

# LOCALISING COUNCIL TAX SUPPORT: A BRIEFING NOTE ON LOCAL AUTHORITIES' PLANS

Sam Popper and Peter Kenway

## SUMMARY

***As the most widely-claimed means-tested benefit, the replacement of council tax benefit with new, locally-designed schemes of council tax support is extremely important.***

In April 2013, English local authorities will begin their own schemes of 'council tax support' (CTS) to replace the existing national scheme of council tax benefit (CTB). The new schemes will receive 10% less funding from central government than CTB. So either CTS provides less support than CTB or savings will have to be made elsewhere.

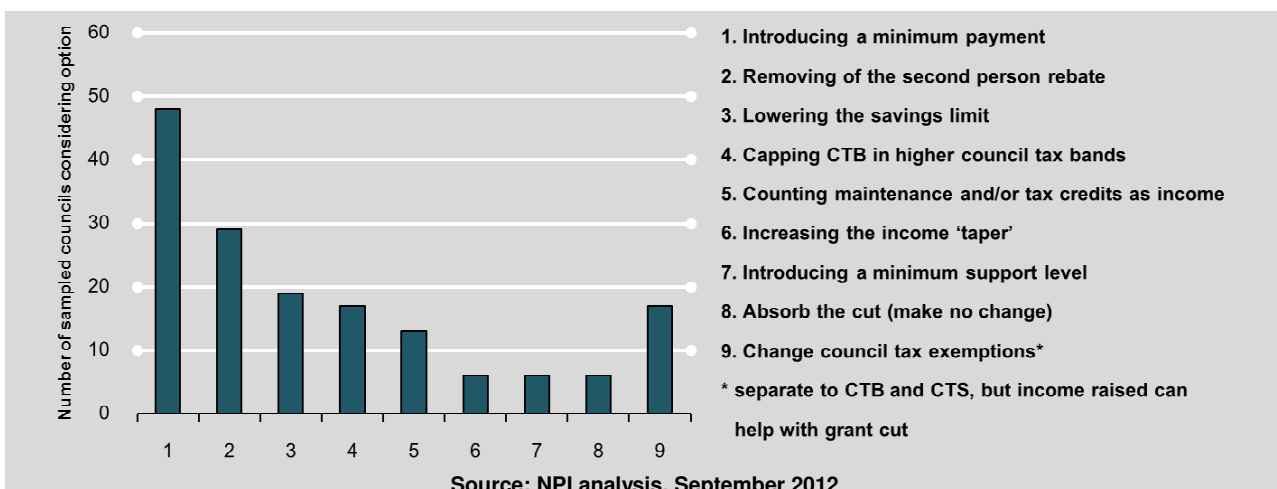
This briefing paper summarises the main features of the prospective CTS schemes that councils have so far put out for consultation. It is intended to help local authorities and other interested organisations understand what is likely to happen on the ground in April.

The information presented here is based on a survey of 64 proposals out of the total of 169 that have been published by early September. This is equivalent to about one sixth of all the councils in England. We have tried to look at as wide a variety of councils as possible.

It is important not to draw too strong conclusions from this research. A consultation document can include more 'extreme' options in order to elicit an unfavourable response. Those that have gone out to consultation so far may not be representative of all councils.

We have grouped the proposals under nine headings. For each proposal, the graph shows how many of the sampled councils are proposing that particular option. Most councils are proposing to implement a mixture of several options, not just one.

***While all of the options are important, by far the most significant is the first under which all working-age adults, however low their income, will have to pay a minimum amount of council tax, typically 20% of what would be the normal amount for their home. This represents the return of one of the principles of the community charge or poll tax which was the basis for local taxation in England for just three years from 1990 to 1992.***



## BACKGROUND

### Council tax benefit

CTB was introduced as part of Council Tax in 1993, for England, Scotland and Wales. It replaced the community charge or 'poll tax'. CTB's key features are as follows:

- In the current financial year 2012/13, CTB provides £4.1bn worth of income related support to 4.9 million households in England.
- CTB is not a cash benefit, but comes in the form of a reduction in council tax liability.
- The 25% single person discount is not part of CTB, and will remain the same in 2013.
- More households 'receive' CTB than any other means tested benefit, and for 80% of recipients, it reduces their actual council tax liability to zero. Some 60% of CTB recipients are of working age.
- CTB is a national scheme, and although councils are responsible for its administration, central government foots the bill.

