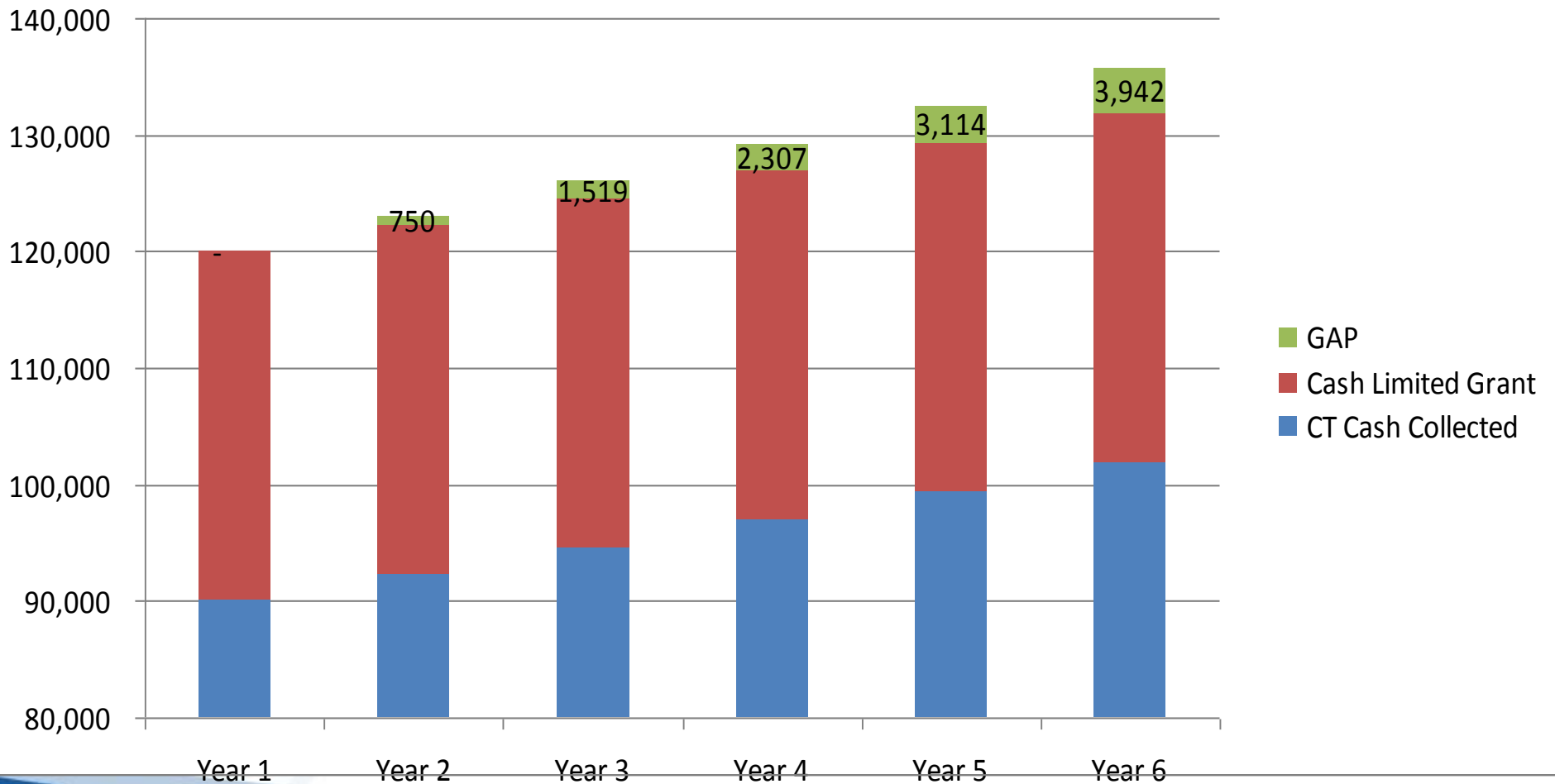
A model

Assume

- LA financial plan based on 2.5% CT rise pa
- In year one £30m grant = 90% of subsidy
- Other 10% of current subsidy, when lost is collected in full – i.e. ignore hits from falling collection
- Tax base and other variables fixed over 6 years

