Reforming Council Tax Benefit

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Preface

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- In cash terms, average council tax liability rises with income, as higher-income households tend to live in higher-band properties. But it is a lower share of income for high-income households, at least partly because council tax is a lower proportion of property value in the higher bands. If everyone claimed the CTB to which they were entitled, net council tax liabilities would be a smaller share of income for low-income households than for middle-income households. But given actual patterns of take-up, council tax is regressive across the whole income distribution even once CTB is taken into account.
- The means-testing of CTB weakens incentives for individuals to enter paid work and for those in paid work to increase their earnings. Although small on average, these effects are more significant for certain groups, particularly those with low levels of earnings. CTB also weakens incentives to save, and creates an artificial incentive for low-income families to live in bigger properties than they would otherwise choose, since part of the cost of upsizing – a bigger council tax bill – is covered by the government.

Chapter 3
The government's proposals

- The government is proposing to localise support for council tax from 2013–14, abolishing CTB across Britain and giving local authorities in England and the Scottish and Welsh governments grants to create their own systems for rebating council tax to low-income families. Entitlements for pensioners in England will still be set nationally and maintained at their existing level. The stated aims of localisation are to allow support to vary across the country to reflect local priorities, and to strengthen local authorities' incentives to promote employment and growth in the local economy.
- The government has expressed a hope that councils will design schemes which protect vulnerable groups beyond just pensioners, and which maintain strong work incentives. However, by giving councils autonomy in designing schemes, central government has limited its ability to ensure that those objectives are met by local authorities, which may have different priorities.

- As well as localising support for council tax, the government is also planning to cut funding for it by 10% as part of its deficit reduction programme. Each local authority in England, and the Scottish and Welsh governments, will be given a grant based on 90% of what would have been spent on CTB in that area. There is no obligation for them to spend exactly the amount of this new grant on council tax support: they may, for example, choose to maintain support at its existing level for non-pensioners as well as pensioners and find the necessary savings elsewhere, or even to cut entitlements by more and use the surplus for other purposes.
- The timetable for implementing new schemes is very tight: following a lengthy delay by central government before announcing details of the policy, local authorities, which have little experience or expertise in designing means-tested support schemes, are being required to adopt finalised schemes by the end of January 2013. Many local authorities may choose to maintain the existing entitlement rules unreformed for the first year of the policy, finding the savings elsewhere, simply because they cannot do anything else in time.
- The Scottish and Welsh governments have both decided to operate centralised council tax rebates, rather than devolve the policy to local authorities as in England. But they have made contrasting choices about how to deal with the funding cut. Wales has chosen to respond to this cut in funding by reducing council tax support by 10% (though it has not yet decided how), while Scotland has opted to maintain existing levels of support for the moment and make savings elsewhere. It will be interesting to see which of these approaches most councils in England follow.

Chapter 4
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- Localisation of council tax support will give councils more freedom to pursue local priorities. Having a variety of schemes in operation could also allow councils to improve their schemes by learning from each others' experiences. But variation in council tax rebate schemes across Britain will reduce transparency and increase bureaucracy.
- Giving local authorities fixed grants rather than refunding the actual cost of providing council tax support will add risk to local authorities' finances, making them more reliant on the reserves they maintain to deal with unexpected contingencies such as weaker than expected economic performance, especially when taken in conjunction with the partial localisation of business rates that is happening at the same time.
- Moving to fixed grants will change local authorities' incentives in a variety of ways, some more desirable than others. One effect, emphasised by the government, will to strengthen local authorities' incentives to promote employment and growth in the local economy. But it will also reduce their incentive to increase council tax rates, reduce their incentive to facilitate low-value housing development, give them an incentive to discourage low-income families from living in the area, give them a disincentive to encourage take-up of support, and strengthen their incentive to reduce error and fraud. It remains to be seen how far councils will respond to all these different incentives.
- The strength of all of these changes in incentives – good and bad – will partly depend on how, and how often, local authorities expect grant allocations to be adjusted in future. How they will actually be adjusted in future is one of the most important decisions the government has yet to take about the policy.

- Small district councils, which largely collect council tax on behalf of higher-spending precepting authorities, will have a financial incentive to focus disproportionately on making schemes cheap to administer, at the expense of other objectives. How far they act on this incentive will partly depend on their relationship with precepting authorities as well as on the importance they place on other objectives.

Chapter 5
The scale and distribution of funding cuts

- When CTB is abolished, the grant given to each English local authority and to the Scottish and Welsh governments will essentially be 10% less than the government estimates CTB expenditure would have been in that area. Thus in cash terms, the cut in funding will be larger in areas where CTB spending is higher – the more deprived areas of Britain. We estimate that the cut in funding will range from around £5 per dwelling in the City of London to £38 per dwelling in the London Borough of Haringey. But almost 90% of local authorities face a funding cut of between £10 and £25 per dwelling.
- Councils in England could choose to protect entitlements to council tax support and fill the funding gap from elsewhere, as the Scottish government is doing. Across England as a whole, this would require a 0.4% reduction in spending on local services or a 1.9% increase in council tax rates.
- If councils in England do not choose to make up the shortfall from elsewhere, they will have to cut entitlements for working-age claimants of council tax support. The requirement to protect pensioners means that those local authorities where pensioners account for an above-average share of CTB expenditure (typically less deprived areas) will see a bigger shortfall in the grant left over (after providing support to pensioners) as a percentage of current spending on CTB for non-pensioners. The grant left over after providing rebates for pensioners will cover only 81% of the cost of CTB for working-age claimants nationally, but we estimate that for one in ten local authorities that figure will be less than 75%, with the lowest value being 67% in East Dorset and in Craven, North Yorkshire.
- With bigger percentage cuts in working-age council tax support needed to fill smaller funding gaps per household, councils in less deprived areas may be more inclined to find money elsewhere in order to moderate the size of the cut for working-age CTB claimants.

Chapter 6
Options for making savings

- Local authorities that do decide to adopt schemes that are less generous than the existing CTB have many options for how to make savings: we examine several possibilities in detail. Since 85% of CTB goes to the lower-income half of households, and almost half of CTB goes just to the lowest-income fifth, any cuts to it are bound to hit predominantly poorer families. Making a means-tested benefit smaller also tends to reduce the extent to which it discourages work and saving. Nevertheless, there are significant differences between the reforms we examine.
- As ever, there is a trade-off between protecting those with the lowest incomes and the impact of reforms on incentives to work, and reforms that means-test support for council tax more aggressively lead to weaker work incentives than those which reduce support

for all claimants. Reforms that save the full 10% typically involve reducing support for those currently entitled to maximum CTB – those on the lowest incomes. And those options that do protect the poorest claimants either fail to generate large savings, or significantly weaken work incentives, or both.

- Reducing entitlements for all claimants slightly strengthens work incentives but imposes significant losses on even the poorest households. Such a policy would 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 or eliminating support for occupants of properties in higher council tax bands also involves starting to collect council tax from some households with little or no private income. But only households in higher-band properties (disproportionately families with children) are affected, and in general these reforms are less regressive than across-the-board cuts. Reforms of this kind slightly strengthen work incentives, and also affect people's incentives to occupy properties in higher council tax bands. The revenue implications of reforms based on particular council tax bands vary dramatically across the country, saving much more where property values are higher; in reality different councils would be likely to use bands appropriate to their area.
- Means-testing support for council tax more aggressively protects the very poorest altogether, with the losses particularly concentrated on low-to-middle income households. Working lone parents are particularly likely to be among the low-income working families that lose from means-testing support more aggressively. Reforms of this kind generally have ambiguous effects on work incentives. But to save the full 10% purely from means-testing more aggressively would require the means test to be so severe that some people would be worse off after a pay rise.
- The one reform we consider that raises revenue predominantly from those with higher incomes is reducing the 25% single-person discount in council tax. This would slightly weaken work incentives, but would reduce the current distortionary incentive for people living alone to occupy larger properties. However, this is a reform that LAs in England do not have the power to introduce at the moment. Central government should consider either making this change itself (if it finds the distributional consequences acceptable) or, in the spirit of localisation, giving LAs the power to do so if they see fit.

Chapter 7
Integration with Universal Credit

- To achieve an appropriately designed benefit system councils would have to consider carefully how their new council tax rebate schemes will work alongside Universal Credit, which will ultimately replace all means-tested benefits and tax credits for those of working age.
- Universal Credit is intended to simplify the benefit system by reducing the number of different benefits that claimants and administrators must contend with. Keeping council tax support (the means-tested benefit with the largest number of recipients) separate – and indeed allowing it to vary across the country – severely undermines this simplification. Universal Credit is also intended to rationalise work incentives by replacing a jumble of overlapping means tests with a single one, ensuring that overall effective tax rates cannot rise too high. Again, separate means tests for council tax support could undermine this, with the potential to reintroduce some of the extremely

weak work incentives that Universal Credit was supposed to eliminate. It is difficult to think of reasons why the government's original plan to integrate CTB into Universal Credit was inferior to what is now being proposed.

- Designing council tax rebate schemes to work alongside Universal Credit as smoothly as possible poses a number of challenges. One of the key issues is whether to count Universal Credit as income in the means test for council tax rebates. It would be simpler not to. However, this would mean that people facing withdrawal of both Universal Credit and council tax rebate (as well as paying income tax and National Insurance contributions) would stand to lose 90p of each extra £1 earned, compared to 81p if Universal Credit was counted as income for the means test (assuming the current 20% withdrawal rate for council tax support).
- A council tax rebate system that did not count Universal Credit as income in the means test would also mean that income from private pensions, contributory benefits and spousal maintenance would actually make some recipients worse off, unless these income sources were ignored when calculating council tax rebates, which would be expensive for local authorities. This arises because income from these sources will reduce Universal Credit entitlement on a pound-for-pound basis.
- One way to avoid any overlap between the means test for council tax rebates and that for Universal Credit would be to withdraw rebates rapidly as soon as income rose above zero and to limit maximum rebates so that they were already completely withdrawn by the time Universal Credit started to be withdrawn. As well as avoiding very high effective tax rates, limiting maximum entitlements and means-testing aggressively in this way would save councils a great deal of money – on average more than the 10% by which funding is being cut – but would cut support very severely for some, notably single people without children, from whom Universal Credit starts to be withdrawn at a very low income level.
- A second issue raised by the introduction of Universal Credit is that particular benefits that are currently used to 'passport' people automatically to maximum CTB entitlement will cease to exist as they are subsumed within Universal Credit. At present two-thirds of CTB recipients are passported in this way, and if all these people needed to go through a full means test in order to receive support, the burden on both claimants and local authorities would increase substantially. One way to mitigate this would be for central government to transfer Universal Credit data to local authorities, so that they could use it in their means tests without having to ask claimants for the information again – if the IT systems can be set up to achieve this data transfer in a timely and efficient way.

Chapter 8
Conclusions

- While localisation of council tax support has advantages, it will create undesirable incentives for councils as well as desirable ones, and variation across the country will add to the complexity of council tax support.
- Faced with a funding cut on top of a tight Spending Review settlement, local authorities must choose whether to pass the cut on to working-age claimants of council tax support or to protect entitlements and find money elsewhere to fill the funding gap. If they decide to pass the cut on to claimants, there are trade-offs to be made and no easy options for where to reduce generosity. Any scheme which sees households with very low incomes liable for small amounts of council tax is likely to be extremely difficult to administer.

That would seem to imply protecting most of those who are currently passported on to full CTB. But if that is done then either it will be very hard to find 10% savings or cuts for others will be very severe and negative consequences for work incentives will be substantial.

- Achieving coherence between council tax rebates and Universal Credit is complex. The need to make the new rebates fit with Universal Credit makes local authorities' task of designing schemes, already a difficult challenge given the tight timescale, into a truly formidable one.
- There is nothing in the Universal Credit system that will make it straightforward to identify those who should be passported onto a full council tax rebate. That could make running a council tax rebate scheme based closely on the current system extremely challenging for local authorities.
- Cutting support for council tax and localising it are two distinct policy choices: either could have been done without the other. Whether cutting council tax support for low-income families is the best way to reduce government borrowing by £500 million per year is a question that requires value judgements we are not in a position to make. But the advantages of localisation seem to be strongly outweighed by the disadvantages, particularly in the context of the welcome introduction of Universal Credit.

1. Introduction

Summary

- The government is proposing to localise support for council tax from 2013–14 and to cut funding for it by 10%. This study examines the likely effects of this policy and the options available to councils.

The UK benefit system is about to undergo its most radical restructuring since the 1940s. Six of the seven main means-tested benefits and tax credits for those of working age are being replaced by a single Universal Credit. The seventh is Council Tax Benefit (CTB). Instead – and contrary to the whole thrust of Universal Credit – support for council tax is being localised, requiring local authorities (LAs) across England to design and implement council tax rebates to replace CTB, and the Scottish and Welsh governments to make whatever arrangements they see fit. At the same time, the grants being provided to fund these new rebates will be 10% less generous than the existing CTB scheme – one small part of the UK's ongoing fiscal consolidation.[1]

CTB is currently received by 5.9 million families – more than any other means-tested benefit or tax credit. Major reforms to how it works therefore have the potential to affect large numbers of low-income families.

This report has two main aims. The first is to provide an analysis of the proposed reforms that will be useful to claimants wishing to understand the reforms and how they might be affected, and to policymakers, the media and wider civil society in assessing the likely effects and merits of the reforms. The second is to help LAs and the Scottish and Welsh governments in their task of designing new council tax rebates. We also hope it will give the UK government some food for thought as it considers the future development of policy.

We begin by describing and assessing the current system. Section 2 details the key facts and figures for understanding council tax and CTB, and then discusses who benefits from CTB at present and what the disadvantages of providing this support are.

Section 3 sets out the government's proposals for reform and what they will mean in each of England, Scotland and Wales. The reform has two distinct aspects: localisation and cuts. In Section 4 we discuss the consequences of localisation: the pros and cons of having a system of support that varies across the country, and its effect on LAs' incentives and the risks in their financial planning. We then turn to look at the cuts to funding. Section 5 sets out the scale of cuts facing different LAs, while Section 6 examines the various options available for making savings in the design of the new council tax rebate systems.

Finally, Section 7 focuses on the question of how council tax rebates might interact with Universal Credit. Once the government had decided not to bring CTB within Universal Credit, how the two would interact was always going to be an important policy question. By localising support for council tax, the UK government has passed this question onto LAs and the Scottish and Welsh governments. How they should answer it is one of the trickiest issues they face in designing council tax rebate schemes. Section 8 concludes.

[1] Northern Ireland has a different system of local taxation, that of domestic rates, which also has an associated system of rebates that is similar to CTB. The Northern Ireland executive's funding for this system will also be cut by 10%.

2. The current system

Summary

- Council Tax Benefit (CTB) provides nearly £5 billion of support to low-income families. It has 5.9 million recipients, more than any other means-tested benefit or tax credit. But it still reaches only about two-thirds of those for whom it is intended, as many are not aware they are entitled and/or find it too difficult or stigmatising to claim.
- In cash terms, average council tax liability rises with income, as higher-income households tend to live in higher-band properties. But it is a lower share of income for high-income households, at least partly because council tax is a lower proportion of property value in the higher bands. If everyone claimed the CTB to which they were entitled, net council tax liabilities would be a smaller share of income for low-income households than for middle-income households. But given actual patterns of take-up, council tax is regressive across the whole income distribution even once CTB is taken into account.
- The means-testing of CTB weakens incentives for individuals to enter paid work and for those in paid work to increase their earnings. Although small on average, these effects are more significant for certain groups, particularly those with low levels of earnings. CTB also weakens incentives to save, and creates an artificial incentive for low-income families to live in bigger properties than they would otherwise choose, since part of the cost of upsizing – a bigger council tax bill – is covered by the government.

Council tax is the only tax in Great Britain with its own benefit. CTB stands at the junction of the tax and benefit systems, and it must be understood both as part of the council tax system and as part of the benefit system. We begin this section by describing the essential features of council tax and some key facts and figures. We then do the same for CTB, before turning to a detailed assessment of its distributional impact and its more unfortunate effects.[2]

2.1. Council tax

Council tax and CTB were introduced on 1 April 1993. Each residential property in England, Scotland and Wales was allocated to one of eight valuation bands according to an assessment of its value in 1991, though the cut-off points between bands were different in each country.[3] LAs set the overall level of council tax by choosing a rate for Band D properties, with the levels for other bands then determined as nationally fixed ratios of the Band D rate. The ratios, set by central government, are set out in Table 2.1. Those in the lowest band (A) pay two-thirds of the Band D rate, while those in the top band (H) pay twice the Band D rate. The bandings and ratios have remained unchanged in England and Scotland since the introduction of council tax. In Wales a revaluation came into effect on 1 April 2005, based on property values as at 1 April 2003 (with the cut-off points between bands correspondingly uprated to take account of growth in house prices since 1991), and at the same time a ninth band was added (Band I), with properties in this band facing council tax $2^1/_3$ times the Band D rate.

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[2] The descriptions in Sections 2.1 and 2.2 draw on and update those in Adam, Emmerson and Kenley (2007).

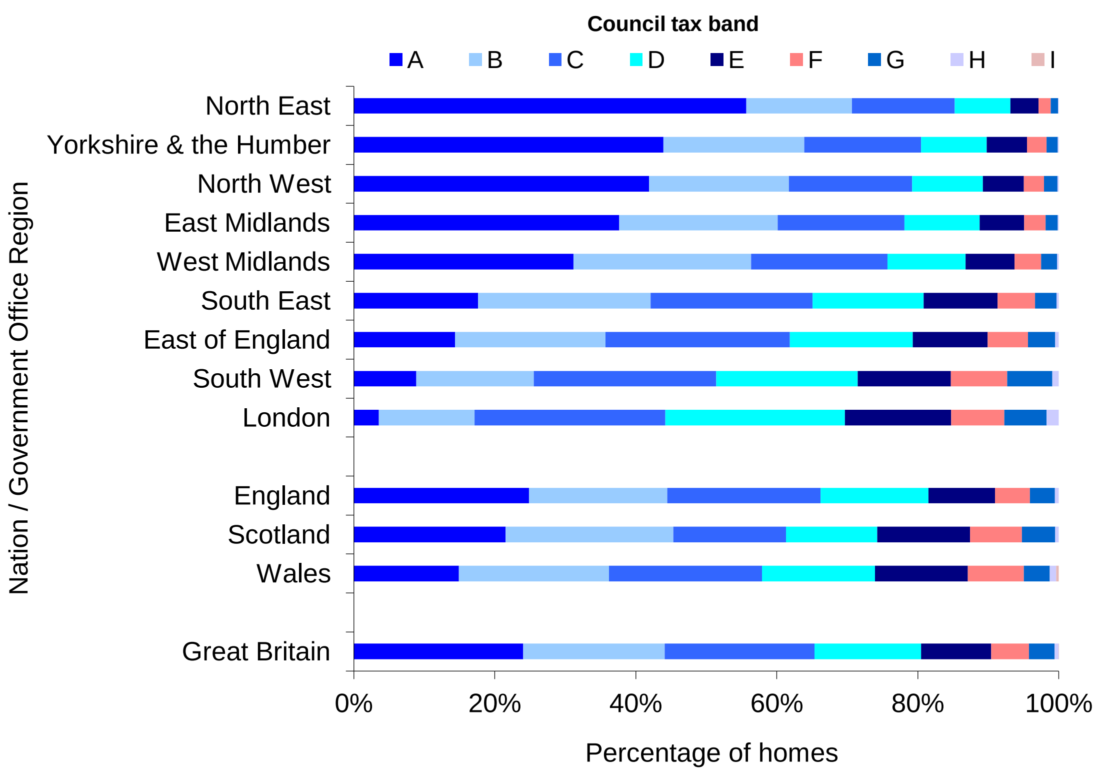
[3] Northern Ireland has a different system, domestic rates, which we do not discuss further in this report. The government's proposed reforms to localise Council Tax Benefit do not directly apply there, although the consequential cut in funding does – see Section 3.4 for more details.

Table 2.1. Council tax bands and billing ratios

Band	*1991 property value: England*	*1991 property value: Scotland*	*2003 property value: Wales*	*Tax rate relative to Band D*
A	Up to £40,000	Up to £27,000	Up to £44,000	$^{6}/_{9}$
B	£40,001 to £52,000	£27,001 to £35,000	£44,001 to £65,000	$^{7}/_{9}$
C	£52,001 to £68,000	£35,001 to £45,000	£65,001 to £91,000	$^{8}/_{9}$
D	£68,001 to £88,000	£45,001 to £58,000	£91,001 to £123,000	1
E	£88,001 to £120,000	£58,001 to £80,000	£123,001 to £162,000	$^{11}/_{9}$
F	£120,001 to £160,000	£80,001 to £106,000	£162,001 to £223,000	$^{13}/_{9}$
G	£160,001 to £320,000	£106,001 to £212,000	£223,001 to £324,000	$^{15}/_{9}$
H	Above £320,000	Above £212,000	£324,001 to £424,000	2
I	n/a	n/a	Above £424,000	$^{21}/_{9}$

Across Britain, almost two-thirds of properties are in Bands A to C, with one-quarter of all properties in the lowest band. In contrast, less than one-tenth fall in Band E or above. As shown in Figure 2.1, this pattern is subject to dramatic regional variation: 56% of properties in the North East fall into Band A, compared with just 4% in London. This is despite the fact that 1991 was not a year in which house prices in London were particularly high relative to the rest of England: indeed, since 1991, house prices have, on average, grown considerably more quickly in London than across the rest of England.

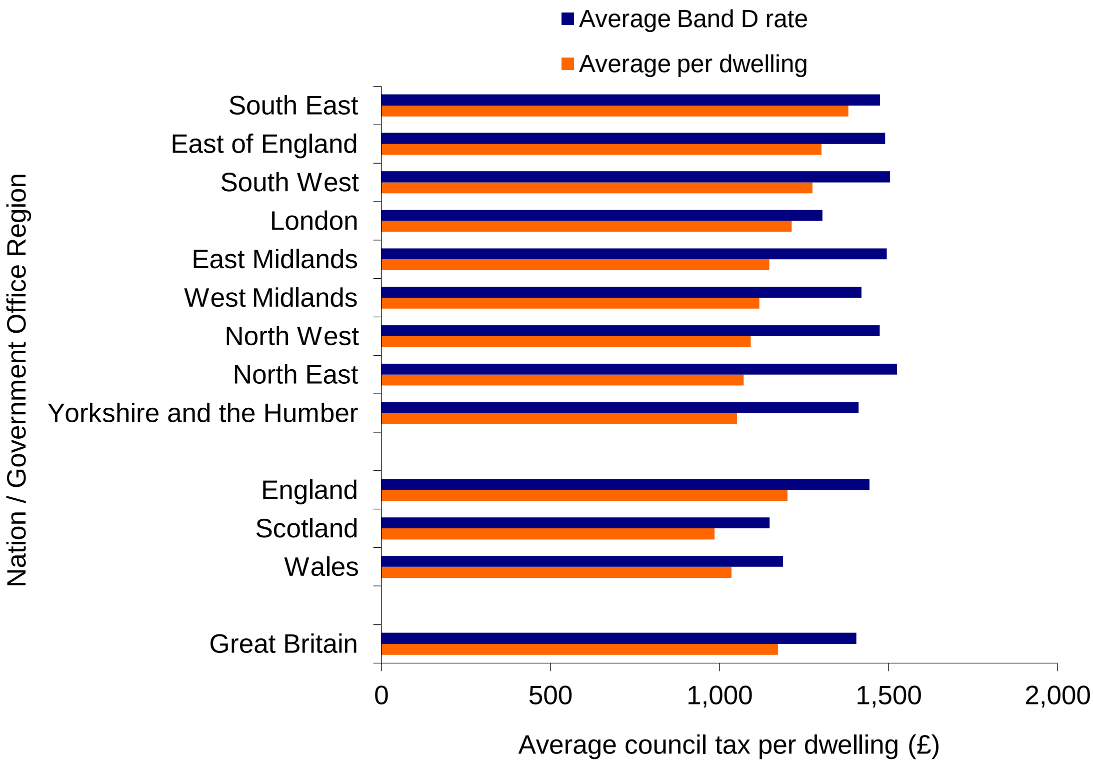
Figure 2.1. Distribution of properties across bands



Sources: England and Wales as at 31 December 2011 from Valuation Office Agency, http://www.voa.gov.uk/corporate/statisticalReleases/120112_CouncilTaxValuationListSummary.htmlScotland as at 5 September 2011 from Scottish Government, http://www.scotland.gov.uk/Topics/Statistics/Browse/Local-Government-Finance/DatasetsCouncilTax.

Since most properties are below Band D, most households pay less than the Band D rate. Because of this, and also because of discounts (but not CTB) and incomplete collection (see below), the average Band D rate in England for 2012–13 is £1,444, but the average amount paid by households is only £1,201. The level of council tax varies both across regions of Great Britain and within those regions. As shown in Figure 2.2, the area with the highest average Band D rate in 2012–13 is the North East (£1,525), while the lowest region in England is London (£1,304), with Scotland (£1,149) and Wales (£1,188) having even lower average Band D rates. Across the whole of England, the lowest Band D council tax rate is in Wandsworth in London (£684), while the highest is in Rutland in the East Midlands (£1,696); in Scotland, Band D rates vary much less, ranging from £1,024 in Eilean Siar to £1,230 in Aberdeen City, while in Wales they range from £945 in Pembrokeshire to £1,463 in Blaenau Gwent.[4]

Figure 2.2. Average council tax, 2012–13



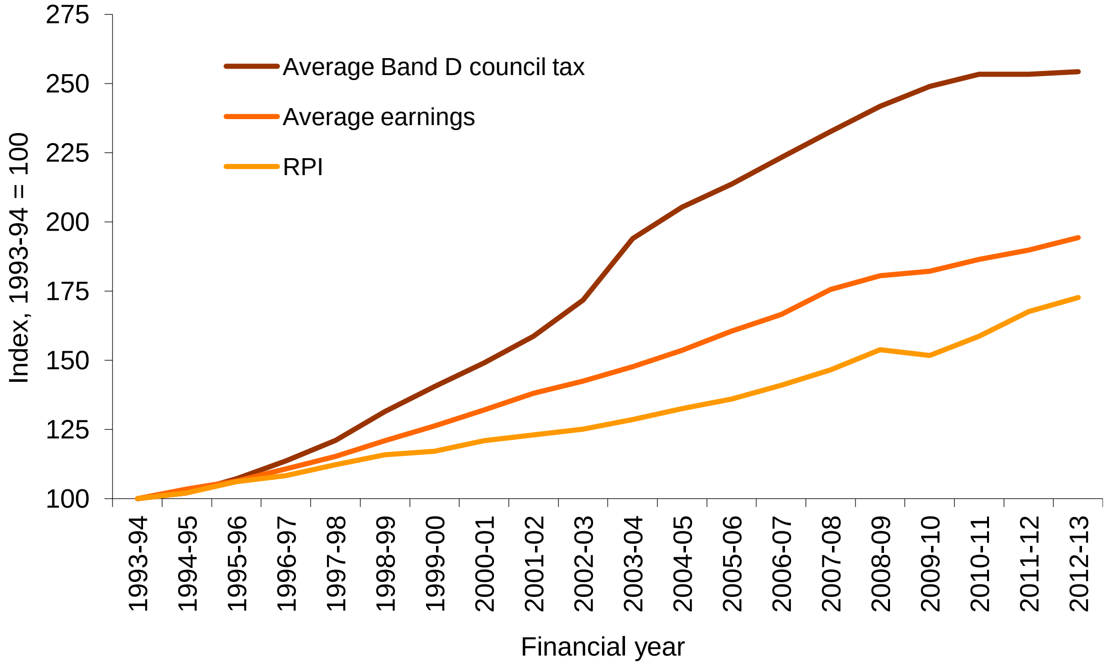
Sources: England from Communities and Local Government, http://www.communities.gov.uk/localgovernment/localregional/localgovernmentfinance/statistics/counciltax/; Scotland from Scottish Government, http://www.scotland.gov.uk/Topics/Statistics/Browse/Local-Government-Finance/DatasetsCouncilTax; Wales from Welsh Government (http://wales.gov.uk/docs/statistics/2012/120322sdr472012en.pdf) and StatsWales (http://www.statswales.wales.gov.uk/TableViewer/tableView.aspx?ReportId=877). Great Britain figures calculated as averages of England, Scotland and Wales weighted by the number of dwellings as per Figure 2.1.

As is also shown in Figure 2.2, at least when looking at the average rate of council tax across regions of England, there is considerably more variation in the average per-household rate of council tax than there is in the average Band D council tax rate. Within England, average council taxes are highest across the south of England and lowest across the north of England, though there is no such pattern to average Band D rates. This is because, on average, properties in the

[4] Sources: As for Figure 2.2.

south of England are in higher council tax bands. For example, as was shown in Figure 2.1, in the North East 85% of properties are in Bands A to C, whereas only 44% of properties in London fall into these bands. As a result, a lower Band D rate in London than in the North East can still deliver a higher average tax bill per household in London than in the North East.

Figure 2.3. Growth in average Band D council tax rates across England compared with growth in the retail prices index and growth in average earnings



Note: 2012–13 figures for average earnings and RPI are projections from the Office for Budget Responsibility. Throughout, average earnings and RPI are measured in September of the financial year in question.
Sources: Council tax from Communities and Local Government, http://www.communities.gov.uk/localgovernment/localregional/localgovernmentfinance/statistics/counciltax/. RPI and average earnings outturns are from National Statistics (http://www.statistics.gov.uk) – RPI is series CHAW, average earnings is series LNMM before 2000 and KA5Q thereafter – while 2012–13 projections are from Table 4.3 of the Office for Budget Responsibility's March 2012 *Economic and Fiscal Outlook* (http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2012/).

Council tax rates in the 19 years since its introduction have grown rapidly, far outstripping both inflation and growth in average earnings (see Figure 2.3). From 1993–94 to 2012–13, the average annual Band D council tax in England has risen by 154% in nominal terms (or 5.0% per year on average), compared with growth in the retail prices index (RPI) of 73% (2.9% per year) and growth in average earnings of 94% (3.6% per year). However, this growth has not been even over the period, slowing down from the mid-2000s onwards. In the two years since the coalition government took office, council tax rates in England have barely changed: virtually all LAs froze their Band D rate in nominal terms in April 2011, and most in April 2012 as well, after the government offered additional funding to those LAs that did so.[5] Nothing of the kind happened in Wales, but in Scotland a similar arrangement – with more funding offered to councils that freeze their Band D rates than to those that do not – has seen council tax rates frozen every year since

[5] Specifically, LAs that froze their Band D rate were offered additional grant equal to the difference in revenue between a freeze and a 2.5% increase. In April 2011 this offer was for increased grant for the duration of the current Spending Review period – that is, each year until 2014–15 – whereas in April 2012 it was for one year only, which helps to explain why fewer LAs accepted the offer in April 2012 than in April 2011.

2007–08. Going forward, the 2011 Localism Act removed central government's powers to cap council tax increases in England directly (powers that constrained many councils during the 1990s and a few in the late 2000s), but instead requires LAs to seek approval in a referendum if they propose increases deemed excessive by central government.[6]

Council tax bills are reduced by one-quarter if only one taxable adult (defined below) lives in the household. Second and long-term empty properties attract discounts of 10–50% and 0–50%, respectively, at LAs' discretion, with some kinds of property exempt altogether. The Local Government Finance Bill currently going through Parliament will give LAs in England more discretion to reduce or abolish some of these discounts and exemptions, with the potential for LAs to raise up to £420 million a year by doing so, predominantly from levying council tax during the first six months in which a property is empty.[7] Properties adapted for use by disabled people are moved down one council tax band (including Band A properties: these are reduced to 'Band A-', charged $^5/_9$ of the Band D rate).

Some groups of adults are ignored for the purposes of counting the number of taxable adults in a residence. The largest such group is students undertaking full-time educational courses at a higher-education institute; others include people in detention, carers, the severely mentally impaired, 18- and 19-year-olds in full-time (non-higher) education, members of religious communities, resident care-home and hospital patients, and residents of hostels or night shelters.

Legal liability for council tax usually rests with the occupants, though in certain circumstances (such as unoccupied homes) the owner is liable. If a property has more than one occupant, liability is shared between them, although in owner-occupied homes only the owner(s) is/are liable, not (for example) a lodger or an elderly relative living in the property. If a couple share a dwelling, they are both liable, even if there is only one name on the bill. Regardless of how many people share liability, only one council tax bill is issued for each property.

Council tax and Council Tax Benefit are administered by LAs known as 'billing authorities'. Much of England and the whole of Scotland and Wales have a single tier of local government, and the billing authority is simply the local council: a Unitary Authority, Metropolitan District or London Borough, depending on the location.[8] The shire areas (broadly covering rural England), however, have a two-tier council structure, with each County Council (responsible for matters such as education, transport, libraries, social care and fire services) covering an area with several District Councils (responsible for matters such as housing, local planning, environmental health and refuse collection).[9] In two-tier areas, the billing authority is the District Council.[10]

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[6] What constitutes an 'excessive' increase will be set out each year by the Secretary of State for Communities and Local Government, subject to approval by the House of Commons. It can vary between categories of LA. An 'excessive' increase in April 2012 was held to be an increase above 3.5%.

[7] Some properties will remain entirely exempt from council tax, e.g. student halls of residence, army barracks, and properties left empty by patients in hospitals and care homes. See Annex B of Department for Communities and Local Government, *Local Government Finance Statistics England No. 20*, 2010 (http://www.communities.gov.uk/publications/corporate/statistics/financialstatistics202010) for a full list of current council tax exemptions, and Department for Communities and Local Government, *Local Government Finance Bill: Technical reforms to council tax – Impact assessment* (http://www.communities.gov.uk/publications/localgovernment/lgfbcounciltaxia) for an impact assessment of the proposed changes to exemptions.

[8] The City of London and the Council of the Isles of Scilly are also single-tier authorities.

[9] In total there are 27 County Councils and 201 District Councils in England.

[10] While London Boroughs are technically single-tier areas, the existence of the Greater London Authority as a major precepting authority means that in practice local government in London shares many of the characteristics of two-tier areas. However, the GLA does not have the same responsibilities as county councils: it does not cover education, social care or libraries, for example, while it does incorporate the Metropolitan Police Authority.

However, while the billing authority administers council tax, 'precepting authorities' – including not only County Councils but also the Greater London Authority, parish/town councils[11] and single-purpose police and fire and rescue authorities set up across the country – can instruct the billing authority to collect and pay over an addition to the council tax rate it sets. Thus the Band D rate applying in a particular area is the sum of that set by the billing authority and those set by precepting authorities.

Collection rates have improved since the introduction of council tax, with the in-year collection rate in England increasing from 92.6% of liabilities in 1993–94 to 97.1% in 2009–10.[12]

Council tax is not one of the biggest taxes: the £26.3 billion it is expected to raise (net of CTB) in 2012–13 represents just 4.4% of total revenue.[13] Nor is it the main source of LAs' revenue: in 2009–10 council tax (without deducting the part of CTB refunded by central government) accounted for just 16% of LAs' income in England, with the bulk of revenue provided in grants from central government.[14] Nevertheless, council tax attracts far more attention than its limited revenue yield might lead us to expect, partly because for the vast majority of people it is one of the only taxes they are asked to remit themselves.[15]

2.2. Council Tax Benefit

CTB is a means-tested social security benefit. As of January 2012, it was being paid to 5.9 million claimants – more than any other means-tested benefit or tax credit.[16] Claimants were receiving an average of £15.69 per week, not a particularly large amount relative to other benefits. In total the government expects to spend £4.9 billion on CTB in 2012–13, some 2.4% of total social security benefits and tax credits.[17] CTB is administered by local (billing) authorities, but in contrast to council tax, its level is set by central government and it is financed almost entirely by central government.[18] Claimants of CTB receive it in the form of a reduced (or zero) council tax bill, rather than paying council tax in full and receiving the benefit in cash separately.

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[11] Parish and town councils are a third, most local, tier of local government, with responsibilities typically including village halls, war memorials and cemeteries. In England in 2009–10, there were 9,920 precepting parish and town councils, compared to 326 billing authorities and 95 other ('major') precepting authorities, but they raised very little council tax, a total of just £357 million. Source: Annex A of Department for Communities and Local Government, *Local Government Finance Statistics England No. 21*, 2011 (http://www.communities.gov.uk/documents/statistics/pdf/1911067.pdf).

[12] The collection of council tax continues after the financial year ends, so the actual collection rate is somewhere above these levels. Source: Table 2.2n of Department for Communities and Local Government, *Local Government Finance Statistics England No. 21*, 2011 (http://www.communities.gov.uk/documents/statistics/pdf/1911067.pdf).

[13] Source: Table 4.7 of Office for Budget Responsibility, *Economic and Fiscal Outlook,* March 2012 (http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2012/).

[14] Source: Table 2.1a of Department for Communities and Local Government, *Local Government Finance Statistics England No. 21*, 2011 (http://www.communities.gov.uk/documents/statistics/pdf/1911067.pdf).

[15] The other being vehicle excise duty. In 2006–07 some 88% of all tax was remitted by businesses (Shaw, Slemrod and Whiting, 2010).

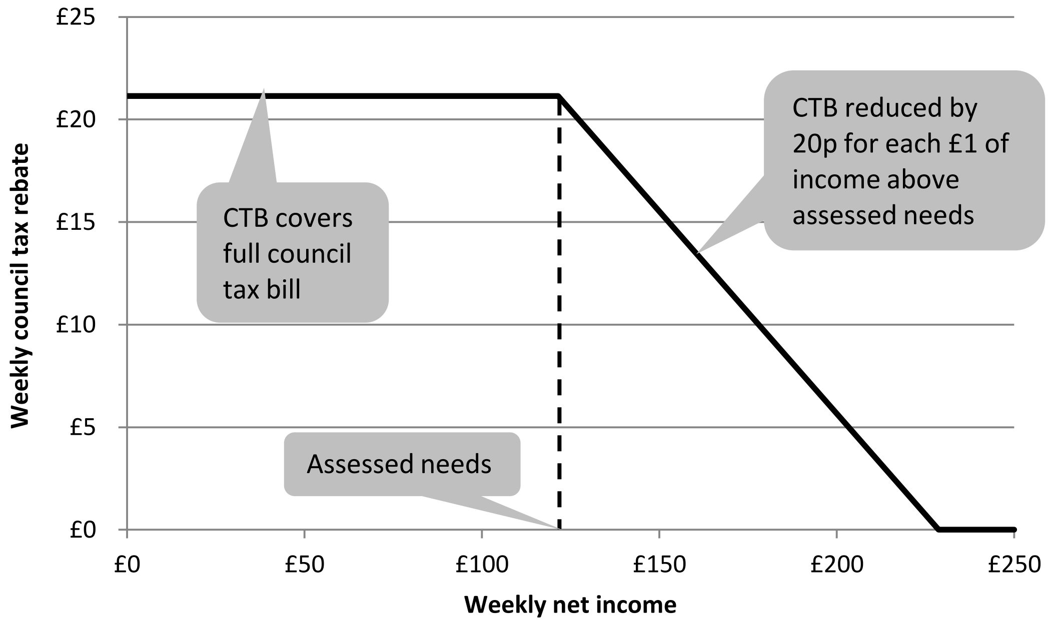
[16] This figure excludes recipients of Second Adult Rebate, described below. Source: DWP *Quarterly Statistical Summary*, March 2012 (http://statistics.dwp.gov.uk/asd/asd1/stats_summary/stats_summary_mar12.pdf).

[17] Sources: CTB spending from DWP, *Benefit expenditure tables – medium-term forecast* (http://research.dwp.gov.uk/asd/asd4/index.php?page=medium_term); total benefits and tax credits (which excludes Northern Ireland benefits and company tax credits) from Table 4.7 and Supplementary Tables 2.11 and 2.12 of Office for Budget Responsibility (2012).

[18] 'Almost entirely' because central government does not fully reimburse LAs for certain types of overpayments and duplicate payments of CTB. For example, when an LA pays CTB to a claimant who is then found to have made an error or committed fraud in their application, central government will

The maximum CTB that a family can receive is their council tax liability.[19] Families receiving a means-tested out-of-work benefit – that is, Income Support, income-based Jobseeker's Allowance, income-based Employment and Support Allowance (ESA) or Pension Credit Guarantee Credit[20] – automatically qualify for maximum CTB. In practice this accounts for two-thirds of CTB claimants and 70% of spending on CTB.[21] Those who are not 'passported' onto full CTB in this way must undergo a separate means test, which compares the family's income with a centrally determined measure of minimum needs. If the family's income is below their assessed needs, they qualify for maximum CTB; otherwise, their CTB is reduced by 20p for each £1 of income in excess of their assessed needs until their entitlement is exhausted. This basic structure is illustrated in Figure 2.4.

Figure 2.4. An example of CTB entitlement by income



Note: Assumes family lives in a Band B property in an LA with average council tax rate and no single-person discount.

When measuring 'income' for the purposes of the CTB means test:

- Income is measured after deducting income tax and National Insurance contributions;

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only reimburse 40% of this outlay. The rules are different where overpayments arise for other reasons; details are set out in DWP's *Housing Benefit and Council Tax Benefit Subsidy Guidance Manual*, available at http://www.dwp.gov.uk/local-authority-staff/housing-benefit/performance-and-good-practice/subsidy-guidance-manuals/. The government estimates that 97.4 per cent of CTB costs were met by central government in 2011–12 (source: DWP, *Benefit expenditure tables – medium-term forecast*, http://research.dwp.gov.uk/asd/asd4/index.php?page=medium_term).

[19] The weekly cost of council tax is worked out as the annual bill divided by the number of days in the year and multiplied by seven. If there is more than one person in the house eligible to pay council tax, the maximum benefit is the *share* of the total bill that each benefit unit is eligible for. So, for example, if there were a married couple and a third person all eligible to pay council tax for a given property, one member of the couple would be entitled to claim up to a two-thirds share of the weekly tax, and the third person could claim a one-third share.

[20] For brief descriptions of these benefits, see W. Jin, P. Levell and D. Phillips (2010); for full details, see Child Poverty Action Group (2007).

[21] Source: DWP *Quarterly Statistical Summary*, March 2012 (http://statistics.dwp.gov.uk/asd/asd1/stats_summary/stats_summary_mar12.pdf).

- Some other social security benefits and tax credits (such as the State Pension, contributory Jobseeker's Allowance and Employment and Support Allowance, Carer's Allowance and tax credits) count as income for the CTB means test, while others (including Child Benefit, Housing Benefit and Disability Living Allowance) do not. The out-of-work benefits listed above do not count as income, though this does not matter under current rules as receipt of those is a passport to maximum CTB entitlement;
- A small amount of earnings is disregarded – £25 per week for lone parents, £20 for those who qualify for certain of the disability premiums listed in Table 2.2, £10 for other couples and £5 for other single people – in all cases increased by £17.10 if the family qualifies for Working Tax Credit;
- Childcare costs of up to £175 per week for one child or £300 for two or more children can be deducted from income if the adults in the family all work 16 or more hours per week;
- Child maintenance received, and the first £15 of spousal maintenance, do not count as income;
- Pension income is included (and half of any pension contributions are deducted); income from other savings is not, but non-pension savings (other than in housing or other physical assets) above £6,000 (£10,000 for pensioners) are assumed to generate income of £1 a week for each £250 of savings (£500 for pensioners), and savings above £16,000 eliminate entitlement altogether.

'Needs' are expressed as an 'applicable amount', the sum of various allowances and premiums, which depend on age, whether single or in a couple, number of children and any disability, as set out in Table 2.2. In most cases this is identical to the level to which out-of-work benefits top up families' income, so claimants start having their CTB withdrawn at the same point that their income is high enough to disqualify them from out-of-work benefits. For families with children, CTB starts to be withdrawn at a higher level of income than out-of-work benefits run out, because the applicable amount includes an element equivalent to Child Benefit rates despite Child Benefit not being counted as income in the CTB means test. Since recipients of out-of-work benefits would have low enough income to receive full CTB anyway, 'passporting' them onto full CTB entitlement largely serves to save the administration of a separate assessment, rather than changing the amount to which people are entitled.

Box 2.1. The origins of council tax and Council Tax Benefit

Council tax was introduced in 1993 to replace the community charge (usually known as the 'poll tax'), a tax levied at a flat rate on each adult. The poll tax had itself replaced the long-standing system of domestic rates – a tax proportional to the assessed market rental value of each property – only recently (in 1990 in England and Wales following a one-year trial in Scotland) but widespread resentment of the perceived unfairness of the tax was associated with non-compliance on a scale rarely seen in the UK; the tax became unworkable and the government quickly announced that it would be replaced.[22] Council tax was to some extent a compromise between domestic rates and the poll tax: liabilities were related to property values (albeit less closely than under domestic rates), but some of the 'per-person' character of the poll tax was retained in the form of a 25% discount for single-person households.

One aspect of the poll tax that proved particularly problematic was that even the poorest people were required to make some contribution. Community Charge Benefit existed to help low-income families with the cost of their poll tax bill, but – unlike Rates Rebate, its predecessor – Community Charge Benefit was capped at a maximum of 80% of the bill, with the benefit recipient liable for the remainder. This cap was introduced to reflect the government's view that everyone who could vote for, and benefit from, higher local spending should pay something towards its cost. To compensate for the introduction of this 80% cap on support, national Income Support rates were increased by 20% of what the government assessed that a 'standard' poll tax bill should be. But since the actual tax rates set by LAs varied across the country (with most setting rates substantially higher than the 'standard' rate), this did not fully compensate many low-income households for the bills they faced. LAs were thus left trying to collect small amounts of tax from people with very low incomes (often entirely from social security benefits), who were not accustomed to paying it. This proved extremely expensive for LAs as well as unpopular among those affected and the wider population. When council tax was introduced to replace the poll tax, CTB reverted to the previous approach of covering up to 100% of claimants' liabilities.

[22] Butler, Adonis and Travers (1994) is an excellent study of the poll tax experience. Besley, Preston and Ridge (1997) analyse the determinants of non-payment of poll tax bills.

Table 2.2. Council Tax Benefit applicable amounts in 2012–13, £ per week

Personal allowance – single person:	Aged 18–24	56.25[a]
	Aged 25–PC age[b]	71.00
	PC age[b]–64	142.70
	Aged 65 or over	161.25
Personal allowance – couple:	Aged 18–PC age[b]	111.45
	Elder one between PC age[b] and 65	217.90
	One or both aged 65+	241.65
Dependent child allowance:[c]	(per child)	64.99
Family premium:	(per family with dependent children)	17.40[d]
Disability-related premiums:	Disabled child (each)	56.63
	Disability: single	30.35
	couple	43.25
	Enhanced disability:[e] child (each)	22.89
	single	14.80
	couple	21.30
	Severe disability	58.20[f]
	Carer	32.60[f]
	ESA support component	34.05
	ESA work-related activity component	28.15

[a] This rate does not apply to lone parents or those on main phase ESA. They receive £71.00, the same rate as single people aged 25–59, even if they are aged under 25.

[b] The qualifying age for Pension Credit, which is in the process of increasing in line with the female State Pension age and will be between 61 and 61½ during 2012–13.

[c] An individual is classed as a child until the September following their 16th birthday (or until their 20th birthday if they are in full-time, non-advanced education).

[d] An additional £4.80 premium is payable to lone parents who have been lone parents and claiming the addition since April 1998.

[e] The enhanced disability premium is payable where the claimant or a family member receives the highest rate of Disability Living Allowance (care component) and is below the qualifying age for Pension Credit, or if an adult qualifies for the support component of Employment and Support Allowance.

[f] This amount is doubled if both partners qualify.

'Non-dependant deductions' reduce the householder's CTB to take account of incomes of other adult residents of the household who are assumed to make a contribution towards the bill. No deductions are made in respect of residents who share liability for the council tax bill (see p.16) or who pay rent to the householder on a commercial basis: typically, non-dependant deductions are made in respect of adult children or elderly relatives living with a home-owner. In 2012–13 the deduction is £3.30 per week for each non-dependant (or non-dependant couple), but is higher for non-dependants who are in full-time paid work and have an income of £183 or more per week.[23] No deductions are made in respect of non-dependants who are ignored for council tax purposes (see p.16) or who are receiving an out-of-work benefit, since they are assumed not to contribute towards the bill.

