

REWIRING PUBLIC SERVICES

COUNCIL TAX SUPPORT



BACKGROUND


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This report draws on emerging evidence to look at some of the key consequences for councils of the end of council tax benefit and the introduction of local council tax support schemes. It complements the recent report from the National Audit Office¹ which concentrates on lessons for government.

In March 2013 the national system of council tax benefit (CTB) ended. From 1 April 2013, responsibility for council tax support was transferred from the national CTB scheme to local council tax support (CTS) schemes where each billing authority has discretion over its own scheme for working age claimants (although they have to keep the scheme for pensioners unaltered). At the same time the shift was accompanied by a 10 per cent cut in government funding for the schemes.

At least in theory, the localisation of CTB fulfils a long-standing ambition of successive governments to ensure that councils bear part of the welfare cost of rises in council tax. There had been a concern that councils were not incentivised to keep council tax down in circumstances where a large proportion of residents were on benefits. However in practice councils have been faced with what many have seen as an unpalatable choice; either charge council tax to the working age poor, who in many cases had not paid council tax before, or find savings or extra income from elsewhere.

¹ <http://www.nao.org.uk/report/council-tax-support>



To help fund the change, the Government gave new powers to charge additional council tax from empty or second properties. However, despite an extensive debate as the Bill was going through Parliament, the Government did not allow any variation of the 25 per cent Single Person Discount which is the largest single council tax discount granted.

The Local Government Association (LGA) pointed to the risks involved. As well as the 10 per cent cut these included the fact that council tax benefit was based on actual rather than estimated eligibility, so that if there was a rise in claimants, as happened in the period from 2008 to 2011, grant funding would rise in line with benefit payments.

In addition, if council taxes went up so would council tax benefits. There is no such certainty in the new scheme. There was also a risk that more eligible pensioners would claim what was a discount rather than a benefit, due to the perceived stigma of paying benefits. Whilst helping to protect the vulnerable by encouraging take-up, this would add to the cost of the scheme.

We are now approaching the end of the first year of localised CTS, and while the full impact of the policy will not become apparent until at least one year in, from emerging data it is possible to draw some broad conclusions to inform the local government sector and central government.

This paper draws on existing research to analyse the policy in terms of:

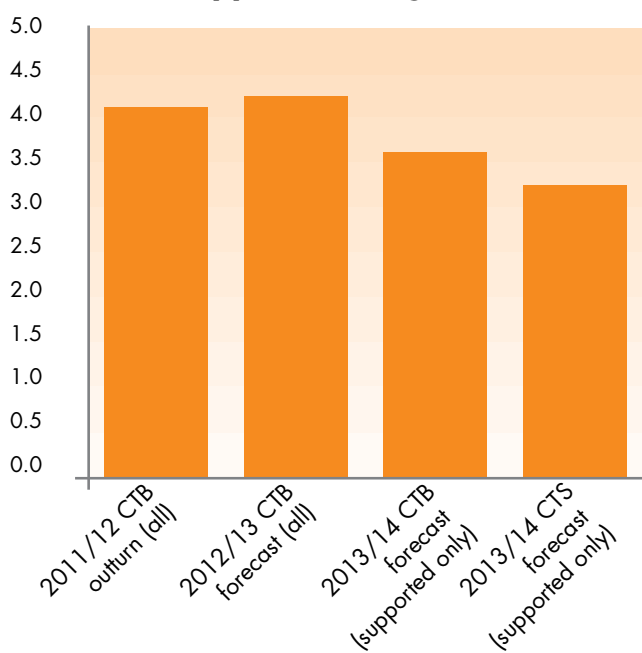
- its impact on local government funding
- its impact on council tax collection rates
- potential changes in the second year of the scheme, and subsequent years
- the interaction of the policy with other policies, including other aspects of welfare reform and on the overall incidence of the council tax.

FUNDING

The localisation of council tax benefit was accompanied by a 10 per cent cut in forecast supported expenditure for 2013/14, with the Government funding the residual grant, estimated at 90 per cent of the cost of the scheme, through Departmental Expenditure Limit (DEL) rather than Annually Managed Expenditure (AME). The headline 10 per cent cut amounts to £410 million in England. But there are two important points to be made.

Firstly, when compared with total CTB expenditure in previous years the cut looks like 23 per cent rather than 10 per cent. This is explained by, firstly, the fact that total expenditure was around £100 million higher than supported expenditure and secondly that expenditure was projected by Department of Work and Pensions (DWP) to decrease².