### The government's proposals

As part of the Welfare Reform Bill, CTB is to be abolished and replaced by new, localised schemes of Council Tax Support (CTS). The precise date of abolition remains for the Secretary of State to determine but is expected to be April 2013.

The change from CTB to CTS is designed to increase local authorities' financial autonomy, give local authorities a greater financial stake in the economic future of their area and save £480m a year for the Treasury across Great Britain.

The first two of these are achieved by each council a) being responsible for devising its own scheme and b) having to foot the bill (or enjoy the surplus) if the total amount of CTS paid in the year is above or below budget. The £480m saving will be achieved by cutting the central government grant to each council to 90% of the amount received for CTB this year.

Apart from the requirement that pensioners receive the same as now, councils are largely free to design their own CTS scheme. As just under half of CTB awarded is to pensioners, the 10% overall cut in support is estimated to turn into a 19% cut in the support available for working age recipients in England. In areas with a high proportion of pensioners, the cut can be as high as 33%. (IFS, *Reforming Council Tax Benefit*, 2012)

The Bill also requires that schemes encourage people to find and stay in work, and that the working age vulnerable are 'protected'. Deciding who is 'vulnerable' is left up to the council.

Councils can make the saving by reducing council tax support, increasing council tax revenues, or absorbing the cut (i.e. change nothing and make up the shortfall elsewhere). All councils need to have a public consultation, even if they intend to absorb the cut. A 'scheme' needs to be in place by January 31st 2013. If it is not, the government's default scheme will be imposed on their area, which is essentially a replica of CTB. Government stresses that the default scheme is not a model scheme.

While the 10% cut affects the whole of Britain, local government finance is a devolved matter in Scotland and Wales, so it is up to them how they make the savings. The Scottish government has decided to keep CTB at existing levels, and make savings elsewhere. Wales intends to make the 10% saving from CTB, and will give grants to LAs, like in England. However it will decide on the scheme nationally. So Welsh LAs will take the financial risk whilst operating a national scheme.

## WHAT ENGLISH COUNCILS ARE PROPOSING

Currently around half of councils are consulting with the public on their proposals, and we have looked at around a third of their proposed schemes – 64 councils out of a total of 169. We have used [www.rightsnet.org.uk](http://www.rightsnet.org.uk) as our guide to which councils have started consultation. We have grouped what is being proposed under nine headings. For each option we explain the proposal and consider their feasibility and implications. Most of the options will only save a small amount of money, and are being proposed in conjunction with others. The numbers indicate how many councils in our sample that are considering each option, and are not necessarily indicative of what all LAs across the country will do.

### 1. 'Minimum payment' of about 20% (48)

At present, if income is low enough, someone can be entitled to 'full' CTB and is exempt from paying any council tax – this applies to 80% of recipients. Three quarters of councils in our sample propose schemes ensuring all working-age households pay at least some council tax.

This could be in the form of a maximum cap on the amount of CTS available to each household. For example: capping the amount available at 80% of tax liability so that everybody pays at least 20% of their council tax. Alternatively, some councils are suggesting a uniform reduction in support of, for example, £3 a week.

The result of this is that working-age households who currently do not have to pay any council tax will in future have to pay something, this could be as little as £1 per week but more typically around £3 to £5 a week. A minimum council tax liability of 20% is the most common figure.

A few councils are proposing to increase the earnings disregard alongside this, typically from £5 to £10. This offers some protection to those with low income in work from the effects of the minimum payment.

#### Comments:

- *This option would make up the bulk of savings for many councils but would often be imposed in conjunction with other proposals.*
- *Unlike some proposals, this does not discourage work – any benefit gained from increasing earnings would remain the same as now.*
- *The administrative cost of collecting relatively small sums of money from a large number of working-age households (conceivably numbered in the millions) from whom nothing is currently collected is likely to be considerable.*
- *The idea that everybody of working-age should pay some council tax, however low their income, is a return to the core principle of the original poll tax (which also had a minimum payment set at 20% of the normal amount).*

## 2. Removal of Second Adult Rebate, and increasing non-dependant deductions (29)

Under the current system, if a homeowner shares their home with an adult who is not their partner and who is on a low income, the household may qualify for a reduction in council tax, irrespective of the homeowner's income. This is called the 'second adult rebate'.

Non dependant deductions are essentially the opposite – if a low income homeowner shares their home with an adult who is not their partner and who is not on a low income, deductions can be made to the homeowner's CTB depending on how much the other adult earns.