Second Adult Rebate

Second Adult Rebate (SAR) is an alternative to the 'main' CTB: a claimant who is entitled to both receives whichever is larger. SAR is payable where only one person is liable for a household's council tax bill (see p.16) and there is a low-income non-dependant ('second adult') living in the household. A non-dependant for this purpose is defined as for non-dependant deductions (see above), and so excludes anyone paying rent as well as anyone jointly liable for the council tax bill. SAR reduces the household's council tax bill by 25% – irrespective of the income of the council tax payer – if the second adult is on Income Support, income-based Jobseeker's Allowance, income-related Employment and Support Allowance or Pension Credit, and is reduced as the second adult's income rises, to the point where it disappears if the second adult has gross weekly income of £235 or more. The logic behind SAR is that a low-income second adult could not be expected to contribute to the council tax bill, so the liable person should receive a 25% discount as if he or she were the only resident, with this discount removed as the second adult becomes more able to contribute.[24] Without SAR, people would have a disincentive to let a low-income non-dependant live in the household as they could lose their 25% single-person discount by doing so. In practice, SAR is received by far fewer people than main CTB – only 40,000 in 2006–07.[25]

Income Support (and other benefits such as income-based Jobseeker's Allowance and Pension Credit Guarantee) aims to provide a national minimum income for all. CTB aims to ensure that this minimum income is maintained even after council tax has been paid.[26] The reason that council tax is the only UK tax with a specific benefit attached to it is that it is the only significant tax that varies locally. Poor households cannot be easily compensated for local variations in tax through nationally uniform benefits: without CTB, we would observe variations in the incomes of the poorest between LAs. While it may be argued that those whose LAs spend more receive more benefits in terms of local services, particular local services provided may not benefit an individual CTB claimant or reduce his or her need for disposable income.

2.3. The distributional impact of Council Tax Benefit

In this sub-section, we examine who is entitled to CTB, who claims their entitlements to CTB and the impact of CTB on the distribution of income.

As we would expect, higher-income households have, on average, higher gross council tax liabilities as they tend to live in higher-value properties. But council tax represents, on average, a larger share of income for low-income households than for those with higher incomes. This regressive impact of council tax arises at least in part because council tax is set at a higher proportion of property values for low-value properties than for high-value properties. As Figure 2.5 below shows, the existence of CTB significantly reduces the burden of council tax for low-income families, though this impact is undermined by the high level of non-take-up of CTB: the Department for Work and Pensions estimates that only between 62% and 69% of those who

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[23] The deduction is £6.55 if the non-dependant's income is £183–£315.99; £8.25 if their income is £316–£393.99; and £9.90 if their income is £394 or more.

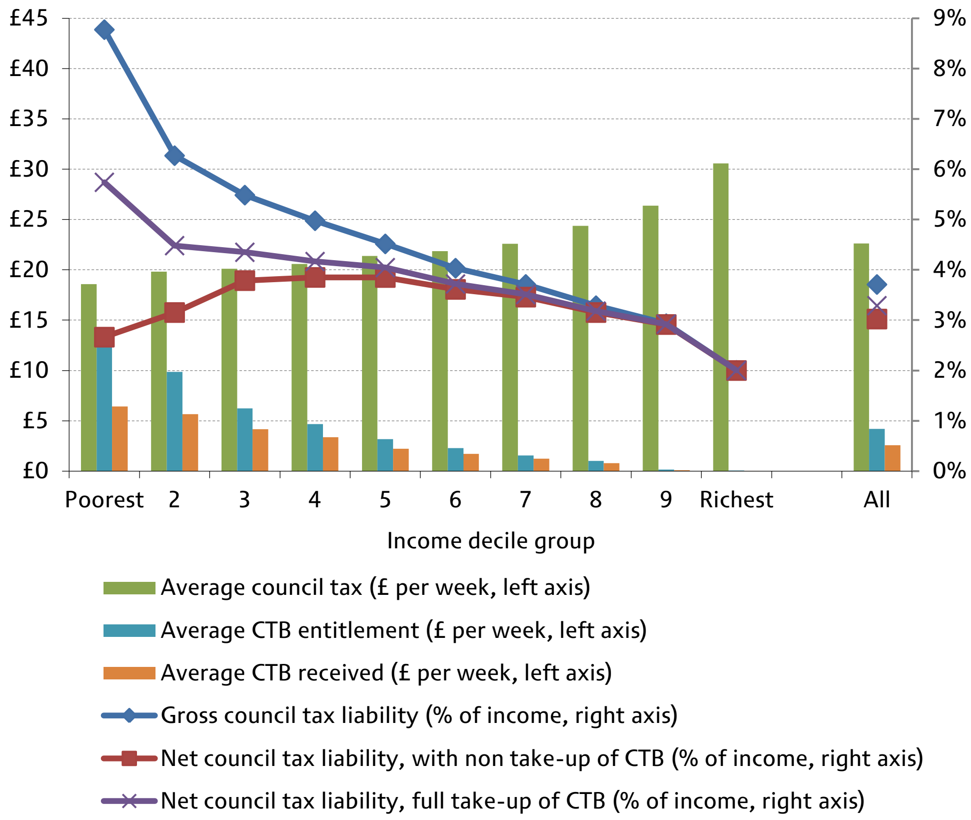
[24] This logic is not quite consistent, however: an owner-occupier is eligible for SAR if he or she lives with both a commercial lodger and a low-income non-dependant, even though the owner-occupier would not receive the 25% single person's discount for council tax if the low-income non-dependant were not resident.

[25] Source: DWP, *Income Related Benefits: Estimates of Take-Up in 2006–07* (http://statistics.dwp.gov.uk/asd/income_analysis/jun_2008/0607_Publication.pdf). More recent versions of this publication do not include Second Adult Rebate.

[26] Housing benefit similarly seeks to ensure that the same minimum income is available after rent has been paid.

were entitled to CTB claimed their entitlement in 2009–10, claimants receiving £4.2 billion of support, while between £1.7 billion and £2.4 billion went unclaimed.[27] In our analysis, we use self-reported receipt of CTB in our data alongside entitlements that we estimate for each family to work out who is taking up CTB.[28] Non-take-up of CTB is higher in lower income deciles – receipt of CTB is only around 50% of entitlement for the lowest income decile compared to 57% and 67% respectively for the next two income deciles – though this is partly because not taking up their CTB entitlements is what leads some families to be in a lower income decile than they otherwise would. If everyone took up their CTB entitlements, net council tax would be a lower percentage of income for poorer households than for middle-income households. Given actual patterns of take-up, net council tax bills remain regressive across the whole of the income distribution, albeit much less so than gross council tax.

Figure 2.5. Council tax liability and CTB entitlement by income decile group, 2012–13



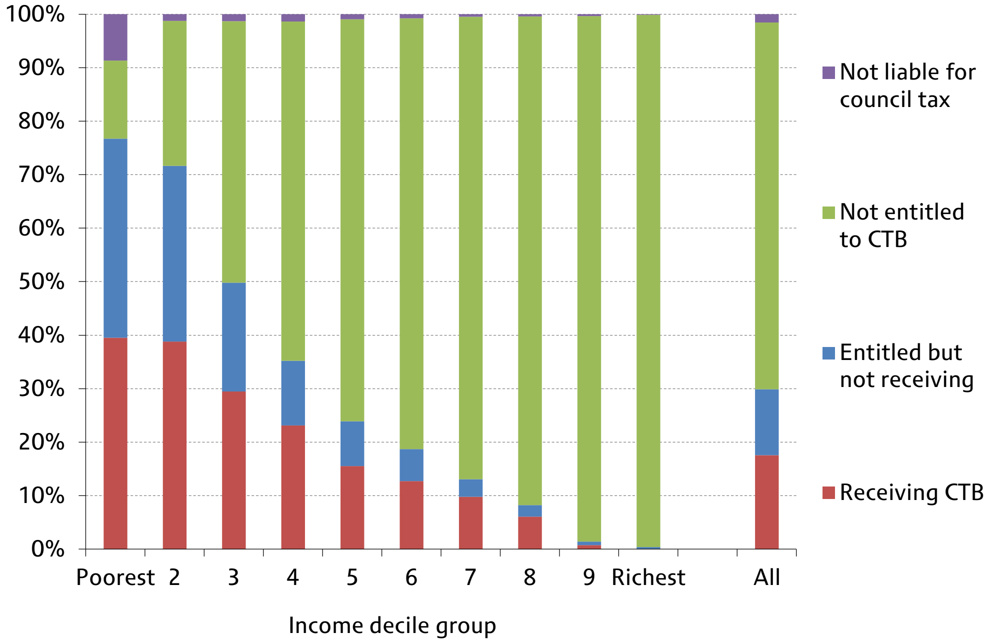
Notes: Income decile groups are derived by dividing all households into 10 equal-sized groups according to income adjusted for household size using the McClements equivalence scale.
Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Figure 2.6 shows the proportion of households that are receiving CTB, entitled to CTB, and not entitled to CTB, by income decile. It also shows there are a small number of households that are not liable for council tax; these are predominantly students, and are found mainly in the bottom income decile. Thirty per cent of households are entitled to CTB; as we would expect, this figure is higher at lower income levels, though there are households in the top half of the income distribution – mainly pensioners – who are entitled. The proportion of households actually receiving CTB is also higher among lower-income households, despite the fact that their take-up rates are lower: in our data nearly half of those in the lowest income decile who are entitled to

[27] Source: DWP (2012).
[28] See Appendix C for more details.

CTB are not receiving it.[29] (Indeed, as mentioned above, one of the reasons some households are in the bottom income decile in this analysis is because they do not claim the CTB to which they are entitled.[30])

Figure 2.6. Proportion of households entitled to, and receiving, CTB by income decile group, 2012–13

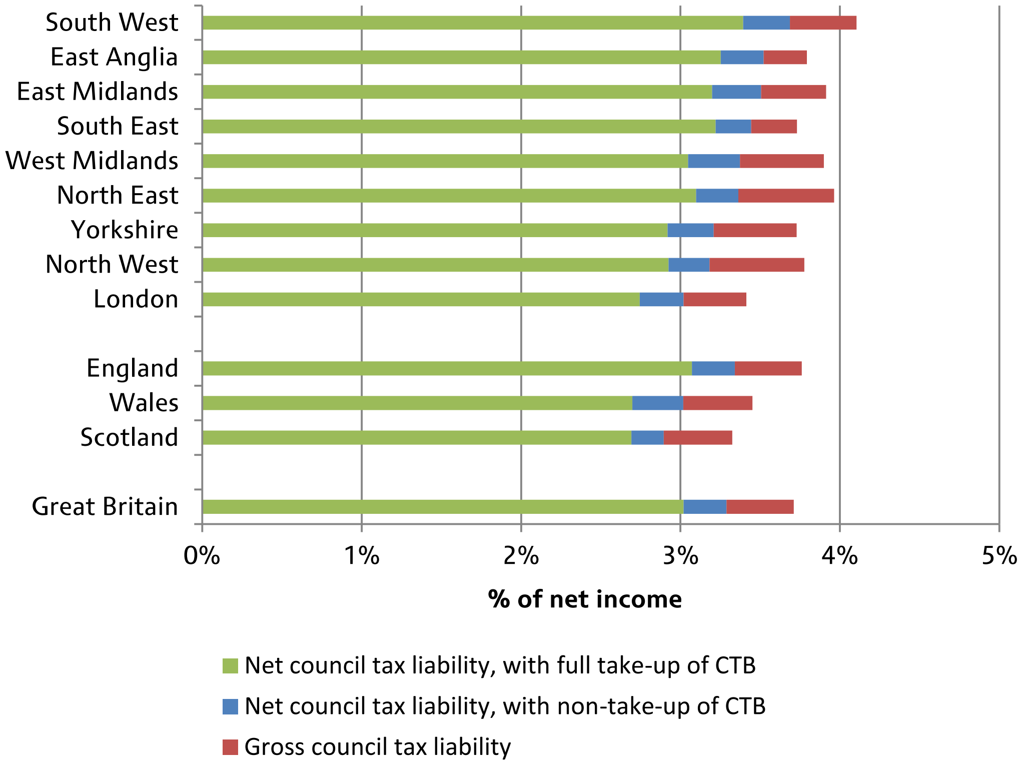


Notes: Income decile groups are derived by dividing all households into 10 equal-sized groups according to income adjusted for household size using the McClements equivalence scale.
Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Figures 2.7 and 2.8 show a similar analysis by region of England and nation of Great Britain. We saw in Figure 2.2 that average council tax bills are lower in the north of England where property values are lower; but incomes are also lower there, meaning that council tax in the north of England as a percentage of income is roughly equal to the average for England as a whole (Figure 2.7). The highest gross council tax liability as a proportion of income is in the south west of England, where property values are high relative to incomes, and the lowest is in Scotland where, as we saw from Figure 2.2, the average Band D council tax rate is very low. Both average entitlements to CTB and the proportion of entitlements that is claimed are highest in the poorer areas of the north of England and lowest in the richest areas of England, namely East Anglia and the south east of England.

[29] Note, however, that the 59% take-up rate shown in Figure 2.6 for all households is lower than the DWP estimates cited above, which are based on administrative data on CTB actually paid rather than self-reported receipt.
[30] It is also possible that some households do not report all of their private income in the Family Resources Survey. In this case they may be wrongly placed in the bottom income decile and their CTB entitlement may be wrongly calculated.

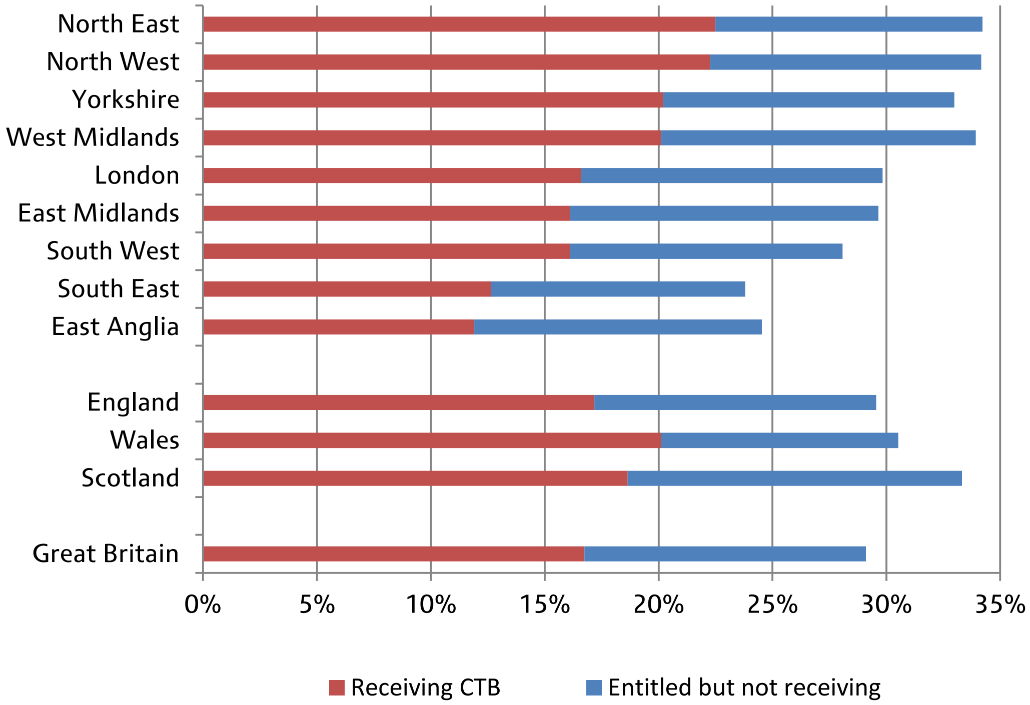
Figure 2.7. Council tax liability as a % of net income by region of England and nation of Great Britain with and without Council Tax Benefit, 2012–13



Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

In Figure 2.8 we show the proportion of families entitled to, and receiving, CTB by region of England and country of Great Britain. Unsurprisingly, levels of entitlement are highest in the poorer parts of Great Britain, namely the north of England and Wales, and lowest in the south east of England. We can also see that the take-up rate is higher in the poorer parts of Great Britain.

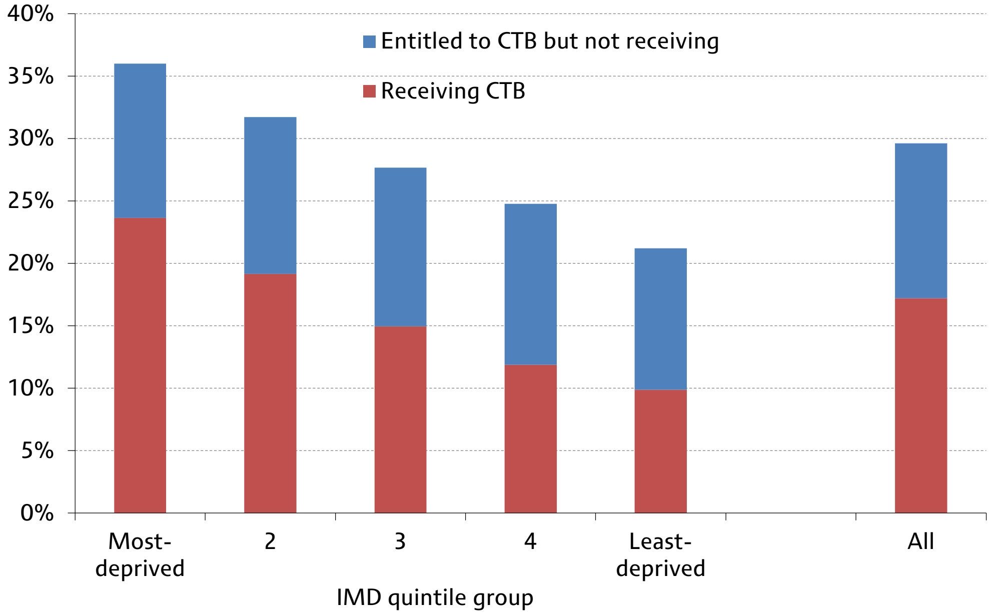
Figure 2.8. Proportion of families entitled to, and receiving, CTB by region of England and nation of Great Britain, 2012–13



Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Another way we can divide Great Britain geographically is according to the Index of Multiple Deprivation (IMD), which provides a summary measure of various aspects of deprivation. This is published separately for England, Scotland and Wales, and cannot be compared between the three nations. The sample sizes in our FRS data for Scotland and Wales are not sufficient for us to perform robust sub-group analysis separately for these nations, so in Figure 2.9 we show the same analysis by quintile of the IMD in England measured at the local authority level (i.e. the left-hand bar contains all those living in the most-deprived fifth of LAs in England). Unsurprisingly, more deprived LAs have a larger proportion of people who are entitled to CTB. As in our regional analysis, we also see that take-up is higher in more deprived LAs. Appendix D lists which IMD quintile (and which region) each LA is in.

Figure 2.9. Proportion of households entitled to, and receiving, CTB in England by IMD quintile, 2012–13

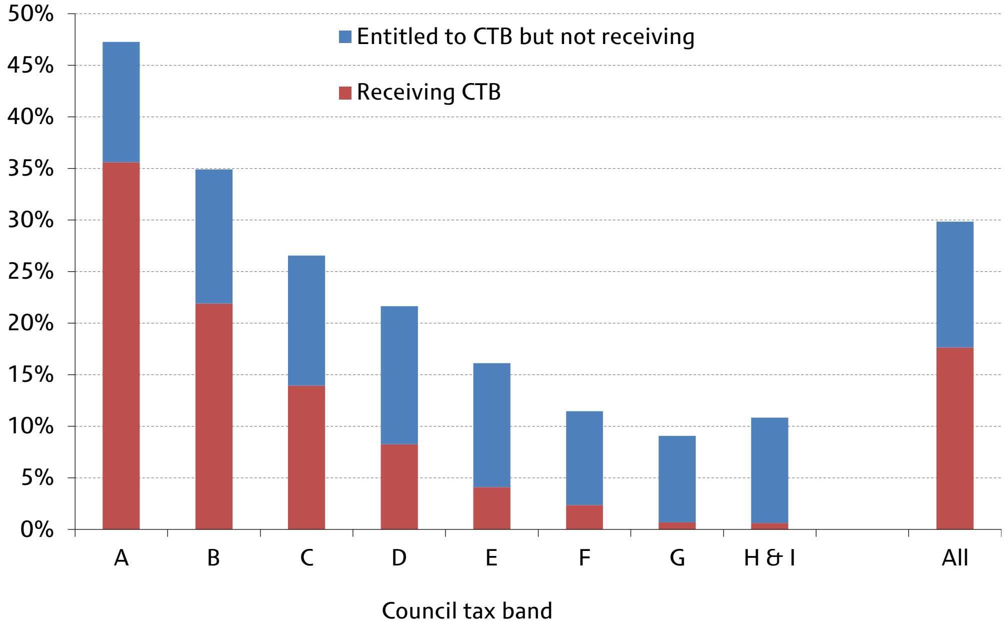


Notes: IMD quintiles are derived by dividing LAs in England into 5 equal-sized groups according to their overall IMD score.
Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Figure 2.10 shows the number of households entitled to, and receiving, CTB according to their council tax band.[31] The highest levels of entitlement are in the lower-value bands, as we would expect, though there are some households in higher bands that have some entitlement: these are households with high levels of housing wealth but low current income. However, households in higher council tax bands are much less likely to take up their entitlement to CTB.[32]

[31] Note that, as described in Section 2.1, the band cut-off points vary between the three nations of Great Britain and Wales has undergone a revaluation. Due to the small sample size of Band I properties in Wales, we pool these with Band H properties.
[32] As well as people genuinely not taking up their entitlements, this may also reflect people who are not really entitled to CTB but are modelled as such because of misreporting of income and assets in the FRS. A high council tax band may be a clue that some of these people do not have the low incomes and financial assets recorded in the data.

Figure 2.10. Proportion of households entitled to, and receiving, CTB by council tax band, 2012–13



Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Table 2.3 shows the characteristics of CTB recipients according to the type of household they live in. The top panel shows a split by detailed household type according to whether the family living there includes a single adult or a couple and whether they are working, have dependent children, or at least one person is over State Pension age. Households containing more than one family unit are shown separately (a 'family' here – strictly, a 'benefit unit' – means an individual, their partner if they have one, and any dependent children; 'multi-family households' therefore includes households where people live with their adult children, elderly relatives or flatmates, for example). We can see that, for example, more than a quarter of CTB goes to single pensioners living alone. Pensioner couples are much less likely to take up their entitlements. The highest rates of entitlement are found among non-working families of working age – single people, lone parents and couples with children (though interestingly not couples without children, who are frequently people who have taken early retirement with generous pensions) – and these groups are also the most likely to take up their entitlements, with over 80% of them doing so, so overall they are much more likely than other groups to be receiving CTB. So although these three groups are small, together making up only one-tenth of the households, they account for more than one-third of all CTB expenditure.

The bottom half of the table divides households into broader categories, revealing that:

- Non-working households are ten times as likely to be receiving CTB as working households. Non-working households are twice as likely as working households to claim CTB if they are entitled to it.
- Around 40% of all CTB goes to households containing someone above the State Pension age.
- Nearly half of all CTB is paid to households where an adult is claiming a disability-related benefit (Disability Living Allowance, Attendance Allowance, Severe Disablement Allowance, Incapacity Benefit, Income Support with a disability premium, or Employment and Support Allowance). This figure would be even higher if it included those with a disabled child in the household.
- Only one in five owner-occupiers is entitled to CTB, and of those who are entitled barely one in three take it up. In contrast, around 70% of those in social rented housing are entitled to CTB, and of those 86% claim their entitlement.

Table 2.3. Characteristics of CTB recipients, 2012–13

Group	*% who are*			*% of CTB expenditure*	*% of households*
	Receiving CTB	*Entitled but not receiving*	*Not entitled to CTB*		
Single, not working	63%	13%	25%	19%	5%
Single, working	1%	4%	94%	1%	10%
Lone parent, not working	84%	9%	7%	13%	3%
Lone parent, in work	18%	16%	65%	2%	3%
0-earner couple, no children	31%	13%	56%	5%	2%
0-earner couple, children	72%	16%	11%	7%	1%
1-earner couple, no children	3%	8%	89%	1%	5%
1-earner couple, children	10%	17%	73%	3%	6%
2-earner couple, no children	<1%	2%	98%	<1%	11%
2-earner couple, children	1%	3%	96%	<1%	11%
Single pensioner	35%	22%	43%	26%	14%
Couple pensioner	12%	21%	66%	9%	12%
Multi-family household, no children	13%	15%	72%	9%	11%
Multi-family household with children	17%	15%	68%	5%	5%
With someone working	4%	8%	88%	12%	63%
With no one working	40%	20%	40%	88%	37%
With children	18%	10%	71%	31%	29%
Without children	17%	13%	70%	69%	71%
Containing a pensioner	25%	22%	53%	39%	28%
Not containing a pensioner	15%	8%	77%	61%	72%
Containing an adult receiving a disability benefit	49%	16%	35%	46%	16%
Not containing an adult receiving a disability benefit	11%	12%	77%	54%	84%
Owner-occupiers	7%	13%	80%	26%	69%
Private renters	21%	11%	68%	19%	15%
Social renters	59%	10%	31%	55%	17%
All	18%	12%	70%	100%	100%

Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

2.4. Weaknesses of Council Tax Benefit

2.4.1. Complexity and non-take-up

As with other means-tested benefits, CTB is criticised because its complexity and the stigma attached to it mean that many potential beneficiaries either do not know that they are entitled or are unwilling to claim it: as we have seen, around a third of eligible families appear not to claim their entitlement.

If the hassle and stigma of claiming are enough to put people off, we can infer that some people who do claim nevertheless suffer from the time, effort and other psychological costs involved in doing so, offsetting part of the financial benefit they get in return.

But a major reason for non-take-up is that people do not know they are entitled. This might be a particular problem for take-up among those in paid work, for example, which is especially low: Turley and Thomas (2006) found that many people simply did not know that CTB was available to people in work. Take-up also appears to be lower among pensioners than those of working age, which may similarly reflect a lack of awareness of CTB: many pensioners will never have been eligible for a means-tested benefit before hitting State Pension age.

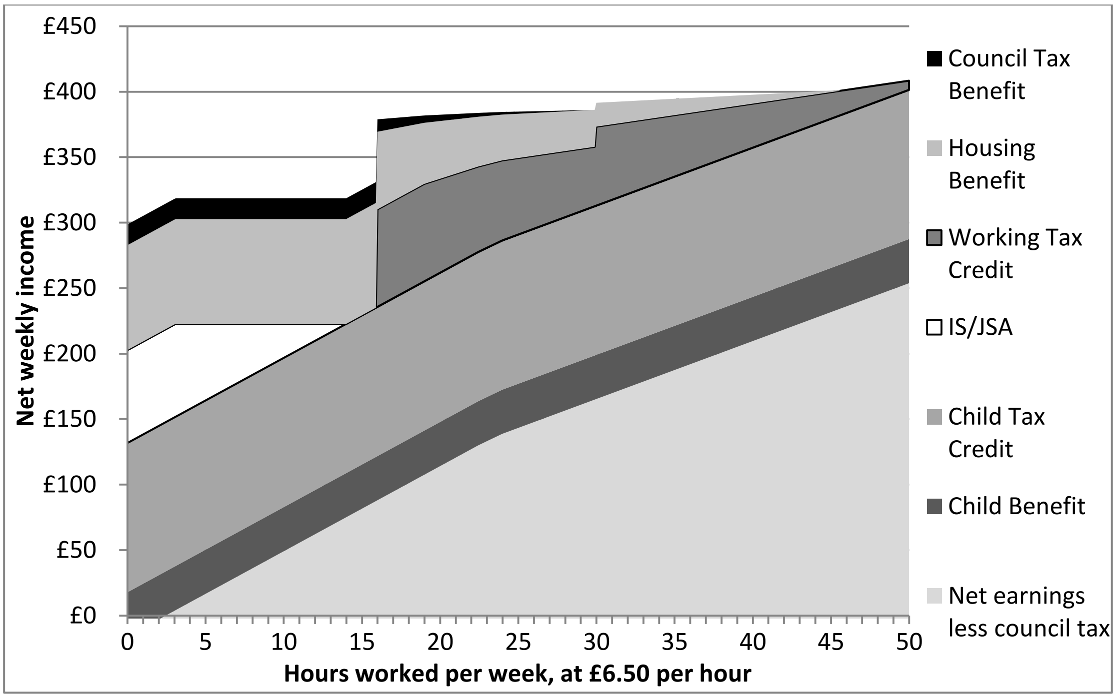
2.4.2. The impact of CTB on work incentives

As with all means-tested benefits, CTB affects individuals' work incentives. We can distinguish between two aspects of financial work incentives: the incentive to be in paid work at all and the incentive for those in work to earn a little more. We measure the incentive to be in paid work at all by the participation tax rate (PTR), the proportion of total earnings taken in tax and withdrawn benefits. For those in work, we measure the incentive to increase earnings slightly by the effective marginal tax rate (EMTR), the proportion of a small increase in earnings taken in tax and withdrawn benefits. In both cases, higher numbers mean weaker incentives. Appendix A explains in more detail how we calculate these effective tax rates.

CTB weakens both the incentive to be in paid work and the incentive for those in work to increase their earnings. It weakens the incentive for individuals to undertake paid work as they see some of their earnings lost to reduced entitlement to support for council tax. And it also weakens the incentive for some of those who are in paid work (namely, those on the CTB taper) to increase their earnings, as each additional pound of earnings reduces their entitlement to CTB by 20p.

Figure 2.11 shows the relationship between hours of work and net income – the 'budget constraint' – for one example low-wage lone parent. The uppermost (black) component shows CTB entitlement. If she is not working, this lone parent has her full council tax liability of £15.77 per week covered by CTB. Only if she works 16 hours or more per week is her income is high enough for the CTB to start being withdrawn, and her entitlement is exhausted at just under 30 hours per week. This illustrates how CTB weakens work incentives in both respects. CTB adds more to her income if she is out of work than if she works 16 to 30 hours, and nothing at all if she works 30 hours or more, so it weakens her incentive to take paid work. And if she is on the CTB 'taper' between 16 and 30 hours, additional earnings reduce her entitlement, so the budget constraint is flatter than it would be without the CTB component.

Figure 2.11. Composition of an example budget constraint in 2012–13



Notes: Example is for a lone parent, with two children aged between 1 and 4, earning £6.50 per hour, with no other private income, no childcare costs and no disabled family members, paying £80 per week in rent to live in a council tax Band B property in a local authority setting council tax rates at the national average. 'Net earnings less council tax' is earnings after deducting income tax, employee NICs and council tax. Figure does not show negative amounts for 'net earnings less council tax' on the left-hand side where council tax exceeds net earnings: with zero earnings, 'net earnings less council tax' is –£15.77, with Child Benefit making up the difference from what is shown.
Source: Authors' calculations using TAXBEN.

But Figure 2.11 is just one example. To show how CTB affects incentives to be in paid work across the whole working-age population, Table 2.2 shows the mean and various percentile points of the distribution of PTRs for different types of individual, and how these are affected by CTB.[33] For each statistic, the table shows its value in 2012–13, and the impact CTB has on it: so, for example, the mean PTR among all working-age adults is 37.4%, 1.5 percentage points (ppts) higher than it would be without CTB. Although this average effect on PTRs is quite small – an increase of just 1.5 ppts – we can see that CTB particularly weakens work incentives for those with the weakest incentives to do paid work. CTB raises the 90th percentile of PTRs by 4.4 ppts: one in ten working-age adults has a PTR in excess of 70.9%, whereas in the absence of CTB one in ten would have a PTR in excess of 66.5%, lone parents and those with non-working partners have the weakest financial incentives to be in paid work, and see their PTRs increased most by CTB. The table also shows the number of people who see their PTR increased by CTB. In total around 36% of the working-age population see their incentive to do paid work weakened by the existence of CTB. This is larger than the proportion claiming CTB as many of those who are in paid work and are not currently entitled to CTB would be entitled if they left paid work. However, a considerable number of those currently in paid work would still not be entitled to CTB if they left work. These are mainly those whose partner is in paid work, but also those with considerable unearned income: in both cases, the family income of such individuals would be sufficiently high to mean that they were not entitled to CTB even if they were not in paid work themselves.

[33] The percentiles of the distribution of PTRs give the PTR of the person who has a higher PTR than the given percentage of the population. For example, the tenth percentile is the PTR of the person who has a higher PTR than 10% of the population and a lower PTR than the remaining 90%.

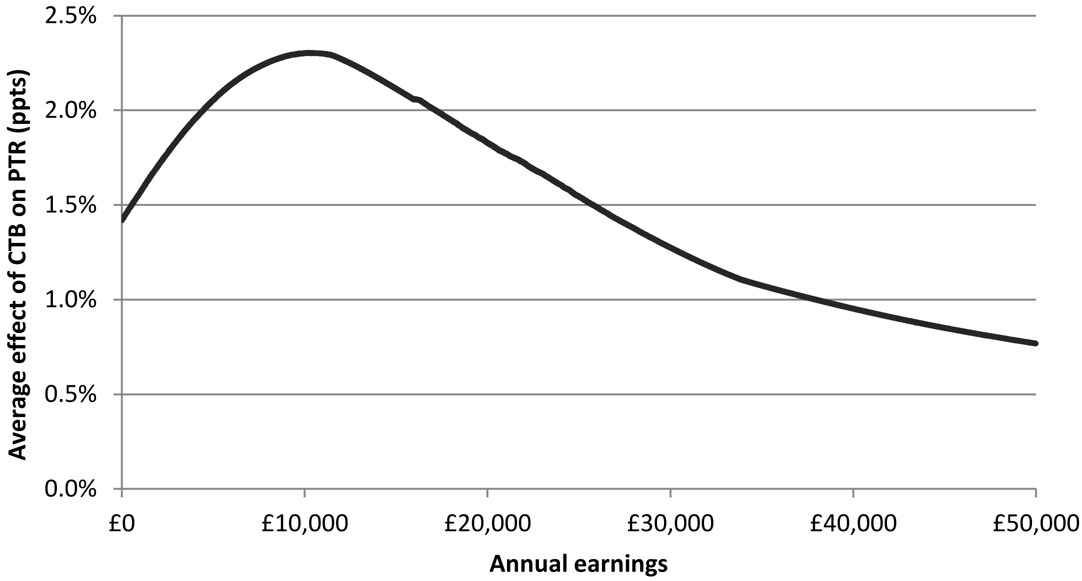
Table 2.2. Impact of CTB on the distribution of participation tax rates, 2012–13

	Percentile point of distribution of PTRs										*Mean PTR*		*% with PTR increased by CTB*
	10th		*25th*		*50th*		*75th*		*90th*				
Single, no children	5.0%	+0.1	25.6%	+0.5	37.1%	+0.6	52.7%	+2.9	70.7%	+4.6	38.9%	+1.5	36%
Lone parent	20.0%	+4.4	38.9%	+5.0	55.9%	+4.6	66.0%	+4.5	74.1%	+4.3	51.3%	+4.4	84%
Couple with children, partner in paid work	9.5%	+1.1	21.1%	+0.3	32.9%	+0.6	44.8%	+1.8	58.1%	+2.3	33.4%	+1.2	31%
Couple with children, partner not in paid work	40.9%	+0.8	55.1%	+3.2	70.5%	+4.4	80.6%	+4.3	93.4%	+3.5	69.8%	+3.4	77%
Couple, no children, partner in paid work	10.1%	+0.4	18.2%	+0.2	23.3%	+0.2	28.9%	+0.2	39.3%	+0.7	24.3%	+0.4	11%
Couple, no children, partner not in work	19.5%	+0.2	28.7%	+0.6	47.2%	+3.4	64.1%	+4.4	79.9%	+4.5	47.5%	+2.9	58%
All	9.9%	+0.5	21.8%	+0.4	34.6%	+0.5	50.9%	+2.6	70.9%	+4.4	37.4%	+1.5	36%

Notes: For each percentile point and the mean, the left-hand column shows the PTR and the right-hand column shows how much higher it is than in the absence of CTB. Calculations exclude employer NICs and indirect taxes and most ‘business taxes’ (notably corporation tax and business rates) and capital taxes (notably inheritance tax, stamp duties and capital gains tax). Excludes those in pensioner families.
Source: Authors’ calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on uprated data from the 2009–10 Family Resources Survey.

Figure 2.10 shows how the impact of CTB on PTRs varies by earnings.[34] We can see that the impact is low at very low levels of earnings as CTB only starts to be withdrawn when income exceeds a certain level, but it peaks at an earnings level of around £10,000. Beyond this level, the impact of CTB declines as the CTB lost on entering paid work becomes gradually smaller as a percentage of earnings.

Figure 2.10. Impact of CTB on average PTR by earnings level, 2012–13



Notes: Excludes employer NICs and indirect taxes and most 'business taxes' (notably corporation tax and business rates) and capital taxes (notably inheritance tax, stamp duties and capital gains tax). Excludes those in pensioner families. Non-parametric (lowess) regression estimates for PTRs.
Source: Authors' calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on uprated data from the 2009–10 Family Resources Survey.

Table 2.3 shows the mean EMTR among different groups of individuals in paid work, and the impact that CTB has on this.[35] It also shows the proportion of each group that is on the CTB taper and thus has a higher EMTR than they would do in the absence of CTB. Two-thirds of those in paid work who are entitled to CTB are on the taper. CTB has only a modest effect on the average EMTR across the whole working population – increasing it by just 0.5 ppts – but among those workers who are on CTB the effect is much bigger, almost 8 ppts. Note that, although the CTB taper rate is 20%, it does not raise EMTRs of those on the taper by 20%. That is because claimants lose 20p of CTB for each £1 of *net* income. If a claimant earns £1 more, he may, for example, lose 20p of that in income tax, 12p in employee National Insurance contributions, and 41p in withdrawn tax credit. It is from the remaining 27p of net income that 20% may be lost in withdrawn CTB – a further 5.2p lost per £1 earned (5.2% added to the EMTR), not 20p. How much CTB withdrawal adds to each individual's EMTR depends on what combination of other taxes and benefit withdrawal affects them: broadly speaking, the higher their existing EMTR, the

[34] Note that this again includes those not currently in paid work, at their predicted level of earnings were they to enter paid work.
[35] We do not show the impact of CTB on different points of the distribution: as large numbers of people have the same EMTR (for example, all employees who are contracted in to the State Second Pension, are basic rate taxpayers and are not entitled to any means-tested benefits or tax credits have an EMTR of 32%), changing the EMTRs of the relatively small number of people on the CTB taper does not change the various percentile points of the distribution of EMTRs.

less CTB will add to it. Table 2.3 shows that, on average, those on the CTB taper see their EMTR increase by 7.8ppts as a result.

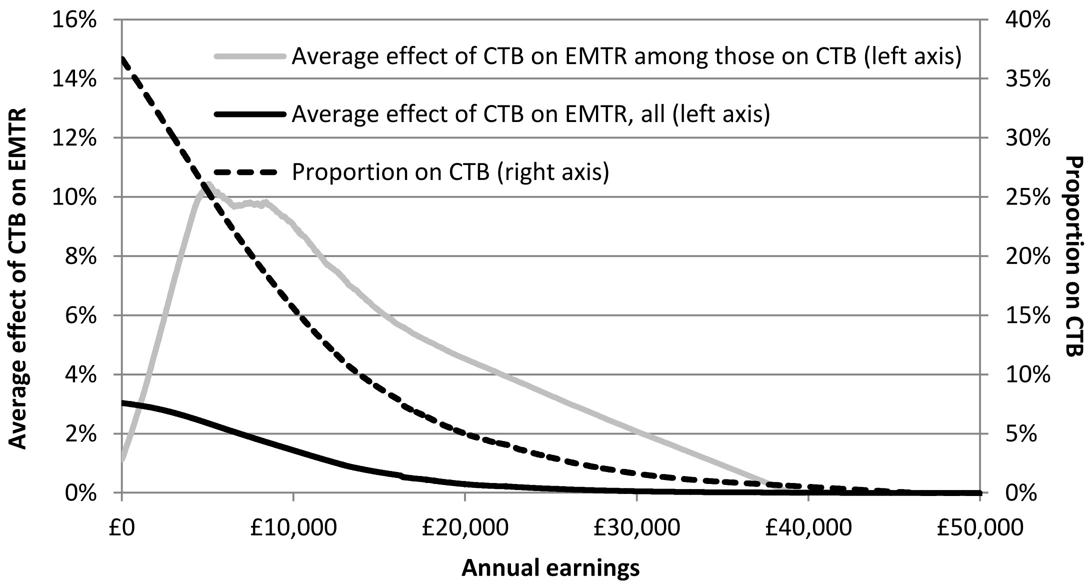
Table 2.3. Impact of CTB on EMTRs of those in paid work, 2012–13

	Mean EMTR		*Proportion on CTB taper*
Single, no children	32.9%	+0.3	2%
Lone parent	64.3%	+3.1	23%
Two-earner couple with children	38.1%	+0.3	3%
Single-earner couple with children	55.2%	+1.6	20%
Two-earner couple without children	31.8%	+0.1	1%
Single-earner couple without children	42.7%	+1.2	10%
All on CTB	60.5%	+7.8	66%
All	37.3%	+0.5	4%

Notes: Excludes employer NICs and indirect taxes and most 'business taxes' (notably corporation tax and business rates) and capital taxes (notably inheritance tax, stamp duties and capital gains tax). Excludes those in pensioner families.
Source: Authors' calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on uprated data from the 2009–10 Family Resources Survey.

Figure 2.11 shows how the impact of CTB on EMTRs varies by earnings level. The average effect of CTB on EMTRs for the working population as a whole is highest at the lowest levels of income and declines steadily at higher income levels until it is virtually zero by an income level of £35,000. But this partly reflects the fact that there are simply far more CTB claimants at low levels of earnings. Among just those workers who are on CTB, the figure shows an impact on EMTRs peaking at annual earnings of between £4,000 and £10,000. This is because at the lowest income levels most claimants are receiving full CTB, which does not affect their EMTR. As incomes rise, more claimants are on the taper, and therefore have their EMTR increased by CTB. And then as income rises further, being on the taper adds less to people's EMTR as they are more likely to be paying income tax, facing tax credit withdrawal, etc.

Figure 2.10. Impact of CTB on average EMTR by earnings level, 2012–13



Notes: Non-parametric regression (lowess) estimates. Excludes employer NICs and indirect taxes and most 'business taxes' (notably corporation tax and business rates) and capital taxes (notably inheritance tax, stamp duties and capital gains tax). Excludes those in pensioner families and those not in paid work.

Source: Authors' calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on uprated data from the 2009–10 Family Resources Survey.

The effect of CTB in weakening work incentives can be exacerbated by the complexity alluded to above: since many out-of-work families are unaware that they could continue to claim CTB if they moved into low-paid work,[36] people might be discouraged from working by a perception of lost entitlements that exceeds the reality. One of the reasons that the government has decided to integrate all the other existing means-tested benefits and tax credits into Universal Credit is to reduce these misconceptions about how the benefits system works: having a single payment with simpler rules should mean that more people understand how their benefit entitlements will change if they enter paid work or increase their earnings. In Section 7 we discuss the implications of not including CTB within this integration.

2.4.3. Incentives to save

Certain forms of savings reduce or eliminate families' entitlement to CTB, as set out in Section 2.2 – another feature it shares with other means-tested benefits.

The rationale for this is that we might think that people with substantial assets are not really 'poor' and do not need support even if they have low income in the current week or year. Consistent with this, while pension income and non-pension financial assets reduce CTB entitlement, forms of savings that are difficult to access – accrued pension rights, owner-occupied housing and other physical assets – do not, reflecting the fact that people with these forms of wealth may still have difficulty finding the cash to pay their council tax bill.

However, means-testing CTB against people's savings (or their income from savings) undoubtedly discourages saving to some extent among those who think they might be on CTB in future. By discouraging saving, it also discourages work in so far as people work to earn money for the future rather than to spend today (note that this effect is not included in the analysis of work incentives in the previous sub-section as it is difficult to quantify). Moreover, it is not just a general disincentive to save (and work): the particular way in which savings are treated discourages saving to different degrees for different assets, amounts and timings, which distorts the form and timing of saving:

a) Owner-occupied housing is completely disregarded for the CTB means test, so saving by buying a (more expensive) property, or paying down a mortgage, is not discouraged at all (and indeed living in a more expensive property – whether owned or rented – is actively encouraged, as discussed in the next sub-section).

b) The first £6,000 (£10,000 for pensioners) of non-pension financial saving is also disregarded. But having savings above this threshold is quite strongly discouraged by the asset test. Each £250 (£500 for pensioners) of assets above the threshold is assumed to yield £1 a week of income, an imputed annual interest rate of 23.1% (10.9% for pensioners). And by far the biggest disincentive is to cross the £16,000 ceiling, since crossing that threshold means that savings, rather than reducing weekly entitlement by at most £8,[37] or £2.40 for pensioners, eliminates it completely. Of course, once above the £16,000 threshold there is zero CTB entitlement so further saving is not discouraged.

c) Pension *income* is counted in full, so pension saving is discouraged for those who expect to be on CTB when the pension is in payment; but pension *assets/rights* are ignored completely, so

[36] Turley and Thomas (2006).

[37] 20% x ((£16,000 – £6,000) / £250) = £8. For pensioners, 20% x ((£16,000 – £10,000) / £500) = £2.40.

pension saving is not discouraged at all for those who expect to be on CTB only before the pension is in payment.[38]

There is also an incentive to make pension contributions while on the CTB taper (rather than saving in other forms, at other times, or not at all), as assessed income is reduced by half the value of contribution (so CTB entitlement increases by 10% of any pension contribution for those facing 20% withdrawal) – though it seems doubtful that many people change their behaviour in order to take advantage of this, as people generally claim CTB at times when their income is low, when we would expect them to be less likely to be contributing to a pension.

CTB is far from the only mean-tested benefit that affects saving incentives, and is probably not the most important: Pension Credit, for example, is likely to be a bigger influence on people's saving decisions. Nevertheless, the incentives described above are real. Discouraging saving is not an aim that most policy-makers would openly espouse, though the desirability of asset tests in means-tested benefits is a hotly debated issue in the economics literature.[39] But distorting the form in which people save in this arbitrary and peculiar way seems particularly undesirable.

2.4.4. Incentives to live in bigger properties

CTB creates an artificial incentive for low-income families to live in bigger properties than they would otherwise choose, since part of the cost of upsizing – a bigger council tax bill – is covered by the government. Otherwise put, it incentivises inefficient use of the housing stock and inefficient consumption patterns, with poorer people living in bigger houses and consuming less of other goods and services (and so richer people living in smaller houses and consuming more of other goods and services) than they otherwise would.

While the incentive is undoubtedly there, it is difficult to know how big an effect it has on people's behaviour in practice. But to say that it has some effect is just to say that the price of housing affects how much housing people consume – it would be surprising if this were not true to some extent, and indeed there is some empirical evidence that this effect is significant.[40]

2.4.5. Local accountability and LAs' incentives

Broadly speaking, council tax (and local government finance generally) is structured so that an LA that wishes to spend an extra £1 must raise an extra £1 from local taxpayers. This ought to give LAs appropriate incentives overall when they are held to account at the ballot box (though if people do not realise that council tax accounts for only 16% of LAs' income, they may feel aggrieved that a 1% increase in local spending requires a 6% increase in council tax).[41]

However, the way CTB is funded means that it is not quite true that an extra £1 of spending requires an extra £1 from local taxpayers. Since CTB is refunded by central government, spending an extra £1 on public services costs local residents less than £1: part of the council tax revenue received by the LA comes from taxpayers in the rest of the UK rather than from local taxpayers. LAs therefore have an incentive to spend slightly more than is optimal from the point of view of society as a whole. This problem is bigger the more CTB claimants there are in that

[38] There is also an incentive to defer taking the pension if one is on CTB at the time, and to start taking it as soon as possible if one expects to be on CTB later. And when using a pension pot to buy an annuity, there is an incentive to buy an annuity that is fixed in cash terms if one expects to be on CTB late on in retirement, and an incentive to buy an annuity that starts lower but then increases if one expects to be on CTB early in retirement.

[39] Golosov and Tsyvinski (2006) make the case for asset tests in the context of disability benefits; Banks and Diamond (2010) and Mirrlees et al. (2011) bring this within a broader analysis of the appropriate taxation of savings.

[40] See, for example, Ermisch (1996) and Ermisch et al. (1996).

[41] Note too that the extra money must come entirely from council tax, which bears particularly heavily on those groups (such as pensioners) with high property values relative to their incomes and hence limits LAs' willingness to increase expenditure.

area. To take this argument to its extreme, we can imagine an LA in which all residents are receiving CTB. In that case the LA could increase council tax rates indefinitely with impunity as it would cost local residents nothing: it would simply be a way for the council to extract money from central government to spend on local services.[42]

Equally, CTB recipients have an incentive to press/vote for increases in spending on local services and no incentive to hold their elected local officials to account for wasteful spending, since additional spending costs them nothing personally.

2.5. Conclusions

Council Tax Benefit (CTB) provides valuable support to 5.9 million recipients, more than any other means-tested benefit or tax credit. But there are costs to providing this support, beyond the nearly £5 billion of Exchequer funds paid out to claimants. CTB reaches only about two-thirds of those for whom it is intended, as many are not aware they are entitled or find it too difficult or stigmatising to claim. It discourages work and saving, and provides recipients with an incentive to live in bigger properties than they otherwise would. And it distorts recipients' and LAs' decisions over the appropriate levels of council tax and spending.