Council tax support funding £bn



² See the DWP explanation: <http://tinyurl.com/lzmt3qd> and particularly the table: <http://tinyurl.com/p8bxjc9>

Secondly, although funding for council tax support can be identified within councils' overall Settlement Funding Assessment figures in the 2013/14, from 2014/15 onwards this funding will be impossible to identify separately so it is impossible to say exactly how much funding is available for CTS to any individual council. Although the Government claims that the top level transfer indicates that CTS funding has not been cut further³, in practice allocations to councils are reducing.

If CTS funding has been protected at 2013/14 levels, then the true cut to the remainder of funding is even greater than that indicated in provisional settlement figures⁴ – 10.8 per cent and 15.3 per cent cash cuts in the next two years rather than the 9.4 per cent and 13.2 per cent headline figures for cuts in the Settlement Funding Assessment.

If councils reduce funding for CTS in line with the cuts to overall funding, then the total cut in CTS funding amount to 28 per cent or £1 billion in the first three years⁵. This has either to be passed on in the form of lower council tax support, meaning that the working poor pay a higher proportion of their council tax, or funded locally in other ways.

³ See '2014/15' transfers at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/267307/Derivation_of_National_RSG_Totals_-_FOR_PUBLICATION.xls

⁴ Internal LGA analysis

⁵ This does not include funding for local policing bodies.

TRANSITION GRANT

A one-off grant was offered for one year only to authorities who chose a scheme that fulfilled certain criteria, the most important being that reductions in a claimant's entitlement be limited to 8.5 per cent of the claimant's entitlement under the previous scheme. The grant was announced in October 2012 when many authorities had already decided on a scheme design, or were at least at an advanced stage of the consultation process.

Of the £100 million made available for this transition grant, £53 million was paid out to councils which fulfilled the criteria. Of this, £4.5 million was paid to 28 authorities that had already announced schemes that fulfilled the criteria, and some of those who had not yet announced their schemes may have implemented compliant schemes anyway. But there is some evidence that the grant offer changed behaviour – 43 per cent of councils which had scheme documentation available before the grant announcement changed their scheme to a compliant one.

The transition grant did not cover the full cost of a compliant scheme for all authorities. Of the surveyed district councils whose schemes pass a cut to claimants of 8.5 per cent or less (whom we assume chose this as a result of the transition grant offer) only 38 per cent plan to make their schemes less generous in 2014/15.

The transition grant appears to have had some success therefore not only in influencing scheme design in the first year, but in persuading councils to absorb some of the reduction in funding even after the grant ends.

This gives some evidence that councils believe small changes to the scheme are not worth the trouble. It is worth noting that, while councils have the freedom to amend their schemes every year if they choose, new burdens funding for the costs involved in consultation and implementing systems change has been provided only for 2013/14 and 2014/15 covering the initial switch from council tax benefit to council tax support. No funding for 2015/16 or future years has been announced.



Effect on total budget

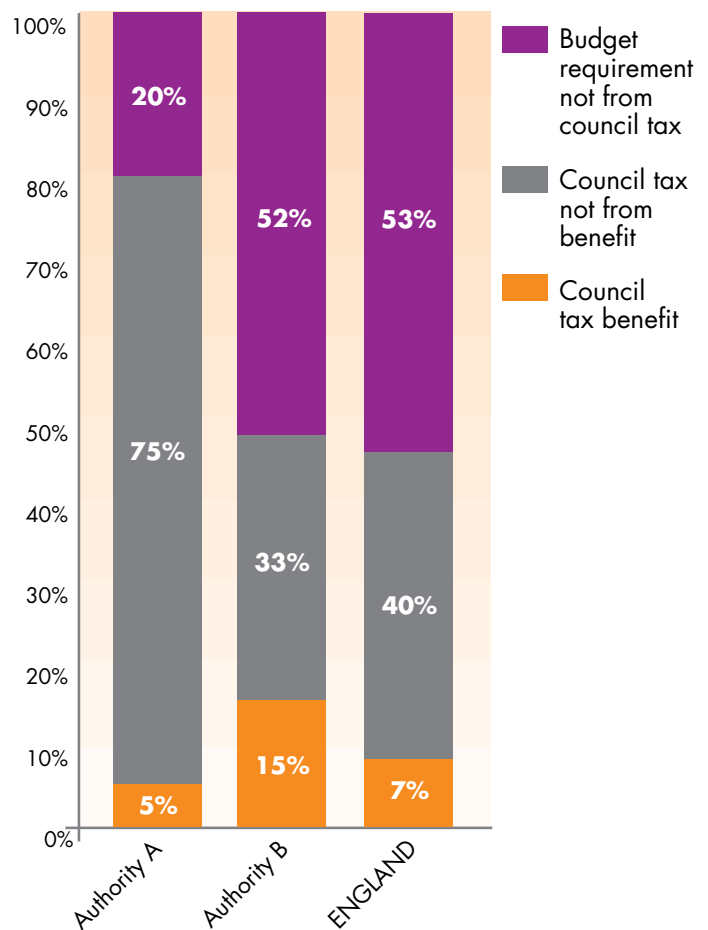
The reduction had a different effect in different authorities. For England as a whole in 2012/13, council tax benefit comprises 7 per cent of the budget requirement, so a 10 per cent reduction in funding is equivalent to a reduction of 0.7 per cent in the total budget requirement. The chart opposite⁶ shows data from two real councils to illustrate how the impact varies between authorities:

