

# **COUNCIL TAX BENEFIT RESTRICTION**

## **A Paper For The ALG**

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## SUMMARY

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This paper examines the current policy of restricting council tax benefit (CTB) at the level of band E. With a principal focus on the differential impact at a regional level, it considers both the evidence on who the policy affects at present and the likely consequences of the revaluation of properties for council tax purposes in 2005. It goes on to draw conclusions on whether the policy is an equitable one and, in light of this, whether the restriction should be modified or abolished either now or post-revaluation.

The principal findings are:

- There are presently 17,000 households who face a restriction to their council tax benefit, of which 9,000 are in London.
- On average these low income households must contribute an additional £5 per week or over £250 per year toward their liability as a result of the restriction. The saving to the Treasury was £4.5m for the last year of available data, or approximately 0.2% of the annual CTB bill for England.
- The majority of restricted claimants are in rented accommodation, with approximately 70% of those facing restrictions in London living in either social or private rented property and unable to release equity to cover the additional liability. For those who do own their homes, it is unrealistic and wholly disproportionate to expect people either to move or to take potentially costly equity release products simply to meet additional council tax liability.
- There is a relationship between the property price distribution in a region and the proportion of CTB claimants in the region either facing, or potentially facing, restrictions. This suggests that households may be penalised because of the region in which they live rather than having a clear choice whether or not to occupy higher value accommodation and face CTB restrictions.
- The impact of a straightforward revaluation will be to significantly increase the number of potentially restricted claimants in London by a factor of at least five (from 9,000 to approximately 50,000) – while having a comparatively minimal impact in the other regions. If this were to happen, the proportion of CTB claimants in London in bands F to H with restricted benefit would rise from around 50% to more than 80%.

The paper concludes that after the revaluation, the problem of restriction will no longer be plausibly viewed as a minor one given the weight of the increased number of potentially restricted claimants in London. The extent to which it simply penalises those who live in an area of high average property prices rather than being an equitable policy across regions will become unsustainable, requiring a policy response. However, since the evidence suggests that households are already primarily penalised – in some cases very substantially – on account of the area in which they live, the paper concludes that the restriction is unjust at present and consideration ought to be given to its abolition *prior* to any revaluation.

## COUNCIL TAX BENEFIT RESTRICTION

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### Introduction

1. In April 1998, legislation came into force which restricted maximum council tax benefit (CTB) for properties in band F or above to the amount of tax which would be incurred if the property were in band E. A concession was made to protect the full claims of those people who were already claiming CTB at the time, but any new claimant<sup>i</sup> or existing claimant moving to a property in band F or above would see their benefit restricted.
2. This paper:
  - i.) examines the latest information published by the Department for Work and Pensions (DWP) and its predecessor departments on the numbers of cases where CTB has been restricted;
  - ii.) examines the regional distribution of cases where CTB has been restricted;
  - iii.) examines the impact of the policy on tenants renting social housing
  - iv.) examines the differential impact of CTB restriction between regions before and after revaluation
  - v.) draws conclusions about whether this policy needs to be changed in order to provide greater equity between claimants around the country

### Overview of cases of CTB restriction at a national level

3. Information on the number of cases where CTB is restricted to the band E level in England is not regularly published by the DWP. The figures have, however, been produced in answers to parliamentary questions. The most recent data (for May 2001) suggests that there were 17,000 households in bands F and above in England facing CTB restrictions. These are predominantly in band F (approximately 70% of cases), with almost of all of the remainder in band G and only a negligible number of cases in band H.<sup>ii</sup>
4. The potential scale of the issue is, however, much larger, making the official figures for those facing restrictions slightly misleading. There is a substantial number of households whose claims are currently protected but who can become liable to restriction if their circumstances change. Data published in response to parliamentary questions suggests that in May 2001 there were 16,000 households in England in bands F to H who had their CTB protected and who were not facing restrictions. If these households lost entitlement for twelve weeks or more, however, and then reclaimed, they would lose their CTB protection. Over time, then, as a result of changes in households' circumstance, the problem could potentially almost double in size.
5. Not all of those whose CTB is protected, however, are equally likely to lose their protection. Pensioner households (who make up almost 70% of those whose claims are currently protected), in particular are less likely to lose their protected status since their incomes tend to be more stable.