*Comments:*

- *Removing the Second Person Rebate makes things simpler – it removes the need to take into account a second person's financial situation, and also could incentivise work, as when the second person moves from a low to middle income, council tax will remain the same for the household.*
- *However increasing non-dependant deductions discourages working, as the more the non-dependant earns, the less council tax support the homeowner will receive.*

## 3. Lower savings limit on CTS entitlement (19)

At present, the first £6,000 of a household's savings are ignored when calculating CTB. With savings between £6,000 and £16,000 the amount of entitlement is reduced. Above £16,000, all entitlement, however low income may be, is removed. The upper threshold of £16,000 has been unchanged since the inception of Council Tax and CTB in 1993.

Under their CTS proposals, around a third of councils are proposing to remove the lower limit and reduce the upper limit to £6,000: in short, savings below £6,000 are ignored while anyone with savings of £6,000 would not be entitled to CTS.

*Comments:*

- *This is administratively straightforward because councils already have information about who has savings above £6,000.*
- *With everything depending on a single threshold, households have a very strong incentive to lower their savings below the level if possible.*

## 4. Introduction of a 'band cap' (17)

At present, the calculation for CTB is based on how much council tax a household is able to afford given its income. CTB therefore makes up the difference between what can be afforded and the normal council tax liability. As council tax liability varies by property, for a given level of income, CTB entitlement will be higher if the council tax band is higher.

Under CTS, about a quarter of councils are proposing to cap the amount of CTS available to the maximum payable in one of the lower bands (typically the second, third or fourth – B, C or D – in an eight band system up to H). For example a household in a band G property may only receive the amount of CTS they would if they lived in a band D property. This means that the extra council tax payable on a higher band property would have to be met by household itself.

*Comments:*

- *The fact that the system of council tax banding is set nationally means that in London and the South East, modest homes, including social-rented ones, can still be in the higher bands. The impact – and merits – of a band cap therefore vary greatly in different parts of the country. Many of the councils proposing a band cap are in southern and eastern regions; a minority in the north.*
- *This is an administratively straightforward change.*
- *It will penalise large households – often those containing children*
- *This change reverses another change made by the last government to the CTB system, a previous cap (itself only introduced in 1998 at band E) having been removed in 2004.*

## 5. Child maintenance payments and/or benefits to count as income (13)

Currently when calculating income for CTB eligibility, Child Benefit and Child Maintenance payments are completely disregarded. The Child Benefit disregard was introduced in 2009 and the full disregard of Child Maintenance in April 2010. Counting these benefits as income again will mean some recipients have a higher assessed income, and hence a smaller reduction in council tax.

*Comments:*

- *Although these disregards were only recently introduced, families will have adjusted to the current standard.*
- *The government has pointed out councils have a legal duty to ‘mitigate the effects of child poverty’, but this change exclusively affects those with children, usually on low incomes.*

## 6. Increasing the income taper (6)

If a household's income is below a given threshold, CTB is equal to the normal council tax liability, meaning the total amount to be paid is zero. If the household's income rises above this threshold, CTB is tapered down, at the rate of 20 pence for every additional pound of net income.

Under CTS, about a tenth of councils are proposing to increase that taper to 25 or 30 pence for every pound of net income above the threshold. This taper is in effect a tax rate, the tax being levied on household income.

*Comments:*

- *This proposal protects those with the very lowest incomes leaving them with full council tax support.*
- *By increasing a tax rate, this proposal discourages households from working more. As such, the proposal is at odds with the requirement that CTS schemes do not to undermine work incentives.*

## 7. Minimum level of support under CTS (6)

Currently there is no minimum amount of CTB: if a household is entitled even to a penny a week they will get it. Under CTS, a few councils are proposing that unless a household is entitled to a certain minimum level of support, it will not actually get anything. Some councils are suggesting a pound or two but a minimum of £5 is the most common.

Comments:

- *Paying individuals small amounts in cash benefit is expensive, and that is why most benefits have a minimum level of support. However, as CTB/CTS comes in the form of a reduction in council tax, the administrative gains of having a minimum level of support will be small.*
- *Such a minimum would have an adverse impact on work incentives. For example, supposing the minimum was £5 a week, a claimant who increases their hours of work such that their entitlement dropped from £5.10 to £4.90 lose all of the £5.10. Under some circumstances, they could even be worse off as a result of the extra work income.*

## 8. Absorbing the cut - keep CTS at the same levels as CTB (6)

This is the simplest option for councils: making CTS the same as CTB. As a result councils will have to either increase council tax revenue or make savings elsewhere to make up the 10% budget shortfall.