[42] In 1999–2000 the then Labour government introduced the Council Tax Benefit Subsidy Limitation Scheme to try to limit this problem. Under the scheme, LAs that introduced council tax rises deemed excessive by central government would have only part of the resulting extra CTB expenditure refunded by central government, leaving the LA to meet the remaining additional cost itself. In practice the scheme became enormously complicated and beset by anomalies, and it was abolished from 2002–03. For brief details see http://www.cipfa.org.uk/pt/pt_details_l.cfm?news_id=5189 and http://www.cipfa.org.uk/members/spreadsheet/feb02/news_details_feb02.cfm?news_id=11954.

3. The government's proposals

Summary

- The government is proposing to localise support for council tax from 2013–14, abolishing CTB across Britain and giving local authorities in England and the Scottish and Welsh governments grants to create their own systems for rebating council tax to low-income families. Entitlements for pensioners in England will still be set nationally and maintained at their existing level. The stated aims of localisation are to allow support to vary across the country to reflect local priorities, and to strengthen LAs' incentives to promote employment and growth in the local economy.
- The government has expressed a hope that councils will design schemes that protect vulnerable groups beyond just pensioners, and which maintain strong work incentives. However, by giving councils autonomy in designing schemes, central government has limited its ability to ensure that those objectives are met by LAs, which may have different priorities.
- As well as localising support for council tax, the government is also planning to cut funding for it by 10% as part of its deficit reduction programme. Each LA in England, and the Scottish and Welsh governments, will be given a grant based on 90% of what would have been spent on CTB in that area. There is no obligation for them to spend exactly the amount of this new grant on council tax support: they may, for example, choose to maintain support at its existing level for non-pensioners as well as pensioners and find the necessary savings elsewhere, or even to cut entitlements by more and use the surplus for other purposes.
- The timetable for implementing new schemes is very tight: following a lengthy delay by central government before announcing details of the policy, local authorities, which have little experience or expertise in designing means-tested support schemes, are being required to adopt finalised schemes by the end of January 2013. Many local authorities may choose to maintain the existing entitlement rules unreformed for the first year of the policy, finding the savings elsewhere, simply because they cannot do anything else in time.
- The Scottish and Welsh governments have both decided to operate centralised council tax rebates, rather than devolve the policy to LAs as in England. But they have made contrasting choices about how to deal with the funding cut. Wales has chosen to respond to this cut in funding by reducing council tax support by 10% (though it has not yet decided how), while Scotland has opted to maintain existing levels of support for the moment and make savings elsewhere. It will be interesting to see which of these approaches most councils in England follow.

The October 2010 Spending Review announced that 'The Government will reduce spending on Council Tax Benefit by 10% and localise it from 2013–14 while protecting the most vulnerable'.[43]

Little more was announced about this policy in the subsequent nine months – a delay described as 'regrettable' by the Communities and Local Government Select Committee.[44] The government then issued a consultation document on the policy in August 2011 and a response to the outcome of the consultation in December 2011, followed three days later by the introduction of the Local Government Finance Bill, which at the time of writing is making its way through Parliament, and an impact assessment.[45] Together these have gradually fleshed out what the reform will entail.

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[43] HM Treasury (2010), paragraph 2.42.
[44] Communities and Local Government Committee (2011), paragraph 56.
[45] These documents can be found at
http://www.communities.gov.uk/publications/localgovernment/localisingcounciltaxconsult,

From April 2013, CTB will cease to exist across Great Britain. In England, LAs will be given grants and required to make their own arrangements for rebating council tax to low-income families as they see fit – except that they are obliged to give pensioners the same support as they are entitled to under the current CTB system: pensioners' entitlements will continue to be set nationally.[46] In Wales and Scotland, the devolved governments will be given grants and can make their own decisions over what should replace CTB, without the requirement to protect pensioners that is being imposed on English LAs.[47] The total value of the grants to the devolved governments and English LAs will be only 90% of what would have been spent under the current CTB system, saving the UK government £480 million per year across Britain.[48,49] Note that the two aspects of this reform – localisation and cuts – are quite distinct. Either could have been done without the other: the UK government could have made cuts to the existing CTB system at the national level, or could have localised responsibility for council tax rebates and given LAs the full amount that would have been spent under the current CTB system.

LAs and the Scottish and Welsh governments do not have the legal authority to introduce social security benefits; the schemes they run must therefore be council tax rebates (discounts) rather than benefits. Whether CTB itself is a tax rebate or a social security benefit is debatable: it has characteristics of both. Its name suggests it is a benefit; claimants must apply for it like a benefit; and it provides support to those with low family (as opposed to individual) income and high needs, as means-tested benefits do. On the other hand, entitlements are related to (and can never exceed) the council tax bill households face; claimants experience it as a requirement to pay less (or no) council tax, rather than receiving a cash benefit payment, which they can use to pay their council tax; and in the public finances it counts as a reduction in tax receipts, not as net expenditure.[50] But under the current system this is essentially a matter of semantics, whereas the fact that the new schemes must be council tax rebates rather than benefits will have practical consequences in restricting how schemes can be designed: for example, schemes cannot give claimants more in support than their total council tax bill.

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http://www.communities.gov.uk/publications/localgovernment/localisingtaxresponse, http://services.parliament.uk/bills/2010-11/localgovernmentfinance/documents.html and http://www.communities.gov.uk/publications/localgovernment/lgfblocalisingcounciltax.

[46] 'Pensioners' here means those (both men and women) over the female State Pension age, which is also the qualifying age for Pension Credit. That age threshold is in the process of rising gradually from 60 in April 2010 to 66 in April 2020; in April 2013, when the reform to council tax support comes into effect, it will be 61 years and 6 months.

[47] CTB as such does not exist in Northern Ireland, but the UK government's funding of domestic rates rebates will be replaced by a new grant in much the same way.

[48] This figure is based on the Department for Work and Pensions' latest estimate of spending on council tax support in 2013–14, which excludes Northern Ireland. Spending on rates rebates in Northern Ireland is around £130 million, which would imply further savings of £13 million.

[49] Throughout this report we assume that grants will be 90% of CTB spending in each of England, Scotland, Wales and Northern Ireland individually. At the time of writing, no definitive announcement has been made on this. In particular, it is not clear whether the new grant falls within the scope of the 'Barnett formula' for allocating spending increases between the nations of the UK. If it did, that would imply a rather different distribution of grant, with the Scottish and Welsh governments and the Northern Ireland executive receiving the same cash grant per head of population as in England irrespective of CTB spending – a distribution that would be more favourable to Scotland in particular than receiving 90% of CTB spending there, since (as we saw in Section 2) Scotland's low average Band D rate means that it has lower CTB spending per person than the rest of the UK. However, while the technical position is unclear, all the policy documents so far released by the UK, Scottish and Welsh governments are written on the basis that the grant will be 90% of CTB spending in each nation rather than equal per-person grants, so we proceed on that basis.

[50] In fact in the public finances it is counted both as a reduction in tax receipts (the CTB figure in Table 4.7 of Office for Budget Responsibility (OBR) (2012) is after deducting CTB) *and* as a social security benefit (ibid., Table 4.17); but it is then deducted from LAs' spending ('locally financed current expenditure' in Table 4.17 is after deducting CTB from the council tax revenues that LAs spend) so overall it does not add to net public spending. Source: Authors' communication with the OBR.

LAs and the Scottish and Welsh governments can choose to spend more on council tax rebates than the grant they are given for that purpose – for example, to maintain support at existing levels for all claimants and fill the funding shortfall in some other way – or indeed to spend less on council tax rebates than the grant they receive and use the surplus for some other purpose.[51] Thus while central government will provide 10% less in grants than it spent on CTB, it is by no means clear that 10% less will be spent on support for council tax. Part of the £480 million saving might well be found through cuts elsewhere (or council tax rises); where the axe falls will be decided by English LAs and the Scottish and Welsh governments, not by UK central government.

3.1. Stated objectives of the policy[52]

The purpose of cutting spending is, of course, to reduce public sector borrowing: 'Reducing spending on support for council tax is an important contribution to Government's programme of deficit reduction'.[53] This objective will perforce be achieved, although as discussed above it is not clear that all the savings will necessarily come from reducing the support that low-income families receive with their council tax rather than from cutting spending elsewhere or increasing council tax bills: that depends on the choices made by the authorities designing the schemes.

The reform is not just cutting; it is also localising. Localisation of council tax support is intended to achieve two distinct goals:

(i) allow LAs more freedom to pursue local priorities in light of local financial circumstances;
(ii) strengthen LAs' incentives to promote employment and growth in the local economy.

Furthermore, the government has two specific aims for what the localised council tax rebate schemes should achieve:

First, local schemes should protect the most vulnerable: 'The Government is committed to ensuring that local authorities continue to provide support for council tax for the most vulnerable in society, including pensioners ... For pensioners there should be no change in the current level of awards as a result of this reform ... Local authorities should also consider ensuring support for other vulnerable groups.'[54] The government considers pensioners especially vulnerable and singles them out for protection because, the government argues, pensioners could not be expected to seek paid work to increase their incomes if their support were cut. The government acknowledges that the same could be said of other groups, but has not stipulated that any other groups must be protected in this way.

And second, local schemes should protect work incentives and be aligned with the new Universal Credit: 'the Government considers it essential that the design of local council tax support schemes support the improved work incentives that Universal Credit is intended to deliver ... to

[51] While this is a specific policy decision for England, it is automatically true in the other nations of the UK: CTB will simply cease to exist, while extra grants for English LAs automatically trigger extra funding for the devolved Scottish and Welsh administrations under the Barnet formula. This is simply extra block grant: there is no requirement for them to spend exactly that amount on council tax rebates – or indeed (unlike with English LAs) a requirement to provide council tax rebates at all, though unsurprisingly they have both chosen to make up for the removal of CTB by introducing replacement schemes, as we detail below.

[52] What follows is our summary of several slightly different (but broadly consistent) statements of objectives that the government has made in different places: the press notice accompanying the original Spending Review announcement; paragraphs 1.2 to 1.4, 2.1, 5.2, 5.7, 5.8 and 6.9 of the consultation document; and the sections of the impact assessment variously entitled 'policy objectives and intended effects', 'rationale for intervention' and 'policy objective'.

[53] Source: Impact assessment, paragraph 10.

[54] Consultation document, paragraphs 1.2 and 5.2.

ensure that council tax support and Universal Credit work effectively together to provide strong, transparent work incentives for individuals.'[55]

There is a clear tension between the aim of devolving decisions over how council tax support should be provided and the government's ability to ensure that its other stated aims for the local schemes are delivered – that vulnerable groups are protected, that work incentives are strong, and that council tax support is aligned with Universal Credit. The more discretion LAs are given to design their own schemes, the less central government can control whether the schemes achieve these other objectives.

In the rest of this section we look at how the reform is taking shape in each of England, Scotland, Wales and Northern Ireland.

3.2. England

In England, the design and implementation of schemes will fall to billing authorities. Following the long delays by central government in setting out details of the policy, billing authorities have an extremely tight timetable to design and set up their schemes in time for April 2013 implementation. LAs do not yet have complete knowledge of the task facing them, since the Local Government Finance Bill defers some of the finer details to secondary legislation, which has not yet been published. Despite this, billing authorities must not only reach a decision internally; they are required to consult major precepting authorities, then publish a draft scheme, and then consult other interested parties, all of which will take time – and then there are the technical challenges such as adapting IT systems and claim procedures to operate whatever scheme they adopt. Bearing in mind that LAs have little experience or expertise in designing means-tested support schemes, it is a big ask. Billing authorities must adopt finalised schemes by the end of January, or else a default scheme will come into effect, which essentially entails continuing to give entitlements on the same basis as the existing CTB, thus forcing LAs to make the requisite savings elsewhere. The tight timetable for implementation has been consistently cited as one of the major concerns about the policy.[56] The Communities and Local Government Select Committee argued that:

> 'even if local authorities prove technically capable of establishing new schemes to the original timescale, it might not be wise to press ahead so hastily. Reform of Council Tax Benefit will affect a huge number of households, and it is vital that the systems used to deliver it are robust.'[57]

Many LAs may choose to maintain the existing entitlement rules unreformed for the first year of the policy, finding the savings elsewhere, simply because they cannot do anything else in time.

The government has not yet confirmed how the new grant will be distributed among English LAs: provisional grant allocations will be announced in May and finalised once the Office for Budget Responsibility's autumn *Economic and Fiscal Outlook* has been published. But the government has indicated that, with perhaps a few exceptions, grant allocations are likely to be based on a simple 90% of spending on CTB across the board:

> 'The Government is minded to base grant distribution on previous shares of [CTB] expenditure but will consider what, if any, provision needs to be made for authorities who may face the greatest pressures.'[58]

Giving each LA a grant equal to 90% of what would have been spent on an unreformed CTB in that area of course means a larger cash funding cut in areas where CTB spending is higher. If

[55] Consultation document, paragraph 6.9.
[56] See, for example, 'IT suppliers warn on benefits switch', *Financial Times*, 16 February 2012.
[57] Communities and Local Government Committee (2011), paragraph 56.
[58] Paragraph 5.5 of Communities and Local Government (2011), *Localising support for council tax in England: Government's response to the outcome of consultation* (http://www.communities.gov.uk/publications/localgovernment/localisingtaxresponse).

councils do not find additional money from elsewhere, the requirement to protect pensioners will mean that those LAs where pensioners account for an above-average share of CTB expenditure (typically less deprived areas) will see a bigger shortfall in the grant left over (after providing support to pensioners) as a percentage of current spending on CTB for non-pensioners. Chapter 5 quantifies these differences across LAs.

Grants in two-tier areas will be divided between billing authorities and major precepting authorities in proportion to their shares of council tax raised (and hence their shares of the council tax revenue forgone by introducing rebates).

The initial consultation document raised the possibility of placing restrictions on the schemes that English LAs can design, such as limiting how much LAs could spend on council tax rebates or requiring LAs to protect other groups as well as pensioners, in order to try to ensure that central government's objectives were met.[59] In the event the government has opted to give LAs maximum flexibility, imposing virtually no constraints on the design of schemes except the requirement to maintain the existing entitlement regime for pensioners. As discussed above, LAs will be able to spend more or less on council tax support than the grant they receive from central government; and LAs are not specifically required to protect particular groups other than pensioners, or to make any particular provisions regarding protection of work incentives or alignment with Universal Credit.

Pensioner protection aside, the government is thus giving LAs in England genuine autonomy; but for precisely that reason it is doing little to 'ensure' (a word they use repeatedly) that vulnerable groups are protected and that work incentives are strong and transparent. In effect, the government is now just expressing a general hope that LAs will take account of such things. Yet LAs' objectives and priorities may not necessarily match those of central government. LAs do not have complete freedom of action: the government has reminded them that they have broader legal responsibilities towards particular groups under the Child Poverty Act 2010, the Disabled Persons (Services, Consultation and Representation) Act 1986, the Chronically Sick and Disabled Persons Act 1970 and the Housing Act 1996.[60] But LAs are not required to fulfil these obligations through council tax rebates, let alone specific design features thereof.

3.3. Scotland and Wales

The Scottish and Welsh governments were charged with taking their own decisions on what should replace CTB and how the cut in funding should be accommodated. The Welsh government set out its views on replacing CTB in a consultation document in February 2012, and the Scottish government announced its policy in April 2012.[61]

The Scottish and Welsh governments chose not to adopt the approach taken in England of asking each LA to design its own system of council tax support. Rather, in both Scotland and Wales, LAs will be required to operate a scheme set centrally by the devolved administrations. Explicitly rejecting the UK government's argument for devolving decisions on providing council tax rebates to LAs, the Welsh government said that it:

> 'does not agree that each authority should develop and determine arrangements to provide council tax support on an individual basis. The Welsh Government accepts its responsibility to provide leadership and direction so that a clear, nationally-defined

[59] Consultation document, paragraphs 5.6 and 11.7.

[60] Paragraphs 2.8 to 2.10 of Communities and Local Government (2011), *Localising support for council tax in England: Government's response to the outcome of consultation* (http://www.communities.gov.uk/publications/localgovernment/localisingtaxresponse).

[61] See Welsh Government, *Consultation on Providing Support for Council Tax in Wales* (http://wales.gov.uk/consultations/localgovernment/ctsupport/?lang=en) and Scottish Government, *Council Tax Support to be Protected* (http://wales.gov.uk/consultations/localgovernment/ctsupport/?lang=en) respectively. A planned consultation in Scotland was shelved at the same time the policy was announced, presumably on the grounds that no consultation was needed if there was to be no change in families' entitlements.

> framework scheme, which supports the Welsh Government objectives as far as possible, should be developed. The scheme will also allow local authorities some flexibility to determine how it is set up and run at a local level.'

It is not clear exactly what this 'flexibility' for LAs will entail, but it does not seem to include significant discretion over setting entitlements for different groups.

But unlike with the current CTB system, LAs will not have their actual spending on council tax support reimbursed; rather, they will receive fixed cash grants from the Scottish and Welsh governments (in the same way as English LAs will from the UK government). These may or may not cover the *expected* cost of council tax support in each LA – the way that grants will be allocated between LAs has not yet been decided in either nation – but they will not cover the *actual* cost of council tax support in each LA; thus, as in England, LAs will bear the financial risk of unexpectedly high (or low) demand for support in a given year.[62]

While both Scotland and Wales opted for centrally designed systems, however, the nature of these schemes differs sharply between them.

In Scotland, the new system of council tax support will look identical to the existing CTB system from the claimant's point of view: all entitlements will be the same as they are under the current system. (This leaves open the question of how entitlements will be determined once Universal Credit is introduced, which we discuss in Section 7.) The Scottish government declared: 'We will not allow them [CTB recipients] to be victims of UK cuts'.[63] Instead, the money will be found elsewhere: of the £40 million total savings required, £23 million will be found by the Scottish government and £17m by LAs. This policy is initially for one year only: no decision has yet been announced on council tax support in 2014–15 and beyond.

The Welsh government, by contrast, argued that 'Due to other cuts in funding, the Welsh Government is not in a position to make up any shortfall in funding'. It intends to design a council tax support scheme that costs 10% less than the existing CTB, and is consulting on how the scheme should be designed. The Welsh government is thus considering many of the same options for how to make savings in the scheme as English LAs – discussed in Section 6 – but without the constraint of having to protect pensioners. In a separate report, to be published shortly, we examine options for the design of a scheme specifically in Wales.

3.4 Northern Ireland

Council tax and CTB do not exist in Northern Ireland. Northern Ireland has a different local property tax, domestic rates; the system of support for low-income families, rates rebates, operates similarly to CTB, except that maximum entitlement is the domestic rates bill rather than the council tax bill and that it is administered centrally for the whole of Northern Ireland rather than by each LA.

The reforms to council tax support will have an effect in Northern Ireland. The Northern Ireland executive's actual spending on rates rebates will no longer be refunded by the UK government; instead, the executive will receive a fixed cash grant worth 10% (£13 million) less than the current cost of rates rebates. Legally, localisation does not directly affect Northern Ireland, since rates rebates are already a devolved matter – Northern Ireland is not being charged with choosing a scheme for the first time – though in practice maintaining 'parity' (i.e. mirroring the CTB system) has been a financially attractive option in the past, because the UK government was only committed to refunding spending on rates rebates in full if they did so.[64]

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[62] The policy of giving fixed cash grants to LAs rather than reimbursing their actual spending on council tax support may partly reflect the limits to the legal authority of the Scottish and Welsh governments under the devolution settlement mentioned in the text. This is in contrast to the position in England, where moving to fixed cash grants is part of the policy objective.
[63] Local Government Minister Derek Mackay, quoted in *Scottish Government*, op cit.
[64] See Northern Ireland Assembly Research and Information Service (2011).

Northern Ireland may, in 2013–14 or beyond, decide to reform its rates rebate system, for a number of reasons. It is, of course, one option for making the savings needed, and perhaps a politically attractive one if that is what the rest of the UK is doing; there will no longer be a single system in the rest of the UK providing a focal point for Northern Ireland and a financial steer via the UK government's current practice of refunding actual spending as long as 'parity' is maintained; a simpler system to administer may look attractive once rates rebates are no longer piggy-backing on the administration of Housing Benefit (which will be subsumed into Universal Credit); and the introduction of Universal Credit will mean that rates rebates will have to work somewhat differently in any case, as we discuss in respect of council tax rebates in Section 7. IFS researchers will be investigating Universal Credit in Northern Ireland and how rates rebates can be integrated with it in future research; but since the issues are somewhat different from the rest of the UK – with domestic rates working differently from council tax and rates rebates already being (legally) a devolved matter – we exclude Northern Ireland from further consideration in this report.

4. The effects of localisation

Summary

- Localisation of council tax support will give councils more freedom to pursue local priorities. Having a variety of schemes in operation could also allow councils to improve their schemes by learning from each others' experiences. But variation in council tax rebate schemes across Britain will reduce transparency and increase bureaucracy.
- Giving local authorities fixed grants rather than refunding the actual cost of providing council tax support will add risk to local authorities' finances, making them more reliant on the reserves they maintain to deal with unexpected contingencies such as weaker than expected economic performance, especially when taken in conjunction with the partial localisation of business rates that is happening at the same time.
- Moving to fixed grants will change local authorities' incentives in a variety of ways, some more desirable than others. One effect, emphasised by the government, will be to strengthen local authorities' incentives to promote employment and growth in the local economy. But it will also reduce their incentive to increase council tax rates, reduce their incentive to facilitate low-value housing development, give them an incentive to discourage low-income families from living in the area, give them a disincentive to encourage take-up of support, and strengthen their incentive to reduce error and fraud. It remains to be seen how far councils will respond to all these different incentives.
- The strength of all of these changes in incentives – good and bad – will partly depend on how, and how often, local authorities expect grant allocations to be adjusted in future. How they will actually be adjusted in future is one of the most important decisions the government has yet to take about the policy.
- Small district councils, which largely collect council tax on behalf of higher-spending precepting authorities, will have a financial incentive to focus disproportionately on making schemes cheap to administer, at the expense of other objectives. How far they act on this incentive will partly depend on their relationship with precepting authorities as well as on the importance they place on other objectives.

As explained in the previous section, the stated aims of localisation are to allow support to vary across the country to reflect local priorities, and to strengthen local authorities' incentives to promote employment and growth in the local economy. But the likely effects of localisation go far beyond those. In this section we consider whether the government's aims are likely to be met and also look at the other effects of localisation. We divide our analysis into four parts:

1. The pros and cons of allowing schemes to vary across the country
2. Risks to local authorities' finances created by fixing funding in cash terms
3. Local incentives and the future evolution of grants
4. Administrative costs and incentives in two-tier areas.

4.1. The pros and cons of allowing schemes to vary across the country

One of the stated aims of localisation is to allow LAs more freedom to pursue local priorities in light of local financial circumstances. Since the government is giving LAs in England almost complete autonomy to design the schemes as they see fit (other than having to protect pensioners), this aim is largely being achieved. The Scottish and Welsh governments have even more freedom to pursue their own priorities in designing schemes since they are not obliged to protect pensioners – though the rebate schemes are being designed centrally in Scotland and Wales rather than the choice (and responsibility) being passed onto LAs, as in England.

How valuable it is that schemes can vary to reflect local priorities depends on how far priorities actually do differ between LAs in a way that can be reflected in different rebate designs. If, for example, councils across the whole country view the same groups as most in need of support, or if administrative practicalities leave little room for radically different designs, then there may be little gain from having the same decisions taken by hundreds of different authorities across the country. The proof of the pudding will be in the eating: if LAs in fact all adopt the same schemes, we may infer that there was little gained by giving them flexibility. But one early indication is the different decisions taken in Scotland and Wales: faced with a cut in funding, the Welsh government is choosing to reduce the generosity of council tax support and maintain other spending; while the Scottish government has different priorities, maintaining the generosity of council tax support at the expense of having to find savings in other areas. It remains to be seen whether different LAs across England make similarly disparate choices.

Having a variety of different schemes in operation may bring other benefits as well. By helping to reveal which schemes are successful, it could allow LAs to improve their schemes by learning from each others' experiences, and allow voters to judge the competence of their elected representatives and hold them to account. But again this can only materialise if LAs (and the Scottish and Welsh governments) do in fact adopt different schemes from each other.

One consequence of schemes varying according to local priorities is that some people will be entitled to less financial assistance with their council tax bills than people in similar circumstances in a different LA. Of course, those LAs that adopt less generous rebate schemes will have more money available to spend on local public services; but the people who lose from a less generous rebate may not be the same ones as gain from the particular public services that are enhanced. This is particularly significant because CTB forms part of the 'safety net' benefits that determine how much financial assistance people receive if they have no private source of income. This speaks to the very raison d'être of council tax support, as discussed in Section 2: addressing the question of why there is a specific benefit for council tax (as opposed to simply having higher rates of Income Support nationally), Clark, Giles and Hall (1999) concluded: 'The principal rationale for the existence of council tax benefit is the desire to guarantee a nationally uniform minimum income'.[65] Since council tax varied across the country, benefit rates had to vary with it in order to ensure the same minimum income after tax. But localisation means that council tax support will vary not just with local council tax rates, but with the design of local schemes. The minimum income level for non-pensioners will no longer be decided by national government, but by individual local councils. Localisation of council tax support means the end of a national income safety-net.

It could be argued that this is local democracy at work, although people don't always find that very consoling. As stated so far, this variation across local authorities is little different from the variation that already exists in council tax rates and the provision of public services: a person living in one area can pay more council tax than a similar person living in a similar property in another area, with correspondingly more spent on public services from which the individual in question may or may not benefit. The question is whether geographical variation in minimum income is less acceptable.

Allowing schemes to vary across the country has significant practical disadvantages too.

First, it will reduce the transparency of council tax support. In the short run, it is possible that publicity surrounding the reform might raise people's awareness of council tax support and promote take-up. But in a longer term, more fundamental sense, localisation will make it harder for people to become aware of, and understand, their entitlements. For example:

- If the basis of entitlement varies between areas, people can less easily learn from family, friends or colleagues whether they might be entitled to support, or how financially worthwhile it is to move into paid work. Hearing different reports from people living in

[65] Clark, Giles and Hall (1999), pp.7–8. As Clark et al. noted, a nationally uniform minimum income is not the same as a nationally uniform minimum living standard because the cost of living varies across the country.

different LAs – and perhaps not knowing that council tax support has been localised – they are more likely to end up in ignorance or confusion.

- It will be harder to make national information or take-up campaigns clear, precise and targeted at the right audience.[66]
- Rather than going to a central repository of information such as www.direct.gov.uk, people will have to know how to find out the information from their own LA, which will be easier in some areas than others.
- People considering moving house who think they might (at some point) need to claim council tax support may not know what support they would be entitled to in different areas. As well as looking at the properties available in an area, assessing the quality of local schools and so on, they would need to find out what council tax support is available in that area.

Second, having several hundred separate schemes will inevitably duplicate bureaucracy. The issue is not that a single national administration will be replaced by hundreds of local administrations: CTB is already administered locally by individual billing authorities. But, for example:

- LAs may be less able to use common IT systems since their schemes will have less in common. IT suppliers may need to develop more flexible systems that can cope with a wider variety of schemes.
- Initially setting up the schemes will require costly parallel processes of scheme development and consultation in each LA. At a time when there are plenty of other tasks vying for their attention, individual LAs with limited capacities are having to devote a lot of attention and resources to putting new council tax rebate schemes in place.
- Rather than central government having one team of officials responsible for CTB policy on an ongoing basis, each LA will now need such a team (or to form a shared team with other LAs). LAs will have to ensure they have an expertise in benefit design, which they have not hitherto needed.
- Each LA will also need to ensure that adequate information for potential claimants is provided locally, where at the moment it can be provided (or at least reinforced) centrally.
- Schemes that vary between LAs will also impose a heavier burden on advisers in Jobcentre Plus, Citizens Advice bureaux, etc.

Finally, there are disadvantages to having redistributive tax and benefit tools split between central and local government. Ideally, each tool should be used for the purposes for which it is best suited. But where tools are split between authorities with different objectives, policy-makers may use the tools available to them to try to offset the effect of the other's decisions. For example, suppose that an LA believes that central government does not care enough about redistribution and has not made Universal Credit generous enough. It may then make council tax rebates more generous to compensate, perhaps increasing council tax to pay for it. If central government believes that many LAs are doing (or will do) this, it may take account of the extra redistribution being done by council tax rebates and make Universal Credit less generous so as to achieve its desired overall level of redistribution, perhaps using the savings to cut income tax. And so on. In this example, we could end up with more generous council tax rebates, and a less generous Universal Credit, than either central or local policy-makers would choose if given full control. Both might agree that some low-income groups are getting too much support and others too little; that council tax is too high and income tax is too low. Rather than putting each tool to its best use so that they achieve the right result in combination, each level of government uses the tools available to it to offset policies of the other that it disagrees with, and none of the tools is used to best effect. But how far this kind of conflict will play out in practice is an open question.

[66] Of course, CTB take-up campaigns have also been conducted by LAs in the past, and this will remain an option. The scope for local activity will be largely essentially unchanged while national activity will be more difficult.

4.2. Risks to local authorities' finances created by fixing funding in cash terms

At present, LAs' actual spending on CTB is refunded by UK central government. Under the UK government's proposals for England and the Scottish and Welsh governments' proposals for their respective nations, LAs across Britain will instead be given grants that are fixed in cash terms, regardless of what their actual spending on council tax rebates turns out to be.[67]

This means that, if the cost of council tax rebates turns out to be different from what was forecast, central government will no longer make up (or claw back) the difference. There are a number of reasons this might happen: a surge (or fall) in unemployment, for example, or an increase (or decrease) in take-up among entitled families.

Fixing grants in cash terms would help to stabilise UK central government finances. The grants to be given to LAs and to the Scottish and Welsh governments would be set in advance and known with virtual certainty, whereas at the moment this element of central government spending is forecast but subject to fluctuations for the reasons of the kind mentioned above, so that actual central government spending is less certain now than it will be when grants are fixed.

However, fixing grants will correspondingly destabilise LAs' finances. This is likely to be a much greater problem for them than it has been for central government, for two reasons. First, council tax rebates will make up a much larger share of LAs' budgets than CTB has for central government. And second, LAs, unlike central government, are not allowed to borrow to deal with fluctuations. It is likely to be a particularly important issue in years when LAs change the schemes from what was previously in place, and in periods (like the present one) when the outlook for the economy is particularly uncertain.

This could put pressure on LAs' finances. The effect will be essentially the same as if council tax collection rates are higher or lower than forecast.

If unexpected demand for council tax rebates (or, say, higher-than-expected council tax arrears) means that net council tax receipts are lower than budgeted for, LAs can draw on their reserves to make up the shortfall. But they have few other options to deal with a funding shortfall in-year: they cannot borrow, and they cannot increase council tax part-way through the year.

If an LA did not have enough reserves to cover the shortfall, it would have no choice but to cut back its spending on services for the remainder of the year. Suddenly having to reduce service provision part-way through a year is clearly a prospect that LAs will be very anxious to avoid. LAs with low levels of reserves may therefore have little choice but to budget for a surplus, allowing a safety margin in case demand for council tax rebates turns out to be higher than expected, and hope for unused surpluses that can be put towards building up reserves so that such additional caution becomes less necessary.

In other words, at least in the short term, some LAs with low reserves will have to find savings of more than the 10% of CTB expenditure by which their funding is being cut, in order to ensure that they have a sufficient cushion to deal with unexpectedly high demand for council tax rebates without having to cut services.[68] Of course, demand for council tax rebates could equally turn out to be lower than forecast, leaving them with a windfall to add to their reserves. The issue here is not that LAs are likely to face a shortfall; it is that they face greater uncertainty and therefore have a reason to take extra precautions in their budgeting.

[67] In the jargon, CTB is currently part of UK government's Annually Managed Expenditure (AME) while the new grants will come from fixed Departmental Expenditure Limits (DEL).

[68] A different way that LAs might respond is by trying to design their rebate schemes in such a way that their cost is more predictable. They might be more likely to provide support for needs that are easier to predict (such as severe disability, old age or children) rather than those that are harder to forecast (most obviously short-term unemployment).

This increased risk for LAs' finances is exacerbated by the fact that it is happening at the same time as business rates are being partly localised. This is a particular concern because the risk that business rate localisation adds to LAs' finances is correlated with the risk that CTB localisation adds. For example, if a major employer (e.g. a factory) in a particular LA closes down, the LA may lose the business rate revenue from that property (initially through empty property relief, and later perhaps if the factory is demolished or undergoes a change of use), while at the same time needing to provide more council tax support to the factory's unemployed former workers.

At present, all this risk would be absorbed by central government: the lower business rate revenue would simply mean less passed on to central government, while the extra CTB would be refunded from central government coffers. After localisation, it will instead be felt as a double hit on LA finances.

Of course, this provides an incentive for the LA to help prevent the factory from closing – a central aim of localisation, and one we discuss further in the next sub-section – but it also leaves LAs facing a risk of a major funding gap and therefore needing to budget with extra caution.

These risks to LA's finances will be shared between billing and precepting authorities. Net council tax revenue is shared between billing and precepting authorities, so precepting authorities will therefore share in any shortfall in net council tax revenue, rather than the billing authority having to cope with the entire shortfall itself.[69] This also means that precepting authorities' reserves are relevant in considering how much of a shortfall in net council tax revenue can be managed without having to cut services in-year.

Localisation thus adds risk to LA's finances and increases their reliance on reserves; but how big an issue is this in practice? At the end of March 2012, LAs in England had a total of £3.1 billion of reserves not earmarked for specific purposes.[70] At 74% of spending on CTB in England, this is far more than any plausible unexpected increase in the cost of council tax support. But council tax rebates are not the only uncertain component of LAs' budgets for which reserves can be needed. Two have already been mentioned – the council tax collection rate and now business rate revenues – and there can also be unexpected elements of public service spending. The overall risk to an LA's finances in a particular year depends on how far these risks are correlated with each other, as in the example of a local factory closure reducing business rate receipts at the same time as increasing demand for council tax rebates. English LAs' £3.1 billion of unallocated reserves looks rather lower as a percentage of their overall spending, at 3% – and 1% or less in some 25 authorities. Moreover, reserves are falling: LAs cut their combined unallocated reserves by 8.5% over the course of 2011–12, partly at the encouragement of government ministers, who have urged LAs to use 'these untapped funds' to protect public services in light of the large reductions in grants from central government, which forms part of the ongoing fiscal consolidation.[71] Nevertheless, many LAs do have substantial reserves and it seems likely that the increased risk arising from localisation will only be large relative to existing reserves for a minority of LAs or in unusual circumstances.

As well as risk-sharing between billing and precepting authorities, the government's consultation document raised the possibility of 'other risk-sharing arrangements, where this fits best with local arrangements – for example, sharing risk between unitary authorities or a number of district councils'.[72] The Localism Act 2011 gives LAs more freedom to make arrangements that may help them manage financial pressures jointly. However, it remains to be seen how far LAs

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[69] The government is facilitating such risk-sharing by enabling billing authorities to pass on the relevant share of any unexpected shortfall in council tax receipts to precepting authorities in-year, rather than at the start of the next financial year.

[70] All figures in this paragraph are authors' calculations from Communities and Local Government, *Revenue Account Budget 2011–12* (http://www.communities.gov.uk/publications/corporate/statistics/revenue201112budget).

[71] Communities and Local Government, 'Rainy day reserves could help councils invest to save' (http://www.communities.gov.uk/news/newsroom/1784652).

[72] Consultation document, paragraph 8.9.

will find it possible (in both legal and practical terms) to pool risk – in effect, to insure each other against one of them having an unexpected surge in demand. This sort of arrangement may reduce the need for LAs to build up reserves to protect themselves against unforeseen events that affect them in particular (such as the factory closure we discussed earlier). But it would not offer protection against risks that affect both of them, such as a nationwide downturn – or even a local downturn if the risk-pooling authorities are neighbours. The current centralised CTB regime, of course, pools risks across the whole of Britain.

4.3. Local authorities' incentives and the future evolution of grants

At present, the amount of funding for CTB that an LA receives from central government is simply the amount of CTB paid out correctly to claimants in that LA. It rises or falls in line with anything that affects CTB spending in that LA. Thus an increase in the council tax rate set by an LA, a fall in the incomes of residents (or an influx of low-income residents), or an increase in CTB take-up, would all increase the amount that central government pays to the LA to cover the cost of providing council tax support.

Under the proposed reform, this will no longer be true. With fixed cash grants, any increase in the cost of providing council tax support will have to be met from the LA's own budget. The reform will therefore give LAs more of an incentive than they have now to reduce the cost of council tax support[73] – though in some cases this change is removing an undesirable distortion and in other cases creating one. In this sub-section, we examine the particular changes to incentives created by the policy. It is worth emphasising that we are analysing the incentives LAs face, not how LAs will respond to them: it is difficult to say how far LAs will act on these incentives, and in many cases the response may be small.

- ***Setting council tax rates.*** As discussed in Section 2.4, LAs do not currently face the full cost of increasing council tax rates, since the increase in bills among CTB recipients is met by central government through increased CTB. With fixed cash grants to provide council tax support, this will no longer be the case, correcting a distortion to LAs' incentives and improving local accountability.
- ***Facilitating development of low-value properties.*** LAs' incentives to facilitate housing development are hugely complicated, since development can have a number of conflicting effects on LAs' finances. There is the increase in the LA's council tax base from having more properties, the cost of providing services to the extra residents, the increase in the LA's assessed spending needs and therefore formula grant received from central government, the revenue provided by developers through so-called 'Section 106' agreements – and of course councillors must consider voters' direct preferences over having more housing development in the area. What is clear is that having CTB refunded by central government makes the incentive to allow development of low-value property in particular – the inhabitants of which would be more likely to be entitled to CTB than those of higher-value properties – stronger than it would otherwise be.

  On its own, moving to fixed grants for council tax support would therefore weaken LAs' incentive to facilitate development of low-value properties, since the LA could expect to collect less net council tax from such properties if there is a high chance its inhabitants would receive council tax rebates. However, note that this change is happening alongside several other reforms that will also affect – in some cases more strongly – LAs' incentives to facilitate development, including reforms to the planning system and the introduction of the New Homes Bonus, which provides additional payments to LAs for building new homes (and bringing long-term empty homes back into use).
- ***Encouraging changes in the circumstances, and therefore entitlements, of the local population.*** Since CTB costs are currently met by central government, LAs have no financial incentive to reduce those costs by increasing employment and incomes among claimants

[73] A different perspective on the same effect is that voters who are not entitled to council tax rebates will have an incentive to elect local politicians who will deliver lower council tax or better services by reducing the cost of council tax support.

(though they may, of course, have other reasons to do so). Moving to fixed cash grants will give LAs a financial incentive, since they will be able to keep any resulting saving in the cost of council tax support. Central government's incentive to move people into work would be correspondingly weakened.

There are a number of ways that LAs might respond to this incentive and go about reducing the number of low-income residents eligible for support. Perhaps the most obvious is that LAs would have a stronger incentive to encourage people to move into work and increase their earnings, to promote business development in the area. As noted in Section 3, this is a stated aim of the policy. However, there is more than one way to increase the incomes of the resident population: LAs are equally incentivised to try to attract higher-income people to move to the area and discourage lower-income people from doing so – and even to encourage CTB claimants to move out of the area. With pensioners in England protected from cuts, LAs will have a particular incentive to minimise the number of low-income pensioners living in the area; similar considerations will apply to other groups if the rebate schemes that councils adopt are more generous to some groups than to others. An LA might even find a way to pay for people to live in a different LA (perhaps with a less generous council tax rebate scheme) in order to save money. A parallel might be drawn with recent reports of Newham and Waltham Forest councils seeking accommodation in other LAs for low-income residents who would have been expensive to house locally,[74] although the housing costs per person at stake in those cases are much higher than the council tax rebates we are considering here.

Indeed, not only will LAs be given an incentive to attract higher-income and unprotected residents and discourage lower-income and protected residents from living in the area; a localised system of council tax support will also give LAs a tool they can use to influence what kind of people live in the area. If the council tax support scheme in a particular LA is less generous than in neighbouring areas, potential claimants may choose not to live there. Or if an LA decided to concentrate the cuts on certain groups while protecting others, those who would get little or no support in that LA may choose – or feel obliged – to live elsewhere. How far LAs will act on these incentives and use these tools – and how far people's choice of where to live will respond to whatever LAs do – are questions that we do not address here. But the incentives will certainly exist. This is in effect a kind of 'reverse tax competition' between LAs, with each trying to attract higher-income people from the others while trying to minimise their share of lower-income residents. Whether this kind of tax competition would be beneficial is doubtful. To some extent, this kind of reverse tax competition already exists between countries, and is manifest in popular concerns over 'benefit tourism'. While the incentive to help people find and keep well-paid jobs represents an incentive shifted from central to local government by this policy, the possibility of 'reverse tax competition' between LAs is an entirely new incentive created by the policy.

- ***Encouraging take-up.*** At present, extra CTB spending that arises from increased take-up would be met by central government. With fixed cash grants, the cost of providing additional council tax support would come from LAs' budgets. As the Communities and Local Government Select Committee concluded: 'a fixed grant will disincentivise efforts by LAs to improve take-up among those groups who at present under-claim Council Tax Benefit.'[75] How far this disincentive would affect LAs' behaviour is another matter: LAs concerned with their constituents' welfare might still want to make them aware of the support that is available. But LAs would nevertheless be penalised for doing so, relative to the current system. (Central government, meanwhile, would no longer face a corresponding disincentive to encourage take-up.)
- ***Reducing error and fraud.*** Currently, LAs face some but not all of the costs of paying out too much CTB as a result of fraud, error (by the claimant or by the LA) or delays in responding to changes in claimants' circumstances, for example. The precise rules for how much of these costs will be refunded by central government vary, depending on the source of the overpayment.[76] Under the move to fixed grants, all those costs will be borne in full by the LA,

[74] See http://www.bbc.co.uk/news/uk-politics-17821018 and http://www.bbc.co.uk/news/uk-17829163.

[75] Paragraph 48 of Communities and Local Government Committee (2011).

[76] See footnote 18 of Section 2.

thus increasing their incentive to ensure that only correct amounts are paid out (though correspondingly reducing central government's incentive to do so).[77]

All of these changes in LAs' incentives are the results of central government providing a fixed amount of funding rather than refunding the actual costs of providing council tax support. However, the level of grants is not fixed forever. While changes in an LA's behaviour will not affect the grant it receives in the year in question, they might affect the grant it receives in future years. The strength of these changes in LAs' incentives therefore depends on how future grants are determined – and in particular whether and how they are adjusted to reflect the changing costs of providing council tax support in different LAs.

To take the extreme case, if grants were adjusted every year to reflect in full any changes in LAs' spending on council tax support, the changes in incentives described above would be far weaker. The fact that it was the following year's funding that was adjusted, rather than the current year's, would mean that these incentives would still exist to a degree; but changing the cost of council tax rebates would only affect LAs' finances for one year. Thus the incentive for LAs to encourage people to move into work would only be one year's saving in council tax rebates, before grant was reduced to reflect the reduced need for it in that area. LAs that increased council tax rates, and therefore spent more on council tax rebates, would see their grant increase, covering that additional cost from the second year onwards. LAs that succeeded in boosting take-up of council tax support would no longer be penalised after the first year of higher take-up.

How grant allocations evolve in future is therefore crucial to understanding the effects of the reform on LAs' incentives. The government has not yet announced a decision as to how often grants will be adjusted in future. Interestingly, in another recent instance of this policy dilemma, the government has opted for fixed long-term settlements over frequent adjustments: when partly localising business rates, the government has stated an aspiration to allow 10 years between readjustments (except in exceptional circumstances), 'so that authorities have long term certainty about the rewards of growth, maximising the incentive effect.'[78] Yet in the government's consultation on localising support for council tax, more than four times as many respondents stated a preference for annual adjustments as stated a preference for longer-term fixed grants.[79] In its response to this consultation, the government noted that: 'Engagement event participants liked the idea of the certainty of having a four yearly grant allocation but were concerned about the ability to reflect changes in demand particularly in the early years of the localised schemes.'[80] For the moment, the government is not fixing grant allocations beyond the first year of the policy, but nor has it made any decisions on when and how future grants allocations will be set:

> '...the Government will set allocations on an annual basis for the first two years following introduction, allowing new allocations to be set for 2014–15 if required.
> The Government will consider whether a new basis for distributing grant, other than previous expenditure, is required from 2015–16. It will also consider whether in future Spending Review periods, multi-year allocations would provide greater certainty and better allow LAs to benefit financially where demand for support was reduced over several years. The Government will consult on both of these issues at the appropriate time.'[81]

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[77] This is not to say that LAs' record to date on minimising error and fraud is poor. And central government already has the power to withhold grant if it thinks that local fraud prevention and investigation measures are inadequate. Nevertheless, the reform does involve a strengthening of LAs' incentives in this area.

[78] Page 6 of Communities and Local Government (2011).

[79] Question 11b, pp.51–52 of the response to consultation. The number preferring annual adjustments was only 55% of the total, but most of the remainder either did not respond to that question or said that the frequency of adjustment should be at local discretion, rather than stating a preference for longer-term fixed grants.

[80] Paragraph 5.6 of response to consultation.

[81] Response to consultation, paragraphs 5.7 and 5.8.

It seems implausible that the government will continue to distribute grants in proportion to estimated 2013–14 CTB expenditure indefinitely – though the fact that council tax valuations in England and Scotland continue to be based on 1991 property prices with no revaluation suggests we should perhaps be cautious about making such statements. If the government decides against recalculating grants every year but does not want to fix them indefinitely, the obvious alternative is to recalculate grants periodically – every few years. Fixing grants for a certain period and then rebasing them is simply a compromise between the two extremes discussed above: it shares the advantages and disadvantages of each, to a degree that depends on the period for which they are fixed.

As the discussion in the government's consultation makes clear, LAs' incentives are not the only factor to bear in mind when weighing up how far grants should respond to the changing cost of council tax support in different LAs. Two other considerations are particularly important: certainty and the accurate targeting of support.

Fixing the level of grants for long periods would give certainty to LAs as to their level of funding. On the other hand, funding that responds predictably to changing demand for support might actually reduce uncertainty in LAs' overall budgeting.

Turning to the issue of the accurate targeting of support, the initial grant allocations are clearly intended to reflect the relative cost of council tax support in different areas. If some areas see their cost of providing council tax support rise more than others – perhaps because of population growth, a declining local economy, or increased take-up – then grant allocations that did not evolve to reflect this would bear ever less relationship to areas' need for council tax support. Over time this might come to be seen as unfair: some areas would be able to spend more on local services at a lower cost to the local taxpayer than other areas. Some LAs that receive relatively high grants in 2013–14 may just have been experiencing a temporarily hard time in the year on which initial grant allocations were based. It would seem hard to defend a set of grant allocations in, say, 2030–31 that was still based on what CTB spending in each LA would have been in 2013–14. Even looking less far ahead, consider the effect of a downturn in the local economy that increased the need for council tax rebates. We discussed in Section 4.2 how an unexpected downturn could put pressure on LAs' in-year financing. If an LA could predict that the local economy would become or remain weak in the following year, the problem is different: it could increase council tax or reduce spending to balance the budget, but that involves taking money or services from the local population precisely when they may be most needed. Adjusting the grant to an LA to reflect the changing cost of rebates can reduce the squeeze on LAs in a downturn.

The balance of these arguments – over incentives, certainty and the accurate targeting of support – largely hinges on the extent to which one believes that changes in the cost of council tax support are the result of LAs' actions, and to what extent they happen for reasons beyond LAs' control.

In so far as the costs of council tax rebates depend on factors outside LAs' control, then failing to compensate LAs for these changes would seem less justifiable. Areas that, through no fault of their own, experienced a prolonged economic downturn or decline after the initial grant was set would be stuck with a level of funding that did not reflect its residents' need for support. And having funding that increased to cover the increased cost of council tax rebates in a downturn (or in the event of increased take-up) would act as a form of insurance for LAs, giving them additional resources to respond if needs increased and therefore reducing rather than increasing their uncertainty about the future cost pressures they face. If factors such as local population, unemployment and take-up rates are largely beyond LAs' control, incentives would have little effect.

But in so far as changes in the cost of council tax support are the result of LAs' actions, it does not seem unreasonable that they should bear the cost of those actions, and it seems broadly sensible that they should have a corresponding incentive to reduce those costs (though some ways that LAs might reduce costs seem more worth incentivising than others, as discussed above). Knowing how much grant they were to receive in future years would give LAs certainty that would help in their planning.

We cannot say definitively how far factors such as take-up rates and the incomes of local residents depend on LAs' actions and how far they result from factors beyond LAs' control. Clearly the reality is some combination of each.

All these arguments are far from new. They are a variant of long-standing debates over 'equalisation' in local government finance: how far funding for LAs in general should reflect changing patterns of resources and needs across the country.

But the effects of future grants on incentives, certainty and the targeting of support depend not only on *how often* grant allocations are adjusted, but also on *how* they are adjusted. This raises a number of policy questions for the government.

(i) Most broadly, will grants continue be based on the cost to LAs of providing council tax support to low-income families, or will they be based on entirely different criteria – or even abolished as a separate grant and replaced with an increase in formula grant? If grant adjustments were not related to changes in the cost of providing council tax support then such adjustments would not weaken the incentive effects of reforms in the way described above. Relating grants to something other than the cost of providing council tax support could clearly have other important distributional and incentive effects; but it is difficult to say anything more specific without considering the whole range of alternatives individually, so we do not discuss it further here, and instead focus on the simplest case where grants are simply recalculated to reflect the changing cost of providing council tax support in different LAs.