6. Yet, even though not all claimants who currently enjoy CTB protection will be likely to face changed circumstance, over a longer timescale the problem is nonetheless likely to increase as new households come to replace those who currently have protected status. If the proportion of households in bands F to H who are on low incomes and eligible for CTB remains broadly constant over time, the scale of CTB restriction will still eventually double as those with protected status are replaced by claimants not covered by the transitional arrangements.
7. Data for 2001/2 shows that the average household facing the restriction incurred an additional council tax liability of about £5 per week, or £250 per year.<sup>iii</sup> Households claiming CTB are on low incomes, so the restrictions mean that significant proportions of income are lost through council tax. By contrast, the savings made by the Treasury as a result of the policy are slight: just £4.5m or approximately 0.2% of the expenditure on CTB in England in 2001/2.<sup>iv</sup>
8. In the consultation paper which proposed the restriction, it was argued that this financial impact of the policy would be reduced by virtue of the fact that owner occupiers would be able to release equity in their homes to meet the additional liability. Data released in answers to parliamentary questions, however, indicates that the majority of people facing restrictions are not owner occupiers: 11% are in social rented accommodation, 44% in private rented accommodation and 44% are owner occupiers. The majority of those facing restrictions cannot therefore use the value of their homes to make up the difference between their council tax liability and their maximum benefit. For those who do own their homes, we suggest that it is unrealistic and wholly disproportionate to expect people either to move or to take out potentially costly equity release products simply to meet additional council tax liability.

### **Regional variations**

9. No data on the regional distribution of instances of CTB restriction is published regularly by DWP, but answers to parliamentary questions have revealed that the majority of cases of CTB are in London. The most recently available figures (May 2001) suggest that of the 17,000 cases nationally, 9,000 (53%) were in London. London also has a substantial proportion of those CTB claimants in bands F to H whose entitlement is currently protected: 7,000 out of approximately 16,000 (almost 45%). Of all the properties in bands F to H in England, London has just 25%.
10. Data on the total number of CTB recipients in each council tax band shows that proportion of recipients in bands F to H goes up more or less in line with the proportion of properties in those three bands. So London and the South East, who have the highest proportion of properties in the top three bands (both 15%) also have the highest share of CTB recipients in those bands (5% and 3% respectively). The Eastern region comes next (10% of properties and 2% of recipients). Elsewhere, both figures are lower (typically less than 5% and less than 1%).<sup>v</sup>
11. We know of no reason why people in London (and the South East) on CTB should be more likely than people in other parts of the country freely to choose to live in properties where the benefit is restricted. Rather, it may just be that with a higher proportion of properties in those bands, CTB recipients in London have less opportunity to choose to avoid CTB restriction. This contention gains support when we look at the data on tenure.

**Tenure**

12. Once again, there is little information on the breakdown of restricted CTB claimants by region, but information provided in response to parliamentary questions, however, is available for London and for England as a whole. This suggests that approximately 30% of London’s restricted claims are in the social rented sector, 40% are private rented and 30% are owner occupied (figures for 1999). The significant majority of households in London cannot therefore release equity in their homes to make up the difference between their maximum council tax benefit and their actual council tax liability.
13. The published figures suggest that in the other regions of England taken as a whole, the majority of restricted properties are owner occupied (approximately 55%), with the overwhelming majority of the remainder in the private rented sector. The proportion in the social rented sector is negligible.
14. This would suggest that certain households in London face a problem not experienced elsewhere: being placed by their local authority into accommodation where the amount of CTB will be restricted. As a consequence of the limited supply of lower value accommodation in London, and inner London in particular, local authorities may be unable to offer households any choice other than accommodation listed in bands F or above. When their time on the waiting list of the housing register ends, households may therefore face the decision either to reject the offer of permanent accommodation and face a high risk of being deemed intentionally homeless under the homelessness legislation, or accept the accommodation and face an additional council tax liability which would almost certainly not be incurred elsewhere in the country.

**The impact of a revaluation**

15. The revaluation of properties for the purposes of council tax intended to take place in 2005 and feed into the system in 2007 will potentially have a very significant impact on the scale of CTB restriction.
16. The table below indicates, by ‘region’, the number of households which we estimate will move from bands E and below into bands F and above, and vice versa, as a result of the revaluation.<sup>vi</sup> It also provides an approximate estimate of the numbers who are currently receiving CTB (either in full or only partially covering their council tax liability).<sup>vii</sup>

<i>Region<sup>viii</sup></i>	<i>Number of households moving from bands E or below to bands F or above (000s)</i>	<i>Approximate number of these households currently receiving CTB (000s)</i>	<i>Number of households moving from bands F or above to bands E or below (000s)</i>	<i>Approximate number of these households currently receiving CTB (000s)</i>
North	-	-	100	5
Central	10	-	40	5
London	280	40	-	-
South	100	5	5	-

17. For most regions, the numbers moving either into or out of the restricted bands who are currently claimants of CTB are negligible. London, however, is the exception. We estimate that some 280,000 households will move into the bands where CTB is restricted, of which some 40,000 currently receive CTB. The likelihood is that more households would also become eligible for CTB, even if they are not currently, because their council tax liability (prior to the restriction) would increase as the result of moving up one or more council tax bands.<sup>ix</sup> It seems reasonable to assume, therefore, that the total number of restricted CTB claims in London would potentially be at least five times higher (almost 50,000 claimants as opposed to 9,000) after a revaluation than at present, with the total at a national level being between three and four times higher.