For Authority A, where just 5 per cent of the budget requirement was funded through council tax benefit, a cut of 10 per cent to council tax support funding is equivalent to 0.5 per cent of the total budget requirement. This authority raises a much greater proportion of its funding through council tax than the England average, and so has greater capacity to raise additional council tax income through technical changes. For Authority B, with 15 per cent of its budget requirement coming from council tax benefit, a cut of 10 per cent to council tax support funding means a reduction of 1.5 per cent in the total budget.

The transition grant is for one year only, so those authorities that took the grant must either fund the loss of transitional grant or reduce the cost of their schemes. Similarly reserves can only be used once; so using them to support funding reductions is not sustainable.

There are some councils which, through technical changes to council tax, were able to raise enough additional income to fully fund the reduction in funding for council tax support, but this is very much dependent on the makeup of the taxbase in each local area.

Percentage of budget requirement raised from council tax and from council tax benefit, 2011/12



⁶ LGA analysis of <https://www.gov.uk/government/organisations/department-for-communities-and-local-government/series/local-authority-revenue-expenditure-and-financing>

DIFFERENT POSITIONS LEAD TO DIFFERENT APPROACHES TO FUNDING THE LOSS IN GRANT

Authorities, faced with different financial positions, have responded to the funding reduction in different ways.

- A metropolitan borough and a London borough both reduced discounts on second and empty homes to maximise their income in order to offset the loss of council tax support funding. The metropolitan borough estimates that it will raise 45 per cent of the total loss in funding through this method but for the London borough this figure is 62 per cent. A number of shire districts expect to recover more than 100 per cent of the loss in grant through these technical changes.
- Two shire district councils capped reductions at 8.5 per cent and took the transitional grant funding. For one of them, the grant covered 45 per cent of the total loss in principal funding. For the other, it covered only 19 per cent.
- A quarter of shire district councils surveyed will cover some of the loss in grant through efficiency savings, and some have made cuts to services to cover some of the loss.
- Only 8 per cent of shire district councils surveyed intend to fund some of the loss in grant through use of reserves. How feasible this is as a strategy will depend on how much authorities hold in reserve, how much of this is earmarked for specific purposes, and the authority's attitude to risk in general. In any case, the use of reserves is at best a short-term solution to a permanent loss in funding.

PENSIONERS AND DISTRIBUTION

For billing authorities who choose to pass the cut to claimants, the cut must be taken in full from working-age claimants, because of the statutory protection of the benefits for pensioners.

This means that the cut in entitlement to a claimant is greater than the 10 per cent headline figure. In the average council, the percentage cut required to the entitlement of working-age claimants is 19 per cent, but this can be as high as 27 per cent depending on the proportion of caseload which is of working age.

Even the authority with the lowest proportion of pensioner claimants in England would still have to reduce support to working-age claimants by 15 per cent to fully cover the reduction in funding.

Accordingly it could be said that councils with a high proportion of working-age households on benefit have a greater incentive to help people into work as a result of these changes. It is too early to judge whether this will in fact happen.

In addition, any change in the pensioner caseload will impact the funding available to support working-age claimants. A reduction in pensioners as a proportion of total caseload will increase the funding available for working-age claimants.

In practice, the ageing population means that in the long term, pensioner caseload is likely to increase and therefore funding available to support working age claimants will reduce.