(ii) If future grant levels are based on the cost of providing council tax support, will that mean what LAs actually spend on local schemes, or what their spending would be on a hypothetical, nationally uniform scheme (e.g. an unreformed CTB)? In other words, will grants based on how much each LA spends on rebates be adjusted to offset differences in the generosity of different LAs' schemes? On the one hand, it is not clear whether the government will have the data needed to make such an adjustment – that is, to calculate what spending would have been under a different regime. It would certainly be a more complicated and less transparent process, and less easy for LAs to predict what their next grant allocation will be. On the other hand, if central government cannot or does not want to make that adjustment, then LAs will be incentivised to spend more on their schemes (at least in years that are taken into account for calculating the adjustment) in order to elicit more grant. And it may seem unfair that LAs can make their schemes more generous at the expense of taxpayers in the rest of the country.

(iii) Similarly, will the estimate of spending on rebates that is used to calculate future grants be adjusted to reflect the fact that higher spending in some LAs is the result of a higher Band D council tax rate? The initial allocation of grants suggests not: more grant is being given to LAs that currently set a higher Band D rate (and so spend more on CTB) than otherwise similar LAs, and we might therefore expect future grants to do likewise. But if the government in future gives more grant to LAs with higher Band D rates, that will reinstate an incentive for LAs to increase council tax rates since some of the cost will be met by central government.

(iv) Will the government adjust only each LA's share of a fixed pot of money, or will it adjust the overall size of the pot too if the nationwide cost of council tax rebates changes (perhaps because of lower employment and income nationwide, or perhaps because of the aggregation of local policy decisions to make schemes more generous or increase Band D rates)? At the moment CTB spending automatically increases in a recession. In so far as grants are fixed in cash terms, they will not. We discussed above the effect of grant adjustments on alleviating the squeeze on LAs' budgets in a downturn. Whether grant adjustments involve redistributing a fixed pot or adjusting the overall size of the pot as well determines what kind of downturn the adjustment can offset. If the overall size of the pot is adjusted, recalculating grants can compensate LAs for the effect of a national recession squeezing resources for council tax rebates. If the distribution of grant between LAs is adjusted but within a pot that is fixed overall, then each LA will be compensated only for a downturn that they experience relative to other LAs.

How grants will be determined in the future is one of the most important decisions the government has yet to take about the policy. It faces a number of trade-offs, perhaps the most important being over the frequency with which grants are adjusted. Fixing grants for an extended period would strengthen LAs' incentives to reduce the cost of council tax rebates as well as giving them greater certainty about the future level of grants. On the other hand, adjusting grants more frequently would help to keep funding targeted in line with LAs' changing needs and perhaps give LAs greater certainty in their overall budgets. In the absence of clear guidance, LAs' behaviour may partly depend on their guesses about when and how future adjustments might be made.

4.4. Administrative costs and incentives in two-tier areas

As explained in Section 2.1, in the shires of England local government consists of two tiers: a district council and a county council. District councils are the billing authority. They administer council tax and Council Tax Benefit, and are responsible for designing the new local council tax support schemes. However, the net council tax they raise is divided with county councils and other precepting authorities. Across the shires as a whole, district councils keep less than 15% of the council tax they collect, though this figure varies widely; to a large extent, they are collecting tax on behalf of the precepting authorities.[82,83]

This has implications for the incentives that billing authorities face. In particular, the reform will put in place a system, which has three features that combine in a potentially unfortunate way:

(i) The marginal cost of administering council tax is borne by the billing authority. The costs incurred by billing authorities in administering council tax (including council tax support) are not shared with precepting authorities. Central government will continue to give billing authorities a grant to cover the cost of administering council tax. But this grant will reflect an estimate of how much it should cost the billing authority to administer a generic council tax support scheme, not the actual amount that billing authority actually does spend on administration. Thus if a billing authority spends a pound less on administering council tax, it will get to keep that pound. That gives district councils a strong incentive to keep administrative costs low, especially since for district councils the costs of administering council tax are likely to be a substantial fraction of their overall budget.

(ii) The net council tax collected – and therefore the cost of council tax support – is shared with precepting authorities.

(iii) It is billing authorities that will decide on the final design of council tax support schemes. They are required to consult precepting authorities about the design, but they are not required to act on the precepting authorities' views – precepting authorities do not have any power to block the adoption of schemes they do not like, for example.

As a result, district councils' strongest incentive is to design a council tax support scheme that is cheap to administer, even at the expense of other objectives.

Each of the features is defensible on its own merit.

[82] Figures from Communities and Local Government, *Revenue Account Budget 2011–12*, show that district councils' council tax requirement is 15.2% of district and county councils' combined council tax requirement. Since district councils collect tax on behalf of other precepting authorities as well, they must be retaining less than 15% of the total tax they collect.

[83] The same is true in London but to a much lesser extent as London Boroughs pass on only a minority of council tax revenues to the Greater London Authority.

- It is desirable that the authority administering council tax and council tax support should face the marginal cost of doing so, so that the incentive to reduce administrative cost is faced by the authority with the power to act on that incentive.
- That being the case, there is also logic in giving control over the design of council tax support schemes to the authorities that will be administering them. Precepting authorities that bear none of the costs of administering council tax support would have no incentive to design schemes that keep administrative costs down. And requiring more than one authority to agree on the design of a scheme would risk deadlock.
- If precepting authorities share in council tax revenue, it arguably makes sense for them to share in the cost of council tax support. It means that they face the appropriate incentives in deciding how high to set council tax rates (how high their precept should be), and it means that they share in the risk of demand for council tax support being higher or lower than expected, a risk that could swamp some district councils' budgets.

Yet taken together, these features result in a situation where district councils will be designing schemes where the administrative cost is felt by them but the revenue effects of entitlements are largely felt by others. They therefore have an incentive to do whatever is administratively cheapest.

To some extent these issues parallel concerns that could potentially already exist with council tax. Since district councils face the administrative costs of collecting council tax but pass on most of the council tax they collect to the county council, their strongest incentive is to minimise the cost of collection. For example, if a district council hires an extra employee to chase up households that are in arrears with their council tax, the district council faces the full cost of employing that person but only keeps a fraction of the additional council tax they collect as a result. The district council therefore has little incentive to pursue such a course.[84] The same applies with council tax support: district councils will face little incentive to spend resources, whether on activities that increase the underlying cost of support (such as encouraging take-up) or on activities that reduce the underlying cost of support (such as policing fraud). But an important difference is that LAs do not have control over the structure of council tax in the way they will over the structure of council tax support. District councils will not only have incentives to administer council tax support schemes in the cheapest possible way (like they have an incentive to administer council tax itself in the cheapest possible way); they will also have incentives to *design* council tax support schemes in a way that are cheap to administer (something they cannot do for council tax).

To illustrate the kind of problems that can arise, we can consider a plausible example. In 2011–12 the 201 district councils in England collectively spent £90 million administering total CTB payments of £1.4 billion.[85] If the same were true after the reform, then on average each district council would be incurring costs of £450,000 to administer £7.1 million of council tax rebates – but since 85% of those rebates are financed by the county council, the district council itself would be forgoing only £1.1 million of council tax revenue. Thus 30% of the cost to the district council is the cost of administering rebates, not the cost of the rebates themselves. Suppose our average district council devised a reform that simplified the scheme and made it more generous:

[84] This might seem to imply that an optimal system would involve choosing the level of resources to devote to enforcement such that the revenue yield from additional enforcement activity equals its cost. This is not true unless zero value is placed on the benefit that debtor households derive from not paying their liabilities (see Slemrod and Yitzhaki (1987) and section 12.2.4 of Shaw, Slemrod and Whiting (2010)). In other words, LAs should not simply weigh up the cost of additional enforcement activity against the additional revenue it will bring in; they should also remember that the revenue brought in represents a loss to the households that end up paying it – though when taking that into account, authorities might (wholly or partly) discount the benefit that such households receive from being in arrears as 'illegitimate'.

[85] All the figures in this paragraph are calculated from Communities and Local Government, *Revenue Account Budget 2011–12* (http://www.communities.gov.uk/publications/corporate/statistics/revenue201112budget).

increasing average entitlements by 4% while reducing the administrative cost by 10%. Adopting this reform would cost the district council nothing – the £45,000 administrative saving is enough to cover its share of the extra entitlements – while giving an extra £280,000 of support to local residents. This reform would look highly attractive to the district council; rather less so to the county council, which picks up the £235,000 bill. For the area as a whole the question is whether it is desirable to increase council tax or cut public services by £235,000 in order to pay for a £280,000 increase in council tax support: at the very least a debatable proposition. But it is the district council that is makes the final decision and from their point of view it may seem like a no-brainer. And recall that this example was based on averages: for many district councils administration will make up much more than 30% of the cost of council tax rebates, and decisions may be more strongly biased in favour of reducing administrative costs.

In principle, district councils' incentive to focus on minimising administrative costs could lead to either more or less generous schemes. On the one hand, collecting council tax – particularly from low-income households that have not had to pay it in the past – is costly, which might point towards using relatively generous schemes, which exempt as many households as possible from council tax. On the other hand, administering means-tested council tax support schemes is expensive, which might point towards extending eligibility for support to as few households as possible. In other words, it is not clear whether collecting council tax from a household is more or less costly than administering their claim for exemption. However, while it is not clear whether the incentive is for a more or less generous scheme, it is clear that the incentive is for a simpler scheme. Considering the two costs mentioned above, it would seem that the most expensive option of all is to give families entitlement to partial support (i.e. a discount of less than 100%) – in such cases the council ends up both having to administer the means test and having to collect revenue from the household. Thus there is an incentive to adopt schemes that minimise the number of families entitled to partial support – for example by having a high withdrawal rate – even if that might not be the best option in terms of protecting work incentives or other objectives. Similarly, they may be inclined to opt for very simple entitlement rules rather than a complicated means test, or to change little from the existing system so as to minimise the transition costs of change. These are all valid considerations in designing the system, but the danger is that they might be given disproportionate weight relative to other concerns (such as distributional objectives, protection of work incentives, and so on) because of the incentives facing district councils.

To what extent district councils will act on these incentives is another matter. Despite an apparently weak incentive to collect council tax, district councils in fact have a higher average in-year collection rate than other types of billing authority,[86] though whether this reflects the action they take or their different characteristics is unknown – the shire counties are different from other areas in many respects, which might affect council tax collection rates. When it comes to council tax support, district councils may still be motivated by concern for fairness or work incentives for other reasons. And they will not necessarily ride roughshod over the views of precepting authorities for whom administrative costs are not the primary concern. While the requirement for consultation does not give precepting authorities any legal recourse over billing authorities' decisions, in practice in some areas the relationship between district and county councils is likely to be fractious and confrontational, while in other areas the relationship will be co-operative and collegiate. This relationship will go a long way to determining how the final scheme designs are drawn up.

The ideal solution in principle might be for precepting authorities to share administration costs that arise from the scheme design while billing authorities face the full cost of their implementation decisions; in other words for the revenue forgone by offering council tax support to be shared, but for billing authorities to keep any additional yield from implementing the scheme more efficiently. But separating out these different components of the administrative cost does not seem feasible in practice.

[86] See Tables 2.2n and 2.2o of Communities and Local Government, *Local Government Finance Statistics England No. 21*, 2011 (http://www.communities.gov.uk/documents/statistics/pdf/1911067.pdf).

4.5. Conclusions

The government's goals of allowing support to vary across the country to reflect local priorities and strengthening LAs' incentives to promote employment and growth in the local economy are laudable aims, and the reform might yield some benefits in these areas. Variation across the country should also allow LAs to learn from each others' experiences what is successful.

While some would argue that the minimum income level provided as a safety-net for the poorest should not vary across the country, others would describe that as local democracy in action. But there are more straightforward disadvantages to localisation. Having schemes that vary across the country will reduce transparency and increase bureaucracy. The mismatch between the funding arrangements for rebates themselves and those for the administration of rebates will give small district councils in particular a strong incentive to focus on making schemes cheap to administer at the expense of other objectives. Giving LAs fixed grants rather than refunding the actual cost of providing council tax support will add risk to LAs' finances, making them more reliant on the reserves they maintain to deal with unexpected contingencies, especially when taken in conjunction with the partial localisation of business rates that is happening at the same time. And while fixed grants will strengthen LAs' incentives to promote employment and growth, it will also give them an incentive to discourage low-income families from living in the area and a disincentive to encourage take-up of support. The strength of all of these changes in incentives – good and bad – will partly depend on how, and how often, LAs expect grant allocations to be adjusted in future. How they will actually be adjusted in future is one of the most important decisions the government has yet to take about the policy.

5. The scale and distribution of funding cuts

Summary

- When CTB is abolished, the grant given to each English local authority and to the Scottish and Welsh governments will essentially be 10% less than the government estimates CTB expenditure would have been in that area. Thus in cash terms, the cut in funding will be larger in areas where CTB spending is higher – the more deprived areas of Britain. We estimate that the cut in funding will range from around £5 per dwelling in the City of London to £38 per dwelling in the London Borough of Haringey. But almost 90% of local authorities face a funding cut of between £10 and £25 per dwelling.
- Councils in England could choose to protect entitlements to council tax support and fill the funding gap from elsewhere, as the Scottish government is doing. Across England as a whole, this would require a 0.4% reduction in spending on local services or a 1.9% increase in council tax rates.
- If councils in England do not choose to make up the shortfall from elsewhere, they will have to cut entitlements for working-age claimants of council tax support. The requirement to protect pensioners means that those local authorities where pensioners account for an above-average share of CTB expenditure (typically less deprived areas) will see a bigger shortfall in the grant left over (after providing support to pensioners) as a percentage of current spending on CTB for non-pensioners. The grant left over after providing rebates for pensioners will cover only 81% of the cost of CTB for working-age claimants nationally, but we estimate that for one in ten local authorities that figure will be less than 75%, with the lowest value being 67% in East Dorset and in Craven, North Yorkshire.
- With bigger percentage cuts in working-age council tax support needed to fill smaller funding gaps per household, councils in less deprived areas may be more inclined to find money elsewhere in order to moderate the size of the cut for working-age CTB claimants.

The government's proposed reform will save around £480 million per year across Britain, equivalent to about £19 per household. But this funding cut will not be spread evenly across the country. When CTB is abolished, the grant given to each English LA and to the Scottish and Welsh governments will essentially be 10% less than the government estimates CTB expenditure would have been in that area. Thus areas where CTB expenditure is higher will see bigger cash funding cuts.

The funding cut per household (strictly, per dwelling) in each LA can be found in Appendix D, but Figure 5.1 below shows the distribution of the cut per dwelling among LAs.[87] Reading across, we can see that, for example, about 20% of LAs face funding cuts of less than £13 per dwelling. The vast majority (almost 90%) of LAs face a funding cut of between £10 and £25 per dwelling, although there are some outliers: the full range is from around £5 per dwelling in the City of London to £38 per dwelling in the London Borough of Haringey.

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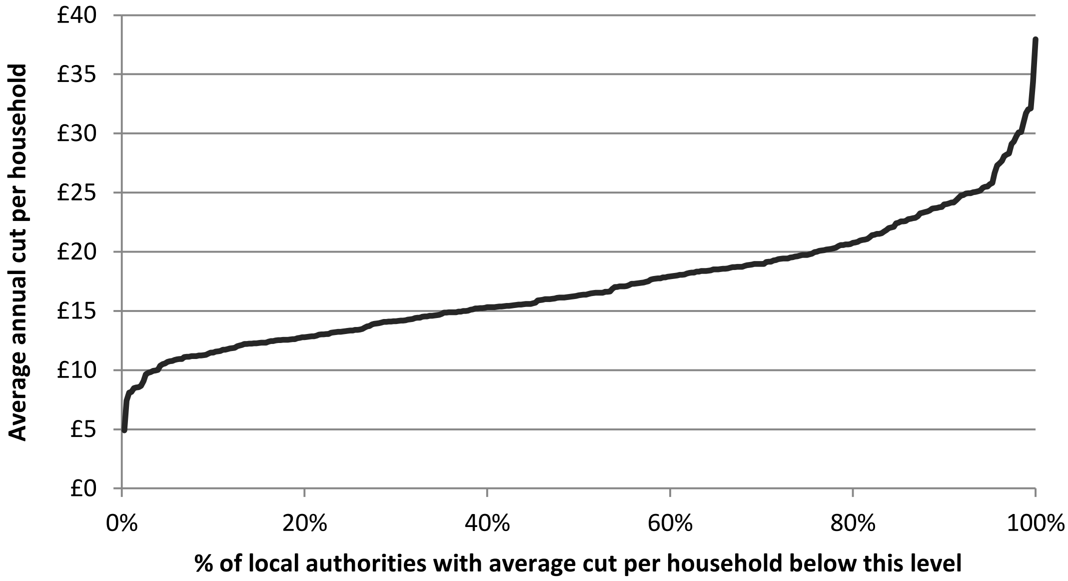
[87] Similar estimates were produced by Paskins (2010). Our estimates are calculated using essentially the same methodology, just based on slightly more recent data.

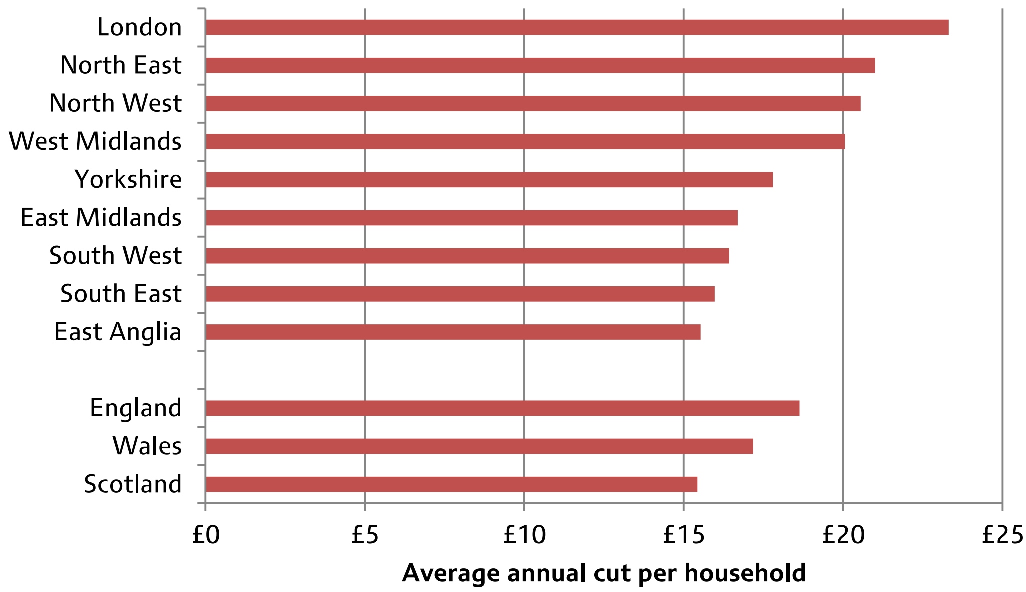
Figure 5.1. Distribution of average cut per dwelling by local authority



Source: Authors' calculations using DWP (2010), VOA (2012) and Scottish Assessors Association (2012). See Appendix D for full details.

Figure 5.2 shows how the cut per dwelling varies by region of England and nation of Great Britain. We can see that the biggest funding cuts will be felt in London. This is because property values and hence council tax bills are relatively high in London (see Figure 2.2) and there are many poor parts of London where there are a large numbers of people entitled to CTB. Within England, the wealthier areas of the South East, South West and East of England see a lower cut per dwelling on average: this is mainly because fewer households in these regions are entitled to CTB. However, Scotland has the lowest average cut per dwelling. This is at least in part because, as we saw in Figure 2.2, Scotland has the lowest average council tax bills in Great Britain.

Figure 5.2. Annual cut per dwelling for LAs in each region of England and nation of Great Britain



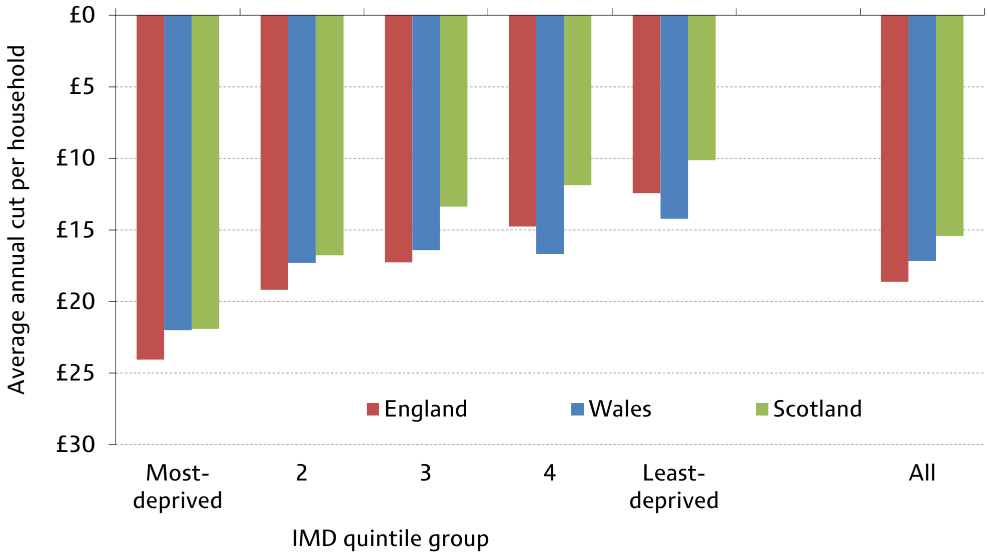
Source: Authors' calculations using DWP (2010), VOA (2012) and Scottish Assessors Association (2012). See Appendix D for full details.

Another way in which we can examine how the cash cut in funding varies across different LAs is by quintile of the Index of Multiple Deprivation (IMD) distribution in England, Scotland and Wales (see Figure 5.3).[88] As we would expect, the average cut per dwelling is larger in more deprived LAs where more families are entitled to CTB.

These figures for the total cash funding cut in each LA do not tell us how different kinds of households within LAs will be affected. Pensioners in England will not see their council tax support cut, as the government is obliging LAs to continue providing them with the current level of support, set nationally. And it is not necessarily the case that the cuts will be felt entirely by working-age claimants of council tax support. LAs are not obliged to pass on the cuts in funding to working-age claimants; they are free to spend more or less on council tax rebates than the grant they receive for the purpose. The Scottish government has decided to maintain support for all claimants – working-age and pensioner – at its current level, and to find money elsewhere (from its own budget and from LAs' budgets) to deal with the cut in funding. Many LAs in England might decide to do the same thing.

[88] As explained in Section 2, the IMD is a summary measure of different aspects of deprivation. It is published separately for England, Scotland and Wales, so it is not possible to compare LAs in different nations.

Figure 5.3. Average annual cut per dwelling by IMD quintile of LA



Notes: IMD quintiles are derived by dividing LAs in each nation into 5 equal-sized groups according to their overall IMD score. Quintile group 1 contains the least-deprived fifth of LAs in each country, quintile group 2 the second least-deprived, and so on up to quintile group 5, which contains the most-deprived fifth.
Source: Authors' calculations using DWP (2010), VOA (2012) and Scottish Assessors Association (2012). See Appendix D for full details.

The UK government appears to believe that the incentives that the policy creates for LAs to encourage economic growth in their area (see Section 4.3) will lead to increases in employment and earnings sufficient to reduce the council tax rebate bill by at least 10%. Asked whether he expected LAs to pass on the 10% reduction to claimants or to dip into other budgets to protect support for those claiming it at the moment, the Minister of State for Housing and Local Government, Grant Shapps, told the Communities and Local Government Select Committee:

> 'that is old-school thinking in a sense, because it says that a local authority has no control over what happens in its authority boundaries, what economic activity is like, whether there is growth in the area… What we propose here is a way of achieving a 10% reduction and, at the same time, through giving local authorities a stake in the economic activity, and therefore in the welfare of their citizens, the opportunity to reduce that bill, not by unfairly not paying people who are vulnerable and need it – the White Paper makes very clear that they will be protected – but ensuring that there is a definite interest in starting up that new industrial estate, business park and getting economic activity going so there are jobs … if somebody is in work they will not be receiving the benefit because they will not need to… We have to do this more intelligently and involve the local authorities in the economic activity and success of their areas. Bluntly, I do not think that is worth 10%; it is actually worth a lot more to local authorities, because suddenly they get something back for making sure they are looking after their residents.'[89]

The select committee was unconvinced by this:

> 'We have seen little evidence to support the hope that new and better-paying jobs for individuals, immediately sufficient to off-set the 10% reduction in the benefit budget,

[89] Communities and Local Government Committee (2011), paragraph 41.

will inevitably follow from these incentives; the means of economic growth are never solely in the gift of individual local authorities.'[90]

As we discussed in Section 4.3, the government's policy will indeed strengthen LAs' incentives to promote employment and growth in the local economy. LAs already have other reasons to want to encourage these things; the question is whether this additional incentive, combined with LAs' capacity to affect the local economy, will lead LAs to generate so much more growth (relative to what would have been seen without this extra incentive) that the cost of council tax support falls by 10% without their having to make explicit cuts. But even if that happened over a period of years, it is hard to see how it could happen by 2013–14. At least in the short term, therefore, English LAs do face a practical question as to how far to pass on the cuts to working-age claimants and how far to find savings elsewhere.

LA budgets are already under pressure across the board as a result of the Spending Review settlement: grants from central government to English LAs are being cut by 27.4% in real terms (that is, after economy-wide inflation) from their 2010–11 level by 2014–15, and the budgets of the devolved administrations in Scotland and Wales are being reduced by 11.1% and 11.9% respectively in real terms.[91] If councils do not want to pass on the funding cut in full to working-age claimants of council tax support, they must either raise more revenue or reduce spending elsewhere.

The main way for councils to raise more revenue is to set Band D council tax rates higher than they would otherwise have done – although their discretion to do this is limited since, as discussed in Section 2.1, council tax increases deemed 'excessive' by central government must be put to a referendum for approval. On average across England, council tax rises of 1.9% would be needed to meet the funding shortfall for LAs in England.[92] But LAs will also have new opportunities to raise additional council tax revenue without increasing Band D rates. As we noted on p.16, the Local Government Finance Bill will give LAs in England more discretion to reduce or abolish council tax discounts for certain categories of second and empty properties, most notably through levying council tax during the first six months in which a property is empty. Strikingly, the government estimates that LAs could raise up to £420 million if they charged council tax to the full extent allowed by these reforms – exactly the same amount as English LAs' funding is being cut as part of the localisation of council tax support. It should be stressed that this does not mean every LA will be able to fill their funding gap by increasing council tax on these second and empty properties. The distribution on empty properties (and therefore the revenue available from taxing them) across the country may be very different from the distribution of CTB expenditure (and therefore funding cuts): individual LAs with a large funding shortfall may not be the same ones with a large number of empty properties that could be taxed. Nevertheless, some LAs will be able to fill their funding gap entirely by increasing taxes on second and empty properties without needing to reduce council tax support for working-age claimants, and others will be able to do that partially. Of course, this is not free money. The pain from taxing empty properties would be felt by their owners. And LAs might have chosen to tax empty properties just as much if council tax support was not being localised, in which case using the revenue to fill this funding gap still means forgoing whatever the revenue would otherwise have been used for. In other words, unless councils choose to tax second and empty properties *more than they otherwise would have done*, funding cuts that are not passed on to claimants of council tax support still imply higher Band D council tax rates or lower public service spending than would otherwise have been the case.[93]

Instead of (or as well as) raising more in council tax, LAs could choose to spend less on local public services than they otherwise would have. Total LA spending on public services in England

[90] Ibid, paragraph 44.

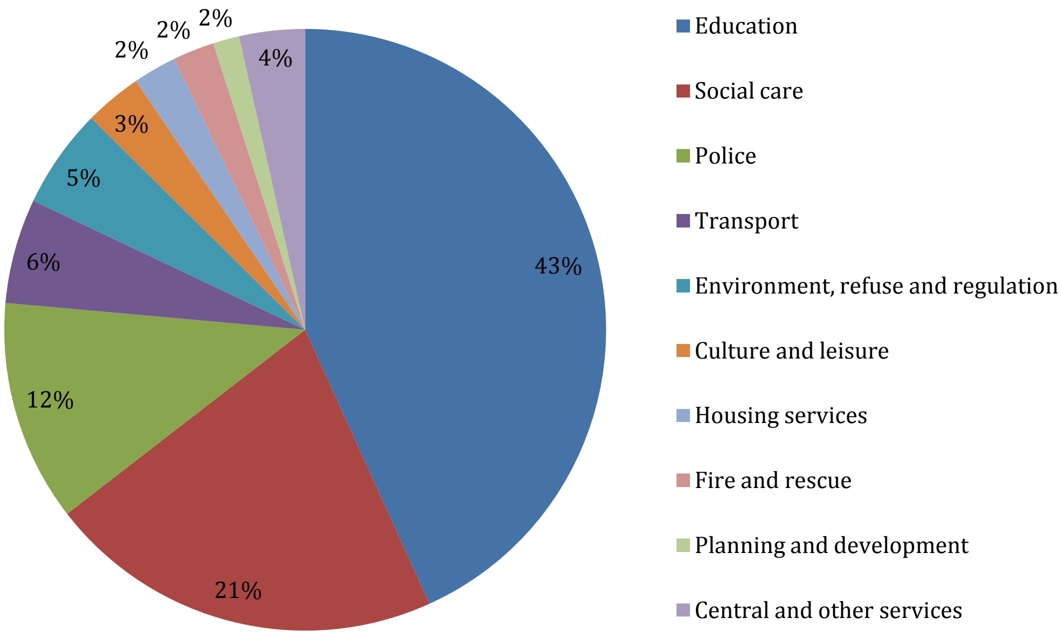
[91] Source: Crawford, Emmerson, Phillips and Tetlow (2011).

[92] The £420 million funding cut for England is 1.9% of a £22.3 billion net council tax yield (calculated from Communities and Local Government (2012)).

[93] Council tax is not the only way that LAs raise revenue: for example, they also raise revenue from charging for the provision of services. But in general these charges are limited to covering the cost of providing the services, not raising net revenue for other purposes.

in 2011–12 was budgeted to be £100 billion, so finding the full £420 million needed to maintain council tax support in England at its existing level would require reducing service spending by about 0.4% – a small addition to the large spending cuts they are already having to make – though that figure will of course vary widely between LAs. To give an idea of the cost of different services provided by LAs, Figure 5.4 shows the composition of LAs' budgeted spending in 2011–12. Note, however, that LAs are not completely free to make whatever cuts they want, as much of the funding they receive (notably for education and police) is ring-fenced and cannot be used for other purposes.

Figure 5.4. Local government budgeted net current service spending in England, 2011–12



Notes: Net current service spending is the overall level of spending on a service net of any income from providing that service. 'Central and other services' includes corporate and democratic management and non-distributed costs.
Source: Communities and Local Government, *Local authority revenue expenditure and financing England: 2011–12 budget – individual local authority data* (http://www.communities.gov.uk/publications/corporate/statistics/revenuelocaldatabudget201112).

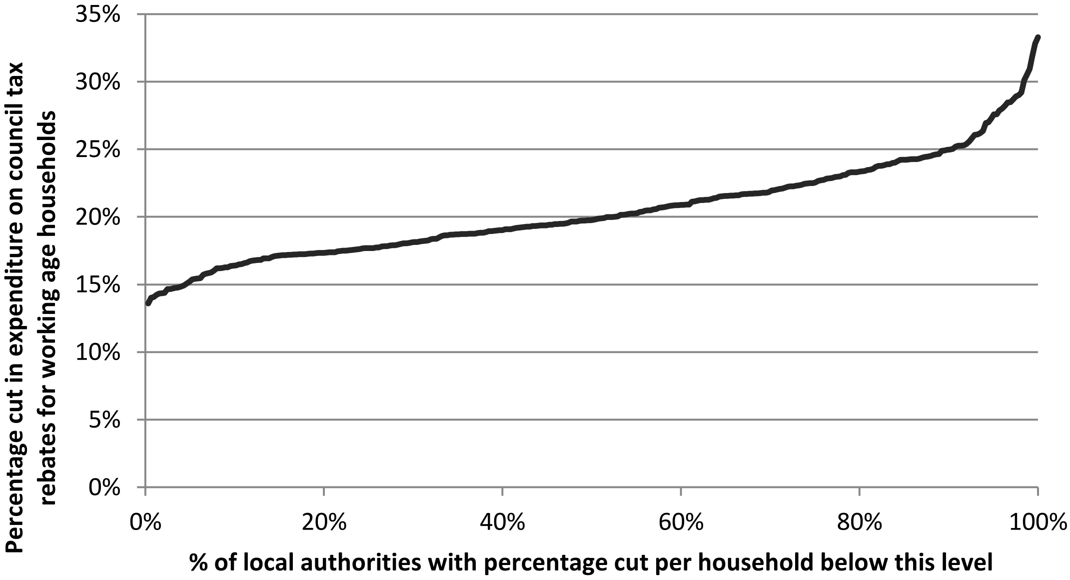
If councils do not want to increase council tax rates or reduce spending on local services relative to what they would otherwise have been, they face the prospect of cutting council tax support for working-age claimants. Since councils in England are obliged to give pensioners the same amount as under the existing system of CTB, reducing the total cost of support by 10% would require a larger percentage cut in spending on council tax rebates for those of working age. We estimate that across England as a whole the reduction in spending on council tax rebates for those of working age would be around 19%. But since the grant for council tax rebates will be based on 90% of CTB spending in each LA, this percentage will vary by LA according to the amount of CTB that goes to pensioners in each LA: LAs where more of the CTB spending goes to pensioners will have to make larger cuts to council tax rebates for those of working age.

In Appendix D, we give estimates of how much expenditure on support for council tax for those of working age would have to fall in each LA under the scenario where overall expenditure on council tax support was cut by 10% and pensioners were protected from the cut.[94] Figure 5.4

[94] These calculations are broadly similar to those of Agulnik (2011), but using more recent data and refined slightly to try to take into account the different average awards to those pensioners who are

shows the distribution of this percentage across the different LAs of England. The reduction in expenditure on council tax rebates for those of working age ranges from 14% in the London Boroughs of Hackney and Tower Hamlets to 33% in East Dorset and in Craven, North Yorkshire. For the vast majority of LAs it will be between 15% and 25%, but the figure exceeds 25% in one in ten LAs. It is worth noting that details of the split in spending on CTB between pensioners and non-pensioners in each LA are not published, so these are just estimates (see Appendix D for our methodology); individual LAs will have the data be able to calculate exact figures themselves.

Figure 5.5. Distribution of percentage reduction in expenditure on support for council tax for those of working age across local authorities in England



Note: Assumes funding cuts are fully passed on to working-age claimants of council tax support.
Source: Authors' calculations using DWP (2010) and VOA (2012). See Appendix D for full details.

Figure 5.5 shows the percentage reduction in each region of England (and equivalent figures for each nation of Great Britain for comparison, though these are not directly relevant as Wales is not obliged to protect pensioners and Scotland is committed to maintaining support at its current level for all claimants). The most striking result is that the London boroughs would, on average, have to make the smallest cuts to spending on council tax rebates for those of working age: indeed the 17 LAs that have to make the smallest cuts to support to council tax for those of working age are all London boroughs. This is because a smaller fraction of CTB goes to pensioners in London than elsewhere in Great Britain. By contrast, LAs in East Anglia, where pensioners account for a large share of CTB spending, have the highest average cut to CTB spending for those of working age.

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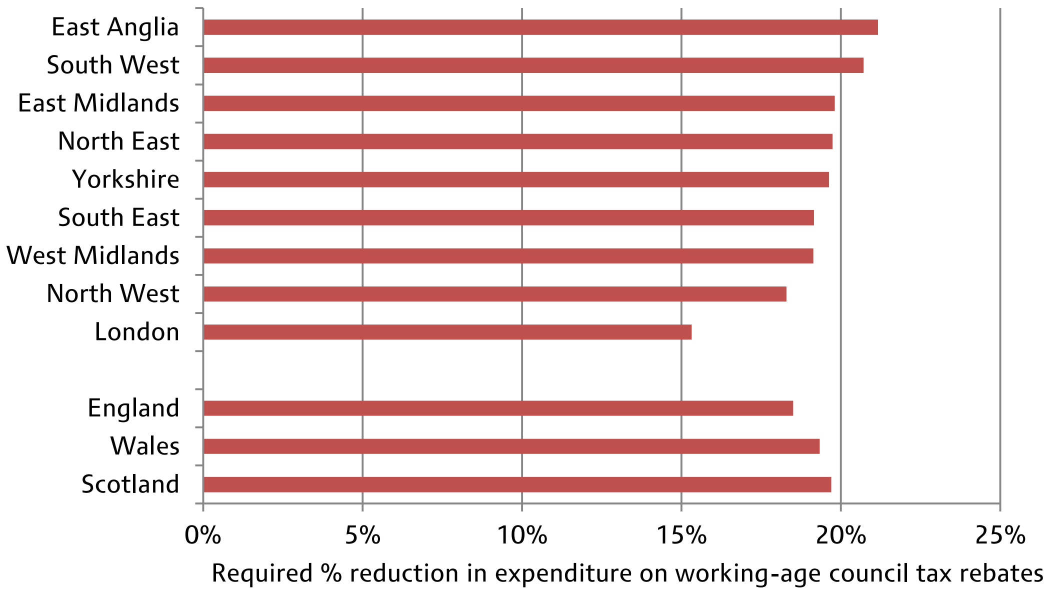
passported onto full CTB and those who are not. See Appendix D for details. In practice the differences between our estimates and those of Agulnik (2011) are small.

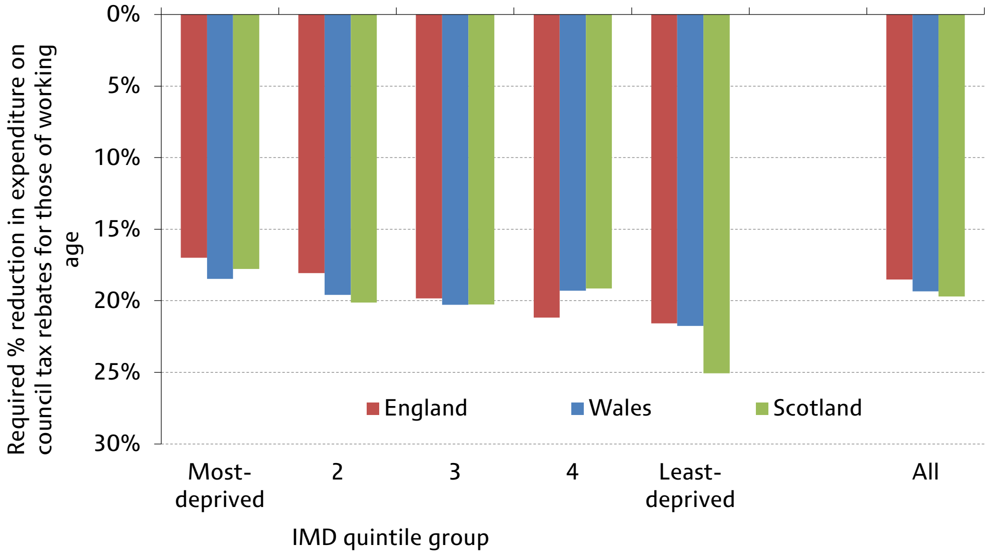
Figure 5.6. Percentage reduction in expenditure on support for council tax for those of working age in each region of England and nation of Great Britain



Note: Assumes funding cuts are fully passed on to working-age claimants of council tax support.
Source: Authors' calculations using DWP Housing Benefit and Council Tax Benefit statistics, May 2011 and DWP Tabulation Tool. See Appendix D for full details.

Figure 5.6 shows the percentage reduction in expenditure on working-age council tax rebates for LAs in each quintile of the IMD distribution in England (and in Scotland and Wales for comparison). We can see that it is less deprived LAs that have to make the largest savings to expenditure on council tax rebates for those of working age, though this trend is less clear in Wales than it is in England and Scotland. In more prosperous areas, a higher proportion of CTB spending goes towards pensioners.

Figure 5.7. Required saving on expenditure on council tax rebates for those of working age by IMD quintile of LA



Notes: Assumes funding cuts are fully passed on to working-age claimants of council tax support. IMD quintiles are derived by dividing LAs in each nation into 5 equal-sized groups according to their overall IMD score. Quintile group 1 contains the least-deprived fifth of LAs in each country, quintile group 2 the second least-deprived, and so on up to quintile group 5, which contains the most-deprived fifth.
Source: Authors' calculations using TAXBEN run on the 2009–10 Family Resources Survey. See Appendix D for full details.

Conclusions

LAs in England and the Scottish and Welsh governments are likely to be given grants based on 90% of their current CTB expenditure to introduce council tax rebate schemes to replace CTB. However, they will be free to spend more or less than this amount on their replacement council tax rebate schemes, subject to the restriction that pensioners in England receive the same amount as they do under the current system of CTB. On a per-household basis, this reduction in expenditure will be larger for those LAs in more deprived areas because of higher levels of entitlement in these areas. But in less deprived areas a higher proportion of CTB goes to pensioners: this means that if LAs choose to leave council tax and spending in other areas unchanged in response to this policy, spending on council tax rebates for those of working age will have to fall by a larger percentage in less deprived areas. With bigger percentage cuts in working-age council tax support needed to fill smaller funding gaps per household, LAs in less deprived areas may be more inclined to find money elsewhere in order to moderate the size of the cut for working-age CTB claimants.

6. Options for making savings

Summary

- Local authorities that do decide to adopt schemes that are less generous than the existing CTB have many options for how to make savings: we examine several possibilities in detail. Since 85% of CTB goes to the lower-income half of households, and almost half of CTB goes just to the lowest-income fifth, any cuts to it are bound to hit predominantly poorer families. Making a means-tested benefit smaller also tends to reduce the extent to which it discourages work and saving. Nevertheless, there are significant differences between the reforms we examine.
- As ever, there is a trade-off between protecting those with the lowest incomes and the impact of reforms on incentives to work, and reforms that means-test support for council tax more aggressively lead to weaker work incentives than those that reduce support for all claimants. Reforms that save the full 10% typically involve reducing support for those currently entitled to maximum CTB – those on the lowest incomes. And those options that do protect the poorest claimants either fail to generate large savings, or significantly weaken work incentives, or both.
- Reducing entitlements for all claimants slightly strengthens work incentives but imposes significant losses on even the poorest households. Such a policy would 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 who are not used to paying it.
- Reducing or eliminating support for occupants of properties in higher council tax bands also involves starting to collect council tax from some households with little or no private income. But only households in higher-band properties (disproportionately families with children) are affected, and in general these reforms are less regressive than across-the-board cuts. Reforms of this kind slightly strengthen work incentives, and also affect people's incentives to occupy properties in higher council tax bands. The revenue implications of reforms based on particular council tax bands vary dramatically across the country, saving much more where property values are higher; in reality different councils would be likely to use bands appropriate to their area.
- Means-testing support for council tax more aggressively protects the very poorest altogether, with the losses particularly concentrated on low-to-middle income households. Working lone parents are particularly likely to be among the low-income working families that lose from means-testing support more aggressively. Reforms of this kind generally have ambiguous effects on work incentives. But to save the full 10% purely from means-testing more aggressively would require the means test to be so severe that some people would be worse off after a pay rise.
- The one reform we consider that raises revenue predominantly from those with higher incomes is reducing the 25% single-person discount in council tax. This would slightly weaken work incentives, but would reduce the current distortionary incentive for people living alone to occupy larger properties. However, this is a reform that LAs in England do not have the power to introduce at the moment. Central government should consider either making this change itself (if it finds the distributional consequences acceptable) or, in the spirit of localisation, giving LAs the power to do so if they see fit.

In this section we discuss options that could be introduced to reduce expenditure on council tax rebates. Most of the reforms we consider take the existing system of CTB and tweak the parameters to reduce total expenditure. These are reforms that LAs could introduce relatively quickly in time for the introduction of the policy in 2013–14. We also consider reforms that might take LAs longer to introduce and reforms that would require further reforms by central government.

The particular reforms we examine, and the savings in the cost of council tax support if they were to be introduced nationally, are as follows:

1. An across-the-board cut of 17% for all working-age claimants. *Reduces cost by 9.7%.*
2. Reducing maximum entitlement from 100% to 85% of a family's council tax liability. *Reduces cost by 9.3%.*
3. Restricting the amount of support to the level of council tax paid for a Band B property. *Reduces cost by 3.8%.*
4. Removing entitlement from those in Bands D and above. *Reduces cost by 7.2%.*
5. Increasing the withdrawal rate for support for council tax from 20% to 30%. *Reduces cost by 2.0%.*
6. Only giving support to working age claimants who are passported from other benefits (i.e. those on an out-of-work means-tested benefit). *Reduces cost by 14.8%.*
7. Counting Child Benefit as income for the means test. *Reduces cost by 1.9%;* and
8. Reducing the single-person discount from 25% to 17.5%. *Raises an amount equivalent to 10.7% of the current cost of CTB.*

These reforms can be grouped into four categories:

- reforms that reduce the amount of support for all claimants (reforms 1 and 2);
- reforms that reduce the amount of support for council tax received by those living in higher-banded properties (reforms 3 and 4);
- reforms that means-test support for council tax more aggressively (reforms 5, 6 and 7); and
- reforms that change underlying council tax liabilities (reform 8).

In this section we discuss each of the eight reforms listed above in turn, considering who would lose out from it, its impact on work incentives, and other effects it might have. We then briefly consider some other possible reforms that we do not analyse in detail because they either save very little or create obvious major problems. Finally, we present a summary comparison of the reforms in sub-section 6.10.

The savings brought about by each of the reforms would vary – in some cases dramatically – between different LAs according to the characteristics of claimants in each LA: how many fall into each council tax band, how many are receiving full CTB and how many are on the taper, and so on. The sample sizes in our data are not large enough for us to estimate the saving in each LA individually, but in what follows we give an indication of how the savings would vary between different groups of LAs.[95]

More detailed results from the modelling underlying much of our analysis are brought together for convenience in Appendix B, to which we refer throughout this section. In particular, the appendix shows:

- how much each reform saves in different regions and deprivation quintiles of LA (figures B.1 to B.8);
- the distribution of losses from the reforms in cash terms and as a percentage of income and the numbers losing, by income decile (tables B.1 to B.3) and household type (tables B.4 to B.6);
- the impact of reforms on incentives to be in paid work (tables B.7 and B.8) and incentives for those in work to increase their earnings (tables B.9 and B.10); and

[95] Communities and Local Government have created an online tool on their website (http://www.communities.gov.uk/localgovernment/localgovernmentfinance/counciltax/counciltaxsupport/), which allows individual LAs to input their administrative data and calculate the revenue effects of various reform options.

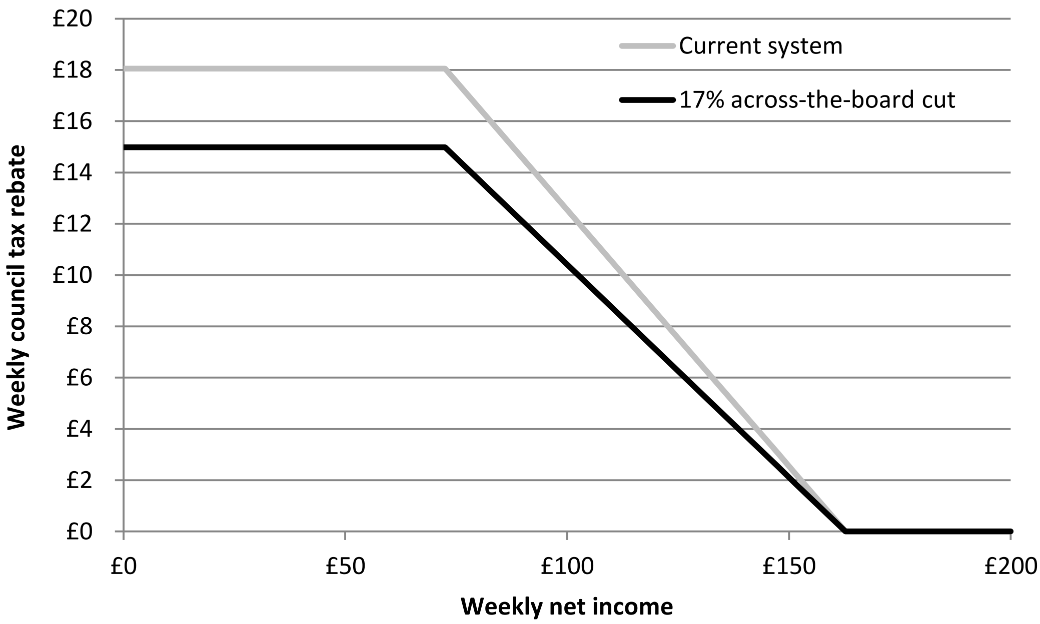
- the number of households entitled to full and to partial support under each reform (Table B.11).

