

Localising council tax reliefs

Purpose of report

To set a position on the Government's proposal to localise council tax reliefs.

Summary

Localising the system of council tax reliefs could create an opportunity to turn council tax into a better tax and give councils more control. The Government's proposal is more pragmatic: it invites councils to find a 10 per cent cut in funding for reliefs but puts tight limits on which taxpayers might be affected. Overall, this probably requires councils to impose an average cut of a third, rather than 10 per cent, on a sub-set of existing benefit claimants. And in some areas, councils simply have too many protected taxpayers for the arithmetic of the cut to add up. At the Executive meeting, officers will set out some possible alternative approaches and invite members' views on how we should respond to the Government.

Recommendation

Members are invited to consider the options for responding to the Government's consultation.

Action

Officers to submit a consultation response in line with Members' views. [Paul Raynes]

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Background

1. The Government is minded to localise Council Tax Benefit and is consulting on how to do so. A consultation document on Localising Support for Council Tax in England was published on 2 August, with a closing date of 14 October.

An odd benefit that gives people taxpayers' money to pay tax with ...

2. The council tax was cobbled together in a crisis in 1990. The Lyons Report catalogued its deficiencies: for example, it isn't either a rational tax on the occupation of property, or a fair tax on wealth or income. It isn't related to ability to pay. Since it was introduced, a social security benefit linked to low income and varying with family circumstances – Council Tax Benefit (CTB) – has helped some people pay their council tax. This is pretty odd, but it works reasonably well and, for poorer people, provides a relief linking council tax to ability to pay. Largely because of CTB, council tax collection rates are higher than for any other tax. That gives councils an exceptionally stable, predictable revenue base.

...could be replaced by a real local tax...

3. Localising the system of council tax reliefs creates a great opportunity to turn council tax into a better tax and give councils more control. Councils could make their own decisions about who should pay, and how much. They could use it as a property tax to improve the operation of the housing market, say, or take a more active approach to redistribution and make it a fairer tax. This would be a seismic shift towards a more localist system of government.

...but that's not what the Government's proposals do

4. The Government is not, however, proposing such a localist vision of a reinvigorated council tax system. Its decision to localise council tax reliefs has two motives:
 - 4.1. to provide a way to absorb a 10 per cent cut – roughly worth £500 million - in the funding for CTB;
 - 4.2. to shift the cost of CTB from the benefits bill – which is demand-led and requires the Treasury to finance whatever it turns out to cost – to cash-limited spending in councils' budgets.
5. The Government is proposing very limited discretion about what changes councils could make to the status quo within a "localised" system.

Item 3

6. The main elements of the Government's proposals are these:
 - 6.1. a 10 per cent cut in funding for CTB;
 - 6.2. councils would have the duty from 1 April 2013 to make local schemes for relieving people from the council tax;
 - 6.3. local schemes would not be allowed to change the entitlements of pensioners, and "vulnerable" people should be protected ("vulnerable" isn't defined, although the consultation mentions the Child Poverty Act);
 - 6.4. local schemes should protect work incentives;
 - 6.5. within local schemes, councils might have limited extra discretion to vary some council tax discounts.

Councils are being asked to get a quart into a pint pot, and very fast

7. This sets councils a very knotty problem. Here are some facts about CTB, which we will illustrate more fully at the Executive's meeting:
 - 7.1. the 10 per cent funding cut is worth roughly £500 million;
 - 7.2. there are 5 million claimants;
 - 7.3. roughly half the claimants are pensioners;
 - 7.4. roughly half the rest are families with children, which might be one definition of "vulnerable" claimants;
 - 7.5. so councils are being asked to share the £500 million cut among 1.3 million claimants, which works out at an average loss of some £330 each – while also protecting their work incentives.
8. These are just the national totals, of course. Some councils' actual caseload makes the basic arithmetic even more problematic. We know of a number of places where benefit spending on non-pensioner, non-"vulnerable" cases is less than 10 per cent of the budget. Where are such councils expected to find the rest of the cut?
9. There is also a timetable issue. The Government proposes that councils should formally consult on new schemes. New schemes are likely to involve changes to IT systems. Legislation – a Bill and regulations – must come first. Doing all that in time to set robust 2013-14 budgets will be extraordinarily challenging, to say the least.

Conclusion and next steps: Alternative approaches

10. Within the Government's consultation proposals, there are alternative ways councils might avoid imposing the cash cut directly on claimants. There are also other courses the Government might take, which could make the cut less focussed on a small group of benefit claimants. Officers will briefly present a menu of such options at the Executive meeting for Members to consider as the basis of the Group's response.

Financial Implications

11. The Group's work on this issue falls within the budgeted resource for the Finance programme.