COLLECTION RATES AND COLLECTION COSTS

In many council areas the reduction in support resulted in new debts, in particular the collection of relatively small amounts from those who previously paid nothing. Councils made estimates of collection rates for this new debt ranging from 30 per cent to 99 per cent.⁷ The situation is unprecedented so most councils were naturally prudent in their estimates. Initial indications are that collection rates for the new debt are expected to be slightly higher than what was forecast.⁸

But there is a year-on-year drop in overall collection rates. Based on initial data, we estimate that the total council tax collection rate for 2013/14 will be 96.8 per cent, down from 97.4 per cent in 2012/13⁹. At this stage it is not possible to say how much of this is due to council tax support. The financial impact of this is estimated at £140 million, a cost that must be borne by councils and was not compensated under the 'new burdens' doctrine.¹⁰



Types of scheme

The following table gives some data from a survey conducted by the Society of District Council Treasurers, comparing projected collection rates with type of scheme. The sample was 113 shire districts. The nature of the council tax billing and collection cycle makes it difficult to draw firm conclusions at this stage in the year. Analysis of data from unitary authorities has produced similar results but from a smaller sample size. The figures represent a simple (unweighted) average of percentage collection rates.

Collection rate for council tax base purposes	2012/13	2013/14	Drop in collection rate
default scheme	97.4%	97.1%	0.3%
no cut	98.6%	98.2%	0.4%
cut of 8.5% or less	99.0%	98.2%	0.8%
cut of more than 8.5%	98.6%	97.9%	0.7%

As might be expected, collection rates have dropped more for schemes in which claimants are expected to pay more. It is perhaps worth pointing out that very few authorities intend to (or can afford to) make their scheme more generous in future years and many have already made known their intention to move to a less generous scheme.

⁷ SDCT research

⁸ SDCT research

⁹ SDCT research gives 0.6 per cent drop in the average collection rate. This is then applied to the 2012/13 outturn: <http://tinyurl.com/p3j2f7d>

¹⁰ IGA modelling 0.6 per cent of £23 billion (total council tax revenues in 2012/13).

Shire district councils are in general in more affluent areas of the country than single-tier councils, so it is possible that the effect is more marked in single-tier billing authorities.

One less expected result is that those authorities which chose the default scheme tend to have a lower collection rate to begin with than those which passed the cut to claimants. If this is indeed a real correlation, it could be that authorities whose collection rate was already low were more likely to absorb the cut for fear that chasing the new debt would lower their collection rate even further.

Responses of councils to a Freedom of Information request published in 'The Guardian' newspaper show that while the number of Liability Orders issued for non-payment of council tax increased in most local authorities in 2013/14, the rate of increase is twice as high in authorities which passed on the funding cut as in those that absorbed it.

EXAMPLES OF MEASURES TO IMPROVE COLLECTION RATES

Councils have always had an incentive to increase their council tax collection rates but some have implemented new measures to improve collection specifically related to the introduction of the local CTS scheme. There is evidence that councils are responding to the new council tax landscape with innovative solutions. For example, the London Borough of Islington offers a small cashback award to those claimants whose account balance is cleared by the end of the year.

Councils in the past have encouraged council tax payment by direct debit, as this has tended to improve collection rates. But there is anecdotal evidence that, for those claimants who previously paid nothing, and are now being asked to pay a small contribution towards their bills, direct debits can have the opposite effect.

Often there is not enough money in their account to cover the payment, meaning the transaction is refused and the claimant is charged a fee by their bank. This in turn makes it harder for the claimant to make the next month's payment. Some councils have therefore stopped encouraging direct debit as their preferred payment method, at least for these types of claimants. This could add to local authority collection and banking costs in the long term.

WIDER IMPACTS AND THE FUTURE

Fifty-nine per cent of councils surveyed plan to keep the same scheme in 2014/15, 35 per cent intend to increase the cut to claimants and only 2 per cent intend to move to a scheme more generous to claimants.¹¹ Of those who intend to reduce the cost of the scheme in 2014/15, 50 per cent are councils with schemes capped at 8.5 per cent or under (ie those we assume to have changed their scheme as a result of the transition grant). 25 per cent are those who use the default scheme or a scheme with no cut to entitlement, and 25 per cent already have cuts to entitlement of more than 8.5 per cent. There are several councils which have already cut entitlement by 20 per cent or more, and intend to cut it further.


It is difficult to isolate the effects of this policy specifically because it was introduced at the same time as so many other funding changes, including council tax referendums, council tax freeze grants, business rates retention, and the New Homes Bonus.