Throughout this section, we assume that these changes do not affect pensioners: as previously discussed, central government has decided that pensioners in England will be protected from the 10% cut to expenditure on council tax rebates, although the Welsh government has not yet announced a decision on this and the Scottish government is not intending to make savings at all. We also assume that LAs do not protect any other 'vulnerable groups' (such as severely disabled claimants or families with children): were they to do so, this would reduce the amount raised by each of these reforms. Table 2.1, which shows the shares of CTB expenditure received by different demographic groups, gives a rough idea of how much lower the savings might be if the cuts did not apply to certain groups.

6.1. Reform 1: Across-the-board 17% cut for those of working age

All working-age recipients of CTB would receive less support for council tax under this option. The impact on the amount of support for council tax received by an example single person without children is shown in Figure 6.1 below.

Figure 6.1. Effect of Reform 1 on the amount of council tax rebate received by a single person without children by income



Notes: Assumes individual lives in Band C property in an LA with average council tax rate.

We can see that this reform would mean that those of working age would never be entitled to have all of their council tax rebated, meaning that LAs would have to collect some council tax from families with very low incomes. Tables B.1 and B.2 in Appendix B show that the poorest two income deciles, who receive most CTB at the moment, correspondingly lose most from a proportional cut in all entitlements: while the average loss from this reform across the whole population is only 0.06% of income, for these two decile groups it is 0.48% and 0.32% respectively, corresponding to £51.53 and £57.69 per year on average. On the other hand, the reduction in out-of-work incomes would tend to strengthen the incentive for individuals to do paid work. The average change is not large, as the reduction in out-of-work income is relatively modest – as Table B.7 shows, the mean PTR falls slightly from 37.4% from 37.1% – but the reduction is larger where incentives are currently weakest (a reduction of 0.9 percentage points at the 90th percentile) and so where reductions are most valuable. Furthermore, the lower taper rate implied by this option (losing 16.6p of rebate, rather than the current 20p, for each extra £1 of income) would strengthen the incentive for the 1.1 million working individuals on the taper to increase their earnings. It would also slightly strengthen incentives to save in non-pension financial assets.

This reform would weaken the incentive for low-income families to occupy larger properties in higher bands, but the change would be small: although not all of the additional council tax involved in doing so would be refunded through council tax rebates, the majority would be.

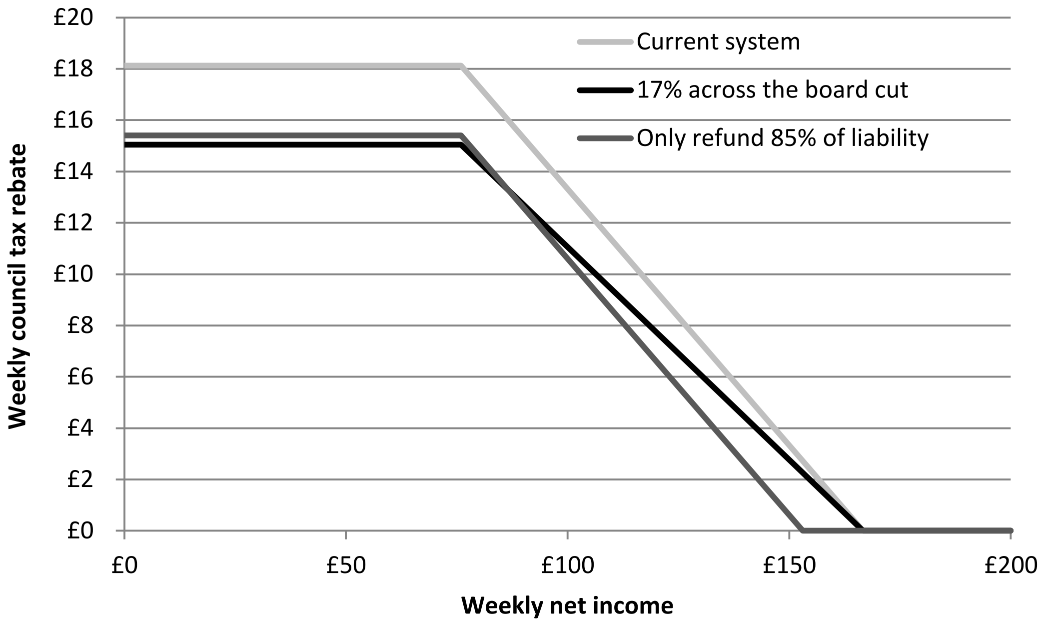
If implemented across the whole country, this reform would reduce expenditure on council tax rebates by 9.7% of its current level. As this reform involves an equal percentage cut in entitlement for all working-age CTB claimants, it is unsurprising that it would reduce the cost of support by a roughly equal percentage in each LA. The main differences arise as a result of protecting pensioners: as discussed in the previous section, areas where a greater proportion of CTB claimants are pensioners require larger cuts in council tax rebates for those of working age to achieve the same overall proportion. Figures B.1 and B.2 show the proportion of CTB expenditure saved on average by region and by quintile of the Index of Multiple Deprivation (IMD) in England respectively.[96] We can see that this reform saves the most (11.2%) in London, where there are relatively few pensioners, and the least (8.3%) in East Anglia where pensioners represent a larger proportion of those claiming CTB. In England, LAs with a higher proportion of pensioners among CTB claimants also tend to be the least deprived LAs.

6.2. Reform 2: Reducing maximum entitlement from 100% to 85% of council tax liability

As is made clear by Figure 6.2 below, this reform is very similar to the previous one, and it reduces expenditure on council tax rebates by a similar amount with similar geographical variation. Like a 17% across the board cut, it would reduce support for all working-age claimants (leaving LAs needing to collect some council tax from even the poorest), it would be highly regressive but slightly strengthen incentives to work and save and slightly reduce incentives to live in bigger properties. The key difference between the two reforms is that reducing maximum entitlement does not involve an effective reduction in the taper rate like a uniform percentage cut in entitlements does, and so this option can raise a similar amount of revenue with a smaller reduction (15% rather than 17%) in the level of support for those with no private income. Thus it is slightly less regressive: the poorest two decile groups lose an average of £48.15 and £55.39 per year respectively, rather than £51.53 and £57.69, while those with higher incomes lose more. Because this option does not involve reducing the withdrawal rate, those on the taper do not see an increased incentive to increase their earnings; but under this option entitlement runs out at a lower income level (see Figure 6.2), so the number of people in paid work subject to the means test and facing a resulting disincentive to increase their earnings falls by around 280,000.

[96] The IMD is produced separately for England, Scotland and Wales. Unfortunately, the sample size of a single year of FRS data is insufficient to provide robust analysis by IMD quintile for Scotland and Wales.

Figure 6.2. Effect of reforms 1 and 2 on the amount of council tax rebate received by a single person without children by income



Notes: Assumes individual lives in a Band C property in an LA with average council tax rate.

6.3. Reform 3: Restricting support for the level for a Band B property

From 1998–99 to 2003–04 inclusive, maximum CTB entitlement was restricted to that for a Band E property. Those in Band F or above had their maximum CTB entitlement set equal to what their council tax liability would be if their property were in Band E, and then the means-test applied as normal. Councils could choose to reintroduce a similar system. The reform we illustrate involves setting maximum entitlement at that for a Band B property, which would reduce the cost of council tax support by 3.9% nationally. But the distribution of claimants' properties between council tax bands varies enormously across the country, so the saving from restricting to Band B would vary correspondingly, from 11.3% of CTB expenditure in London to less than 1% in the East Midlands, Yorkshire and the Humber, the North East and the North West (see Figure B.3).[97] The correlation between deprivation and the amount these reforms would save is less strong: although many of the least deprived LAs are in areas with high property values, many London boroughs with high property prices are among the most deprived in England. In reality different LAs would be likely to restrict entitlements to different bands, reflecting the distribution of properties between bands in each area as well as the amount they wanted to save; they may also adopt more complicated variants, such as restricting entitlements to different bands for different family types. The option of a uniform restriction to Band B is intended only to illustrate the broad economic properties of such policies.

Clearly, the people who would lose out from this reform are those currently claiming CTB and living in properties in bands C and above. As tables B.4 and B.5 in Appendix B show, these are disproportionately families with children, as families with children tend to occupy larger properties which are in higher council tax bands. For people in Bands C and above, this reform is a reduction in maximum entitlement exactly like that analysed as Reform 2 above, and would

[97] Recall from Section 2 that council tax bands in Scotland and Wales are different from those in England, reflecting the lower average property values in those nations, meaning that this policy would also significantly reduce expenditure on council tax rebates there.

have similar effects, strengthening work incentives and reducing the number of families entitled to council tax rebates.

As with the previous two reforms, the losers include some of those with the lowest incomes, although the fact that they live in higher-band properties may to some extent (and acknowledging geographical variation in property prices) indicate that they are not as poor in terms of lifetime resources as their current income might suggest.

An attractive feature of this policy is that it would mean that families entitled to council tax rebates had to pay more of the marginal cost of occupying a higher-band property, significantly reducing the current artificial incentive for low-income families to occupy higher-value properties than they otherwise would.

6.4. Reform 4: Removing entitlement from those in Bands D and above

A more radical alternative to restricting maximum entitlement to that for a particular band would be to remove entitlement completely from those in higher bands. The example we model is removing entitlement from those in Band D or above. This reform raises more than the previous one, reducing expenditure on council tax rebates by 7.2% if introduced nationally. This is because although the number of losers is much smaller from this reform (those in Band C do not lose out from this reform but do from the previous one: only around 1% of households are affected by this reform, compared to 3% for Reform 3), the average loss among those who do lose is much larger, at a whopping £987 per year compared to the £214 from Reform 3. The figure is so high because those affected lose all their entitlement to council tax rebate, rather than just seeing it restricted to Band B, and because those in Bands D and above almost by definition have unusually large council tax liabilities, which would no longer be covered. The amount saved by this reform varies dramatically between different LAs, from an average of 0.5% in the West Midlands to 23.8% in London boroughs (see Figures B.3 and B.4). It is only in areas with high property values in the south of England where this reform would make significant levels of savings, and in practice councils in different areas would probably choose to remove entitlement from different bands.

Because the losses from this reform are more concentrated on families living in higher-band properties and such families tend to be better off, this reform is less regressive than restricting support to that for a Band B property. Removing entitlement completely from those in Bands D and above would also significantly reduce the total number of non-pensioner households entitled to support with their council tax, from 4.59 million to 3.70 million. As with the previous reform, this would affect families with children more than families without children.

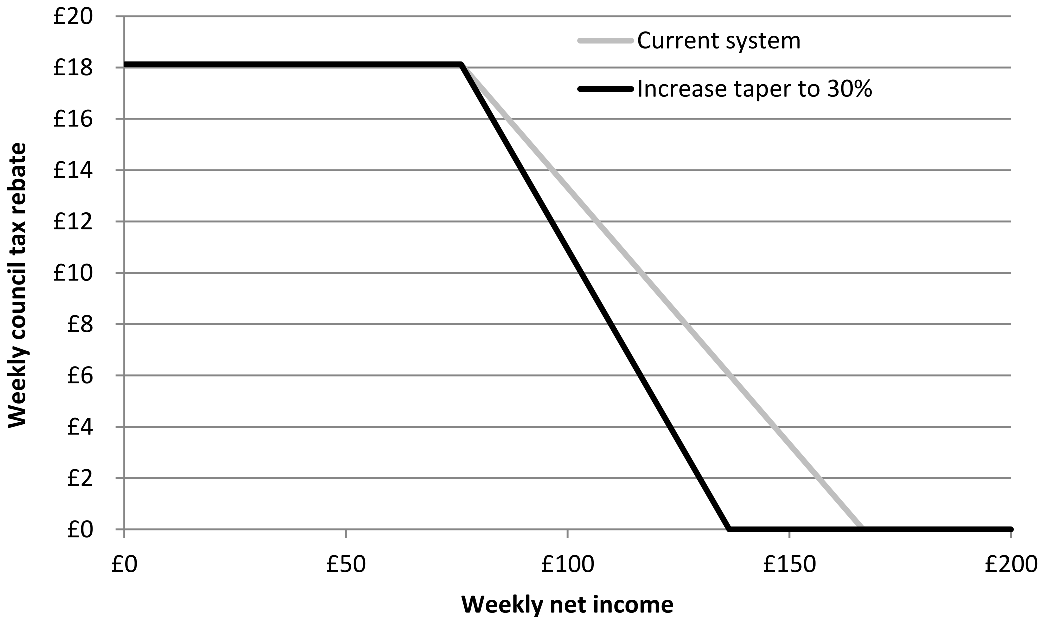
This reform would not change the incentive to live in bigger properties within Bands A to C, and it would remove the incentive to live in bigger properties within Bands D to H (I in Wales). But the 'cliff-edge' structure of the policy, whereby those living in Band C properties receive a full council tax rebate if they have a sufficiently low income whereas those in Band D properties receive no rebate at all, creates an artificial incentive to live in lower-band properties. The problem with the existing system is that CTB recipients, unlike others, do not have to pay the extra council tax that goes with a higher-value property, and therefore there is an incentive for CTB recipients rather than others to occupy high-value properties. This reform would create the opposite problem: while non-claimants moving to a bigger property would be faced with an increase from (say) Band C council tax to Band D council tax, claimants making the same move would now see their liability increase from zero (in the Band C property) to full Band D council tax. With an average Band D rate in England of £1,444, that is a large artificial incentive for low-income families not to move into a property in Band D or above, and for those in higher-band properties to downsize to Band C.

6.5. Reform 5: Increasing the taper rate from 20% to 30%

Increasing the taper rate protects those entitled to full CTB and reduces the amount of support for council tax received by those with higher incomes; though the largest losses are still towards the bottom of the income distribution (households in the second and third income deciles lose £10.67 and £9.14 per year on average, respectively). Means-testing support for council tax more aggressively mainly affects claimants who are in work, but have low levels of earnings – a particularly common situation for working lone parents.

Perhaps surprisingly, this reform would not reduce the cost of council tax rebates by very much if introduced nationally. We estimate that increasing the taper to 30% would reduce expenditure by only around 2% nationally. This is because the vast majority of CTB goes to those not in paid work, as we saw in Table 2.1.

Figure 6.3. Effect of Reform 5 on the amount of council tax rebate received by a single person without children by income



Notes: Assumes individual lives in a Band C property in an LA with average council tax rate.

Since this reform would reduce entitlement to support for council tax for those on the CTB taper, it is unsurprising that it reduces expenditure by a larger percentage in richer areas of Great Britain, where a smaller share of CTB expenditure goes on those entitled to maximum support, namely the south of England and East Anglia (see Figures B.5 and B.6). This is also reflected when we examine the impact of the reforms by IMD quintile in England in Figure 6.9: this reform saves more in less deprived areas where more claimants are on the CTB taper rather than being passported to full CTB.

Means-testing more aggressively leaves families' out-of-work income unchanged while reducing the support received at low levels of earnings. It therefore reduces the incentive for families to have someone in low-paid work. However, it can strengthen the incentive for some families to have a second adult in work: if the first partner's earnings put the family on the CTB taper, this reform will reduce the family's income with just that person in work and mean there is less support left to be withdrawn if the second partner works. Hence Table 6.4 shows average PTRs falling for people with working partners while rising for people without working partners.

Increasing the taper rate also has ambiguous effects on the incentive for those in work to increase their earnings. People who remain on the taper after the reform stand to lose 30p rather than 20p for each extra pound they earn, weakening their incentive to earn more. But the higher taper rate means that support runs out at a lower income level (see Figure 6.3) so around 550,000 fewer people are on the taper and facing this 30% withdrawal rate than face the current 20% withdrawal rate. Taking into account taxes and withdrawal of other means-tested benefits and tax credits, the overall mean EMTR falls by 0.4ppts, but within this there are around 140,000 fewer people with EMTRs between 80% and 90%: 120,000 more above 90% and 30,000 more below 80%. In assessing this, bear in mind that the distortion caused by taxes rises more than proportionately to the tax rate, so it is generally preferable to have two people on EMTRs of 85% than one at 75% and one at 95%.

Increasing the taper rate has clear attractions as a way to save money. It would protect the poorest claimants. Unlike the other reforms considered so far in this section, it would not require LAs to collect council tax from anyone currently receiving full CTB. It would reduce the number of people entitled to support and subject to means-testing. Its principal disadvantages are that it would save relatively little, and that it would reduce the incentive for families to have someone in work and further increase EMTRs for some of those already facing the weakest incentives to increase their earnings.

The consequences for work incentives suggest that LAs should not increase the taper rate much above 30%. With Housing Benefit tapered at a rate of 65% on the same measure of income, the current CTB taper rate of 20% already means that claimants can lose a total of 85p in these benefits for each extra pound earned. Increasing the taper rate for council tax rebates to 30% would mean some claimants losing 95p for each extra pound earned. And if council tax rebates were tapered at a rate in excess of 35%, some claimants would face an EMTR above 100%: they would be made worse off by increasing their earnings. That cannot be desirable.[98] Note that this calculation will change somewhat when Universal Credit is introduced, as discussed in Section 7.4.[99]

6.6. Reform 6: Only giving support to passported claimants

As discussed in Section 2.2, nearly two-thirds of CTB claimants are passported to full CTB entitlement through receipt of out-of-work income-replacement benefits (namely income support, income related Jobseeker's Allowance (JSA) and Employment and Support Allowance (ESA) and the Guarantee component of Pension Credit). Since recipients of these benefits have to be non-working with very low incomes, restricting eligibility to support for council tax to those entitled to these benefits would focus resources on those with the greatest needs and in the process make the administration of council tax rebates for LAs much simpler.

The losers from this reform would of course be the one-in-three CTB claimants who are not receiving one of the out-of-work benefits that passports families to full CTB. These families lose all of their support, an average of £620 per year. The losers are similar to the previous reform: claimants on the taper are, broadly speaking, those not passported to full support. Yet this reform is more regressive, because while increasing the taper rate imposes biggest losses on those near the end of the taper (as shown in Figure 6.3), removing all support from non-passported claimants by definition imposes biggest losses on those non-passported claimants receiving most support – those near the start of the taper. These are not high-income people: the largest loss both in cash terms and as a percentage of income is still for the lowest income decile, at £115.47 per year on average or 1.07% of income.

This reform would save more than any of the other changes we consider, reducing expenditure on support for council tax by 14.8%. This percentage varies by region of England and IMD quintile (see Figures B.5 and B.6), though not in a simple way. As discussed above, the biggest

[98] Mirrlees (1971) demonstrates formally that it is always possible to improve on a system that involves EMTRs above 100%.

[99] Taxes and withdrawal of other means-tested benefits and tax credits can lead to overall EMTRs even higher than the numbers mentioned in this paragraph. However, since Housing Benefit and CTB are assessed on income net of all these, overall EMTRs will not exceed 100% unless the combined taper rates of Housing Benefit and council tax rebates exceed 100%.

losers from this reform are neither the highest-income nor the lowest-income claimants; correspondingly, there is no strong pattern between more and less deprived areas. Geographically, the biggest saving is in London, where expenditure would fall by 18% and the smallest in East Anglia, where the saving would only be 11%. But these percentages reflect the proportion of claimants who are pensioners in each area as much as the share of support currently paid to working-age claimants who are not passported but still receive substantial support.

This reform would weaken incentives to be in paid work, on average, since support would no longer be available to those in work. The change is smaller than might be first thought: the mean PTR increases by only 0.2ppts. There are two reasons for this. First, because relatively few people are entitled to CTB when in paid work anyway, so incentives are not being weakened for many people. And second, because not everyone who is not in paid work is entitled to an out-of-work benefit and passported onto CTB. This includes many people with working partners, of course, and also people who have a small amount of unearned income and those who are entitled to contributory benefits such as contributory ESA. Such people see their out-of-work income fall by at least as much as their in-work income so their incentive to do paid work is actually strengthened.

Those who do see their incentive to do paid work weakened, though – those passported onto support when out of work whose earnings in work are (or would be) low enough for them to receive council tax support – are among those with the weakest incentives already, The 90th percentile of the distribution of PTRs would increase by 0.6ppts.

A particular concern with this policy is the 'cliff-edge', whereby people would immediately lose all of their council tax support as soon as they worked just enough to disqualify them from out-of-work benefits. Removing all entitlement from non-passported claimants drastically reduces the incentive to cross the threshold at which entitlement to out-of-work benefits runs out.

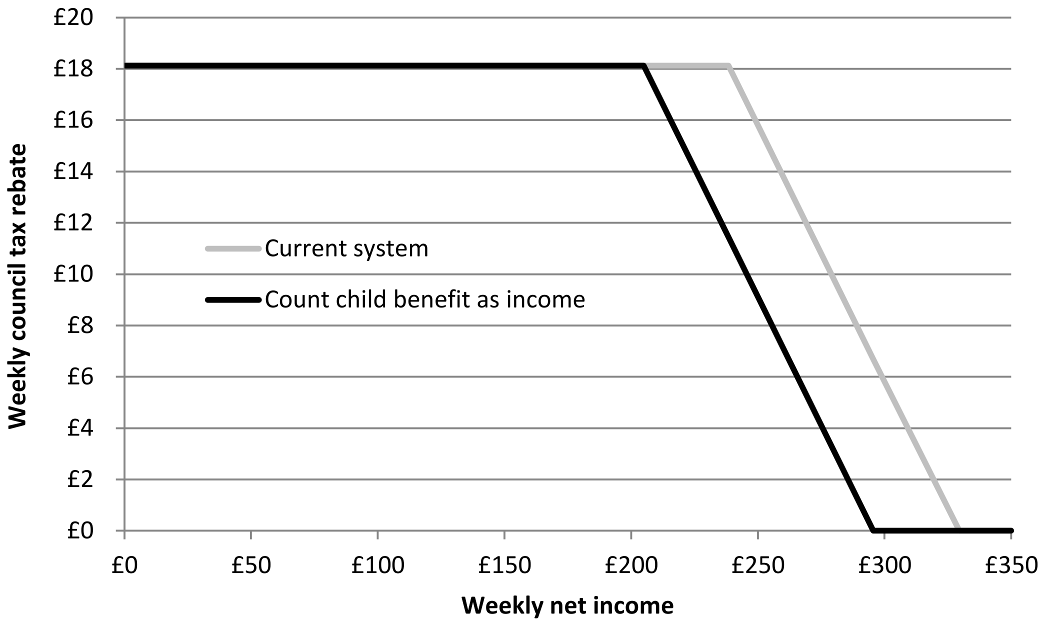
Once above this threshold, however, council tax support would no longer provide any disincentive to increase earnings. Effective marginal tax rates (EMTRs) would unambiguously fall under this reform: as claimants would either get all of their council tax rebated or nothing, there would be no one on the taper.

6.7. Reform 7: Counting Child Benefit as income

In April 2009, the then Labour government reformed CTB so that Child Benefit ceased to be counted as income for the means test. In effect, this increased the income level at which CTB started to be withdrawn for families with children: a giveaway to families with children on the CTB taper equal to up to 20% of the Child Benefit they received. The reform we model here is simply to reverse this increase in generosity.

The losers would therefore be families with children who are on the CTB taper (or are brought onto the taper by the reform), as illustrated in Figure 6.4. Only 1% of all households – 280,000 claimants – would lose an average of £226 per year from this reform. Lower-income families would continue to have no net council tax liability.

Figure 6.4. Effect of Reform 7 on the amount of council tax rebate received by a lone parent with two children, by income



Notes: Assumes individual lives in a Band C property in an LA with average council tax rate.

We estimate that counting Child Benefit as income would save 1.9% of total expenditure. As with increasing the taper rate, this is low because households with income in the affected range account for only a small fraction of CTB expenditure. As with increasing the taper rate, this reform would reduce the cost of council tax rebates by a larger percentage in the less deprived parts of Great Britain, in particular East Anglia and the south of England (see Figures B.5 and B.6). But the pattern is less pronounced, as in less deprived areas a smaller share of council tax support goes to families with children.

As with the previous two reforms, this option does not change the level of support for those with no private income but it reduces support for low-earning families, so it weakens the incentive for families to have someone in low-paid work while strengthening the incentive for some families to have a second earner. Table 6.3 shows that it increases the average PTR by a hefty 4.6ppts among lone parents and by 2.4ppts for those in couples with children without a partner in paid work, while it reduces the average PTR by 0.5ppts among those with children and a working partner.

Counting child benefit as income reduces both the point at which support starts to be withdrawn and the point at which entitlement is exhausted by the same amount. The only individuals who see their EMTRs affected by this are those brought onto the taper and those who go off the end of it. In practice, there are more of the latter, and they are more likely to be facing withdrawal of tax credits and Housing Benefit as well, so the number of people with EMTRs above 90% would fall by 150,000 as a result of this reform.

Note that an identical effect to this reform could be achieved by explicitly reducing the income threshold at which entitlement starts to be withdrawn (the 'applicable amount' described in Section 2.2) for families with children.[100] Though identical in its effect on entitlements and

[100] Specifically, this would involve reducing the child allowance by the amount of Child Benefit for second and subsequent children (leaving it equal to the child element of Child Tax Credit) and reducing the family premium by the difference between Child Benefit for the first child and Child Benefit for second and subsequent children (leaving it equal to the family element of Child Tax Credit).

slightly more complicated to describe, councils might find changing the income threshold technically easier to implement than changing the definition of income.

6.8. Reform 8: Reducing the single-person discount in council tax

This reform is rather different from the others we have analysed. Rather than changing how entitlements to support are calculated, it involves changing the underlying council tax liabilities. At present, one-adult households receive a 25% council tax discount. We model reducing this to 17.5%, although to retain consistency with the other reforms we assume that pensioners are protected (i.e. single pensioners continue to receive a 25% single-person discount). This reform would actually increase the cost of council tax support per se, since low-income single-person households would be entitled to more support to cover their higher council tax bills. But for those households the higher council tax and the higher rebates would cancel each other out (i.e. they would continue to pay little or no council tax), higher-income one-adult households would simply pay more council tax so LAs would receive more revenue overall.

LAs do not currently have the power to reduce the single-person discount, and the government's proposed reform will not give them that power. This is, therefore, a reform for central government to consider in future – or central government might consider giving LAs the power to change the single-person discount if they wish. Indeed, it is perhaps surprising that the government is not currently proposing to give them that power. The whole idea of the government's proposal is that LAs should decide for themselves what council tax reductions they wish to give to which groups. Not only is council tax support for low-income households being localised; LAs are also being given more discretion over discounts for second homes and empty properties. Yet this localisation is not being extended to the single-person discount: LAs will still be obliged to give a 25% discount to those who live with no other adults.

Moreover, reducing (or even eliminating) the single-person discount has strong attractions. Whether central government (or LAs) wants to redistribute away from single-person households towards the rest of the population is a matter of political preference, which is a value judgement we are not in a position to make. But from an economic efficiency point of view, offering a 25% council tax discount to single-person households is highly distortionary, leading to inefficient use of the housing stock as single-adult households occupy bigger properties, and other households smaller properties, than they otherwise would.

The losers from reducing the single-person discount would be single-adult households who are not entitled to means-tested council tax rebates.[101] Those claiming council tax rebates would see their entitlement increase by an amount equal to their additional council tax liability, and some who are not currently entitled to support would become entitled. Unlike the other reforms we have modelled, the top half of the income distribution would therefore lose more in cash terms than the bottom half (see Table 6.1). Nevertheless, Table B.2 shows that the bottom half would lose a larger percentage of their income than the top half. But that is for different reasons than the other reforms that we model: not because the revenue comes from low-income households who see their entitlements reduced, but because council tax itself is regressive, with gross liabilities increasing less than proportionally to property values and incomes, as discussed in Section 2. Non-take-up of council tax rebates also reduces the extent to which the poor are protected by this reform. Increasing single people's liabilities by a given percentage, even excluding those who claim means-tested support, is making a regressive tax bigger.

Making council tax bigger would correspondingly expand the scope of council tax rebates, extending means-tested support to 50,000 more people. Fifty thousand more people would therefore face losing 20p of support for each extra pound of net earnings. And with net council tax still zero for those with no private income but now higher for single people in well-paid work, the incentive for single people to do well-paid work would be reduced – though this effect seems

[101] It may be surprising to see that the loss from this reform among couples is not zero (Tables 6.3 and 6.4). This reflects the fact that students are not counted as 'visible adults' for the purposes of assessing council tax liability, so couples where one person is a student are entitled to the single person discount.

small, with average PTRs rising by just 0.1ppts for single adults without children and 0.3ppts for lone parents.

We estimate that reducing the single-person discount to 17.5% would strengthen LAs' finances by an amount equivalent to 10% of current CTB expenditure nationally, exactly offsetting the reduction in grants to pay for council tax rebates. This percentage will be highest in LAs that have a lot of single-adult households in high-band properties not entitled to CTB and that have low CTB expenditure. Unsurprisingly, therefore, it increases LA revenues by the most in the more prosperous south of England and in less-deprived LAs (see Figures B.7 and B.8).

6.9. Other possible reforms

Reforms that we do not analyse further in this section, but which LAs could choose to introduce, include:

- **Increasing non-dependent deductions.** 'Non-dependant deductions' reduce the householder's CTB to take account of incomes of other adult residents of the household who are assumed to make a contribution towards the bill (see Section 2.2 for more details). In practice, these apply to relatively few households so it is unlikely that much could be raised by increasing them in this way.
- **Abolishing Second Adult Rebate (SAR).** SAR is payable where only one person is liable for a household's council tax bill and there is a low-income non-dependant ('second adult') living in the household (see Section 2.2 for more details). Again, there are very few claimants of SAR (only 40,000 in 2006–07), meaning that this would save very little.
- **Tightening the asset test.** LAs could choose to treat capital more harshly than they do at present, either reducing the amount of savings that is disregarded (currently £6,000), increasing the amount of income each pound of savings is deemed to yield (currently each £250 of assets above the £6,000 disregard is deemed to yield £1 of income per week) or reducing the level of savings above which claimants receive no support (currently £16,000). In practice, none of these would significantly reduce expenditure on council tax rebates as few claimants have high levels of non-pension financial wealth.
- **Reducing applicable amounts.** LAs could reduce the income threshold at which council tax support started to be withdrawn. As discussed in Section 2, this threshold is currently set so that, in general, CTB starts to be withdrawn at the same income level as entitlement to out-of-work benefits is exhausted (the exception being for Child Benefit, discussed in Section 6.7 above). This would no longer be the case if applicable amounts were reduced. Those receiving a small amount of an out-of-work means-tested benefit would continue to receive a full council tax rebate through passporting; but claimants would face a 'cliff-edge' were they to increase their incomes from just below to just above the point at which entitlement to out-of-work benefits is exhausted, similar to that which they would face under Reform 6. This would leave some claimants worse off if they were to increase their earnings, creating a strong disincentive for them to do so.
- **Introducing a 'band' structure for council tax rebates,** e.g. giving a 100% rebate to those with incomes below £100 per week, a 75% rebate to those with incomes between £100 and £200 per week etc. Depending on the design of the scheme this could cost more or less than the current system, and would certainly be simpler. The problem would again be that the 'cliff-edge' reduction in support at the boundaries of bands would mean that some individuals would be worse off if they increased their earnings from just below a threshold to just above it; a strong disincentive for them to increase their earnings.
- **Removing entitlement from certain groups of claimants.** In this section we have considered removing entitlement altogether from claimants occupying properties in Bands D and above, and from claimants not passported to full entitlement by receipt of out-of-work benefits. LAs might instead identify other groups that might have their entitlement removed completely, though there are few obvious candidates.
- **Reforming band ratios.** Since those in lower-band properties are more likely to be entitled to CTB, one way of reducing the cost of council tax support would be to reform the band ratios in council tax to reduce council tax liabilities for low-band properties and increase them for high-band properties. This would have considerable merit in its own

right.[102] Like reducing the single-person discount, however, this is not something that is within the power of LAs in England and would require central government either to give local authorities that power or to make the change itself. This is also an option that the Scottish and Welsh governments could consider.

- **More radical reforms to the structure of council tax rebates.** LAs could choose to introduce council tax rebate schemes that look completely different from the existing CTB. Each of these would have its own pros and cons. For example, some EU countries provide no means-tested support and instead give non-means-tested exemptions from property tax to certain vulnerable groups; that is much simpler and has all the advantages of avoiding means-testing, but would only generate savings if the 'vulnerable groups' were defined very narrowly, leaving many low-income families paying council tax in full. Some US states have a 'circuit breaker' system, which caps property tax liabilities at a certain percentage of income, in effect converting the property tax into an income tax for those who qualify for the circuit breaker; while perhaps sounding simpler than the current means test it would mean collecting some net council tax from the poorest households, while giving money away to those middle-income households who do not currently qualify for CTB but whose council tax exceeds the relevant percentage of income.[103] Other, similarly radical, schemes could be devised. But given the short timescale for councils to put schemes in place for 2013–14, such radical reforms would seem unlikely in the short run.

6.10. Comparing the reforms

Table 6.1 presents some comparable statistics for the different reforms, while Table 6.2 summarises our analysis. Most of the reforms that we have examined have a certain amount in common. Since 85% of CTB goes to the lower-income half of households and almost half goes to the lowest-income fifth, it is unsurprising that making it less generous tends to hit predominantly poorer households. Making a means-tested benefit smaller also tends to reduce the extent to which it discourages work and saving. Nevertheless, there are significant differences between them.

Reforms 1 and 2, which reduce support for all claimants, impose the biggest losses on low-income households as a group (though reducing maximum entitlement to 85% of council tax is slightly less regressive than a 17% across-the-board cut). Reforms 3 and 4, which respectively reduce and eliminate support for those in higher-band properties, also involve starting to collect council tax from some households with little or no private income – indeed, they impose bigger losses on affected low-income households than across-the-board cuts – but only households in higher-band properties (disproportionately families with children) are affected, and in general these reforms are less regressive than across-the-board cuts. Means-testing support for council tax more aggressively – whether by increasing the taper rate (Reform 5), removing entitlement from non-passported families (Reform 6) or withdrawing support from families with children at a lower income level (Reform 7) – protects the very poorest, with the losses particularly concentrated on low-to-middle income households. Working lone parents are particularly likely to be among the low-income working families that lose from means-testing support more aggressively. The only reform considered here that significantly affects those in higher income groups is reducing the generosity of the single-person discount (Reform 8), because this discount is not means-tested: indeed, those in lower income groups who claim support with their council tax are protected from this reform as their support rises to cover higher council tax liabilities. But it is still lower-income households that lose the most from this reform as a percentage of their income.

The reforms we analyse would not all raise the same amount of revenue, and their revenue potential varies across the country. As we would expect, reforms that reduce entitlements for all recipients (Reforms 1 and 2) save roughly the same amount right across Great Britain (see Figures B.1 and B.2). The main differences occur as a result of differences in the proportion of

[102] Mirrlees (2011).
[103] These two proposals are examined by Clark, Giles and Hall (1999).

CTB expenditure going to pensioners in each area. In contrast, reforms that reduce the amount received by those in higher-band properties (Reforms 3 and 4) have dramatically different effects in the different regions of England: very few of those claiming CTB outside the south of England are in Bands C or above, meaning these changes have very little impact in those regions (see Figure B.3). Figure B.4 shows that the difference is much less dramatic by quintile of the IMD distribution: many London boroughs are very deprived but have high property values, meaning that these reforms would raise significant amounts in these deprived areas. Reforms that means-test support for council tax more aggressively (Reforms 5 to 7) and reducing the single-person discount (Reform 8) tend to save more in the less deprived parts of Great Britain, predominantly East Anglia and the south of England (see Figures B.5 to B.8).

Most of these reforms strengthen the incentive for individuals to do paid work on average, though the impact is small: the most any reform reduces the mean PTR is 0.3ppts. The biggest reductions result from reforms that reduce the maximum council tax rebate a family can receive (Reforms 1 to 4), since reducing their out-of-work income increases the difference between their income in and out of work. Although the reduction in average PTRs is small even for these reforms, PTRs fall most for those with the weakest incentives to work under the current system. Not all of the reforms reduce average PTRs, however. Those reforms that means-test support for council tax more aggressively (Reforms 5 to 7), have ambiguous effects. They tend to weaken incentives for families to have someone in paid work, but often strengthen incentives for couples to have a second person in paid work. These effects are most pronounced for Reform 7 (counting Child Benefit as income for the means test). And reducing the single-person discount (Reform 8) slightly weakens the incentive for single people (with or without children) to be in paid work, as the reform increases the council tax they must pay if they earned enough to disqualify them from means-tested support.

Table 6.1. Summary statistics for the different reforms

	Reform							
	1. 17% across-the board cut	2. Only refund 85% of council tax liability	3. Restrict to Band B	4. Remove entitlement from Band D and above	5. Increase taper to 30%	6. Only support passported claimants	7. Count Child Benefit as income	8. Reduce single-person discount
% of households losing	13%	13%	3%	1%	3%	4%	1%	22%
Average loss among losing families	£136	£132	£214	£987	£123	£620	£226	£87
Change in number entitled	-30,000	-290,000	-230,000	-890,000	-550,000	-2,570,000	-320,000	+50,000
Change in average PTR	-0.3%	-0.2%	-0.3%	-0.2%	+0.0%	+0.2%	+0.3%	+0.1%
Change in average EMTR	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.5%	-0.2%	+0.0%
% saving in:								
North East	9.2%	8.9%	0.9%	2.0%	2.0%	15.2%	1.9%	8.5%
North West	9.2%	8.8%	0.8%	0.9%	1.6%	13.4%	1.5%	9.1%
Yorkshire and the Humber	9.8%	9.3%	0.7%	0.9%	1.5%	13.6%	1.6%	8.0%
East Midlands	8.3%	8.2%	0.6%	0.5%	2.4%	11.2%	2.2%	10.8%
West Midlands	9.3%	8.9%	1.7%	2.4%	1.7%	13.5%	1.7%	8.5%
East Anglia	8.3%	8.6%	1.5%	1.0%	2.8%	10.5%	2.3%	12.2%
London	11.2%	10.7%	11.3%	23.8%	2.2%	18.5%	2.1%	14.0%
South East	9.5%	9.4%	5.9%	10.0%	2.5%	15.6%	2.3%	13.4%
South West	9.8%	9.8%	3.7%	7.7%	2.6%	14.7%	2.5%	9.9%
England	9.7%	9.4%	3.8%	7.2%	2.1%	14.7%	2.0%	10.7%
Scotland	9.5%	8.9%	3.2%	6.2%	1.6%	16.1%	1.0%	11.4%
Wales	9.8%	9.3%	4.9%	9.3%	1.7%	15.1%	1.5%	8.9%
Britain	9.7%	9.3%	3.8%	7.2%	2.0%	14.8%	1.9%	10.7%

Table 6.2. Comparing the reforms

Reform	*Who loses?*	*Need to collect tax from those with no private income?*	*Effect on work incentives*	*Other effects*	*% saving in cost of support nationally*	*How do % savings vary across the country?*
1. 17% across-the board cut	All claimants	Yes	Slightly strengthens incentive to do paid work and incentive to increase earnings		9.7%	Little variation, just reflecting % of support received by pensioners
2. Only refund 85% of council tax liability	All claimants	Yes	Slightly strengthens incentive to do paid work and incentive to increase earnings		9.3%	Little variation, mainly reflecting % of support received by pensioners
3. Restrict to Band B	Claimants in Bands C and above	Yes	Slightly strengthens incentive to do paid work and incentive to increase earnings	Reduces artificial incentive to occupy larger properties	3.8%	Saves much more where property values higher
4. Remove entitlement from Band D and above	Claimants in Bands D and above	Yes	Strengthens incentive for those in Bands D and above to do paid work and to increase earnings	'Cliff-edge' removal of support is a large disincentive to occupy higher-band properties	7.2%	Saves much more where property values higher
5. Increase taper to 30%	Claimants on the taper	No	Strengthens incentives for some, weakens for others		2.0%	Saves more in less deprived areas
6. Only support passported claimants	Non-passported claimants	No	'Cliff-edge' removal of support is a large disincentive to move off out-of-work benefits. No disincentive to increase earnings thereafter.		14/8%	Complicated pattern
7. Count Child Benefit as income	Families with children on, or brought onto, the taper	No	Strengthens incentives for some, weakens for others		1.9%	Saves more in less deprived areas
8. Reduce single-person discount	Single-adult households not entitled to	No	Slightly weakens incentive for single-adult households to do paid work and to increase	Reduces housing market distortion. Not within LAs' power	10.7%	Saves significantly more in less deprived areas

	support		earnings	on current proposals.		

Reforms 1 to 4 unambiguously strengthen the incentive for those in work to earn more, Reform 8 unambiguously weakens it, while Reforms 5 and 7 have offsetting effects on different groups. Reform 6, removing all entitlement from those not passported, is somewhat different from the others, drastically reducing the incentive to cross the threshold at which entitlement to out-of-work benefits runs out but removing the taper altogether for those who are above that threshold.

Finally, some of the reforms would have effects on patterns of housing occupation. Restricting entitlement to that for a Band B property (Reform 3) would reduce the incentive for claimants to occupy larger properties, while reducing the single-person discount (Reform 8) would reduce the incentive for non-claimants living alone to occupy larger properties. Both of these alleviate existing distortions. Removing entitlement altogether from those in Bands D and above would remove the incentive for claimants to live in bigger properties within Bands D to H (I in Wales), but more importantly would introduce a new distortion: a big incentive for claimants to live in properties below Band D.

6.11. Conclusions

There are many different ways in which LAs could reform council tax support for those of working age to reduce its cost. In this section we have focused on some reforms that take the existing system of CTB as a starting point and introduce changes that make the system less generous. This is by no means an exhaustive list of possible changes that could be made to the current system, and of course LAs could introduce more radical changes to the structure of support for council tax. And the effect of different reforms would vary, in some cases dramatically, across the country. Nevertheless, given the progressive nature of CTB it is difficult to find money-saving options that would not primarily hit poorer households. All the reforms we consider that are within LAs' power to introduce affect those with low incomes more than higher-income families. Some options would reduce support for those with the lowest incomes, leaving LAs with the unenviable task of collecting small amounts of council tax from those with very low incomes – something that proved famously difficult under the poll tax. Reforms that means-test support for council tax more aggressively moderate the impact on those with the very lowest incomes. As ever though, there is a trade-off between protecting those with the lowest incomes and the impact of reforms on incentives to work, and reforms that means-test support for council tax more aggressively lead to weaker work incentives than those that reduce support for all claimants.

The one reform we consider that raises revenue predominantly from those with higher incomes is reducing the 25% single-person discount in council tax. However, this is a reform that LAs in England do not have the power to introduce at the moment. Central government should consider either making this change itself or, in the spirit of localisation, giving LAs the power to do so if they see fit.

7. Integration with Universal Credit

Summary

- To achieve an appropriately designed benefit system councils would have to consider carefully how their new council tax rebate schemes will work alongside Universal Credit, which will ultimately replace all means-tested benefits and tax credits for those of working age.
- Universal Credit is intended to simplify the benefit system by reducing the number of different benefits that claimants and administrators must contend with. Keeping council tax support (the means-tested benefit with the largest number recipients) separate – and indeed allowing it to vary across the country – severely undermines this simplification. Universal Credit is also intended to rationalise work incentives by replacing a jumble of overlapping means tests with a single one, ensuring that overall effective tax rates cannot rise too high. Again, separate means tests for council tax support could undermine this, with the potential to reintroduce some of the extremely weak work incentives that Universal Credit was supposed to eliminate. It is difficult to think of reasons why fully integrating CTB into Universal Credit would be inferior to what is now being proposed.
- Designing council tax rebate schemes to work alongside Universal Credit as smoothly as possible poses a number of challenges. One of the key issues is whether to count Universal Credit as income in the means test for council tax rebates. It would be simpler not to. However, this would mean that people facing withdrawal of both Universal Credit and council tax rebate (as well as paying income tax and National Insurance contributions) would stand to lose 90p of each extra £1 earned, compared to 81p if Universal Credit was counted as income for the means test (assuming the current 20% withdrawal rate for council tax support).
- A council tax rebate system that did not count Universal Credit as income in the means test would also mean that income from private pensions, contributory benefits and spousal maintenance would actually make some recipients worse off, unless these income sources were ignored when calculating council tax rebates, which would be expensive for local authorities. This arises because income from these sources will reduce Universal Credit entitlement on a pound-for-pound basis.
- One way to avoid any overlap between the means test for council tax rebates and that for Universal Credit would be to withdraw rebates rapidly as soon as income rose above zero and to limit maximum rebates so that they were already completely withdrawn by the time Universal Credit started to be withdrawn. As well as avoiding very high effective tax rates, limiting maximum entitlements and means-testing aggressively in this way would save councils a great deal of money – on average more than the 10% by which funding is being cut – but would cut support very severely for some, notably single people without children, from whom Universal Credit starts to be withdrawn at a very low income level.
- A second issue raised by the introduction of Universal Credit is that particular benefits that are currently used to 'passport' people automatically to maximum CTB entitlement will cease to exist as they are subsumed within Universal Credit. At present two-thirds of CTB recipients are passported in this way, and if all these people needed to go through a full means test in order to receive support, the burden on both claimants and local authorities would increase substantially. One way to mitigate this would be for central government to transfer Universal Credit data to local authorities, so that they could use it in their means tests without having to ask claimants for the information again – if the IT systems can be set up to achieve this data transfer in a timely and efficient way.

The localisation of responsibility for support for council tax in April 2013 will come shortly before the introduction of Universal Credit in October of the same year. Universal Credit will eventually replace six of the seven main existing means-tested benefits and tax credits for those of working age.[104] CTB is the

[104] Namely Income Support, income-based Job Seekers' Allowance, income-based Employment and Support Allowance, Housing Benefit/Local Housing Allowance, Child Tax Credit and Working Tax Credit. From January

seventh. The government's welfare reform White Paper of November 2010, which outlined its plan for Universal Credit, in fact modelled it as subsuming CTB as well, though acknowledging that the announcement three weeks earlier that CTB would be localised meant that this modelling policy would not be the version ultimately implemented. English LAs and the Scottish and Welsh governments must therefore decide how the council tax rebates they are designing will operate alongside Universal Credit.

But the current set of means-tested benefits and tax credits will co-exist with Universal Credit for a long period of time as a result of the long phase-in of Universal Credit. New claimants of out-of-work benefits will have to claim Universal Credit from October 2013, and new claims of housing benefit and tax credits will cease from April 2014, but existing claimants will only gradually be moved across to Universal Credit. This process will not finish until March 2018. It is therefore critical that the systems of support for council tax that LAs introduce interact in a coherent way with both the existing system of means-tested benefits and tax credits and Universal Credit. In this section, we discuss the issues involved with creating a system of council tax rebates that achieves coherence with Universal Credit and suggest some options.

7.1 How Universal Credit will work[105]

The main advantages of Universal Credit lie in the more integrated structure of the benefits system it brings about and the stronger incentives it gives to do paid work. Broadly speaking, out-of-work benefit rates are unchanged by the introduction of Universal Credit, earnings below a threshold do not affect a family's benefit award and then net earnings above the threshold reduce entitlement to Universal Credit by 65p for each additional pound of income above the threshold. Figure 7.1 shows a budget constraint (the relationship between hours of work and income after taxes and benefits) for an example lone parent before and after the introduction of Universal Credit, ignoring council tax and its associated rebates.

Throughout this section we analyse the latest version of Universal Credit as described in the government's White Paper and as amended by decisions announced in Department for Work and Pensions (DWP) 'Universal Credit briefing notes'.[106] There are several decisions about the design of Universal Credit that have not yet been made: in particular, how eligibility for passported benefits in kind (such as free school meals) will be decided under Universal Credit and how the system of support for mortgage interest will be designed. We therefore ignore these components of the benefit system in our analysis. It is also possible that further changes to the design of Universal Credit will be made before it is introduced: Budget 2012 stated that the additional costs of Universal Credit will be capped at £2.5 billion a year in the next spending review period, which might mean that the system has to be made less generous.[107] The final design of Universal Credit will be announced in autumn 2012.

