

From the Chairman of the Association
Baroness Eaton DBE DL

Rt. Hon. Iain Duncan Smith MP
Secretary of State for Work and Pensions
Department of Work and Pensions
Caxton House
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Dear Iain

UNIVERSAL CREDIT AND THE FUTURE OF COUNCIL TAX BENEFIT

We agreed to keep in touch as the roll out of Universal Credit develops. The LG group has now established useful links with DWP on this issue at a variety of levels, including being represented on the main Programme Board. I hope your department finds this engagement as constructive and valuable as we do.

Overall, we continue to take the view that there is a strong case for moving to a much more streamlined national delivery arrangement for universal credit, while delivering face-to-face support for universal credit customers who need it in a way that is integrated with other local support to these clients and those with similar needs. I know that there is much work still to be done on delivery options, however.

You will be aware that the issue requiring a swift ministerial decision relates to the future of council tax benefit. I wanted to set out for you the LG Group's view on what would be a workable model.

The Universal Credit White Paper stated that council tax benefit would be localised from 2013-14, and of course the Spending Review included a cut of 10% in CTB spending to coincide with the localisation.

As we discussed at our previous meeting, we prefer localisation to a position where council tax benefit is within Universal Credit. Under the status quo, CTB is credited directly to claimants' council tax account. That means levels of council tax collection are very high and the costs of collection are low. Under the UC option, which would put cash directly into the hands of claimants, the risks of a return to significant non-payment are very high. You will recall as vividly as I do the non-payment problems in local taxation before the introduction of CTB. We cannot afford to return to that situation.

Localisation of council tax benefit is not only the better option for that reason. It also provides an opportunity to clarify local accountability for the whole council tax system, reinforcing the government's decentralisation agenda – especially if, as the White Paper suggests, it were to be accompanied by creating more local discretion about council tax discounts as a whole.

But localising CTB is far from being risk-free, or a panacea. Localisation would involve a degree of risk transfer to local government – that is, to local taxpayers who do not claim the benefit. The risks include:

- changes to the total council tax burden: currently, the funding of CTB is driven by actual authority council taxes; changing that to fixed funding would shift financial risk to council tax payers;
- increased take-up: take-up of council tax benefit is currently estimated at only around 60% of those eligible to claim it;
- currently CTB is based on the actual number of those eligible; should fixed funding be based on an estimate, that would also shift a risk to council tax payers;
- finally, there is the issue of the 10% reduction and how it will be achieved.

Neither councils nor the government want to play fast and loose with the future potential burden on council tax payers. We believe the risks are, in principle, manageable. There are two basic routes through which they might be managed:


- granting councils a high degree of flexibility to set and manage the whole structure of discounts and abatements within council tax in future;
- within the local authority grant system, agreeing financial risk-sharing arrangements between the Exchequer and councils for future years while the new arrangement beds in and the trend in caseloads and benefit/discount take-up are established.

What I need to make clear at this point, however, is that it will be extremely difficult for councils to welcome any changes to the CTB arrangements without Ministers' being able to give a degree of public assurance on how these risks will be managed. I hope we can work with you now to agree an acceptable approach.

I would find it extremely valuable to talk to you again about these proposed reforms before you and Eric Pickles announce your decision. My office will be in touch with yours to discuss possible dates.

I am sending a copy of this letter to Eric and to Danny Alexander.

Yours sincerely



Baroness Eaton DBE DL
Chairman, Local Government Association