The report of the National Audit Office¹² points out that DCLG has, since its initial impact assessment of the policy, developed its understanding of the combined effects of funding changes on local authorities. DCLG has developed work combining the financial effect of each funding change to project the potential future income of every local authority. It currently has no plans to capture actual effects of welfare changes on demand on local authority services and their costs, to supplement its model of the impact of financial and funding changes on local authorities.

The implementation of council tax benefit also comes at the same time as a sweeping programme of welfare reforms in other areas, some of which will tend to increase demand for local authority services.

¹¹ SDCT survey, numbers do not sum to 100 per cent due to councils which did not answer.

¹² <http://www.nao.org.uk/report/council-tax-support>



In August the LGA commissioned a report from the Centre for Economic and Social Inclusion on the cumulative impacts of welfare reforms.¹³ This focussed on the financial impact of the reforms on claimant households, but many councils are also concerned at the impact on council finances through increased demand for services.

The London Borough of Brent made headlines recently when it issued 3,500 summonses for non-payment of council tax.¹⁴ Brent is the area with the third largest loss per household as a result of the various welfare reforms. This could be an early indication that other welfare reforms are having a negative impact on council finances.

Council tax benefit (CTB) was designed as part of the council tax system to protect those on low incomes. In effect, it means that for eligible households on low incomes, council tax also acts as a hybrid property and income tax, as changes in earnings alter benefit entitlement.

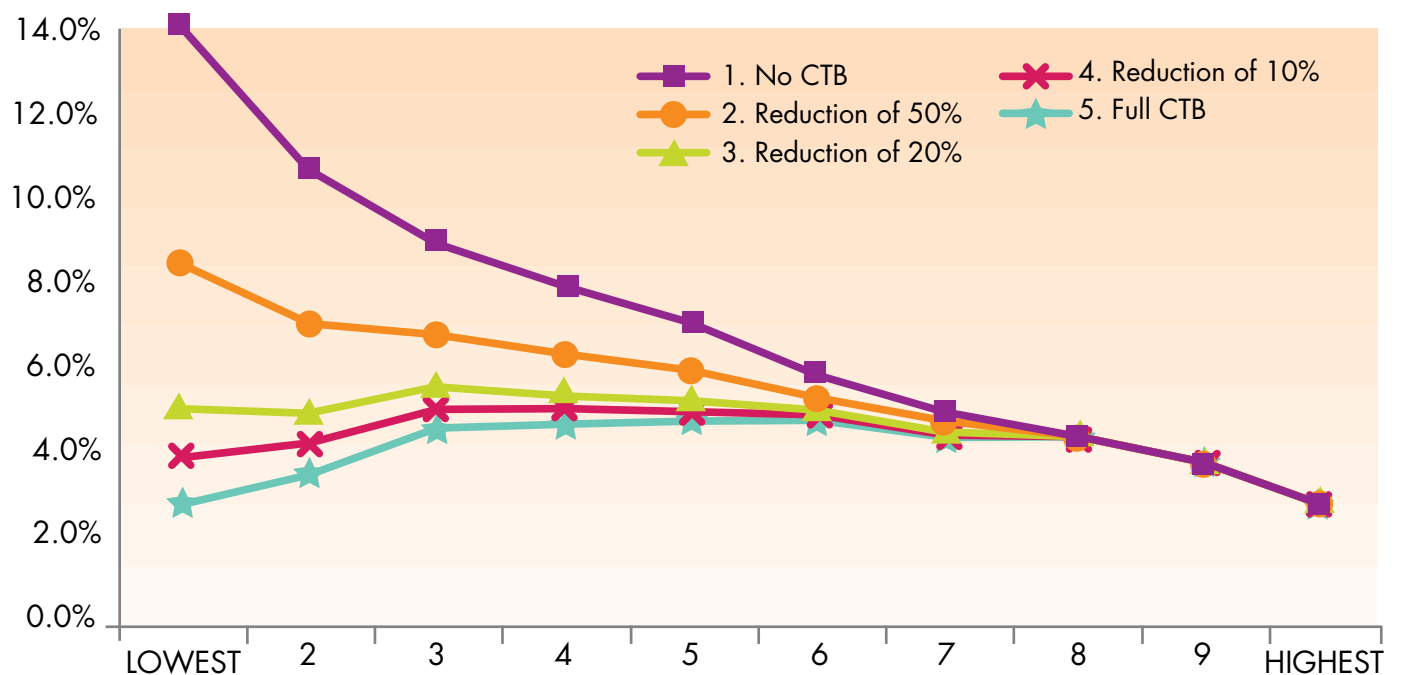
The chart overleaf (based on data from the Lyons Inquiry) shows that council tax is regressive to income before council tax benefit is applied. That is, in terms of the pure structure of the tax itself, the highest-income households are liable to pay the lowest proportion of their income in tax, while lower-income households are liable to pay greater proportions of their total income in tax before CTB.