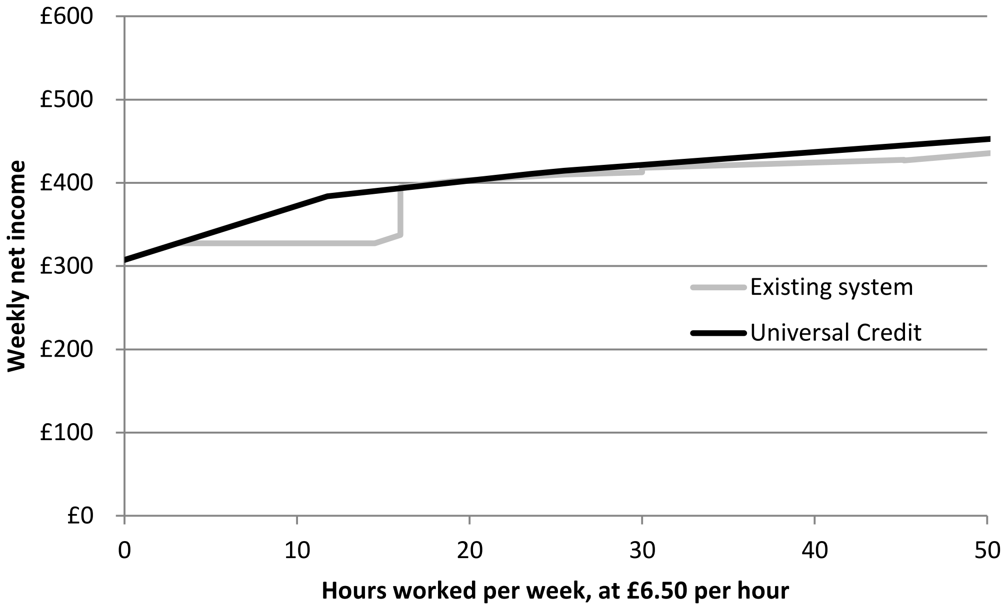
2013 Child Benefit will also be subject to a form of means test, but is not being brought within Universal Credit.

[105] For a fuller analysis of Universal Credit, see Brewer, Browne and Jin (2012).

[106] http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/welfare-reform-bill-2011/universal-credit-briefing/.

[107] DWP (2011) suggests that the long-run cost to the exchequer of Universal Credit will be £2 billion per year, but in the short run the cost may be higher than this because of transitional protection for existing claimants: those whose entitlement to Universal Credit is lower than their existing receipt of means-tested benefits and tax credits will see their payments topped up to the level of payments they previously received at the point they are transferred to Universal Credit. So additional spending capped at £2.5 billion including transitional protection may mean being less generous to new claimants than envisaged in the White Paper and assumed in this report.

Figure 7.1. Budget constraint for a lone parent with two children before and after the introduction of Universal Credit, ignoring council tax and associated rebates



Notes: Assumes lone parent with two children who can choose how many hours to work at a given wage rate, £6.50 per hour, and has rent of £80 per week, no disability and no other income.

The budget constraint in Figure 7.1 is just for one example individual, but it illustrates a number of the key effects of Universal Credit. The key changes Universal Credit makes to this budget constraint are:

- Under the current system, out-of-work benefits are withdrawn on a pound-for-pound basis when income increases above a small disregard. Under Universal Credit, the disregard will be much larger, strengthening the incentive for this lone parent to undertake only a few hours of paid work each week, and above the disregard Universal Credit is withdrawn at a slower rate than out-of-work benefits.
- The lone parent becomes eligible for Working Tax Credit when they work 16 or more hours per week and receives an extra payment if they work 30 or more hours per week, leading to jumps in the budget constraint at these points. There will be no equivalent payment under Universal Credit, leading to a much smoother budget constraint.
- EMTRs above the threshold at which Universal Credit starts to be withdrawn are lower than under the current system, but still relatively high. When the lone parent works more than 16 hours per week and increases their earnings under the current system, they lose more than 90p of each additional pound earned through a combination of income tax, National Insurance Contributions and withdrawal of tax credits and housing benefit. The EMTR falls under Universal Credit to 76.2%:[108] the integrated benefit scheme means that only one benefit is withdrawn, removing the very high EMTRs that can exist under the current system when benefits are withdrawn simultaneously.

Although Universal Credit by itself leads to a reduction in the highest overall EMTRs, the fact that council tax rebates will remain separate from Universal Credit still leads to the possibility that two strands of

[108] This EMTR is higher than the 65% Universal Credit taper rate because of income tax and NICs. This is because the lone parent is a basic-rate taxpayer (meaning she pays an additional 20p in income tax for each additional pound earned) and pays employee NICs (meaning she pays an additional 12p in employee NICs for each additional pound earned). The income assessment for Universal Credit is based on income after income tax and National Insurance, meaning that the amount of Universal Credit received falls by 65% of the remaining 68p, which is 44.2p. Thus the overall EMTR is 20p plus 12p plus 44.2p, which equals 76.2p.

support will be withdrawn simultaneously, creating EMTRs that are nearly as high as under the current system. Indeed, if council tax rebates continue to have a 20% withdrawal rate and Universal Credit is not counted as income for the purposes of the means test, the maximum EMTR for a basic rate taxpayer will be 89.8%[109] – extremely high, even if not quite as high as can occur under the current system, which has a 100% taper rate of out-of-work benefits (Income Support, income-based Jobseeker's Allowance and income-related Employment and Support Allowance) and can also generate an EMTR of just under 96% for someone working more than 16 hours per week if they face withdrawal of tax credits, Housing Benefit and CTB simultaneously. There is therefore a clear risk that council tax rebates will undermine one of the main advantages of Universal Credit, namely the elimination of the very highest EMTRs that exist in the current tax and benefit system.

7.2. The design of council tax rebates in a Universal Credit world

Universal Credit opens up possibilities for the design of council tax rebates that would not be practical or sensible in the current system. With Universal Credit in place, it would be possible to withdraw council tax rebates from a lower level of earnings than under the current system. As previously mentioned, under the current system out-of-work benefits are withdrawn on a pound-for-pound basis when income rises above a small disregard. CTB cannot therefore be withdrawn over this range of income without creating EMTRs of greater than 100%: the benefit system is designed such that CTB generally starts to be withdrawn at the point where entitlement to out-of-work benefits is exhausted. Under Universal Credit, the removal of 100% benefit withdrawal rates means that there is scope to withdraw council tax rebates from lower income levels. This may help to prevent the situation where council tax rebates are withdrawn over the same range of income as Universal Credit, creating the very high EMTRs described above (though by reducing support at low levels of income it would of course weaken the incentive for families to have someone in paid work at all). It would also reduce the cost of council tax rebates for LAs. We return to this idea later in this section.

As well as opening up new possibilities for the design of rebates, Universal Credit also necessitates some decisions where sticking with the status quo – that is, broadly replicating the existing CTB – will no longer be an option.

One key issue that arises is whether LAs choose to count Universal Credit as income for the purposes of the means test for council tax rebates. Which option LAs choose has consequences for other issues that arise, as we discuss in sub-section 7.2.1 below.

The other key issue surrounding the move to Universal Credit is the passporting of entitlement to full council tax rebate, as the benefits that are currently used to identify those who are entitled to full CTB are being abolished. In sub-section 7.2.2 we discuss the consequences of this.

7.2.1. Treatment of Universal Credit in the means test

When Universal Credit is introduced, English LAs and the Scottish and Welsh governments will need to decide whether or not to include it in income for the purpose of means-testing council tax rebates.

Since Universal Credit never existed when CTB was in place, there is no direct precedent to draw on. Some of the things that Universal Credit is replacing do count as income for CTB (notably tax credits), while others do not (Income Support, income-based Jobseeker's Allowance, income-based Employment and Support Allowance and Housing Benefit). So either option – counting Universal Credit or ignoring it – would involve a change from the status quo.

Whether to count Universal Credit as income is not just a technical question. Measuring someone's income as, say, £200 per week higher (not an untypical Universal Credit entitlement) could potentially wipe out any entitlement to council tax rebates. It could be impossible even for those with no private income at all to be entitled to maximum rebate. But importantly, it need not necessarily mean that. If

[109] In this case, as well as losing Universal Credit at a rate of 65%, support for council tax would be reduced at a rate of 20%. Therefore, the total reduction in the amount of means-tested support received would be 85% of 68p, which is 57.8p, making a total of 89.8p lost for each pound of additional earnings once income tax and employee NICs were also taken into account.

Universal Credit were counted as income, the income threshold at which rebates started to be withdrawn (the 'applicable amount') could be increased to mirror the family's maximum Universal Credit entitlement, so that only income above that reduced the family's entitlement to rebates. That is, for example, the way in which Child Tax Credit is currently treated in CTB: allowances in CTB mean that families that have no private income still receive full CTB even if they also claim the Child Tax Credit to which they are entitled. [110]

This option – counting Universal Credit as income but introducing a corresponding allowance in the means test – may appear to be a rather roundabout way of ensuring that Universal Credit does not reduce entitlement to council tax rebates for those with no private income. It is certainly more complicated than simply ignoring Universal Credit for the means test. But it has an important advantage. Making two income assessments sequential rather than simultaneous, or in other words calculating one of them on income measured after the other, rather than using the same income measure for both, moderates the combined EMTR.[111]

Table 7.1 illustrates how this would work for someone earning an extra £100 if we had a tax rate of 32% (the current basic rate of income tax plus employee NICs), a withdrawal rate of 65% for Universal Credit (as is currently proposed) and a withdrawal rate of 20% for council tax rebates (the same as in CTB at the moment). Universal Credit will be assessed on income after income tax and employee NICs, so someone earning an extra £100 loses £32 of that in tax and a further £44.20 (65% of the remaining £68) in withdrawn Universal Credit, leaving her with £28.30 . Withdrawal of council tax rebate at a rate of 20% based on the same measure of income as Universal Credit would mean losing a further £13.60 (20% of £68), leaving her with only £10.20 of her original £100: an overall EMTR of 89.8%. But if council tax rebates were assessed on income including Universal Credit, she would lose only a further £4.76 (20% of £28.30), leaving her with £19.04: an EMTR of 80.96%.

In other words, counting Universal Credit as income means that when someone increases their earnings, the fact that their Universal Credit entitlement falls is taken into account and moderates how much council tax rebate is withdrawn by the means test.

Table 7.1. Sequential versus simultaneous income assessment

	Rebates assessed on income after tax	*Rebates assessed on income after tax and Universal Credit*
Extra earnings	£100	
Tax due	32% of £100 = £32	
Universal Credit withdrawn	65% of (£100-£32) = £44.20	
Council tax rebate withdrawn	20% of (£100-£32) = £13.60	20% of (£100-£32-£44.20) = £4.76
Extra net income	£100–£32–£44.20–£13.60 = £10.20	£100–£32–£44.20–£4.76 = £19.04
EMTR	(£100–£10.20) / £100 = 89.9%	(£100–£19.04) / £100 = 80.96%

[110] In particular, Child Tax Credit is counted as income, but the child allowance in CTB is set equal to the child element of Child Tax Credit plus the rate of child benefit received by the second and subsequent children and the family premium is set equal to the family element of Child Tax Credit plus the additional amount received for the first child in child benefit. The eagle-eyed reader will have noticed that there are allowances in CTB that are set equal to the amount of child benefit a family receives, even though Child Benefit is not counted as income for the CTB means test. This was a relatively recent innovation introduced in April 2009, when Child Benefit ceased to be counted as income for the purposes of the CTB and Housing Benefit means tests. The effect of this reform was to give families an allowance that could be used against earned income equal to the amount of Child Benefit they receive.

[111] See Section 5.3.2 of Mirrlees et al. (2011) for a discussion of this.

This effect of moderating the highest EMTRs is not a free lunch. There is a trade-off between the level of the maximum EMTR and the number of people subject to high EMTRs: effectively lowering the withdrawal rate for council tax rebates in this way brings more people onto the council tax rebate taper, increasing their EMTRs. But, as we mentioned in Section 6.5, there is a premium on moderating the highest EMTRs since the distortion caused by taxes rises more than proportionately to the tax rate: it is generally preferable to have two people on EMTRs of 85% than one at 75% and one at 95%.

The fact that some of the benefits that Universal Credit is replacing count as income for CTB at the moment and some do not means that changes will have to be made in the new council tax rebates whether or not Universal Credit is counted as income:

- If Universal Credit is not counted as income, this will mean that the components of Universal Credit that replace Child Tax Credit will no longer be counted as income for the council tax rebate means test. In other words, the allowances that exist to cover Child Tax Credit will no longer be needed under Universal Credit, and would merely serve to increase the level of private income families with children could have before their council tax rebate started to be withdrawn. These allowances could be reduced by the maximum amount of Child Tax Credit a family could receive to account for the fact that families were no longer receiving the Child Tax Credit that previously offset these allowances. However, in the short run, there would need to be provisions for those who had not been transferred to Universal Credit and were still claiming Child Tax Credit. One obvious option would be to have different council tax rebate means tests for those on Universal Credit and those on the current system of means-tested benefits and tax credits.[112]
- If Universal Credit is counted as income, there are already allowances that are set equal to the components that replace Child Tax Credit and out-of-work benefits in CTB.[113] There is not, however, an allowance to cover families' entitlements to Housing Benefit. Therefore, any family with no private income claiming the rent component of Universal Credit would no longer receive a full council tax rebate as the amount of Universal Credit they received would be greater than their allowances in council tax rebate. This could be overcome by introducing an allowance equal to a household's eligible rent in council tax rebates to offset the rent component of Universal Credit. For those still claiming the existing set of benefits and tax credits, Housing Benefit could also be counted as income for the purposes of the means test for council tax rebates. This would reduce the EMTR of those claiming both Housing Benefit and council tax rebates because these benefits would be means-tested sequentially rather than simultaneously (see above).

The problem of Universal Credit and council tax rebates being withdrawn over the same income range could be avoided entirely by ensuring that entitlement to council tax rebates is already exhausted by the point that Universal Credit starts to be withdrawn. This can be achieved by setting maximum amounts of council tax rebate such that at the point at which eligibility runs out is equal to (or lower than) the point at which Universal Credit starts to be withdrawn. We explore an option that achieves this in Section 7.3.

Particularly if Universal Credit is not counted as income in the council tax rebate means test, questions arise around the treatment of unearned income and childcare.

- Unearned income from private pensions, contributory benefits and spousal maintenance is treated very harshly in the Universal Credit means test. If the new council tax rebates use the same means test as CTB without counting Universal Credit as income, it would lead to a situation where additional income from these sources made some people worse off. This issue does not arise if Universal Credit is counted as income (see Box 7.1).

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[112] Alternatively, Child Tax Credit could cease to be counted as income in the means test for council tax rebates. However, this would lead to EMTRs in excess of 100% for those on the tax credit, Housing Benefit and council tax rebate tapers because of the problems of simultaneous income assessment discussed above.

[113] As previously discussed, the allowances to cover Child Tax Credit exist because Child Tax Credit is counted as income for the CTB means test. The allowances that are set equal to a family's entitlement to out-of-work benefits exist to ensure that CTB does not start to be withdrawn until entitlement to out-of-work benefits is exhausted. (Out-of-work benefits are withdrawn on a pound-for-pound basis so allowances set equal to these benefits achieve this objective.)

- If Universal Credit is not counted as income in the means test for council tax rebates, LAs will have to choose between making support for childcare significantly more generous or significantly less generous than it is at the moment for some groups: it is impossible to replicate the current system of support for childcare closely for all groups. If Universal Credit is counted as income, the position is simpler, with little change from the current situation except for some reduction in the generosity of childcare subsidies to those currently receiving Housing Benefit (see Box 7.2).

Box 7.1. Unearned income

Universal Credit treats certain forms of unearned income (namely income from private pensions, contributory benefits and spousal maintenance) much more harshly than Housing Benefit and tax credits do at the moment: income from these sources will reduce entitlement to Universal Credit on a pound-for-pound basis, with no disregard. The CTB means test currently counts income from these sources and applies the same 20% withdrawal rate to this income as to income from other sources; if LAs continued to apply similar rules in their council tax rebates after the introduction of Universal Credit and did not count Universal Credit as income in the means test, people who were on both Universal Credit and council tax rebate tapers would find that an extra £1 of income from these sources would reduce total entitlement to means-tested support by £1.20: they would be better off without this income.

One solution would be to ignore income from these sources in the means test for council tax rebates. Universal Credit would continue to apply a 100% taper rate to this income, but it would not affect the amount of council tax rebate received. This would be an expensive solution, however: it would increase the cost of council tax rebates by about £150 million nationally.

Note that this problem would not arise if Universal Credit were counted as income for the purposes of the means test for council tax rebates. In that case, if unearned income increased by £1, Universal Credit would fall by £1, leaving total income for the purposes of the means test for council tax rebates (and hence council tax rebates themselves) unchanged.

Box 7.2. Childcare

Currently, childcare costs up to a maximum of £175 per week for one child and £300 per week for two or more children are deductible from income for the CTB means test. This deduction exists because without the disregard, families on CTB would not receive the full benefit of the childcare element of the Working Tax Credit (WTC). WTC subsidises 70% of eligible childcare costs (up to those limits): another pound of spending on childcare increases a family's WTC by 70p. But WTC is counted as income in the CTB means test, so without the CTB childcare disregard, the extra 70p of WTC would in turn reduce CTB entitlement. The childcare disregard instead means that those on the CTB taper see their income for the CTB means test fall by 30p when they spend additional pound on childcare: this arises because the childcare disregard means that their income for the purposes of the CTB means test falls by £1, but it is then increased by 70p by the additional WTC they receive. This in turn leads to the amount of CTB received increasing by 6p (20% of 30p). Thus, a family on both the CTB and tax credit tapers can receive an effective childcare subsidy of 76% – more than that from WTC alone – and a family that is also on the taper for Housing Benefit (which has a similar disregard) can receive an effective childcare subsidy of 95.5%.

Universal Credit, like WTC, has a 70% subsidy for childcare costs, up to the same limits. So if Universal Credit were counted as income for the purposes of the means test for council tax rebates, the situation would remain much the same as at present with the WTC subsidy: those on both the Universal Credit and council tax rebate tapers would continue to receive an effective subsidy of 76% towards their childcare costs. This would represent no change for those not also entitled to Housing Benefit, but would represent a reduction in generosity for those who were previously entitled to Housing Benefit: when Housing Benefit will be integrated within Universal Credit, the effective subsidy for this group will fall from 95.5% to 76%.

However, if Universal Credit were not counted as income in the council tax rebate means test, the position is different. Leaving the childcare disregard in place in council tax rebates would lead to an increase in the generosity of the childcare subsidy for most groups. In this case, a £1 increase in childcare spending would lead to a £1 fall in the measure of income used to determine entitlement to council tax rebates and hence a 20p increase in the amount of rebate received. Thus, a family on both the Universal Credit and council tax rebate tapers would receive an effective subsidy of 90% towards their childcare costs. This is more than a family on the tax credit and CTB tapers currently receives, but still slightly less than is received by a family that is also on the Housing Benefit taper. Alternatively, if the childcare disregard were abolished, the Universal Credit childcare subsidy would not affect families' entitlements to council tax rebates at all and the overall childcare subsidy would be 70%. This is the same amount received by those on tax credits at the moment, but less than is received by those also on Housing Benefit or CTB.

7.2.2. Passporting

Currently, anyone receiving means-tested out-of-work benefits is automatically passported to full CTB without having to go through another means test. Under Universal Credit, these out-of-work benefits will no longer exist as a way of identifying those who would be entitled to full CTB. At present two-thirds of CTB recipients are passported in this way; if all these people needed to go through a full means test in order to qualify for rebates, the burden on both claimants and local authorities would increase substantially.

It is tempting to seek an equivalent kind of passport that could be operated under Universal Credit: a simple yes/no indicator that could be used to grant maximum entitlement to rebate without the rigmarole of a full means test. There are many candidates for such an indicator that could serve as a passport: being out of work; receiving maximum Universal Credit; having a Universal Credit award that includes certain elements (a disability element or a child element, for example); being exempt from benefit conditionality (work search requirements etc.); and so on. Any of these could indeed be used as a passport, and some LAs might adopt them. But unlike the existing CTB passport, none of these identifies *exclusively* people who would qualify for maximum rebate anyway if the underlying means test operates like the current CTB one. (To see this, consider someone in any of the groups listed and suppose they have large amounts of unearned income or financial assets.) Using a passport like this would therefore extend entitlement to some who do not currently have it, and also create an undesirable 'cliff-edge' whereby a small change that disqualifies someone from the passport leads to a large reduction in support as their entitlement falls to its underlying level. A relatively tightly defined passport would minimise these problems, but it would also likely passport a relatively small number of people to full rebate entitlement, and so do correspondingly little to ease the burden on claimants and administrators. Under Universal Credit there will be no straightforward indicator that accurately identifies only (and ideally the majority of) those people who would be entitled to maximum support under a CTB-style means test.

One way of reducing the burden of means-testing for claimants and administrators would be for DWP to give LAs information collected by them for the purposes of administering Universal Credit. Almost all working-age claimants of the reformed council tax rebates will be entitled to Universal Credit, and the information needed by DWP to calculate their Universal Credit entitlement would probably include all the information LAs would need to administer council tax rebates without having to collect the same information a second time from claimants. Furthermore, DWP proposes to use real-time information on earned income collected through the PAYE income tax system as part of this process, meaning that such information would be likely to be more up-to-date and accurate than that provided by claimants themselves. But the technical difficulties in getting such a system set up to work effectively should not be underestimated – one need only look back to the introduction of the current system of tax credits in 2003–04 to see the potential for problems. Indeed, it has been reported that the IT system for the administration of Universal Credit was placed at the top of HM Treasury's Risk Register of government projects.[114] Requiring this system to transfer large amounts of data to LAs in a secure, timely and accessible way would only add to the potential difficulties.

The issues raised by the abolition of passporting benefits are not only practical ones. In one specific case it raises the question of who should be entitled at all: Second Adult Rebate. At present, eligibility for Second Adult Rebate is conditional on receipt of an out-of-work means-tested benefit. As described in Section 2.2, single people living in households with those who are on one of these benefits are entitled to a 25% council tax rebate if this is greater than their entitlement to main CTB. This prevents a situation where people in this position would have a disincentive to allow those on out-of-work benefits to live in their home, since if they lived alone they would be entitled to a 25% single-person discount and those on out-of-work benefits are unlikely to be able to contribute to the additional council tax liability. LAs might therefore want to continue a similar system after the introduction of Universal Credit; but the current rules will no longer work. By default, Second Adult Rebate will simply cease to exist: since nobody will be receiving a qualifying benefit, nobody will be eligible for Second Adult Rebate. Attempt to replicate the existing system 'manually' – that is, calculating who would have been entitled to a qualifying benefit in the absence of the reform – would undoubtedly involve higher administration costs for LAs and compliance costs for claimants, as information would need to be given on the incomes of all members of the household. This problem is not a major one, however, simply because Second Adult Rebate is not a very important component of the current CTB system: few households are entitled, and of these relatively few claim their entitlement. Administrative data show that in 2006–07 (the latest year of data available) only around 40,000 of the 350,000 eligible households claimed the Second Adult Rebate they were entitled to, corresponding to £10m of the £50m of entitlements. In our analysis in this section we therefore ignore Second Adult Rebate in both the pre- and post-Universal Credit systems.

7.2.3. Summary

There is no simple way that making only minimal changes to CTB will allow the new council tax rebate systems to interact with Universal Credit in a coherent way. The abolition of out-of-work benefits will mean that it will no longer be possible to give claimants of these benefits a full council tax rebate automatically or to identify those households entitled to Second Adult Rebate. The two-thirds of claimants who are currently passported to full CTB might therefore have to be put through a full means test in order to receive support, increasing the burden on both claimants and LAs. One way to alleviate this burden would be for central government to transfer Universal Credit data to local authorities, so that they could use it in their means tests without having to ask claimants for the information again – if the IT systems can be set up to achieve this data transfer in a timely and efficient way.

There are many other questions that will have to be answered, particularly around the treatment of unearned income and childcare expenditure in the means test. But the decision made about each of these issues will have to be made in tandem with the bigger decision of whether to count Universal Credit as income in the council tax rebate means test. Counting Universal Credit as income would be preferable in moderating the highest EMTRs and requiring fewer changes to the treatment of unearned income and childcare. However, not counting Universal Credit as income would allow those with low levels of earnings to continue to receive the high rates of childcare subsidy they do at the moment (and which would otherwise fall to 70% when Universal Credit was introduced). It would also have the advantage of simplicity from an administrative point of view, as LAs would not have to check with DWP how much Universal Credit each family was receiving.

In the next sub-section we examine three specific ways in which council tax rebates could be designed in a coherent way with Universal Credit.

7.3. Some specific options

This section examines three ways in which council tax rebates could be designed to interact with Universal Credit in a coherent way. In each case, we examine the cost of that particular option (and ways in which expenditure could be reduced in order to save the requisite 10% of current spending if

[114] 'George Osborne is warned of disaster over welfare reforms', *Daily Telegraph*, 25 September 2011 (http://www.telegraph.co.uk/news/politics/labour/8788299/George-Osborne-is-warned-of-disaster-over-welfare-reforms.html).

necessary), its distributional impacts and its effect on work incentives. The three options that we consider are as follows:

- Option 1: Ignore Universal Credit for the purposes of the means test for council tax rebates, and remove the allowances that are set equal to a family's maximum entitlement to out-of-work benefits and tax credits.
- Option 2: Count Universal Credit as income for the purposes of the means test for council tax rebates, and introduce an allowance that is set equal to a family's entitlement to the rent component of Universal Credit.
- Option 3: Ensure that entitlement to council tax rebates is exhausted by the point that Universal Credit starts to be withdrawn, by removing the allowances that are set equal to a family's maximum entitlement to out-of-work benefits and tax credits, increasing the withdrawal rate for council tax rebates to 65% and setting lower maximum entitlement to council tax rebates where necessary.

All the analysis in this section is done at a national level: as with the reforms analysed in the previous section there would of course be variation in the costs and savings between LAs. Pensioners are unaffected by all these reforms: Universal Credit does not apply to pensioners anyway so no change is needed, and in England and Scotland the existing CTB system will remain in place for them.

Option 1. Ignore Universal Credit for the means test and abolish some CTB allowances

Perhaps the simplest way of designing a system of council tax rebates in a post-Universal Credit world would be to ignore Universal Credit for the purposes of calculating council tax rebates.

In this option we assume that:

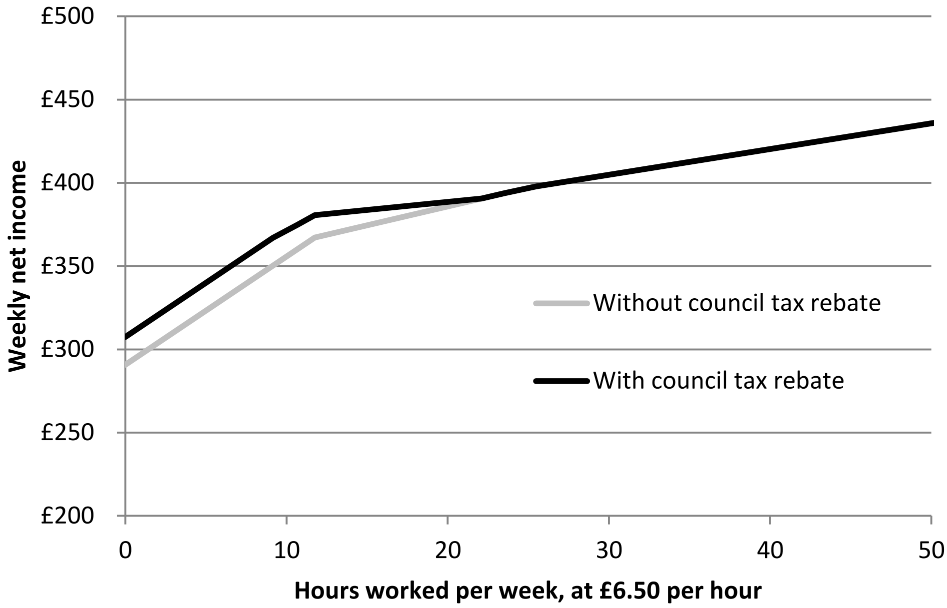
- Unearned income would cease to be counted in the means test for council tax rebates to prevent the situation where an additional pound of income from contributory benefits, private pensions or spousal maintenance led to benefit payments falling by more than £1.
- Childcare costs up to £175 per week for one child and £300 per week for two or more children would continue to be deductible from income for the purposes of the means test.

These decisions are both expensive as they lead to a higher level of council tax rebate being received by those with large amounts of unearned income and a more generous system of support for childcare costs. In order to make the system revenue neutral, we abolish the allowances for single people and couples, the disability premiums and the 'full time' premium given to those entitled to WTC that exist in the current CTB system. The child allowance is reduced by the value of the child element of Child Tax Credit and the family premium by the value of the family element of Child Tax Credit.[115] As discussed in the previous sub-section, these allowances are set equal to a family's maximum entitlements to out-of-work benefits and Child Tax Credit to avoid a 'cliff-edge' in entitlement where people move off passporting benefits; but if these benefits no longer exist (having been replaced by Universal Credit, which is not counted as income), the corresponding allowances are not needed and could be abolished.

Figure 7.2 shows how this form of council tax rebate would affect the budget constraint for the lone parent with two children shown in Figure 7.1.

[115] This would mean that the child allowances were equal to the rate of Child Benefit for the second and subsequent child, and the family premium was set equal to the additional amount of Child Benefit received for the first child. Since Child Benefit is not counted as income for the purposes of the means test, these allowances could be abolished either before or after the introduction of Universal Credit: see Reform 7 in the previous section.

Figure 7.2. Budget constraint for a lone parent with two children with Universal Credit and council tax rebate of the form described in the text



Notes: Assumes lone parent with two children who can choose how many hours to work at a given wage rate, £6.50 per hour, and has rent of £80 per week, no disability and no other income.

How much would this option cost, and who gains and loses?

We can see that, in this case, the simultaneous withdrawal of Universal Credit and council tax rebates lead to a very high EMTR (a flat budget constraint) across the income range from 10 to 20 hours. Rebate entitlement only starts to be withdrawn from this family at a significant level of income, because despite the reduction in allowances, lone parents would continue to have a £25 earnings disregard plus allowances set equal to the amount of Child Benefit they receive against which to offset their private income before support started to be withdrawn. This increases the extent to which the withdrawal of rebates coincides with the withdrawal of Universal Credit, though the same may not apply to claimants in different circumstances. And as discussed in Section 7.2.1, with Universal Credit not counted as income in the means test, the combined withdrawal rate when the two tapers do coincide is extremely high, around 90%.

This system of council tax rebates would cost roughly the same amount as CTB does at the moment. There are several offsetting effects that mean some claimants receive more council tax rebate under this scheme than under CTB while others receive less:

- The abolition of Child and Working Tax Credits (which are counted as income in the means test for CTB at the moment) increases spending on council tax rebates by around £300 million per year at a national level. This means that those currently receiving these tax credits receive a larger council tax rebate as a result.
- Ceasing to count unearned income in the means test for council tax rebates increases the cost of council tax rebates by a further £150 million at a national level, as those who have income from contributory benefits, spousal maintenance or private pensions receive a larger council tax rebate.
- Removing the allowances we discuss above reduces the cost of council tax rebates by around £460 million per year on a national level. This reduces the gains going to those who currently receive tax credits and also reduces the amount of council tax rebate received by those with some earned income.

Thus although this option is roughly revenue-neutral overall, there would be winners and losers from this approach. Those who receive more in council tax rebates tend to be those who have significant amounts of unearned income (and who tend to lose out from the introduction of Universal Credit itself: the higher council tax rebates, which are the focus of our attention here, only slightly offset this effect). By contrast, those who receive less are those who are in work, who lose out from the reduced allowances that mean that council tax rebates start to be withdrawn from a lower level of income.

How would this option work while some claimants are still in the current system of benefits and tax credits?

It would not be sensible to reduce allowances in the way described above for families who are still claiming the existing set of benefits and tax credits as it would lead to a cliff-edge of entitlement where people move off passporting benefits. Therefore, if this system were to be considered before the transition to Universal Credit were complete in a particular LA, it would need to maintain separate systems for those on the existing set of means-tested benefit and tax credits and for those on Universal Credit so that the allowances being abolished for Universal Credit recipients could be retained for people still receiving the existing means-tested benefits. Of course, to avoid this problem a similar system could be introduced, which maintained existing allowances for all claimants, but this would be very expensive as removing the allowances saves £460 million per year across Great Britain in this option.

Option 2. Counting Universal Credit for the means test for council tax rebates and introducing an allowance equal to eligible rent

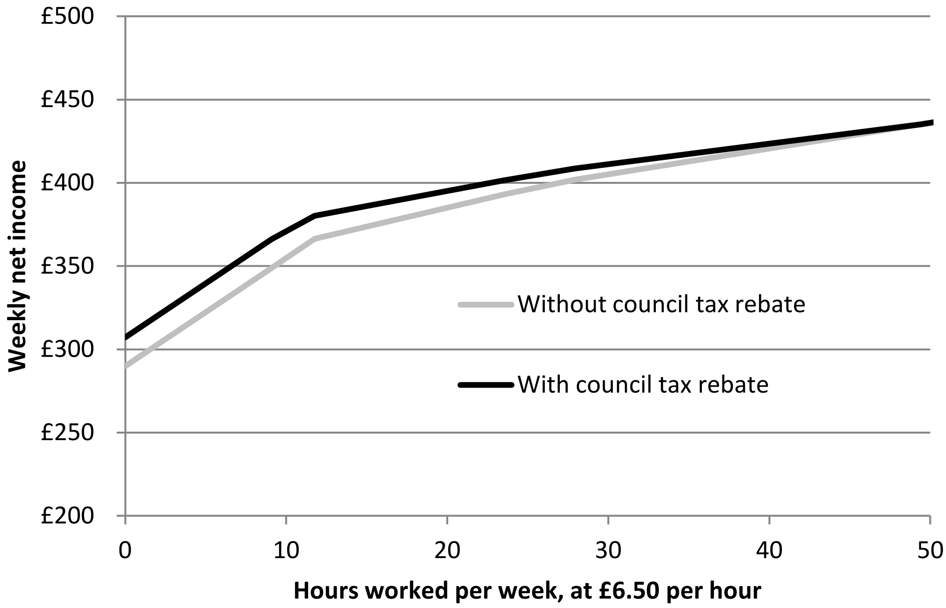
As we discussed in the previous section, counting Universal Credit as income for the means test has the advantage of moderating the highest EMTRs.

In order to prevent Universal Credit reducing entitlement to council tax rebates for those with no private income, an allowance equal to a family's eligible rent would need to be introduced in council tax rebate, offsetting the rent component of Universal Credit (a replacement for Housing Benefit, which requires no such allowance as it is not counted as income for CTB).[116]

Figure 7.3 shows how this system of council tax rebate would affect the budget constraint of the lone parent we considered in Figures 7.1 and 7.2.

[116] In this option there would not need to be any change to the treatment of unearned income or childcare in the means test for council tax rebates.

Figure 7.3. Budget constraint for a lone parent with two children with Universal Credit and council tax rebate of the form described in the text



Notes: Assumes lone parent with two children who can choose how many hours to work at a given wage rate, £6.50 per hour, and has rent of £80 per week, no disability and no other income.

The main difference between this budget constraint and that in Figure 7.2 is that the sequential means-testing of Universal Credit and council tax rebate lowers the EMTR over the range where it was highest in the previous example, namely between 10 and 20 hours per week. The EMTR falls from around 90% to around 81% over this range. However, this does have the side-effect of extending eligibility to council tax rebates further up the income distribution. This nicely illustrates the ambiguous impact changing a benefit withdrawal rate has on EMTRs: sequential assessment – in effect, reducing the taper rate for those on both tapers – reduces the EMTR for those who are in that position, but increases EMTRs for those who become entitled to support as it extends further up the income distribution.

How much does this option cost, and who gains and loses?

The differences between this form of council tax rebate and the current CTB system create a complex pattern of winners and losers. The following factors determine whether a family would receive more or less council tax rebate as a result of this change:

- Because Universal Credit is counted as income in this council tax rebate system and tax credits count as income in CTB, those who receive more in Universal Credit than they received in tax credits tend to get less council tax rebate than previously, and vice versa for those who receive less Universal Credit than the tax credits they received before.
- Counting Universal Credit as income effectively reduces the withdrawal rate of council tax rebates for those on both tapers, as shown in Table 7.1. This tends to increase the amount of support for council tax received by those with higher incomes.
- On the other hand, counting Universal Credit as income means that it takes a smaller amount of earnings and other income for claimants to reach the point where their council tax rebates start to be withdrawn. This tends to reduce the amount of council tax rebate received by those with some private income.

Overall, this system of council tax rebates would cost around £50 million more nationally than the existing system of CTB currently does. The majority of those who receive a larger council tax rebate are those who lose out from the introduction of Universal Credit (around 350,000 out of 540,000). Similarly, almost all of those who receive a lower council tax rebate under this scheme are winners from the introduction of Universal Credit (around 250,000 out of 270,000). However, there are some who gain from both the introduction of Universal Credit and this system of council tax rebates: these tend to be those in rented accommodation who benefit from the introduction of the rent disregard in this variant of the council tax rebate.

How would this system work while some claimants are still claiming the existing means-tested benefits and tax credits?

This system could be applied to families still on the existing set of means-tested benefits and tax credits with only minor amendments. In this option we have introduced an allowance equal to the claimant's rent, to reflect the fact that the rent component of Universal Credit counts as income for the council tax rebate means test; so, symmetrically, Housing Benefit should start to be counted as income for the means test, balancing the new rent allowance and leaving the system very similar for those on Universal Credit and those on the existing set of means-tested benefits and tax credits. This would, however, somewhat increase the cost of council tax rebates, as counting Housing Benefit as income lowers the effective withdrawal rate for people on both Housing Benefit and council tax rebate tapers.

Option 3. Ensuring that entitlement to council tax rebates is exhausted at the point where Universal Credit starts to be withdrawn

As we have already argued, a system of council tax rebates that ensures that the tapers for council tax rebate and Universal Credit did not overlap would have major advantages in avoiding very high EMTRs. This could be achieved by setting maximum amounts of council tax rebate for different family types at a level that ensures that entitlement was exhausted at the minimum disregard level in Universal Credit (rather than setting maximum entitlement equal to the claimant's council tax liability as happens at the moment). Since in this case there is no risk of overlapping tapers, the withdrawal rate for council tax rebates can be much higher (which allows higher maximum amounts of council tax rebate). In order to set the maximum amount of council tax rebate as high as possible, we also abolish all allowances and earnings disregards. Table 7.2 below shows the government's proposed minimum disregards under Universal Credit and the corresponding maximum council tax rebates that would be implied by a 65% taper rate for council tax rebates (the same rate as for Universal Credit):

Table 7.2. Minimum disregard levels under Universal Credit and implied maximum amount of council tax rebate assuming 65% taper for council tax rebates

Family type	*Minimum disregard level*	*Implied maximum amount of council tax rebate*	*Average council tax liability among CTB claimants*	*Proportion of claimants with council tax liability below implied maximum rebate*
Single, no children	£759	£493	£949	0%
Lone parent, one child	£3,015	£1,960	£920	100%
Lone parent, two children	£3,297	£2,143	£921	99%
Lone parent, three or more children	£3,579	£2,326	£915	100%
Couple without children	£2,082	£1,354	£1,311	78%
Couple with one child	£2,646	£1,720	£1,251	98%
Couple with two children	£2,928	£1,903	£1,292	99%
Couple with three or more children	£3,210	£2,087	£1,293	98%
Family where one or both adults are disabled	£2,256	£1,466	£918	99%

Note: Annual amounts. Implied maximum amounts of council tax rebate are under the requirement that eligibility to council tax rebates is exhausted at the minimum disregard level. Figures in 2012–13 prices.
Source: Authors' calculations using DWP (2011).

We can see that these maximum amounts do not amount to a reduction for any significant number of those with children: the average council tax bill among all claimants is £956, comfortably below these caps. Only a relatively small number of couples without children would face binding caps under this scheme: between a fifth and a quarter have council tax bills above these caps, so only families living in high-band properties and/or in LAs with high council tax rates would be affected by the caps. This scheme would, however, badly affect single people without children: even taking into account single-person discount, the maximum amount of council tax rebate they could receive under this scheme would be less than their total council tax liability in almost all cases (and, indeed, all cases in our FRS data).[117]

It would be possible to avoid this severe reduction in generosity to single people without children by not capping maximum entitlement. But that would mean there was a range in which the taper for council tax rebate and that for Universal Credit overlapped – and now with both tapers at 65%. If Universal Credit did not count as income for the means test, this would imply a maximum EMTR of 130%: people in this range would be made £30 worse off by earning an additional £100, a huge disincentive to increase their earnings and one that cannot be part of a sensible system. Counting Universal Credit as income would ensure that EMTRs could not exceed 100%, but they could still reach 91.7% for taxpayers. As with Option 2, if Universal Credit is counted as income a corresponding allowance, reflecting a family's maximum Universal Credit entitlement, would be needed to avoid Universal Credit's reducing rebate entitlement

[117] To have a council tax liability of less than £493, a single person without children would have to live in a Band A property in an LA where the Band D rate was less than £987. Only the London Boroughs of Wandsworth, Westminster and the City of London have Band D rates that are this low. Properties in Bands B and C in Wandsworth and Westminster also have council tax liabilities below this level for a single person. There are, however, no such individuals in our data: all single people without children are constrained by this cap.

even for those with no private income. In fact, this variant of Option 3 can also be thought of as a variant of Option 2 above (counting Universal Credit as income), in which the taper rate is increased to 65%.[118]

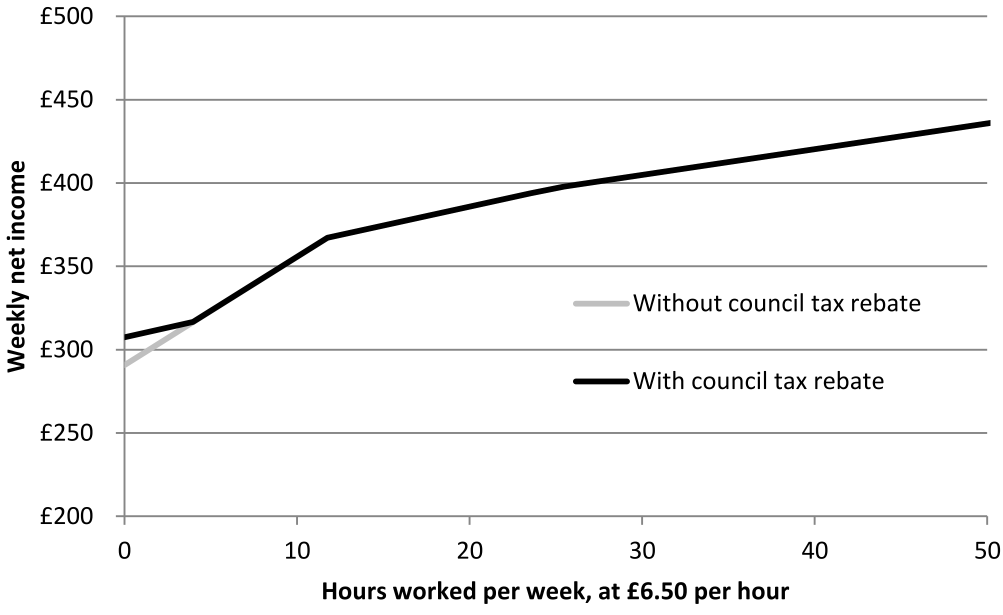
However, to contrast the different features of different options, in what follows we look at the 'purest' variant of Option 3, which avoids overlapping tapers completely by capping maximum entitlements as described above.

In regard to the other issues we discussed in Section 7.1:

- We do not count Universal Credit as income in the means test (or give a corresponding allowance reflecting a family's maximum Universal Credit entitlement before withdrawing rebates): as the tapers are designed not to overlap, this makes little difference to the overall EMTRs individuals face.
- Unearned income ceases to be counted for the means test: this is to avoid the situation where an additional pound of such income reduces total benefit entitlement by more than £1. It is still necessary to do this as unearned income always reduces entitlement to Universal Credit pound-for-pound: the disregards in Table 7.2 above only apply to earned income.
- We assume the childcare disregards that currently exist in CTB are abolished: as we are not including Universal Credit in the income measure for the means test for council tax rebates, this simply means that all families entitled to Universal Credit receive a childcare subsidy of 70%.

The impact of this system of council tax rebates on the budget constraint of the lone parent we have considered before is shown in Figure 7.4 below:

Figure 7.4. Budget constraint for a lone parent with two children with Universal Credit and council tax rebate of the form described in the text



Notes: Assumes lone parent with two children who can choose how many hours to work at a given wage rate, £6.50 per hour, and has rent of £80 per week, no disability and no other income.

We can see that the lone parent now has an EMTR of 65% in the income range where council tax rebates are withdrawn, then a 0% EMTR in the income range after entitlement to support for council tax is

[118] The only difference between this variant of Option 3 and a variant of Option 2 in which the taper rate was increased to 65% is that in Option 3 the only allowance is that reflecting a family's maximum Universal Credit, so that the first £1 of private income starts to reduce rebate entitlement; Option 2 also retained other allowances from the existing CTB system, namely the earnings disregard and the allowances equal to Child Benefit entitlement.

exhausted but before Universal Credit starts to be withdrawn, at which point it increases to 65% again. For single people and the minority of couples without children for whom the cap on maximum entitlement binds, the 0% range would disappear and they would move directly from a 65% council tax rebate taper to a 65% Universal Credit taper.

This system of council tax rebates is much more aggressively means-tested than the others we have considered so far: support for council tax is withdrawn very quickly when income rises and is exhausted entirely after the lone parent works for just a few hours per week. This system would dramatically reduce the number of in-work claimants of support for council tax.

Furthermore, almost all single people without children who are not disabled and do not have any private income are constrained by the maximum amount of council tax rebate they can receive under this scheme. Around 620,000 single people without children who receive full CTB under the current system would be restricted by the maximum amount that could be received under this system of council tax rebates.

How much would this system cost, and who gains and loses?

As Figure 7.4 makes clear, the number of families entitled to council tax rebates would fall dramatically under this system, and the savings to LAs would be considerable. The total saving if this scheme were introduced nationally would be £460 million, or 12.7% of current CTB spending. A small number of families (around 180,000) receive more support for council tax under this system, namely those with large amounts of unearned income who benefit as this income is no longer counted as income in the means test for council tax rebates (much as in the first option we consider). However, far more families (around 1.3 million) receive less: these are low earners who lose out from the abolition of the allowances and the higher taper rate, and those (mainly single people without children) whose council tax liability exceeds their maximum entitlement.

How would this system work while some claimants are still claiming the existing means-tested benefits and tax credits?

It would not be sensible to introduce a system like this within the current framework of means-tested benefits and tax credits. The abolition of all disregards would not be sensible as the EMTR at this range of income is already 100% because of the pound-for-pound withdrawal of out-of-work benefits. LAs attracted by this system would either have to wait until everyone in their area was transferred to Universal Credit or have separate rebate systems for those on Universal Credit and those on the existing means-tested benefits and tax credits.

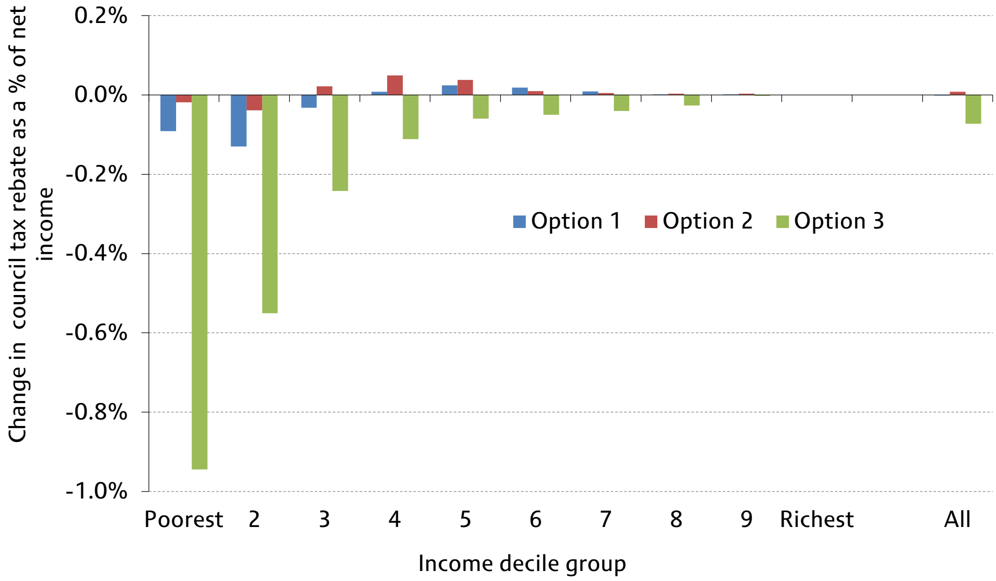
7.4. Comparing the reforms

This sub-section compares the distributional and work incentive impacts of the three reforms outlined in the previous sub-section. We also examine what additional cuts would be needed to ensure that each reform saved the requisite 10% of spending on council tax rebates. The money-saving reforms we analyse are similar to the reforms examined in Section 6, and as explained there they would not raise the same amount in each LA (although the pattern of which reforms saved most in which types of LA would be similar to that described in Section 6).