### **Conclusions for policy**

18. The original justification for introducing the restriction on council tax benefit was that it was inappropriate for households on low incomes to be subsidised in high value accommodation: if they chose to occupy high value accommodation they should be prepared to make a contribution towards its cost. The government may also have felt able to introduce the policy, despite notable opposition on the grounds of its perceived meanness, since the number of households affected was arguably relatively small.
19. The forthcoming revaluation will transform the situation. It will become very difficult to argue that, for all households on CTB, occupying high value accommodation is simply a matter of choice, or that the issue is only small scale. The number of properties affected nationally will increase three or fourfold, with this increase being almost exclusively in London. In London itself, the number of households likely to be facing CTB restrictions is expected to rise by a factor of five, from 9,000 currently to approximately 50,000. The great majority of households likely to be facing CTB restrictions will be in London. As a result, having a restricted CTB claim will be consequence of living in an area of high average property values, rather than reflecting a clear choice to occupy expensive accommodation. In view of the tiny amount of money that the restriction saves the Government, the right response to this situation in our view is simply to abolish the restriction.
20. Should it, however, remain in place even until 2007? Even now, the policy primarily affects London and the South East and seems therefore simply to penalise households on low incomes in high property value areas who may have a limited degree of choice as to their accommodation. The argument that its impact is significantly reduced if owner occupiers release equity to cover the additional council tax liability is difficult to sustain since nationally, less than half those affected are owner occupiers while in London owner occupiers represent only about 30%. London's high property prices mean that even households in social rented stock can face CTB restriction. With additional payments of £250 a year on average, the effects of the policy are iniquitous even now; its removal would ease considerable hardship for individual families. If it is wrong after revaluation it is wrong now. We therefore conclude consideration should be given to its immediate abolition.

## ENDNOTES

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- <sup>i</sup> Including those who were claiming at the time of the restriction but who lost their entitlement for a period of twelve weeks or more before making a new claim.
- <sup>ii</sup> Most of the data in the introductory section comes from written answers to questions asked by Karen Buck (3 June 2003, column 53W) and Iain Coleman (9 April 2001, columns 480W-481W).
- <sup>iii</sup> Written answer to question asked by Karen Buck (3 June 2003, column 53W).
- <sup>iv</sup> The expenditure on CTB in England in 2000/01 was approximately £2.1bn. See *Housing Benefit and Council Tax Benefit – Annual Summary Statistics*, DWP (2002), p.25.
- <sup>v</sup> NPI analysis of DWP’s *Households Below Average Income* Dataset, 2000/01.
- <sup>vi</sup> Source: For number of properties moving between bands, the source is New Policy Institute’s revaluation model, which uses ODPM data on the distribution of properties by band and a composite Q2 2002 house price index. The numbers currently claiming CTB are calculated as a proportion of those moving bands using the *Households Below Average Income* database for 2000/01.
- <sup>vii</sup> This assumes a ‘basic’ revaluation where the band limits are increased in line with national average house price inflation and the number of bands and the multipliers are unchanged. In estimating the proportion of households moving into or out of the restricted bands which currently receive CTB, we have assumed that the distribution of CTB claimants in each individual band is even across the band i.e. if 5% of the properties in band E currently claim CTB, then 5% of those moving up into the restricted bands are assumed to receive CTB as well.
- <sup>viii</sup> Figures are given to the nearest 10,000 except when they are below 10,000, when they are rounded to 5,000. ‘North’ is made up of the North East, North West and Yorkshire and Humber regions, ‘Central’ is East Midlands, West Midlands and Eastern regions and ‘South’ is South West and South East.
- <sup>ix</sup> Those people moving into bands F and above who have been claiming CTB with no more than a 12 week break since the restrictions were introduced and who had occupied the same accommodation since 31<sup>st</sup> March 1998 would probably have their claims protected under the legislation. It is impossible to be certain, however, how many would be in this situation. Given the significant time lag between the original legislation and the revaluation, however, it seems likely that the figure would be relatively small.