¹³ <http://tinyurl.com/qy2yuk4>

¹⁴ <http://www.bbc.co.uk/news/uk-england-london-24795818>

Once eligibility for CTB is taken into account, council tax liability is a relatively constant proportion of people's incomes throughout the income distribution, becoming relatively progressive to income for those on the lowest incomes, and regressive only in the top three income deciles.

Council tax as a proportion of net household income after housing costs by income decile, under different council tax support schemes



Data from 2011/12

The introduction of local council tax support does affect this. In essence a local council support scheme where the working age poor have to pay a minimum of council tax means that the left hand side of the line rises. This effect will be different in different areas. But as central funding is withdrawn and councils find they have no alternative but to introduce schemes where the working age poor have to pay the line will rise; meaning that council tax will account for more of the income of the lowest decile even after council tax support. We have modelled several different scenarios. The spread in the chart clearly shows that the greater the reduction in claimants' entitlement to support, the more regressive the tax becomes.

CONCLUSIONS AND RECOMMENDATIONS



The conclusions of this brief analysis are:

1. The localisation of council tax benefit was widely presented as being accompanied by a 10 per cent cut. This equates to a cut in central support of £410 million. However, because of the way in which funding was transferred the actual cut in central support to April 2016 could be as much as £1 billion. The fact that funding for a demand-led service, over which councils have little if any control, has been rolled into an ever-reducing settlement funding assessment, means that councils are forced to make cuts, either to entitlement to support, or to other services. Different councils are affected in different ways, notably due to different numbers of eligible council tax payers and pensioners.
2. The transition grant was for 2013/14 eligible schemes only. However it does appear that many councils which previously received funding will not change their arrangements in 2014/15. However they may be forced to review them for 2015/16 as more cuts to central government grant support are implemented. Anecdotally many authorities have stated that they would like to review their schemes after at least one full year of operation, so will consider changes for 2015/16.
3. The result of the introduction of council tax support is that council tax has become more regressive, as the chart on p 11 shows. Any further cuts in funding will lead to the position where in a sizable number of authorities the poorest are paying an increased slice of their income in council tax.
4. So far the impact on collection rates is not as severe as had been projected, but there are a number of areas where further data and analysis is needed for conclusions to be drawn. In particular, an analysis of collection rates for the different types of claimant (eg those who were previously on full benefit, those impacted by other welfare reforms) might enable more intelligent scheme design that takes some of these factors into account. The introduction of payment of Council Tax by 12 instalments may also affect any conclusions drawn on collection rates so far.
5. In addition, there is no hard evidence on how those claimants who are paying their council tax bills are managing – if they are relying on short-term loans and building up debts this is not sustainable and collection rates are sure to drop in future years.
6. Similarly there is little evidence as yet of any action being taken by authorities to reduce worklessness reducing the cost of council tax support. It would be too early to judge the impact of such initiatives.



Our recommendations are:

1. That the Government consider a more transparent way of funding. This should be through an identified stream of non-ring fenced funding within the Settlement Funding Assessment. We would recommend that funding for council tax support be transparently identified in 2014/15 and all future settlements.
2. That this and any possible future government consider the case for returning to a 100 per cent funded scheme on the grounds of equity. This does not necessarily mean a return to the old council tax benefit arrangements or that council tax support should be included within universal credit¹⁵; it merely means that councils should be funded sufficiently to be able to run schemes without being forced to impose reductions by their financial situation. This would have the effect of making the council tax less regressive once more.
3. The freedom to raise more income through changes to council tax discounts and exemptions, in particular council tax from empty homes and second homes discounts, is a step forward but to enable councils to manage within budget reductions the council tax system must be fully localised, including freedom over all discounts.
4. That the Government and the LGA continue to monitor the situation, and the Government publish its analysis of the cumulative impact of all funding reforms at an individual council level, and undertake to analyse the cumulative effect of all welfare reforms on demand for council services at an individual council level.¹⁶

¹⁵ Under section 9 of the 2012 Local Government Finance Act the Government has to have an independent review of schemes within 3 years. One of the matters it has to consider is whether schemes should be brought within universal credit. See <http://www.legislation.gov.uk/ukpga/2012/17/enacted>

¹⁶ <http://www.nao.org.uk/report/council-tax-support>



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