Distributional impact of the reforms

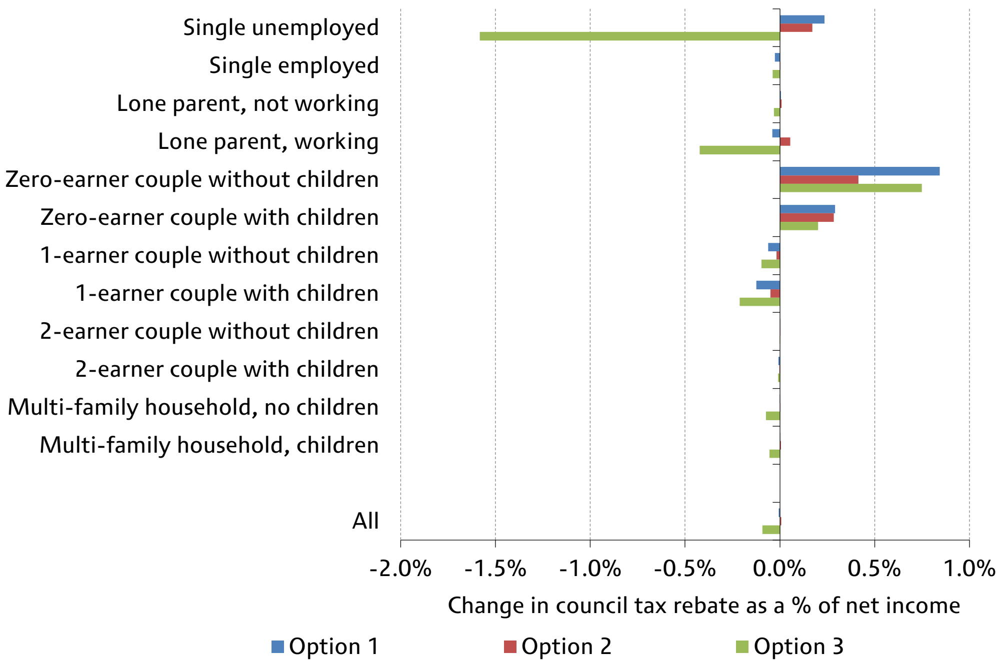
Figures 7.5 and 7.6 below show the distributional impact of the three reforms considered in sub-section 7.2 by income decile group and family type.

Figure 7.5. Change in average council tax rebate as a % of net income by income decile under each option for integrating council tax rebates with Universal Credit



Notes: Income decile groups are derived by dividing all households into 10 equal-sized groups according to income adjusted for household size using the McClements equivalence scale. Decile group 1 contains the poorest tenth of the population, decile group 2 the second poorest, and so on up to decile group 10, which contains the richest tenth.
Source: Authors' calculations using TAXBEN run on the 2009–10 Family Resources Survey.

Figure 7.6. Change in average council tax rebate as a % of net income by family type under each option for integrating council tax rebates with Universal Credit



Source: Authors' calculations using TAXBEN run on the 2009–10 Family Resources Survey.

As we saw in the previous sub-section, options 1 and 2 are roughly revenue-neutral, but have winners and losers from the reforms. Those who receive less council tax rebate under these options are low earners who lose out as council tax rebates start to be withdrawn at lower levels of earnings. Those who receive more council tax rebate are those with substantial amounts of unearned income (who are on the whole not in paid work), but it is worth noting that this group loses out overall from the introduction of Universal Credit, though that is not our focus here.

By contrast, option 3 represents a significant reduction in the cost of council tax rebates. We can see that most of the saving comes from single people without children, as this option restricts the maximum amount of council tax rebate that these individuals can receive, although lone parents in paid work also lose out from the more aggressive means-testing of council tax rebates against earned income. Again, though, those with substantial amounts of unearned income receive more support for council tax under this system.

Impact on work incentives

Table 7.3 shows the impact of the three options presented early on PTRs. For comparison, we also show the effect of fully incorporating council tax into Universal Credit in the same way as modelled in the government's White Paper of November 2010.

As previous work by IFS researchers has shown,[119] Universal Credit strengthens the incentive to do paid work for those who have the weakest incentives to do so under the current system. As Table 7.3 below shows, very few people face PTRs of more than 80% under any of the options for integrating council tax rebates with Universal Credit we consider here. Option 3 has the greatest impact on reducing the number of people with PTRs above 70%, which is unsurprising as it cuts the amount of support for council tax for single people without any private income. Indeed, it is nearly as successful in this regard as the government's original policy of incorporating support for council tax within Universal Credit. However, by removing all allowances this option significantly weakens the incentive for people to earn small amounts as this immediately erodes their entitlement to council tax rebates.

Table 7.5. Participation tax rates under different options for council tax rebates under Universal Credit

	Without Universal Credit	*Option 1*	*Option 2*	*Option 3*	*CTB incorporated in UC*
<10%	3,870,000	3,660,000	3,680,000	3,510,000	3,790,000
10.01% – 20%	4,050,000	4,140,000	4,150,000	4,130,000	3,930,000
20.01% – 30%	6,430,000	6,180,000	6,220,000	6,240,000	6,190,000
30.01% – 40%	7,260,000	6,690,000	6,650,000	6,880,000	6,710,000
40.01% – 50%	4,310,000	3,950,000	3,990,000	3,870,000	4,000,000
50.01% – 60%	2,680,000	3,440,000	3,530,000	3,570,000	3,480,000
60.01% – 70%	1,920,000	3,730,000	3,430,000	4,070,000	4,210,000
70.01% – 80%	1,520,000	1,070,000	1,240,000	590,000	610,000
80.01% – 90%	580,000	40,000	30,000	40,000	20,000
90.01%+	330,000	40,000	30,000	40,000	30,000

Notes: Non-pensioner families only. Figures rounded to nearest 10,000. Excludes indirect taxes, most 'business taxes' (notably corporation tax, business rates and employer NICs) and capital taxes (notably inheritance tax, stamp duties and capital gains tax). Earnings for those not in paid work estimated as specified in Section 2.
Source: Authors' calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on uprated data from the 2009–10 Family Resources Survey.

Table 7.6 shows the same analysis for EMTRs. Again, one of the main advantages of Universal Credit is that it removes the extremely high EMTRs that can exist under the current tax and benefit system when multiple benefits are withdrawn over the same range of income. However, the number of people with EMTRs of more than 75% increases under Universal Credit because the withdrawal rate for Universal Credit is higher than that for tax credits. As previously discussed, the fact that council tax rebates will remain separate from Universal Credit will mean that it will still be possible to have high EMTRs when

[119] See Brewer, Browne and Jin (2012).

Universal Credit and support for council tax are withdrawn over the same range of income. As we saw in Section 7.2, option 1 creates the highest overall EMTRs, but these apply to relatively few people: around 400,000 people have EMTRs of between 85% and 90% because of the simultaneous income assessment for Universal Credit and council tax rebates under that option. By contrast, option 2 creates a lower maximum EMTR of below 85%, but involves more people having an EMTR of above 80%. Option 3, by ensuring that the tapers for Universal Credit and council tax rebates do not overlap, prevents any EMTRs that are higher than 76.2% (the combined income tax, employee NICs and Universal Credit withdrawal rates). This achieves the same objective as the version of Universal Credit modelled in the government's White Paper of November 2010, which incorporated support for council tax within Universal Credit. Integrating CTB into Universal Credit along with the other means-tested benefits and tax credits would also have prevented individuals being on multiple tapers at the same time, as there would only have been one form of means-tested support.

Table 7.6. Effective marginal tax rates under different options for council tax rebates under Universal Credit

	Without Universal Credit	*Option 1*	*Option 2*	*Option 3*	*CTB incorporated in UC*
Less than 60%	20,610,000	20,070,000	20,080,000	20,030,000	19,930,000
60.1% – 65%	290,000	1,070,000	850,000	1,400,000	1,380,000
65.1% – 70%	210,000	160,000	100,000	190,000	210,000
70.1% – 75%	1,480,000	20,000	540,000	20,000	20,000
75.1% – 80%	560,000	2,410,000	1,920,000	2,470,000	2,560,000
80.1% – 85%	50,000	20,000	620,000	*	*
85.1% – 90%	250,000	360,000	10,000	10,000	10,000
90.1% – 95%	320,000	*	*	0	0
95.1% – 99.9%	150,000	0	*	0	0
100%	180,000	10,000	10,000	10,000	0

Notes: Non-pensioner families only. Figures rounded to nearest 10,000. Excludes indirect taxes, most 'business taxes' (notably corporation tax, business rates and employer NICs) and capital taxes (notably inheritance tax, stamp duties and capital gains tax). Only includes those in paid work in non-pensioner families. * indicates less than 5,000.
Source: Authors' calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on uprated data from the 2009–10 Family Resources Survey.

How could savings be achieved under these options?

Many of the options for reducing the cost of council tax rebates examined in Section 6 could equally be applied in conjunction with options 1 and 2 of this section to achieve similar levels of savings. The only one that obviously cannot be applied is giving entitlement only to those who are passported to full entitlement, since (as discussed above) no equivalent passport will exist under Universal Credit.

Table 7.7 below shows how much each of the options discussed in Section 6 would save if applied in conjunction with options 1 and 2 discussed in this section, relative to expenditure on CTB under the current system. (We do not model cuts being applied in conjunction with option 3 as this option already involves a reduction in expenditure on council tax rebates nationally that is greater than the 10% that needs to be saved). Since option 2 increases spending on council tax rebates by 1.4% if applied nationally, it is unsurprising that this option would require greater cuts to be applied to achieve a 10% reduction in expenditure on council tax rebates nationally. Comparing the reforms, the relative savings achieved by the different options for reducing expenditure is roughly similar to that achieved by the same options under the current system of CTB, discussed in the previous section.

Table 7.7. Savings from variants of options 1 and 2

	Option 1	*Option 2*
Option without further cuts	0.8%	–1.4%
17% across-the-board cut	9.8%	8.5%
Only rebate 85% of council tax liability	9.2%	8.2%
Restrict rebate to Band B	3.8%	2.5%
Remove support from those in Bands D and above	6.9%	5.8%
Increase taper to 30%	1.4%	1.0%
Count Child Benefit as income	1.7%	1.2%

Notes: Figures rounded to nearest 100,000. Excludes indirect taxes, most 'business taxes' (notably corporation tax, business rates and employer NICs) and capital taxes (notably inheritance tax, stamp duties and capital gains tax). Only includes those in paid work in non-pensioner families.
Source: Authors' calculations using the IFS tax and benefit microsimulation model, TAXBEN, run on uprated data from the 2009–10 Family Resources Survey.

The introduction of Universal Credit also opens up the possibility of making savings in other ways. In particular, with Universal Credit counted as income for the council tax rebate means test (Option 2), the taper rate could be increased substantially without generating EMTRs above 100%. This would have the advantage of reducing the number of people facing means-testing and in particular facing withdrawal of two strands of support, though those left in such a position would of course still face higher EMTRs than with a 20% taper rate.

Savings could also have been made to the level of support for council tax had the central government chosen to integrate council tax support fully into Universal Credit as modelled in its White Paper of November 2010 (though the White Paper made clear that this modelled policy would not be the one introduced). Most of the options considered in Table 7.7 only make sense in a context where council tax rebates are kept separate, but a saving equivalent to 10% of current spending on CTB could have been achieved by, instead of including a family's whole council tax liability as a component of Universal Credit, only including an element equal to 93% of a family's council tax liability.[120]

7.5. Conclusions

Universal Credit will introduce further complications for LAs considering how to reform council tax rebates. The out-of-work means-tested benefits that currently passport most CTB recipients onto full entitlement will no longer exist, creating more administrative complexity as LAs have to put those who would previously have been passported onto full CTB through a more complicated means test. The burden of this could be mitigated if administrative data on Universal Credit could be shared with LAs, rather than asking claimants for the information again. And how Universal Credit interacts with the means test for council tax rebates will have a number of important implications.

The localisation of council tax rebates has the potential to undermine many of the benefits of introducing Universal Credit in terms of the strengthening of financial work incentives and the simplification of the benefits system it provides. In particular, Universal Credit removes the very high EMTRs that exist under the current benefits system when multiple benefits are withdrawn over the same range of income; these could reappear if council tax rebates are withdrawn over the same range of income as Universal Credit. In this section, we have set out some ways in which council tax rebates could be designed to minimise these problems.

[120] This is more than the 85% we model in Section 6.2 because such a change reduces Universal Credit entitlements for all those entitled to Universal Credit with a council tax liability, whereas only refunding 85% of council tax in a council tax rebate only affects those entitled to council tax rebates.

One of the key considerations is whether Universal Credit will be counted as income for the means test for council tax rebates. In this section we have shown how council tax rebates could be designed under the options of counting, and not counting, Universal Credit as income for the means test. The main difference between these two options is that counting Universal Credit as income moderates the very highest EMTRs that exist in the income range where both council tax rebates and Universal Credit are withdrawn. However, this does extend high EMTRs over a wider range of income. Another attraction of the option where Universal Credit is counted as income in the means test for council tax rebates is that it will be easier to implement this option during the rollout of Universal Credit when some families are on Universal Credit and others are still on the existing system of means-tested benefits and tax credits. However, not counting Universal Credit as income would clearly make for a simpler means test.

Another way of preventing Universal Credit and council tax rebates from being withdrawn over the same range of income would be to ensure that entitlement to support for council tax was withdrawn before the income level that Universal Credit starts to be withdrawn. We have examined an option that achieves this. This option reduces the cost of council tax rebates by 12.7% and succeeds in removing very high PTRs and EMTRs, but does so at the expense of significantly reducing the amount of support given to single people without children. Because Universal Credit starts to be withdrawn from a very low income level for this group (£700 per year), for overlapping tapers to be avoided the maximum amount of support has to be severely restricted.

This final option is nearly as successful in eliminating extremely high PTRs and EMTRs as the government's original plans for Universal Credit, which would have abolished CTB as a separate benefit and incorporated an element for support for council tax. This need not have been more expensive: the cost of this option could have been reduced by an amount equivalent to 10% of current spending on CTB by setting the council tax component equal to 93% of a family's liability rather than the full amount. Given the problems designing a system of support for council tax that integrates well with Universal Credit discussed in this section and the issues around localisation of support for council tax rebates discussed in Section 4, it is difficult to think of reasons why full integration of council tax support into Universal Credit is inferior to what is now being implemented.

8. Conclusions

Summary

- While localisation of council tax support has advantages, it will create undesirable incentives for councils as well as desirable ones, and variation across the country will add to the complexity of council tax support.
- Faced with a funding cut on top of a tight Spending Review settlement, local authorities must choose whether to pass the cut on to working-age claimants of council tax support or to protect entitlements and find money elsewhere to fill the funding gap. If they decide to pass the cut on to claimants, there are trade-offs to be made and no easy options for where to reduce generosity. Any scheme which sees households with very low incomes liable for small amounts of council tax is likely to be extremely difficult to administer. That would seem to imply protecting most of those who are currently passported on to full CTB. But if that is done then either it will be very hard to find 10% savings or cuts for others will be very severe and negative consequences for work incentives will be substantial.
- Achieving coherence between council tax rebates and Universal Credit is complex. The need to make the new rebates fit with Universal Credit makes local authorities' task of designing schemes, already a difficult challenge given the tight timescale, into a truly formidable one.
- There is nothing in the Universal Credit system that will make it straightforward to identify those who should be passported onto a full council tax rebate. That could make running a council tax rebate scheme based closely on the current system extremely challenging for local authorities.
- Cutting support for council tax and localising it are two distinct policy choices: either could have been done without the other. Whether cutting council tax support for low-income families is the best way to reduce government borrowing by £500 million per year is a question that requires value judgements we are not in a position to make. But the advantages of localisation seem to be strongly outweighed by the disadvantages, particularly in the context of the welcome introduction of Universal Credit.

Council Tax Benefit (CTB) provides nearly £5 billion of support to families with low incomes relative to their needs. With 5.9 million recipients, it is more widely claimed than any other means-tested benefit or tax credit. But it still reaches only about two-thirds of those for whom it is intended, as many are not aware they are entitled or find it too difficult or stigmatising to claim. It also discourages work and saving, and provides recipients with an incentive to live in bigger properties than they otherwise would.

The government is proposing to localise support for council tax from 2013–14, abolishing CTB across Britain and charging LAs in England and the Scottish and Welsh governments to design their own systems for rebating council tax to low-income families – except that entitlement rates for pensioners in England will still be set nationally and maintained at their existing level. These changes will do little to address the weaknesses of CTB described above. Rather, the government's stated objectives are to allow support to vary across the country to reflect local priorities, and to strengthen LAs' incentives to promote employment and growth in the local economy. These are laudable aims and the reform might yield some benefits in these areas. Variation across the country should also allow local authorities to learn from each others' experiences what is successful.

But localisation has significant disadvantages. Having schemes that vary across the country will reduce transparency and increase bureaucracy. Giving LAs fixed grants rather than refunding the actual cost of providing council tax support will add risk to LAs' finances, making them more reliant on the reserves they maintain to deal with unexpected contingencies, especially when taken in conjunction with the partial localisation of business rates that is happening at the same time. And while fixed grants will strengthen LAs' incentives to promote employment and growth, it will also give them an incentive to discourage low-income families from living in the area and a disincentive to encourage take-up of support. It remains to be seen how far LAs respond to these incentives.

The strength of all of these changes in incentives – good and bad – will partly depend on how, and how often, LAs expect grant allocations to be adjusted in future. How they will actually be adjusted in future is one of the most important decisions the government has yet to take about the policy.

As well as localising support for council tax, the government is also planning to cut funding for it by 10%, giving each LA a grant equal to 90% of what is currently spent on CTB in that area – meaning, of course, a larger cash funding cut in areas where CTB spending is higher.

There is no obligation on LAs to spend exactly the amount of this new grant on council tax support: they may, for example, choose to maintain support at its existing level for non-pensioners as well as pensioners and find the necessary savings elsewhere, or even to cut entitlements by more and use the surplus for other purposes. The Scottish and Welsh governments – which have both decided to operate centralised council tax rebates, rather than devolve the policy to LAs as in England – have made contrasting choices, with Wales choosing to cut council tax support by 10% as the UK government intended (though it has not yet decided how), while Scotland has opted to maintain existing levels of support for the moment and make savings elsewhere. It will be interesting to see which of these approaches most councils in England follow.

If councils do not find additional money from elsewhere, the requirement to protect pensioners will mean that those LAs where pensioners account for an above-average share of CTB expenditure (typically less deprived areas) will see a bigger shortfall in the grant left over (after providing support to pensioners) as a percentage of current spending on CTB for non-pensioners. Although total grants will be 90% of what would have been spent on CTB, the grant left over after providing rebates for pensioners will cover only 81% of the cost of CTB for working-age claimants nationally, and we estimate that for one in ten LAs that figure will be less than 75%, with the lowest value being 67% in East Dorset and in Craven, North Yorkshire.

Those LAs that do decide to adopt schemes that are less generous than the existing CTB have many options for how to make savings: they could, for example, limit the maximum amount of council tax to be rebated, means-test support more aggressively, reduce or remove entitlements from those living in higher-value properties, or simply cut entitlements by a set percentage across the board – though given the tight timescale before implementation, it might be difficult for councils to adopt more radical proposals in the first year of the policy. But the choice is a difficult one. Since 85% of CTB goes to the lower-income half of households, and almost half of CTB goes just to the lowest-income fifth, any cuts to it are bound to hit predominantly poorer families. Reforms that save the full 10% by which funding is being cut typically involve reducing support for those currently entitled to maximum CTB – those on the lowest incomes. 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. That would suggest protecting most of those who are currently passported on to full CTB. But if LAs tried to save the full 10% purely by means-testing support more aggressively from claimants with higher incomes, that would require the means test to be so severe that some people would be worse off after a pay rise.

The government has expressed a hope that councils will design schemes, which protect vulnerable groups beyond just pensioners, and which maintain strong work incentives. But, as ever, there is a trade-off between those two objectives: those designs that protect the poorest claimants are those that lead to the weakest work incentives. By giving councils autonomy in designing schemes, central government has relinquished control over whether those objectives are met by LAs, which may have different priorities. Small district councils in particular, which largely collect council tax on behalf of bigger precepting authorities, will have an incentive to focus disproportionately on designing schemes that are cheap to administer, at the expense of other objectives. How far they act on this incentive will partly depend on their relationship with precepting authorities as well as on the importance they place on other objectives.

By localising council tax support, the government has forgone the opportunity to integrate it fully with Universal Credit. Universal Credit is intended to simplify the benefit system by reducing the number of different benefits, interacting in complicated ways that claimants and administrations must contend with; keeping council tax support separate – and indeed allowing it to vary across the country – undermines this simplification. Universal Credit is also intended to rationalise work incentives by replacing a jumble of overlapping means tests with a single one, ensuring that overall effective tax rates cannot rise too high; again, separate means tests for council tax support could undermine this, with the potential to reintroduce some of the extremely weak work incentives that Universal Credit was supposed to eliminate.

English LAs and the Scottish and Welsh governments must now try to make their council tax rebate schemes work alongside Universal Credit as smoothly as possible. Achieving coherence between council tax rebates and Universal Credit is complex. The need to make the new rebates fit with Universal Credit makes local authorities' task of designing schemes, already a difficult challenge given the tight timescale, into a truly formidable one. One of the key issues is whether to count Universal Credit as income in the means test for council tax rebates. It would be simpler not to. However, this would mean that people facing withdrawal of both Universal Credit and council tax rebate (as well as paying income tax and National Insurance contributions) would stand to lose 90p of each extra £1 earned, compared to 81p if Universal Credit was counted as income for the means test (assuming the current 20% withdrawal rate). It would also mean that income from private pensions, contributory benefits and spousal maintenance (which will reduce Universal Credit entitlement pound-for-pound) would actually make some recipients worse off unless these income sources were ignored when calculating council tax rebates, which would be expensive for LAs. One way to avoid any overlap between the means test for council tax rebates and that for Universal Credit would be to withdraw rebates rapidly as soon as income rose above zero and to limit maximum rebates so that they were already completely withdrawn by the time Universal Credit started to be withdrawn. As well as avoiding very high effective tax rates, limiting maximum entitlements and means-testing aggressively in this way would save councils a great deal of money – on average more than the 10% by which funding is being cut – but would cut support very severely for some, notably single people without children, from whom Universal Credit starts to be withdrawn at a very low income level.

A second issue raised by the introduction of Universal Credit is that particular benefits that are currently used to 'passport' people automatically to maximum CTB entitlement will cease to exist, subsumed within Universal Credit. Since there is nothing in the Universal Credit system, which will make it straightforward to identify those who should be passported onto a full council tax rebate, running a council tax rebate scheme based closely on the current system could be extremely challenging for local authorities. At present two-thirds of CTB recipients are passported onto full entitlement: if all these people needed to go through a full means test in order to receive support, the burden on both claimants and LAs would increase substantially. One way to mitigate this would be for central government to transfer Universal Credit data to local authorities, so that they could use it in their means tests without having to ask claimants for the information again – if the IT systems can be set up to achieve this data transfer in a timely and efficient way.

Financial assistance with council tax is not the only area in which central government is devolving responsibility for designing means tests. Hills and Richards (2012) analyse how higher education funding reforms are leading to different universities designing widely varying means tests, based on parental income, to allocate bursaries or fee reductions to students. Their conclusions are instructive:

> 'The combination of spending cuts, efforts to protect the poorest from some of their effects, and "localised" decision-making are leading to an increase in the numbers of means tests designed by lower level institutions... As localisation is pushed further, and more agencies become responsible for designing their own mean tests, the lack of a system to take an overview of their

> overlapping effects, and to avoid undesirable design features will become an increasing problem across social policy.'

Cutting support for council tax and localising it are two distinct policy choices: either could have been done without the other. Whether cutting council tax support for low-income families is the best way to reduce government borrowing by £500 million per year is a question that requires value judgements we are not in a position to make. But the advantages of localisation seem to be strongly outweighed by the disadvantages, particularly in the context of the welcome introduction of Universal Credit.

Appendix A. Measuring work incentives

In this analysis, we distinguish between the incentive for individuals to undertake paid work at all, and the incentive for those in paid work to slightly increase their earnings.

The incentive to work at all

We measure the incentive to work at all by examining the participation tax rate (PTR). PTRs give the proportion of earnings that are not taken away in tax or lower benefit entitlements when an individual starts work, i.e.

$$PTR = 1 - \frac{net\ income\ in\ work - net\ income\ out\ of\ work}{gross\ earnings}$$

Therefore, someone whose income after taxes and benefits was £50 if they did not work and £200 if they did work, earning £250, would have a PTR of 40%.

Note that:

- Net income means income after benefits have been added and taxes deducted.
- Low numbers indicate that the incentive to work is strong and vice versa. A PTR of 0% would indicate that an individual did not have to pay any tax on their earnings and did not lose any benefit entitlement when they started work. A PTR of 100% would indicate that all of an individual's earnings would be taken from them in tax or lower benefit entitlements if they worked, so they would be no better off in paid work than not working. High PTRs are sometimes referred to as the 'unemployment trap'.
- For individuals in couples, it is possible to calculate the PTR using individual or family income, and this choice will affect our impression of the strength of the financial reward to work. In this paper, we use family income.

The incentive to earn more

The incentive for those in work to increase their earnings can be measured by the effective marginal tax rate (EMTR). The EMTR measures how much of a small change in employer cost is lost to tax payments and forgone state benefit and tax credit entitlements, and it tells us about the strength of the incentive for individuals to increase their earnings slightly, whether through working more hours, or through promotion, qualifying for bonus payments or getting a better-paid job. Throughout this report, we use the term 'incentive to earn more' for all these possibilities.

As with the incentive to work at all, low numbers mean stronger financial incentives. An EMTR of zero means that the individual keeps all of any small change in what their employer pays, and a rate of 100% means that the individual keeps none. High EMTRs amongst workers in low-income families are often referred to as 'the poverty trap'.

Methodology

Our methodology is the same as that used in Adam and Browne (2010). To calculate PTRs for each adult and EMTRs for each working adult, we use the IFS tax and benefit microsimulation model, TAXBEN, to calculate family income (after taxes and benefits) if the adult in question is in paid work, if they are not in paid work, and (for those in work) if they increase their earnings slightly. For non-workers, this involves making an assumption about how much they would earn, and how many hours they would work, if they did move into paid work. Our approach to this is the same as that used in Section 2 of Adam and Browne (2010). We use the observed characteristics of non-workers (age, sex, years of education, marriage and cohabitation status, number of children, age of youngest child, ethnicity and housing tenure) to predict their earnings conditional on being in each of four different hours bands (1–15, 16–23, 24–29 and 30+), using an ordinary least squares regression. We then use the same characteristics to estimate (using a multinomial logit model) the likelihood of each individual being in each of these hours bands were they to work and weight the participation tax rate associated with each earnings/hours band combination accordingly.

Our measures of work incentives do not take account of employer National Insurance Contributions (NICs) or indirect taxes. Although both of these do weaken the incentive to work (as presumably employers would be prepared to pay workers more in the absence of employer NICs, and people make their decisions about how much paid work to do on the basis of the quantity of goods and services they can purchase with their earnings), we do not include these in our measures here, as neither are affected by the amount of CTB a family receives, and thus including them would not affect our view of how much work incentives are affected by CTB. However, it does mean that our results will show work incentives to be stronger than they actually are in terms of the value of goods individuals are able to purchase with their wages relative to the cost to their employers of employing them in the scenarios both with and without CTB.

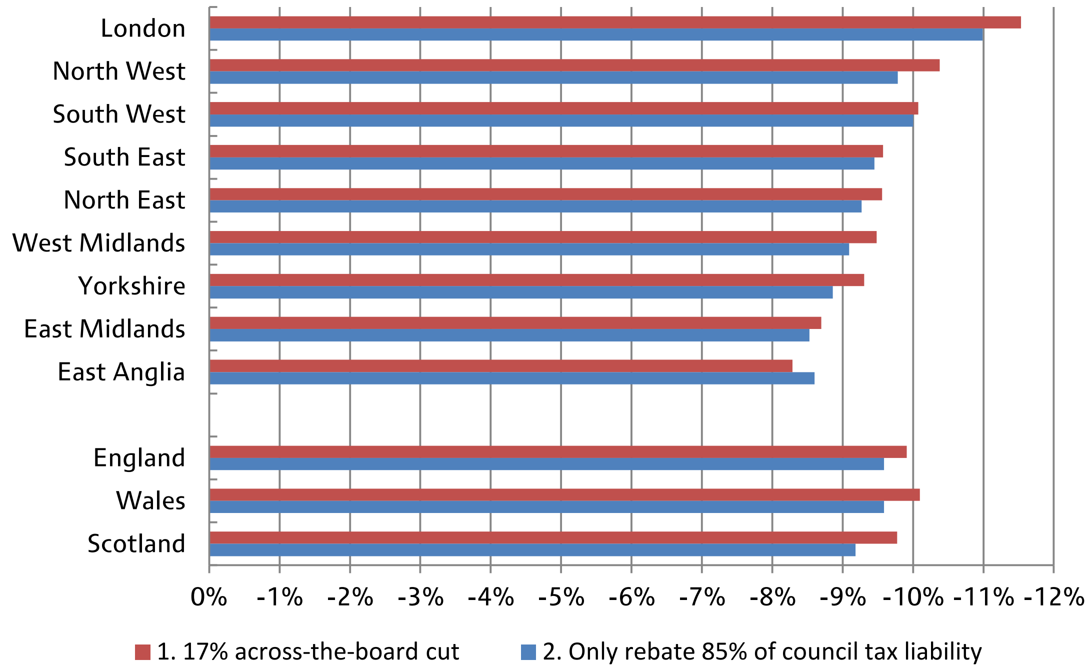
We do not consider non-take-up of CTB (or indeed other means-tested benefits and tax credits) in our analysis of work incentives. To do so would require us to make assumptions about whether those currently in work and not entitled to CTB would claim if they were not working and entitled to CTB, and about whether non-workers claiming CTB would continue to do so if they moved into work.

Appendix B. Modelling results for Section 6

This appendix contains the detailed modelling results for the eight money-saving reforms examined in Section 6. For each reform we show the savings it generates in different areas, its distributional and work incentive effects, and how it changes the number of people entitled to full or partial support.

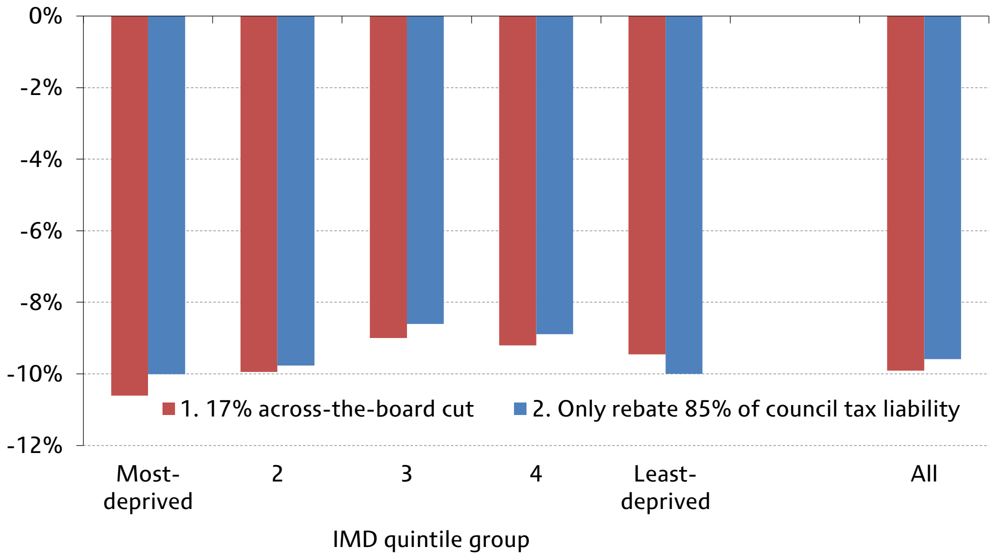
B.1. Percentage savings in cost of council tax support across the country

Figure B.1. Percentage reduction in cost of council tax rebates from Reforms 1 and 2 by region of England and nation of Great Britain



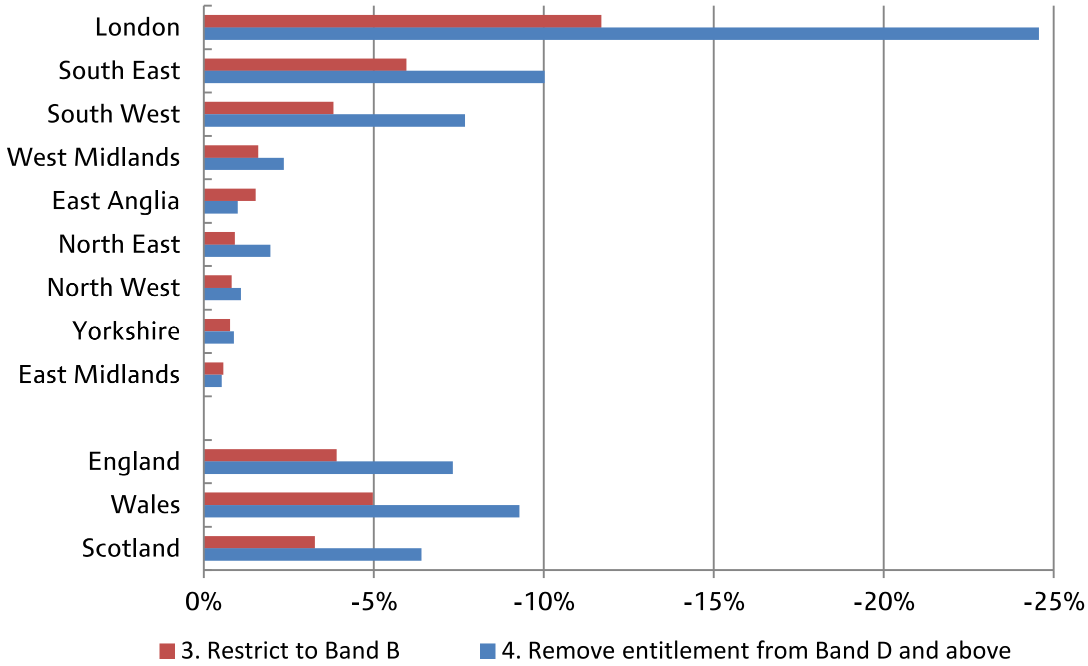
Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Figure B.2. Percentage reduction in cost of council tax rebates from Reforms 1 and 2 by IMD quintile of local authority (England only)



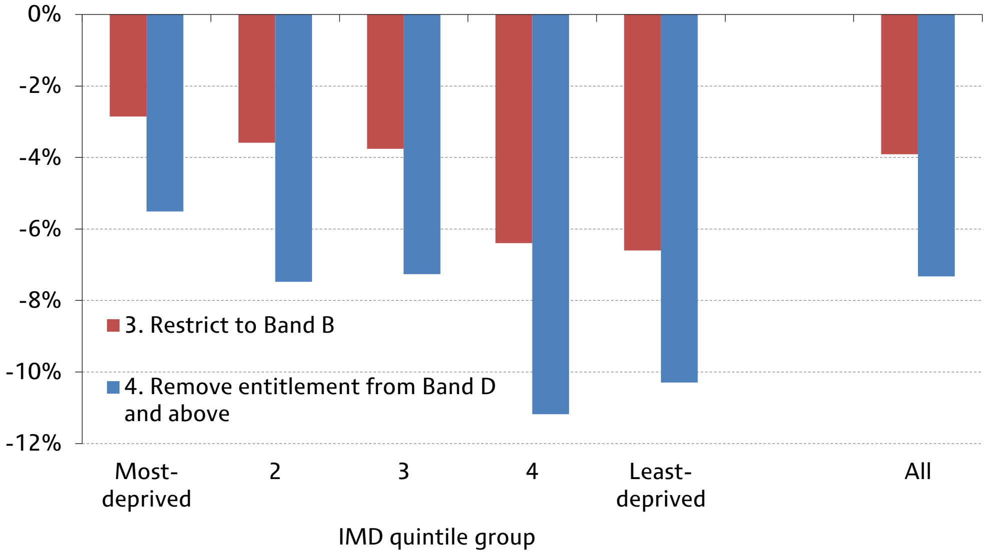
Notes: IMD quintiles are derived by dividing LAs in each nation into 5 equal-sized groups according to their overall IMD score.
Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Figure B.3. Percentage reduction in cost of council tax rebates from Reforms 3 and 4 by region of England and nation of Great Britain



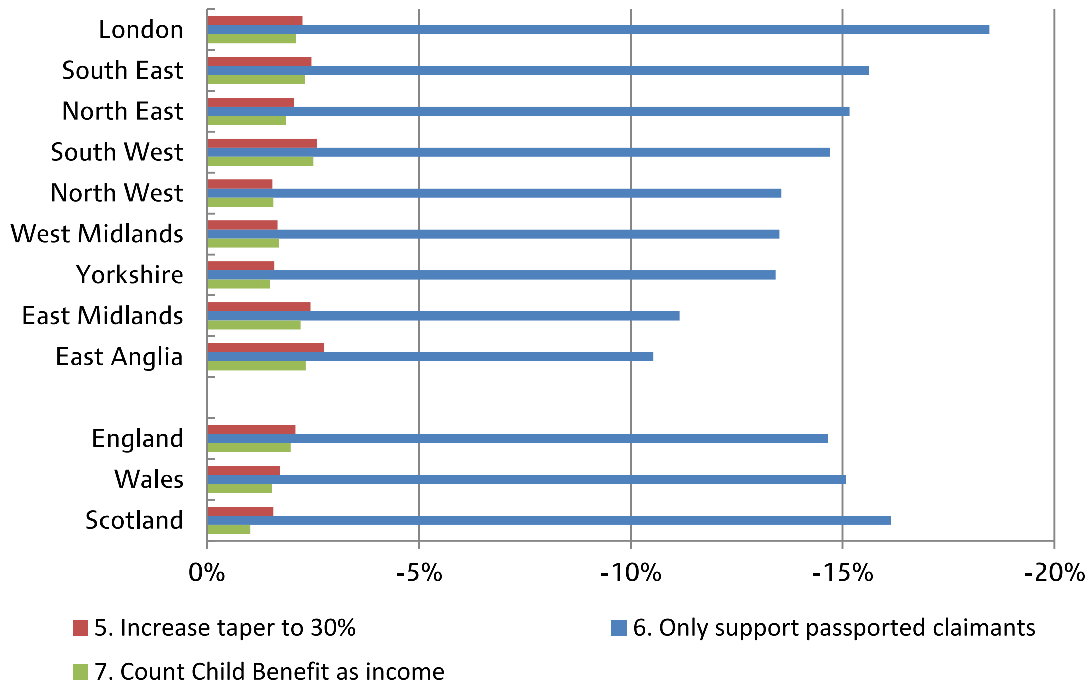
Source: As for Figure B.1.

Figure B.4. Percentage reduction in cost of council tax rebates from Reforms 3 and 4 by IMD quintile of local authority (England only)



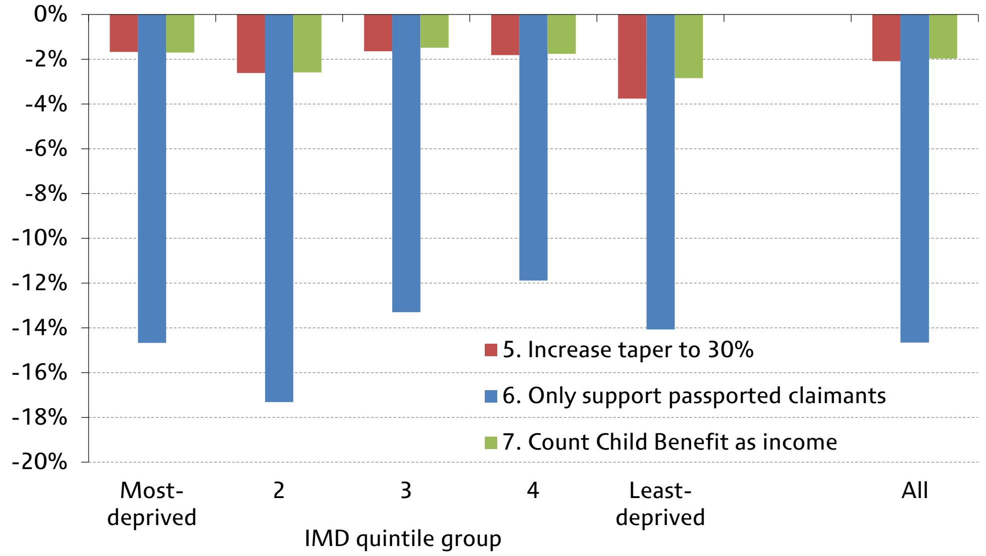
Notes and sources: As for Figure B.2.

Figure B.5. Percentage reduction in cost of council tax rebates from Reforms 5, 6 and 7 by region of England and nation of Great Britain



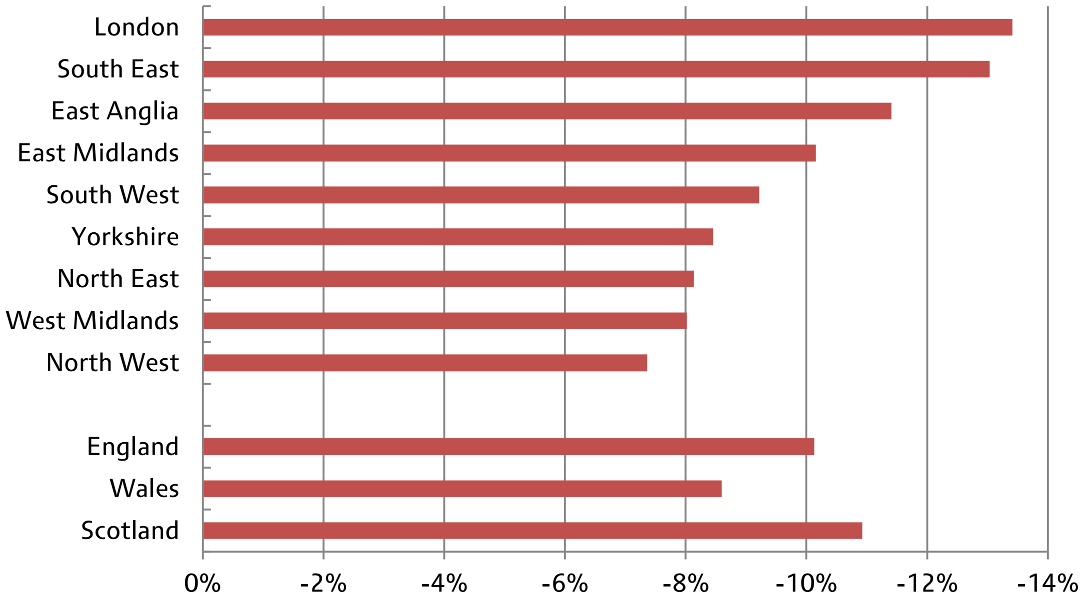
Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Figure B.6. Percentage reduction in cost of council tax rebates from Reforms 5, 6 and 7 by IMD quintile of local authority (England only)



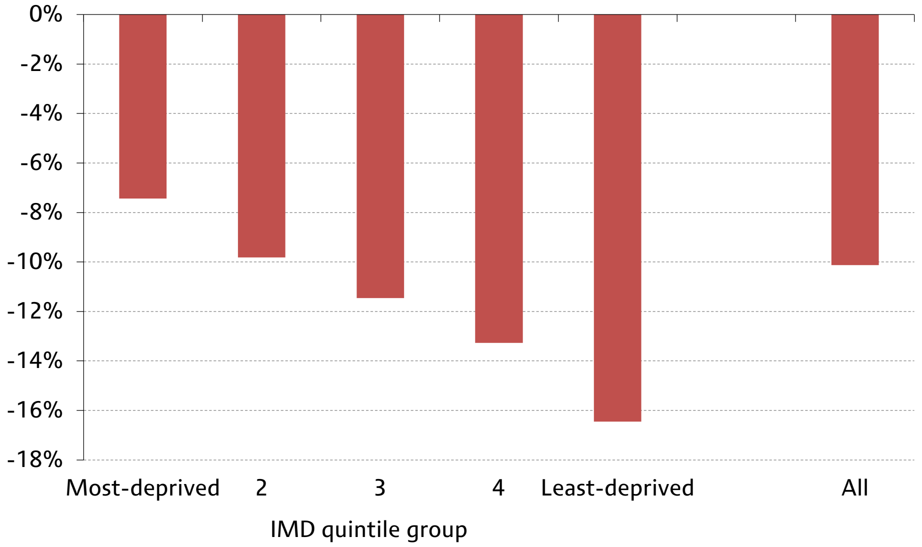
Notes and sources: As for Figure B.2.

Figure B.7. Percentage reduction in cost of council tax rebates from Reform 8 (reducing single-person discount) by region of England and nation of Great Britain



Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Figure B.8. Percentage reduction in cost of council tax rebates from increasing Reform 8 (reducing single-person discount) by IMD quintile of local authority (England only)



Notes and source: As for Figure B.2.

B.2. Distributional effects

Table B.1: Average annual loss from these reforms by income decile group

Reform	*Income decile group*										*All*
	Poorest	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Richest*	
1. 17% across-the-board cut	-£51.53	-£57.69	-£33.91	-£22.52	-£13.03	-£9.13	-£6.27	-£4.21	-£0.13	-£0.24	-£19.87
2. Only refund 85% of council tax liability	-£48.15	-£55.39	-£33.72	-£22.47	-£12.78	-£9.18	-£5.82	-£4.05	-£0.12	-£0.21	-£19.19
3. Restrict to Band B	-£14.26	-£17.26	-£14.79	-£13.47	-£8.20	-£5.92	-£2.21	-£1.91	-£0.05	-£0.64	-£7.87
4. Remove entitlement from Band D and above	-£27.68	-£29.75	-£29.42	-£23.25	-£16.95	-£9.74	-£5.10	-£4.58	-£0.09	-£1.38	-£14.80
5. Increase taper to 30%	-£8.06	-£10.67	-£9.14	-£6.40	-£3.58	-£2.62	-£0.67	-£0.63	£0.00	£0.00	-£4.18
6. Only support passported claimants	-£115.47	-£85.92	-£44.50	-£28.60	-£16.26	-£11.68	-£1.11	-£1.34	-£0.09	£0.00	-£30.50
7. Count Child Benefit as income	-£3.90	-£10.37	-£9.65	-£7.27	-£3.79	-£2.94	-£0.49	-£0.19	£0.00	£0.00	-£3.86
8. Reduce single-person discount	-£16.20	-£13.43	-£17.07	-£19.39	-£21.99	-£19.85	-£21.36	-£20.37	-£24.89	-£28.57	-£20.31

Notes: Income decile groups are derived by dividing all working-age families into 10 equal-sized groups according to income adjusted for household size using the McClements equivalence scale. Decile group 1 contains the poorest tenth of the population, decile group 2 the second poorest, and so on up to decile group 10, which contains the richest tenth.
Source: Authors' calculations using TAXBEN run on the 2009–10 Family Resources Survey.

