

Press Release

Council Tax Benefit recipients in Wales to lose £74 a year on average

Low-income families in Wales that receive help with their council tax bills will lose an average of £74 per year as cuts in funding from the UK Government are passed onto benefit claimants by the Welsh Government, according to a new report by IFS researchers.

With 328,000 recipients in Wales, Council Tax Benefit (CTB) is more widely claimed than any other means-tested benefit or tax credit. The UK government is proposing to abolish CTB across Britain from 2013–14 and give the Welsh and Scottish Governments, and local authorities in England, grants to create their own systems for rebating council tax to low-income families. These grants will be based on 90% of what would have been spent on CTB in each area. Protecting CTB entitlements from this cut, as the Scottish Government is doing, would have required a 2.1% increase in council tax rates or a 0.2% cut in Welsh Government spending at a time when budgets are already being squeezed. Instead, the Welsh Government has chosen to pass on the funding cut in full to CTB recipients. A new report, funded by the Welsh Government and published today by the IFS, examines the options available to the Welsh Government for reducing the generosity of council tax support.

Key findings of the report include:

- Any cuts to council tax support are bound to hit lower-income households, as 80% of CTB spending in Wales goes to the lower-income half of households and 43% goes just to the lowest-income fifth.
- Means-testing support for council tax more aggressively could protect the very poorest altogether, with the losses concentrated on low-to-middle income households. But to save the full 10% by which funding is being cut purely from means-testing more aggressively would probably require the means test to be so severe that some people would be worse off after a pay rise.
- So reforms that would save the full 10% typically involve reducing support for those currently entitled to maximum CTB – those with the lowest incomes. These policies mean that all households, even those on the lowest incomes, would have to pay some council tax. The poll tax experience showed how difficult it can be to collect small amounts of tax from low-income households that are not used to paying it.
- Reducing the cost of support by 10% in Wales could be achieved with smaller cuts for the poorest working-age households, or less aggressive means-testing, than would be required in England. That is because English local authorities are being required to protect pensioners' entitlements, so that saving 10% overall across England would require a 19% cut in support for working-age claimants. Wales has the option of spreading the cuts more evenly, though the Welsh

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Government has not yet decided whether to protect pensioners or any other specific group.

- One option available to the Welsh Government (unlike English local authorities) would be to reduce the single-person discount in council tax. A reduction from 25% to 20% would raise an amount equal to 10% of spending on CTB, predominantly from better-off households, and would reduce the current distortionary incentive for people living alone to occupy larger properties.
- The Welsh Government's task is not only to save money by finding tweaks to the current system for determining entitlements to council tax support. Like the Scottish Government and English local authorities, the Welsh Government will also have to consider the complex question of how council tax rebates will work alongside Universal Credit, which will be phased in from October 2013 and will ultimately replace all other means-tested benefits and tax credits for those of working age.
- Local authorities in Wales, like those in England and Scotland, will have an incentive to reduce the cost of council tax support. They could try to do this by promoting employment and growth in the local economy, but also by discouraging low-income families from living in the area, or by doing less to encourage take-up of support.

Stuart Adam, a senior research economist at the IFS and one of the authors of the report, said:

“It will be hard for the Welsh Government to design a replacement scheme that costs 10% less but protects the vulnerable and maintains work incentives. The fact that it also needs to make the scheme work alongside Universal Credit, which is being introduced from October 2013, makes an already difficult challenge truly formidable.”

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Notes to Editors:

1. For embargoed copies of the report, 'Reforming Council Tax Benefit: Options for Wales' by Stuart Adam and James Browne or other queries, contact Emma Hyman at IFS on 020 7291 4800 or emma_h@ifs.org.uk.
2. A companion report looking at the reforms across the whole of Britain, funded by the Joseph Rowntree Foundation, was published in May and is available at <http://www.ifs.org.uk/publications/6183>.
3. The 0.2% figure mentioned above is the funding cut as a fraction of total Welsh Government expenditure. Note that part of this expenditure is grants to Welsh local authorities (rather than direct spending on public services), and that local authorities also receive additional revenue (notably from council tax) to spend on local services.
4. The authors gratefully acknowledge funding from the Welsh Government and from the ESRC Centre for the Microeconomic Analysis of Public Policy at the Institute for Fiscal Studies (RES-544-28-5001). Views expressed are those of the authors and not necessarily those of the Welsh Government or the ESRC.