Comment:

- *Taking this approach for 2013 gives councils a lot longer to devise a scheme which accommodates universal credit, as well as observing which schemes are the most successful.*
- *Councils would still have financial responsibility for CTS, so the risk would remain with them even though they were keeping the same level of support. Therefore they will still have the same incentives to reduce CTS.*
- *Some councils are proposing making CTS like CTB, but with a few of the smaller changes this paper has described. Unless combined with removing council tax exemptions, this would mean mainly reducing spending elsewhere.*
- *This option may become more popular as more consultations are put out. The longer councils wait to consult, the less time they will have to review schemes once consultations are over. It will be easiest for these councils to propose a scheme like this one that requires less alteration after the consultation period.*

## 9. Council tax exemptions (17)

All councils are required by law to give certain council tax discounts and exemptions. From April 2013 some of these requirements will be removed including the discount for second homes as well as a full exemption for empty unfurnished houses, properties undergoing structural repair, and repossessed properties. Councils will also be able to charge 150% of the usual council tax liability on houses that have been empty for more than two years.

These exemptions are not part of CTB, so many councils are dealing with the two changes separately. Nevertheless, the government estimates that these changes are worth up to £420m per annum in extra council tax, which is equal, as it happens, to the value of the cut in CTB support in England.

Around a quarter of councils are proposing to make up for some of the loss by charging full council tax on some properties previously exempt. Of the £420 million in potential revenue from these changes, three quarters comes from properties that are empty for up to six months.



Comments:

- *Increasing revenue here would be easier administratively than collecting very small amounts of council tax in much larger quantities. As well as encouraging owners to fill empty housing, it is also a lot less likely to hit the poor.*
- *These properties are not spread evenly across the country, so the changes will be of much more potential value to some councils than others.*
- *In contrast to the introduction of a minimum payment of 20% which looks like a return to the poll tax principle – that is people rather than property that should be taxed – the removal of these discounts is a move away from that principle.*

## CONCLUSIONS

The Bill was designed to allow councils to create individual schemes. Our review so far shows that there is likely to be an abundance of different schemes, the consequences of which include:

- Applications and eligibility of individuals for CTS having will vary by local authority. Word of mouth and advice from friends and family residing elsewhere will cease to be reliable as a source of information.
- Central information points like Directgov will not be able to offer much of the information that applicants need. Organisations offering advice like CAB will need advisors with knowledge of many different schemes.
- The creation of a 'postcode lottery' effect at local level. Published plans in London indicate that recipients in one borough will have to fund a minimum of 20% of their council tax from 2013 whereas those in the neighbouring borough will continue to have support in full.

This range of differences among councils may be reduced over the next few months. It could happen as a result of councils still to come forward with proposals deciding to adopt schemes identical to some already put forward by others. It could also happen as councils decide how to respond to the consultation. In either case, a small number of 'models' might emerge. From the point of view of those entitled to this benefit, some standardisation could only be welcome.

Disparities between councils should concern the government since making matters complicated undermines universal credit – a cornerstone of welfare reform. Universal credit aims to make it both financially worthwhile to find and stay in work in a way that is obvious to the benefit recipient. So far, localised CTS is at times going in the opposite direction. For example:

- Some proposals can act as disincentives to work, and disparities between systems will make it difficult for those receiving CTS to know what will happen to their support if they work more.
- Anxiety about CTS and how it might be different might deter some from moving home to seek work.
- The localisation of any benefit would mean a more complex, bureaucratic, and less transparent welfare system.

Strikingly, councils have made few references to universal credit (UC) in their proposed schemes, and are opting for an altered version of the current CTB scheme. According to the IFS, running a CTS scheme based closely on the current system will become extremely challenging for LAs once UC is introduced. For example, two thirds of CTB recipients are currently entitled because they are 'passport'ed onto the full CTB through other benefits, but there will be no obvious equivalent under UC. It is not surprising given the complexity and time limitations that councils have not incorporated UC into the proposed options, but it does mean schemes may have to be changed again – meaning more uncertainty and anxiety for claimants.

We shall watch how this develops over the next few months to see if any degree of regularisation (and greater sensitivity to universal credit) begins to emerge.