The Impact of Freezing CT grant

£000s



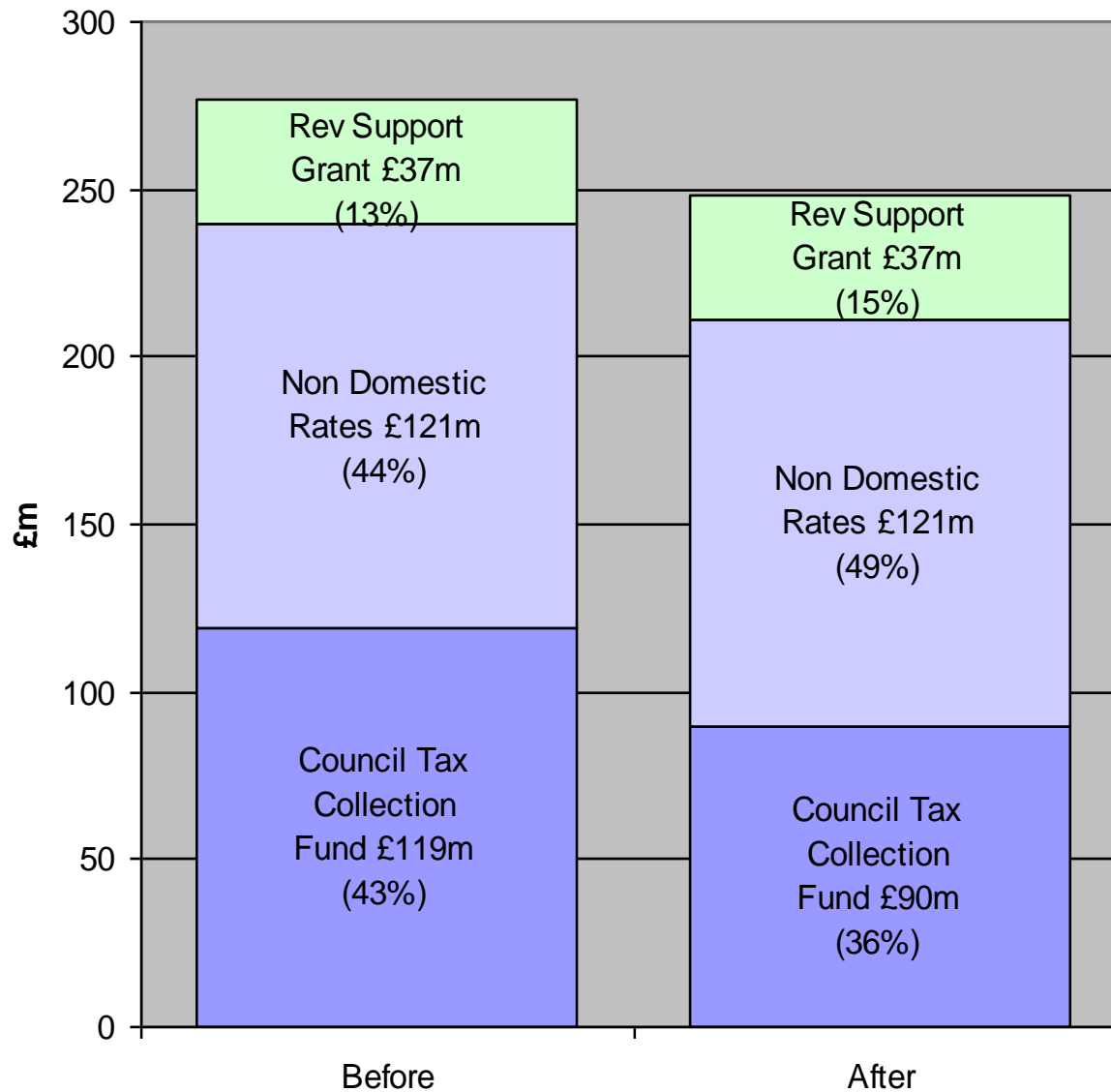
A vicious circle

- Could increase CT to fill the gap, BUT
- Capping
- Referenda
- More protection for pensioners/vulnerable
- Bigger hit on low income claimants – especially those formerly eligible
- Of course, some of CT rise (24%) would lead to increase benefit which we have to fund!

The paradox of “Localism”

- “The Government is also giving Councils **much greater control over their purse strings**. In previous years there have been many more funding streams and grants.....this was very restrictive...as it meant Councils had to spend their money on priorities set in Whitehall”
A plain English Guide to the LG Finance Settlement 2011-12, DCLG
- “No more should proud Cities be forced to come to national government with a begging bowl. Councils should have greater control over their cash....”
Eric Pickles, LG Resources Review, July 2011
- “Government envisages funding to be paid to LAs in the form of an unringfenced special grant ”
Localising Support for CT in England, DCLG, July 2011
- And there will be one for Public health too

Funding of CCC Net Spend 2011/12 (£277m) - Before and After CTB Reform



In summary CTB Proposals create significant risk:

- On our ability to implement
- On Collection rate
- On the size of the new grant relative to current subsidy
- On the distribution of the new grant
- On the indexation of the new grant

AND

- Significantly increases central government financial control over the LG Finance System

CTB Reform - one of the most ill advised reforms since Poll Tax? Why??



In summary - overall

- Welfare Reform is needed
- Courageous intent, but still not wide enough pitched – social care, health, pensions too
- Timescales tight, pitfalls many – Treasury right to be worried
- HB – Reforms flawed? Workable?
- CTB - Reform flawed and undeliverable

Its going to be an interesting few months!