Table B.2. Average loss from these reforms by income decile group as a percentage of net income

Reform	*Income decile group*										*All*
	Poorest	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Richest*	
1. 17% across-the-board cut	-0.48%	-0.32%	-0.16%	-0.09%	-0.05%	-0.03%	-0.02%	-0.01%	0.00%	0.00%	-0.06%
2. Only refund 85% of council tax liability	-0.44%	-0.31%	-0.16%	-0.09%	-0.05%	-0.03%	-0.02%	-0.01%	0.00%	0.00%	-0.06%
3. Restrict to Band B	-0.13%	-0.10%	-0.07%	-0.05%	-0.03%	-0.02%	-0.01%	0.00%	0.00%	0.00%	-0.02%
4. Remove entitlement from Band D and above	-0.26%	-0.17%	-0.14%	-0.09%	-0.06%	-0.03%	-0.01%	-0.01%	0.00%	0.00%	-0.04%
5. Increase taper to 30%	-0.07%	-0.06%	-0.04%	-0.03%	-0.01%	-0.01%	0.00%	0.00%	0.00%	0.00%	-0.01%
6. Only support passported claimants	-1.07%	-0.48%	-0.21%	-0.12%	-0.06%	-0.04%	0.00%	0.00%	0.00%	0.00%	-0.09%
7. Count Child Benefit as income	-0.04%	-0.06%	-0.04%	-0.03%	-0.01%	-0.01%	0.00%	0.00%	0.00%	0.00%	-0.01%
8. Reduce single-person discount	-0.15%	-0.07%	-0.08%	-0.08%	-0.08%	-0.06%	-0.06%	-0.05%	-0.05%	-0.03%	-0.06%

Notes: Households only containing pensioner families are excluded from this analysis as they are assumed to be unaffected by all the reforms. Income decile groups are derived by dividing all working-age families into 10 equal-sized groups according to income adjusted for household size using the McClements equivalence scale.
Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Table B.3. Percentage of households that lose out from these reforms by income decile group

Reform	*Income decile group*										*All*
	Poorest	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*Richest*	
1. 17% across-the-board cut	33%	38%	22%	13%	8%	6%	4%	3%	0%	0%	13%
2. Only refund 85% of council tax liability	33%	38%	22%	13%	8%	6%	4%	3%	0%	0%	13%
3. Restrict to Band B	6%	8%	6%	5%	3%	2%	1%	1%	0%	0%	3%
4. Remove entitlement from Band D and above	2%	3%	3%	2%	1%	1%	0%	0%	0%	0%	1%
5. Increase taper to 30%	7%	9%	6%	4%	3%	1%	0%	0%	0%	0%	3%
6. Only support passported claimants	14%	12%	7%	4%	3%	2%	0%	0%	0%	0%	4%
7. Count Child Benefit as income	2%	4%	4%	2%	1%	1%	0%	0%	0%	0%	1%
8. Reduce single-person discount	20%	16%	22%	22%	24%	22%	22%	22%	24%	25%	22%

Notes: Households only containing pensioner families are excluded from this analysis as they are assumed to be unaffected by all the reforms. Income decile groups are derived by dividing all working-age families into 10 equal-sized groups according to income adjusted for household size using the McClements equivalence scale.
Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Table B.4. Average annual loss from these reforms by household type

Reform	*Household type*												*All*
	Single, not working	*Single, in work*	*Lone parent, not working*	*Lone parent, in work*	*0-earner couple, no children*	*0-earner couple, children*	*1-earner couple, no children*	*1-earner couple, children*	*2-earner couple, no kids*	*2-earner couple, kids*	*Multi-family, no children*	*Multi-family with children*	
1. 17% across-the-board cut	-£69.66	-£1.34	-£112.64	-£16.69	-£28.34	-£120.41	-£2.40	-£11.35	£0.00	-£0.57	-£9.88	-£26.28	-£19.87
2. Only refund 85% of council tax liability	-£63.73	-£1.52	-£99.66	-£22.26	-£28.24	-£110.25	-£3.18	-£14.56	£0.00	-£1.23	-£9.10	-£25.28	-£19.19
3. Restrict to Band B	-£15.57	-£0.53	-£35.85	-£12.95	-£6.79	-£37.97	-£1.59	-£9.38	£0.00	-£0.89	-£4.10	-£20.49	-£7.87
4. Remove entitlement from Band D and above	-£30.32	-£0.77	-£82.42	-£21.80	-£8.72	-£69.39	-£2.12	-£14.08	£0.00	-£0.79	-£6.00	-£45.23	-£14.80
5. Increase taper to 30%	-£7.20	-£0.95	-£0.91	-£19.06	-£9.48	-£10.07	-£2.64	-£9.49	£0.00	-£1.30	-£1.16	-£5.82	-£4.18
6. Only support passported claimants	-£164.31	-£4.99	-£4.42	-£47.68	-£49.08	-£69.67	-£11.11	-£56.65	£0.00	-£2.29	-£15.38	-£14.71	-£30.50
7. Count Child Benefit as income	£0.00	£0.00	-£2.26	-£28.43	£0.00	-£20.32	-£0.15	-£13.32	£0.00	-£1.45	£0.00	-£6.20	-£3.86
8. Reduce single-person discount	-£30.22	-£87.39	-£10.82	-£71.06	-£0.93	-£4.79	-£6.53	-£2.60	-£1.06	-£0.44	-£3.69	-£4.06	-£20.31

Notes: Households only containing pensioner families are excluded from this analysis as they are assumed to be unaffected by all the reforms.
Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Table B.5. Average loss from these reforms by household type as a percentage of net income

Reform	*Household type*												*All*
	Single, not working	*Single, in work*	*Lone parent, not working*	*Lone parent, in work*	*0-earner couple, no children*	*0-earner couple, children*	*1-earner couple, no children*	*1-earner couple, children*	*2-earner couple, no kids*	*2-earner couple, kids*	*Multi-family, no children*	*Multi-family with children*	
1. 17% across-the-board cut	-0.62%	-0.01%	-0.64%	-0.07%	-0.11%	-0.50%	-0.01%	-0.03%	0.00%	0.00%	-0.02%	-0.06%	-0.62%
2. Only refund 85% of council tax liability	-0.57%	-0.01%	-0.56%	-0.09%	-0.11%	-0.46%	-0.01%	-0.04%	0.00%	0.00%	-0.02%	-0.06%	-0.57%
3. Restrict to Band B	-0.14%	0.00%	-0.20%	-0.05%	-0.03%	-0.16%	-0.01%	-0.03%	0.00%	0.00%	-0.01%	-0.05%	-0.14%
4. Remove entitlement from Band D and above	-0.27%	0.00%	-0.47%	-0.09%	-0.04%	-0.29%	-0.01%	-0.04%	0.00%	0.00%	-0.01%	-0.10%	-0.27%
5. Increase taper to 30%	-0.06%	0.00%	-0.01%	-0.08%	-0.04%	-0.04%	-0.01%	-0.03%	0.00%	0.00%	0.00%	-0.01%	-0.06%
6. Only support passported claimants	-1.46%	-0.02%	-0.03%	-0.20%	-0.20%	-0.29%	-0.04%	-0.16%	0.00%	0.00%	-0.04%	-0.03%	-1.46%
7. Count Child Benefit as income	0.00%	0.00%	-0.01%	-0.12%	0.00%	-0.08%	0.00%	-0.04%	0.00%	0.00%	0.00%	-0.01%	0.00%
8. Reduce single-person discount	-0.27%	-0.37%	-0.06%	-0.30%	0.00%	-0.02%	-0.02%	-0.01%	0.00%	0.00%	-0.01%	-0.01%	-0.27%

Notes: Households only containing pensioner families are excluded from this analysis as they are assumed to be unaffected by all the reforms.
Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Table B.6. Percentage of households that lose out from each reform by household type

Reform	*Household type*												*All*
	Single, not working	*Single, in work*	*Lone parent, not working*	*Lone parent, in work*	*0-earner couple, no children*	*0-earner couple, children*	*1-earner couple, no children*	*1-earner couple, children*	*2-earner couple, no kids*	*2-earner couple, kids*	*Multi-family, no children*	*Multi-family with children*	
1. 17% across-the-board cut	56%	1%	84%	18%	18%	70%	2%	9%	0%	1%	6%	15%	13%
2. Only refund 85% of council tax liability	56%	1%	84%	18%	18%	70%	2%	9%	0%	1%	6%	15%	13%
3. Restrict to Band B	9%	0%	19%	6%	4%	17%	1%	4%	0%	1%	2%	8%	3%
4. Remove entitlement from Band D and above	3%	0%	8%	3%	1%	5%	0%	2%	0%	0%	1%	5%	1%
5. Increase taper to 30%	13%	1%	1%	12%	7%	8%	1%	5%	0%	1%	1%	3%	3%
6. Only support passported claimants	24%	1%	1%	12%	7%	9%	2%	8%	0%	1%	3%	4%	4%
7. Count Child Benefit as income	0%	0%	1%	13%	0%	8%	0%	6%	0%	1%	0%	3%	1%
8. Reduce single-person discount	38%	97%	12%	86%	1%	5%	7%	3%	1%	0%	4%	5%	22%

Notes: Households only containing pensioner families are excluded from this analysis as they are assumed to be unaffected by all the reforms.
Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

B.3. Work incentive effects

Table B.7. Percentile points of the distribution of participation tax rates under different reforms

Reform	*Percentile point*					
	10th	*25th*	*Median*	*75th*	*90th*	*Mean*
Current system	9.9%	21.8%	34.6%	50.9%	70.9%	37.4%
1. 17% across-the-board cut	9.8%	21.7%	34.5%	50.4%	70.0%	37.1%
2. Only refund 85% of council tax liability	9.8%	21.7%	34.5%	50.4%	70.2%	37.1%
3. Restrict to Band B	9.7%	21.7%	34.5%	50.3%	70.5%	37.1%
4. Remove entitlement from Band D and above	9.9%	21.8%	34.5%	50.5%	70.5%	37.2%
5. Increase taper to 30%	9.9%	21.8%	34.6%	50.8%	71.1%	37.4%
6. Only support passported claimants	9.7%	21.7%	34.5%	50.8%	71.5%	37.5%
7. Count Child Benefit as income	10.0%	21.8%	34.6%	51.1%	72.1%	37.7%
8. Reduce single-person discount	9.9%	21.8%	34.6%	51.0%	71.1%	37.4%

Note: Only includes those in non-pensioner families. In-work incomes for non-workers calculated using the methodology specified in Adam and Browne (2010).
Source: Authors' calculations using TAXBEN run on uprated data from the 2009–10 Family Resources Survey.

Table B.8. Average participation tax rates for different groups under these reforms

	Single, no children	*Lone parent*	*Couple with children, partner works*	*Couple with children, partner doesn't work*	*Couple without children, partner works*	*Couple without children, partner doesn't work*	*All*
Current system	38.9%	51.3%	33.4%	69.8%	24.3%	47.5%	37.4%
1. 17% across-the-board cut	38.6%	50.5%	33.2%	69.3%	24.2%	47.0%	37.1%
2. Only refund 85% of council tax liability	38.7%	50.8%	33.2%	69.5%	24.2%	47.2%	37.1%
3. Restrict to Band B	38.8%	51.1%	33.1%	69.6%	24.2%	47.3%	37.1%
4. Remove entitlement from Band D and above	38.7%	51.0%	33.0%	69.3%	24.2%	47.1%	37.2%
5. Increase taper to 30%	38.9%	51.8%	33.2%	70.2%	24.2%	47.7%	37.4%
6. Only support passported claimants	39.1%	53.2%	32.8%	71.9%	24.0%	48.2%	37.5%
7. Count Child Benefit as income	38.9%	55.9%	32.9%	72.2%	24.3%	47.5%	37.7%
8. Reduce single-person discount	39.0%	51.6%	33.4%	69.9%	24.3%	47.6%	37.4%

Note: Only includes those in non-pensioner families. In-work incomes for non-workers calculated using the methodology specified in Adam and Browne (2010).
Source: Authors' calculations using TAXBEN run on the 2009–10 Family Resources Survey.

Table B.9. Average effective marginal tax rates for different groups under these reforms

	Single, no children	*Lone parent*	*Couple with children, partner works*	*Couple with children, partner doesn't work*	*Couple without children, partner works*	*Couple without children, partner doesn't work*	*All*
Current system	32.9%	64.3%	38.1%	55.2%	31.8%	42.7%	37.3%
1. 17% across-the-board cut	32.8%	63.8%	38.0%	54.9%	31.8%	42.5%	37.3%
2. Only refund 85% of council tax liability	32.8%	64.0%	38.0%	54.8%	31.8%	42.5%	37.3%
3. Restrict to Band B	32.8%	64.1%	38.0%	54.9%	31.7%	42.5%	37.3%
4. Remove entitlement from Band D and above	32.9%	64.6%	38.0%	54.9%	31.7%	42.6%	37.3%
5. Increase taper to 30%	32.6%	61.2%	37.8%	53.5%	31.7%	41.5%	36.9%
6. Only support passported claimants	32.9%	62.7%	37.7%	54.5%	31.8%	42.7%	37.1%
7. Count Child Benefit as income	32.9%	64.5%	38.1%	55.2%	31.8%	42.7%	37.4%
8. Reduce single-person discount	32.8%	63.9%	38.0%	54.8%	31.7%	42.5%	37.2%

Note: Only includes those in non-pensioner families. In-work incomes for non-workers calculated using the methodology specified in Adam and Browne (2010).
Source: Authors' calculations using TAXBEN run on the 2009–10 Family Resources Survey.

Table B.10. Distribution of EMTRs under the current system and different reforms

	Number with EMTRs (millions):								
	Below 50%	*50%–59.99%*	*60%–69.99%*	*70%–79.99%*	*80%–89.99%*	*90%–99.99%*	*100%*	*Rise*	*Fall*
Current system	19.55	0.56	0.49	2.14	0.29	0.49	0.19	N/A	
1. 17% across-the- board cut	19.56	0.56	0.49	2.14	0.33	0.45	0.19	0.01	1.10
2. Only refund 85% of council tax liability	19.58	0.54	0.52	2.14	0.29	0.46	0.19	0.01	0.28
3. Restrict to Band B	19.59	0.54	0.52	2.12	0.30	0.47	0.19	0	0.27
4. Remove entitlement from Band D and above	19.59	0.52	0.56	2.12	0.27	0.47	0.19	0	0.30
5. Increase taper to 30%	19.57	0.56	0.54	2.10	0.15	0.61	0.19	0.55	0.56
6. Only support passported claimants	19.56	0.56	0.50	2.13	0.29	0.49	0.19	0	1.88
7. Count Child Benefit as income	19.62	0.54	0.53	2.22	0.29	0.34	0.19	0.05	0.50
8. Reduce single-person discount	19.55	0.56	0.49	2.14	0.29	0.5	0.19	0.05	0

Note: Only includes those in paid work in non-pensioner families. All figures rounded to nearest 10,000.
Source: Authors' calculations using TAXBEN run on the 2009–10 Family Resources Survey.

B.4. Effects on numbers entitled to full and to partial support

Table B.11. Number of households entitled to maximum support and on the taper under the different reforms

	Number of households entitled to maximum council tax support	*Number of households on taper*	*Total*
Current system	2,910,000	1,680,000	4,590,000
1. 17% across-the-board cut	2,900,000	1,670,000	4,560,000
2. Only refund 85% of council tax liability	2,890,000	1,410,000	4,300,000
3. Restrict to Band B	2,900,000	1,450,000	4,360,000
4. Remove entitlement from Band D and above	2,470,000	1,230,000	3,700,000
5. Increase taper to 30%	2,890,000	1,150,000	4,040,000
6. Only support passported claimants	2,520,000	0	2,020,000
7. Count Child Benefit as income	2,850,000	1,420,000	4,270,000
8. Reduce single-person discount	2,910,000	1,730,000	4,640,000

Note: Only includes households containing non-pensioner families. All figures rounded to nearest 10,000. Does not account for non-take-up.
Source: Authors' calculations using TAXBEN run on the 2009–10 Family Resources Survey.

Appendix C. Comparing CTB receipt and entitlements in our data with administrative data

The IFS tax and benefit microsimulation model, TAXBEN, can be used to calculate families' entitlements to CTB. However, we know that not all families take up the CTB to which they are entitled (see Section 2). Throughout this report, to model this non-take-up of CTB, we assume that only those families in our FRS data who report receipt of CTB take it up.[121] In this appendix, we examine how successful this approach is at matching administrative data on CTB receipt.[122]

Table C.1 below compares total expenditure on CTB for different groups in 2009 from administrative data with total recorded receipt in our FRS data. We further divide each group into those who TAXBEN calculates as being entitled to CTB at the time they were surveyed and those who TAXBEN calculates as not being entitled, and show TAXBEN's estimate of total entitlement among those who report receipt of CTB. Note that the self-employed are excluded from the DWP take-up statistics, so we record receipt by this group separately, and use an administrative figure for total expenditure from the DWP benefit expenditure tables. We can see that there appears to be under-recording of receipt among all groups, but particularly among pensioners for whom the FRS only records 80% of actual expenditure. Reassuringly, TAXBEN appears to calculate entitlements fairly well: relatively few people report receiving CTB who TAXBEN calculates are not entitled to it, and TAXBEN's estimates of entitlement are close to reported receipt.

Table C.1. Total amount claimed in CTB, FRS and administrative data

	DWP take-up statistics	FRS self-recorded receipt among those			TAXBEN entitlement among those reporting receipt
		Entitled to CTB	Not entitled to CTB	Total	
Working age without children	£1,040m	£824m	£122m	£947m	£837m
Couples with children	£380m	£353m	£42m	£395m	£324m
Lone parents	£710m	£544m	£40m	£584m	£555m
Pensioners	£2,140m	£1,580m	£138m	£1,718m	£1,550m
Total excluding self-employed	£4,230m	£3,301m	£342m	£3,643m	£3,266m
Self-employed		£43m	£16m	£59m	£46m
Total including self-employed	£4,698m	£3,344m	£358m	£3,702m	£3,312m

Source: DWP (2012), authors' calculations using 2009–10 Family Resources Survey.

In Table C.2 we see less under-recording in terms of the number of families claiming CTB in the FRS data relative to the number claiming CTB in administrative statistics. These figures are more similar than those in Table C.1, suggesting that much of the difference between the FRS and administrative data is that the FRS and TAXBEN are under-estimating the amount to which each family is entitled.

[121] Our data is from 2009–10, but for most of this report we focus on 2012–13. There are a small number of families who TAXBEN calculates as being not entitled to CTB at the time when they are surveyed but entitled to CTB under the 2012–13 system. We randomly assign some of these families to take up CTB to ensure that the take-up rate is the same as under the 2009–10 at 59%.
[122] DWP (2012).

Table C.2. Number of CTB claimants, FRS and administrative data

	DWP take-up statistics	FRS self-recorded receipt among those		
		Entitled to CTB	Not entitled to CTB	Total
Working age without children	1.35m	1.14m	0.19m	1.33m
Couples with children	0.38m	0.38m	0.07m	0.44m
Lone parents	0.90m	0.75m	0.08m	0.83m
Pensioners	2.59m	2.08m	0.23m	2.32m
Total excluding self-employed	5.19m	4.35m	0.75m	4.93m
Self-employed	0.15m	0.06m	0.03m	0.08m
Total including self-employed	5.34m	4.41m	0.78m	5.01m

Source: DWP (2012), authors' calculations using 2009–10 Family Resources Survey.

We can also compare TAXBEN's estimates of total entitlement to CTB with DWP's estimates based on administrative data and analysis of the FRS. Because of the uncertainties around this analysis, DWP produce a range for the total amount unclaimed rather than a point estimate. Furthermore, DWP's statistics do not include the self-employed. In Table C.3, we use these figures to calculate DWP's estimates of total entitlement and compare these with estimates of total entitlement from TAXBEN. We can see that TAXBEN's estimates of entitlement are somewhat below the estimates from DWP's statistics in each case.

Table C.3. Total entitlement to CTB, DWP take-up statistics and TAXBEN

	DWP take-up statistics	TAXBEN
Working age without children	£1,210m–£1,390m	£1,160m
Couples with children	£570m–£680m	£467m
Lone parents	£780m–£870m	£640m
Pensioners	£3,360m–£3,830m	£2,890m
Total excluding self-employed	£5,930m–£6,650m	£5,157m
Self-employed		£240m
Total		£5,397m

Source: DWP (2012), authors' calculations using TAXBEN run on the 2009–10 Family Resources Survey.

Table C.4 performs the same analysis for the number of families entitled to CTB. We again see that TAXBEN estimates that fewer families are entitled to CTB than the DWP take-up statistics suggest, though the cash figures for total entitlement. This suggests that TAXBEN is underestimating the amount each person is entitled to, as well as underestimating the number of families that are entitled to CTB.

Table C.4. Number of families entitled to CTB

	DWP take-up statistics	TAXBEN
Working age without children	1.59m–1.80m	1.69m
Couples with children	0.64m–0.73m	0.58m
Lone parents	1.01m–1.13m	0.92m
Pensioners	4.28m–4.82m	3.97m
Total excluding self-employed	7.53m–8.39m	7.16m
Self-employed		0.33m
Total		7.49m

Source: DWP (2012), authors' calculations using TAXBEN run on 2009–10 Family Resources Survey.

Together, our figures calculated using the FRS[123] suggest that the overall take-up rate was just below 59% in 2009–10 compared to DWP's estimate of between 62% and 69% using administrative data. This would

[123] i.e. comparing the number of claimants who are receiving CTB and are entitled with the number TAXBEN calculates as being entitled (the caseload take-up rate) and the total amounts received by those entitled and total entitlement (the expenditure take-up rate).

suggest that, as well as genuine non-take-up of CTB, some families do not report the CTB they are receiving when surveyed by the FRS.

Table C.5. Take-up rates from DWP and using TAXBEN and the FRS, 2009–10

	Caseload		Expenditure	
	DWP	TAXBEN	DWP	TAXBEN
Working age without children	75–85%	67%	75–86%	72%
Couples with children	52–59%	66%	56–66%	69%
Lone parents	80–89%	82%	82–91%	87%
Pensioners	54–61%	52%	56–64%	54%
Total excluding self-employed	62–69%	61%	64–71%	63%
Self-employed	N/A	24%	N/A	19%
Total	N/A	59%	N/A	61%

Appendix D. How large a cut will each local authority face?

The government's current intention is to give each LA a grant equal to 90% of their current spending on Council Tax Benefit when responsibility for council tax rebates is localised in 2013–14. However, LAs will be required to give pensioners the same amount of support as they receive under the current system of CTB: effectively the national system of CTB will be retained for this group, but paid for by LAs themselves out of a new grant given to them for this purpose rather than being refunded by central government. This means that the 10% cut in spending relative to the current system of CTB will be borne only by working-age claimants of CTB. Nationally, around 46% of total expenditure on CTB goes to pensioners and 54% to those of working age,[124] meaning that the total cut for those of working age will be around 19% on average nationally. But there will be considerable variation in this between LAs: because the distribution of grants will not take account of the proportion of CTB claimants that are pensioners, LAs where a larger proportion of CTB claimants are pensioners will have to make deeper cuts to council tax rebates for those of working age.

Unfortunately, although DWP publishes statistics on the number of CTB claimants by LA, and the split between passported and non-passported claims, it does not provide details of how these are split between pensioners and non-pensioners. However, details of the number of Pension Credit claimants by LA are available.[125] It is likely that the number of Pension Credit Guarantee (PCG) claims is a good proxy for the number of passported claims by pensioners in an LA, as eligibility for the Guarantee component of Pension Credit is the only way in which pensioners can become passported onto CTB. Nationally, the number of passported claims by pensioners is around 83% of the number of claims of PCG claims; thus we assume that the number of passported claims by pensioners in each LA is 83% of the number of PCG claims. This gives us an estimate of the number of passported claims by pensioners and non-pensioners in each LA. It is more difficult to estimate how non-passported claims of CTB are split between pensioners and non-pensioners in each LA. We do have information on the number of pensioners claiming the Savings Credit component of Pension Credit (and not the guarantee component) in each LA. These pensioners have relatively low incomes but not low enough to qualify for the Guarantee component of Pension Credit and thus be passported onto full CTB. They are therefore likely to be a good proxy for pensioners making non-passported claims of CTB. Nationally there are around 65% more pensioners making non-passported claims of CTB than there are claimants of the Savings Credit component of Pension Credit, so again we assume that there are 65% more non-passported claims of CTB in each LA than there are Savings Credit-only claims of Pension Credit. This enables us to split the non-passported claims in each LA into those made by pensioners and non-pensioners.

Having produced an estimate of the number of pensioners claiming CTB in each LA, and the number of passported and non-passported claims for each group, we can produce an estimate of the percentage of total spending on CTB in each LA going to pensioners and non-pensioners using information on the average award for passported and non-passported claims by pensioners and non-pensioners.[126] Thus we can work out the percentage by which spending on council tax rebates for those of working age must fall, given the percentage of spending going to pensioners and the fact that total spending must be reduced by 10%. Table C.1 shows our estimates of the proportion of claimants and expenditure that go to pensioners and those of working age in each LA, and hence the total cut that must made to spending on council tax rebates for those of working age to make an overall 10% cut in spending. (LAs will of course have access to more information about their CTB caseloads themselves and so be able to work these figures out precisely, without requiring the assumptions we have to make here, but we hope that these figures provide a useful insight into the variation in the scale of cuts to expenditure on council tax rebates for those of working age that need to be made across different LAs.)

[124] Source: Authors' calculations using DWP Housing Benefit and Council Tax Benefit Tables, May 2011 (http://statistics.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_release_aug11.xls).

[125] See DWP Tabulation Tool, http://statistics.dwp.gov.uk/asd/index.php?page=tabtool.

[126] Source: Authors' calculations using Tables 12–15 of DWP Housing Benefit and Council Tax Benefit Statistics, May 2011 (http://statistics.dwp.gov.uk/asd/asd1/hb_ctb/hbctb_release_aug11.xls).

	Proportion of claimants				*Proportion of spending going to*		*% cut for those of working age*	*Annual cut per household*	*Region or Nation*	*IMD quintile*
	Pensioners	*Non-pensioners*	*Passported*	*Non-passported*	*Pensioners*	*Non-pensioners*				
Great Britain	46%	54%	67%	33%	46%	54%	19%	£18.26	–	–
Aberdeen City	50%	50%	66%	34%	50%	50%	20%	£10.38	Scotland	4
Aberdeenshire	65%	35%	66%	34%	65%	35%	29%	£8.09	Scotland	5
Adur	55%	45%	64%	36%	55%	45%	22%	£19.51	South East	3
Allerdale	53%	47%	64%	36%	53%	47%	21%	£16.14	North East	2
Amber Valley	52%	48%	65%	35%	53%	47%	21%	£16.23	East Midlands	3
Angus	60%	40%	69%	31%	59%	41%	24%	£11.19	Scotland	4
Argyll and Bute	57%	43%	69%	31%	57%	43%	23%	£13.18	Scotland	3
Arun	59%	41%	60%	39%	59%	41%	25%	£17.97	South East	3
Ashfield	46%	54%	66%	34%	47%	53%	19%	£20.09	East Midlands	1
Ashford	49%	51%	62%	37%	49%	51%	20%	£15.43	South East	3
Aylesbury Vale	47%	53%	58%	41%	48%	52%	19%	£12.69	South East	5
Babergh	57%	43%	58%	42%	58%	42%	24%	£14.11	East Anglia	4
Barking and Dagenham	34%	66%	72%	28%	34%	66%	15%	£29.31	London	1
Barnet	36%	64%	64%	36%	38%	62%	16%	£22.58	London	3
Barnsley	48%	52%	69%	31%	48%	52%	19%	£19.17	Yorkshire	1
Barrow-in-Furness	48%	52%	70%	30%	48%	52%	19%	£20.49	North East	1
Basildon	42%	58%	67%	33%	42%	58%	17%	£23.77	South East	3
Basingstoke and Deane	45%	55%	59%	41%	45%	55%	18%	£11.48	South East	5
Bassetlaw	52%	48%	62%	37%	52%	48%	21%	£18.51	East Midlands	2
Bath and North East Somerset	50%	50%	61%	39%	50%	50%	20%	£14.10	South West	4
Bedford	44%	56%	65%	34%	44%	56%	18%	£18.38	South East	3
Bexley	41%	59%	65%	35%	42%	58%	17%	£17.74	London	3
Birmingham	41%	59%	71%	29%	41%	59%	17%	£24.35	West Midlands	1

	Proportion of claimants				*Proportion of spending going to*		*% cut for those of working age*	*Annual cut per household*	*Region or Nation*	*IMD quintile*
	Pensioners	*Non-pensioners*	*Passported*	*Non-passported*	*Pensioners*	*Non-pensioners*				
Blaby	61%	39%	58%	41%	62%	38%	26%	£12.20	East Midlands	5
Blackburn with Darwen	39%	61%	68%	32%	39%	61%	17%	£25.41	North West	1
Blackpool	43%	57%	70%	30%	43%	57%	18%	£27.68	North West	1
Blaenau Gwent	45%	55%	71%	29%	45%	55%	18%	£24.95	Wales	1
Bolsover	49%	51%	66%	34%	49%	51%	20%	£20.34	East Midlands	1
Bolton	45%	55%	70%	30%	45%	55%	18%	£20.20	North West	1
Boston	55%	45%	63%	37%	56%	44%	23%	£16.53	East Midlands	2
Bournemouth	49%	51%	67%	33%	49%	51%	20%	£18.91	South West	2
Bracknell Forest	42%	58%	59%	41%	43%	57%	17%	£12.77	South East	5
Bradford	47%	53%	72%	28%	47%	53%	19%	£18.97	Yorkshire	1
Braintree	52%	48%	64%	36%	53%	47%	21%	£16.38	South East	4
Breckland	58%	42%	61%	39%	59%	41%	24%	£15.99	East Anglia	3
Brent	33%	67%	61%	39%	35%	65%	15%	£32.11	London	1
Brentwood	54%	46%	63%	36%	54%	46%	22%	£13.98	South East	5
Bridgend	47%	53%	69%	31%	47%	53%	19%	£19.61	Wales	2
Brighton and Hove	39%	61%	65%	34%	40%	60%	17%	£20.64	South East	1
Bristol, City of	38%	62%	66%	33%	38%	62%	16%	£21.50	South West	2
Broadland	66%	34%	59%	41%	67%	33%	30%	£12.22	East Anglia	5
Bromley	42%	58%	69%	31%	43%	57%	17%	£14.63	London	4
Bromsgrove	64%	36%	64%	36%	64%	36%	28%	£12.44	West Midlands	5
Broxbourne	44%	56%	66%	34%	44%	56%	18%	£19.30	South East	4
Broxtowe	54%	46%	64%	36%	54%	46%	22%	£15.41	East Midlands	4
Burnley	42%	58%	67%	33%	43%	57%	17%	£24.55	North West	1
Bury	45%	55%	66%	34%	46%	54%	18%	£17.90	North West	2
Caerphilly	49%	51%	74%	26%	48%	52%	19%	£18.15	Wales	2
Calderdale	46%	54%	70%	30%	47%	53%	19%	£18.51	Yorkshire	2
Cambridge	40%	60%	64%	35%	41%	59%	17%	£13.06	East Anglia	3

	Proportion of claimants				Proportion of spending going to		% cut for those of working age	Annual cut per household	Region or Nation	IMD quintile
	Pensioners	Non-pensioners	Passported	Non-passported	Pensioners	Non-pensioners				
Camden	30%	70%	71%	29%	32%	68%	15%	£26.64	London	2
Cannock Chase	49%	51%	65%	35%	49%	51%	20%	£19.43	West Midlands	2
Canterbury	54%	46%	63%	36%	55%	45%	22%	£16.15	South East	3
Cardiff	40%	60%	72%	28%	40%	60%	17%	£18.24	Wales	4
Carlisle	50%	50%	69%	31%	50%	50%	20%	£14.85	North East	2
Carmarthenshire	53%	47%	70%	30%	54%	46%	22%	£16.61	Wales	2
Castle Point	58%	42%	64%	36%	59%	41%	24%	£19.72	South East	4
Central Bedfordshire	48%	52%	59%	41%	49%	51%	19%	£14.89	East Anglia	5
Ceredigion	55%	45%	68%	32%	56%	44%	23%	£13.27	Wales	5
Charnwood	56%	44%	64%	36%	56%	44%	23%	£13.86	East Midlands	4
Chelmsford	48%	52%	64%	36%	48%	52%	19%	£13.58	South East	5
Cheltenham	44%	56%	66%	34%	45%	55%	18%	£13.72	South West	4
Cherwell	48%	52%	60%	40%	49%	51%	19%	£13.02	South East	4
Cheshire East	53%	47%	63%	37%	54%	46%	22%	£12.77	North West	4
Cheshire West and Chester	49%	51%	66%	34%	50%	50%	20%	£15.55	North West	3
Chesterfield	46%	54%	67%	33%	46%	54%	19%	£19.60	East Midlands	2
Chichester	55%	45%	59%	41%	56%	44%	23%	£14.54	South East	4
Chiltern	47%	53%	56%	44%	49%	51%	20%	£12.23	South East	5
Chorley	55%	45%	65%	35%	55%	45%	22%	£14.14	North West	3
Christchurch	60%	40%	60%	40%	61%	39%	25%	£18.52	South East	4
City of London	37%	63%	71%	29%	39%	61%	16%	£4.89	London	4
Clackmannanshire	41%	59%	70%	30%	41%	59%	17%	£15.99	Scotland	2
Colchester	43%	57%	64%	36%	44%	56%	18%	£15.20	South East	4
Conwy	58%	42%	71%	29%	58%	42%	24%	£15.22	Wales	4
Copeland	46%	54%	66%	35%	46%	54%	19%	£17.38	North East	2
Corby	42%	58%	63%	36%	42%	58%	17%	£17.31	East Midlands	1

	Proportion of claimants				Proportion of spending going to		% cut for those of working age	Annual cut per household	Region or Nation	IMD quintile
	Pensioners	Non-pensioners	Passported	Non-passported	Pensioners	Non-pensioners				
Cornwall	55%	45%	65%	35%	56%	44%	22%	£18.06	South West	2
Cotswold	58%	42%	56%	43%	59%	41%	25%	£12.62	South West	5
County Durham	50%	50%	65%	35%	50%	50%	20%	£23.42	North East	1
Coventry	42%	58%	69%	31%	42%	58%	17%	£23.00	West Midlands	1
Craven	70%	30%	62%	38%	70%	30%	33%	£12.13	Yorkshire	4
Crawley	36%	64%	56%	43%	37%	63%	16%	£21.44	South East	3
Croydon	31%	69%	62%	38%	32%	68%	15%	£25.49	London	2
Dacorum	44%	56%	61%	39%	44%	56%	18%	£15.90	South East	5
Darlington	48%	52%	65%	35%	48%	52%	19%	£18.31	North East	2
Dartford	43%	57%	63%	37%	43%	57%	18%	£15.88	South East	3
Daventry	53%	47%	62%	38%	53%	47%	21%	£11.55	East Midlands	4
Denbighshire	54%	46%	72%	28%	55%	45%	22%	£19.99	Wales	3
Derby	43%	57%	70%	30%	43%	57%	18%	£17.51	East Midlands	2
Derbyshire Dales	61%	39%	60%	40%	61%	39%	26%	£12.45	East Midlands	4
Doncaster	51%	49%	69%	31%	51%	49%	20%	£17.76	Yorkshire	1
Dover	50%	50%	63%	37%	51%	49%	20%	£18.89	South East	2
Dudley	54%	46%	68%	32%	53%	47%	22%	£18.40	West Midlands	2
Dumfries and Galloway	60%	40%	69%	31%	60%	40%	25%	£12.99	Scotland	3
Dundee City	45%	55%	71%	29%	45%	55%	18%	£18.98	Scotland	1
Ealing	37%	63%	67%	33%	38%	62%	16%	£25.70	London	2
East Ayrshire	49%	51%	70%	30%	49%	51%	20%	£18.32	Scotland	2
East Cambridgeshire	56%	44%	61%	39%	57%	43%	23%	£12.82	East Anglia	5
East Devon	62%	38%	57%	43%	63%	37%	27%	£14.27	South West	4
East Dorset	70%	30%	56%	44%	70%	30%	33%	£15.10	South West	5
East Dunbartonshire	55%	45%	67%	32%	55%	45%	22%	£11.71	Scotland	5
East Hampshire	58%	42%	61%	39%	59%	41%	24%	£10.77	South East	5

	Proportion of claimants				Proportion of spending going to		% cut for those of working age	Annual cut per household	Region or Nation	IMD quintile
	Pensioners	Non-pensioners	Passported	Non-passported	Pensioners	Non-pensioners				
East Hertfordshire	51%	49%	60%	40%	52%	48%	21%	£12.27	South East	5
East Lindsey	62%	38%	66%	34%	62%	38%	26%	£18.72	East Midlands	2
East Lothian	56%	44%	64%	36%	56%	44%	23%	£13.04	Scotland	5
East Northamptonshire	59%	41%	63%	37%	59%	41%	24%	£12.56	East Midlands	4
East Renfrewshire	55%	45%	66%	34%	55%	45%	22%	£11.23	Scotland	5
East Riding of Yorkshire	62%	38%	58%	42%	63%	37%	27%	£15.52	Yorkshire	4
East Staffordshire	48%	52%	62%	37%	48%	52%	19%	£15.60	West Midlands	3
Eastbourne	49%	51%	63%	37%	49%	51%	20%	£21.40	South East	2
Eastleigh	53%	47%	60%	40%	54%	46%	22%	£11.17	South East	5
Eden	59%	41%	61%	39%	60%	40%	25%	£10.70	North East	4
Edinburgh, City of	39%	61%	65%	35%	40%	60%	17%	£13.20	Scotland	4
Eilean Siar	73%	27%	70%	30%	73%	27%	37%	£13.15	Scotland	2
Elmbridge	45%	55%	59%	41%	47%	53%	19%	£12.91	South East	5
Enfield	31%	69%	64%	36%	32%	68%	15%	£30.11	London	2
Epping Forest	51%	49%	66%	34%	51%	49%	21%	£18.00	South East	4
Epsom and Ewell	46%	54%	58%	42%	48%	52%	19%	£11.77	South East	5
Erewash	50%	50%	63%	37%	50%	50%	20%	£17.09	East Midlands	3
Exeter	45%	55%	62%	38%	46%	54%	19%	£15.33	South West	3
Falkirk	49%	51%	71%	29%	49%	51%	20%	£12.85	Scotland	3
Fareham	64%	36%	60%	40%	64%	36%	28%	£9.82	South East	5
Fenland	56%	44%	65%	35%	56%	44%	23%	£18.96	East Anglia	2
Fife	46%	54%	70%	30%	45%	55%	18%	£13.49	Scotland	3
Flintshire	54%	46%	66%	34%	54%	46%	22%	£14.94	Wales	5
Forest Heath	53%	47%	61%	39%	54%	46%	22%	£13.32	East Anglia	4
Forest of Dean	57%	43%	63%	37%	58%	42%	24%	£17.11	South West	3
Fylde	62%	38%	64%	36%	63%	37%	27%	£14.18	North West	4

	Proportion of claimants				*Proportion of spending going to*		*% cut for those of working age*	*Annual cut per household*	*Region or Nation*	*IMD quintile*
	Pensioners	*Non-pensioners*	*Passported*	*Non-passported*	*Pensioners*	*Non-pensioners*				
Gateshead	49%	51%	66%	34%	49%	51%	20%	£24.91	North East	1
Gedling	50%	50%	63%	37%	50%	50%	20%	£15.69	East Midlands	4
Glasgow City	40%	60%	75%	25%	41%	59%	17%	£25.15	Scotland	1
Gloucester	44%	56%	66%	34%	45%	55%	18%	£16.52	South West	2
Gosport	45%	55%	60%	39%	46%	54%	18%	£15.63	South East	3
Gravesham	43%	57%	63%	36%	44%	56%	18%	£20.14	South East	3
Great Yarmouth	51%	49%	66%	34%	51%	49%	20%	£23.23	East Anglia	1
Greenwich	32%	68%	71%	29%	33%	67%	15%	£22.56	London	1
Guildford	42%	58%	58%	42%	43%	57%	18%	£12.62	South East	5
Gwynedd	60%	40%	71%	29%	60%	40%	25%	£14.53	Wales	4
Hackney	25%	75%	68%	32%	26%	74%	14%	£34.32	London	1
Halton	42%	58%	71%	29%	42%	58%	17%	£21.00	North West	1
Hambleton	62%	38%	59%	41%	62%	38%	26%	£11.61	Yorkshire	5
Hammersmith and Fulham	31%	69%	71%	29%	32%	68%	15%	£21.08	London	1
Harborough	65%	35%	59%	41%	65%	35%	29%	£9.97	East Midlands	5
Haringey	28%	72%	64%	35%	29%	71%	14%	£37.97	London	1
Harlow	39%	61%	61%	39%	39%	61%	16%	£25.03	South East	2
Harrogate	56%	44%	57%	43%	57%	43%	23%	£12.27	Yorkshire	5
Harrow	45%	55%	63%	37%	48%	52%	19%	£23.69	London	4
Hart	51%	49%	57%	43%	52%	48%	21%	£8.16	South East	5
Hartlepool	43%	57%	67%	32%	43%	57%	17%	£31.70	North East	1
Hastings	40%	60%	70%	30%	40%	60%	17%	£28.07	South East	1
Havant	49%	51%	68%	32%	50%	50%	20%	£18.80	South East	2
Havering	48%	52%	66%	34%	48%	52%	19%	£19.68	London	3
Herefordshire, County of	55%	45%	66%	34%	56%	44%	22%	£16.22	West Midlands	3
Hertsmere	47%	53%	64%	36%	48%	52%	19%	£17.45	South East	4

	Proportion of claimants				Proportion of spending going to		% cut for those of working age	Annual cut per household	Region or Nation	IMD quintile
	Pensioners	Non-pensioners	Passported	Non-passported	Pensioners	Non-pensioners				
High Peak	49%	51%	63%	37%	50%	50%	20%	£14.99	East Midlands	3
Highland	56%	44%	65%	34%	56%	44%	23%	£12.54	Scotland	3
Hillingdon	38%	62%	64%	35%	39%	61%	16%	£22.12	London	3
Hinckley and Bosworth	60%	40%	64%	36%	60%	40%	25%	£12.85	East Midlands	4
Horsham	51%	49%	59%	41%	52%	48%	21%	£11.89	South East	5
Hounslow	36%	64%	65%	35%	38%	62%	16%	£23.77	London	2
Huntingdonshire	52%	48%	63%	37%	52%	48%	21%	£11.13	East Anglia	5
Hyndburn	42%	58%	66%	34%	42%	58%	17%	£22.76	North West	1
Inverclyde	49%	51%	70%	30%	49%	51%	20%	£18.98	Scotland	1
Ipswich	43%	57%	68%	32%	43%	57%	18%	£20.78	East Anglia	2
Isle of Anglesey	56%	44%	72%	27%	56%	44%	23%	£14.60	Wales	3
Isle of Wight	53%	47%	64%	36%	54%	46%	22%	£20.30	South East	2
Islington	29%	71%	72%	27%	30%	70%	14%	£30.88	London	1
Kensington and Chelsea	35%	65%	73%	27%	36%	64%	16%	£16.20	London	2
Kettering	48%	52%	67%	34%	48%	52%	19%	£14.39	East Midlands	3
King's Lynn and West Norfolk	59%	41%	64%	36%	59%	41%	24%	£16.63	East Anglia	2
Kingston upon Hull, City of	44%	56%	73%	27%	43%	57%	18%	£23.70	Yorkshire	1
Kingston upon Thames	41%	59%	58%	41%	42%	58%	17%	£18.55	London	4
Kirklees	44%	56%	66%	34%	44%	56%	18%	£18.37	Yorkshire	2
Knowsley	44%	56%	75%	25%	44%	56%	18%	£32.03	North West	1
Lambeth	29%	71%	69%	31%	30%	70%	14%	£22.83	London	1
Lancaster	52%	48%	68%	32%	53%	47%	21%	£17.33	North West	2
Leeds	44%	56%	69%	31%	44%	56%	18%	£16.49	Yorkshire	2
Leicester	41%	59%	70%	30%	42%	58%	17%	£24.17	East Midlands	1

	Proportion of claimants				Proportion of spending going to		% cut for those of working age	Annual cut per household	Region or Nation	IMD quintile
	Pensioners	Non-pensioners	Passported	Non-passported	Pensioners	Non-pensioners				
Lewes	53%	47%	60%	40%	54%	46%	22%	£18.86	South East	3
Lewisham	29%	71%	66%	34%	30%	70%	14%	£24.95	London	1
Lichfield	60%	40%	63%	37%	60%	40%	25%	£13.94	West Midlands	4
Lincoln	41%	59%	68%	32%	42%	58%	17%	£18.23	East Midlands	1
Liverpool	41%	59%	74%	25%	42%	58%	17%	£29.11	North West	1
Luton	38%	62%	68%	32%	39%	61%	16%	£20.56	South East	2
Maidstone	48%	52%	62%	38%	48%	52%	19%	£15.53	South East	4
Maldon	58%	42%	63%	37%	58%	42%	24%	£16.33	South East	4
Malvern Hills	59%	41%	64%	35%	59%	41%	25%	£14.52	West Midlands	4
Manchester	34%	66%	75%	25%	35%	65%	15%	£22.79	North West	1
Mansfield	43%	57%	66%	34%	43%	57%	18%	£20.85	East Midlands	1
Medway	42%	58%	67%	33%	42%	58%	17%	£17.74	South East	2
Melton	57%	43%	60%	39%	57%	43%	23%	£11.73	East Midlands	4
Mendip	53%	47%	63%	37%	54%	46%	22%	£15.14	South West	3
Merthyr Tydfil	43%	57%	71%	29%	43%	57%	18%	£21.53	Wales	1
Merton	39%	61%	60%	40%	40%	60%	17%	£18.58	London	4
Mid Devon	56%	44%	60%	40%	56%	44%	23%	£15.60	South West	3
Mid Suffolk	67%	33%	62%	38%	67%	33%	30%	£11.48	East Anglia	5
Mid Sussex	54%	46%	58%	42%	55%	45%	22%	£11.27	South East	5
Middlesbrough	40%	60%	71%	29%	40%	60%	17%	£29.76	North East	1
Midlothian	48%	52%	64%	36%	48%	52%	19%	£15.23	Scotland	3
Milton Keynes	35%	65%	64%	36%	35%	65%	15%	£17.30	South East	3
Mole Valley	53%	47%	59%	41%	54%	46%	22%	£10.85	South East	5
Monmouthshire	52%	48%	64%	36%	53%	47%	21%	£14.99	Wales	5
Moray	66%	34%	68%	32%	65%	35%	29%	£9.77	Scotland	4
Neath Port Talbot	45%	55%	70%	30%	45%	55%	18%	£24.09	Wales	1
New Forest	61%	39%	61%	39%	62%	38%	26%	£13.01	South East	5
Newark and	51%	49%	62%	38%	51%	49%	20%	£16.54	East Midlands	3

	Proportion of claimants				Proportion of spending going to		% cut for those of working age	Annual cut per household	Region or Nation	IMD quintile
	Pensioners	*Non-pensioners*	*Passported*	*Non-passported*	*Pensioners*	*Non-pensioners*				
Sherwood										
Newcastle upon Tyne	43%	57%	69%	31%	44%	56%	18%	£22.87	North East	1
Newcastle-under-Lyme	53%	47%	66%	34%	53%	47%	21%	£16.04	West Midlands	3
Newham	30%	70%	68%	32%	32%	68%	15%	£30.08	London	1
Newport	45%	55%	74%	26%	46%	54%	18%	£14.93	Wales	2
North Ayrshire	46%	54%	72%	28%	46%	54%	19%	£18.70	Scotland	1
North Devon	56%	44%	61%	40%	57%	43%	23%	£17.83	South West	3
North Dorset	57%	43%	57%	43%	58%	42%	24%	£14.07	South West	4
North East Derbyshire	56%	44%	65%	35%	56%	44%	23%	£17.41	East Midlands	3
North East Lincolnshire	48%	52%	70%	30%	47%	53%	19%	£22.60	Yorkshire	1
North Hertfordshire	48%	52%	58%	42%	49%	51%	19%	£15.33	South East	5
North Kesteven	66%	34%	58%	42%	66%	34%	29%	£12.32	East Midlands	5
North Lanarkshire	49%	51%	71%	29%	49%	51%	19%	£18.54	Scotland	1
North Lincolnshire	54%	46%	63%	36%	54%	46%	22%	£18.70	Yorkshire	2
North Norfolk	66%	34%	64%	36%	66%	34%	29%	£15.94	East Anglia	3
North Somerset	54%	46%	65%	34%	54%	46%	22%	£15.49	South West	3
North Tyneside	52%	48%	67%	33%	52%	48%	21%	£19.72	North East	2
North Warwickshire	58%	42%	60%	40%	58%	42%	24%	£17.82	West Midlands	3
North West Leicestershire	52%	48%	62%	38%	53%	47%	21%	£14.86	East Midlands	4
Northampton	42%	58%	66%	33%	42%	58%	17%	£17.01	East Midlands	2
Northumberland	54%	46%	63%	37%	54%	46%	22%	£16.55	North East	3
Norwich	38%	62%	67%	33%	39%	61%	16%	£23.99	East Anglia	2
Nottingham	35%	65%	70%	30%	35%	65%	15%	£25.11	East Midlands	1
Nuneaton and	46%	54%	65%	35%	46%	54%	19%	£19.84	West Midlands	2

	Proportion of claimants				Proportion of spending going to		% cut for those of working age	Annual cut per household	Region or Nation	IMD quintile
	Pensioners	Non-pensioners	Passported	Non-passported	Pensioners	Non-pensioners				
Bedworth										
Oadby and Wigston	64%	36%	62%	38%	64%	36%	28%	£14.29	East Midlands	5
Oldham	42%	58%	67%	33%	42%	58%	17%	£24.02	North West	1
Orkney Islands	65%	35%	70%	29%	65%	35%	29%	£8.53	Scotland	5
Oxford	36%	64%	65%	35%	37%	63%	16%	£18.23	South East	2
Pembrokeshire	58%	42%	71%	29%	58%	42%	24%	£11.83	Wales	3
Pendle	46%	54%	66%	33%	47%	53%	19%	£22.40	North West	1
Perth and Kinross	63%	37%	69%	31%	63%	37%	27%	£10.51	Scotland	5
Peterborough	42%	58%	71%	29%	42%	58%	17%	£16.26	East Anglia	2
Plymouth	42%	58%	67%	33%	42%	58%	17%	£18.73	South West	2
Poole	54%	46%	62%	38%	54%	46%	22%	£16.43	South West	3
Portsmouth	42%	58%	67%	32%	42%	58%	17%	£17.08	South East	2
Powys	61%	39%	69%	30%	61%	39%	26%	£12.39	Wales	5
Preston	42%	58%	71%	29%	42%	58%	17%	£20.21	North West	1
Purbeck	59%	41%	58%	42%	60%	40%	25%	£16.86	South West	4
Reading	36%	64%	63%	37%	37%	63%	16%	£18.37	South East	2
Redbridge	39%	61%	67%	33%	41%	59%	17%	£23.35	London	3
Redcar and Cleveland	47%	53%	68%	32%	47%	53%	19%	£25.06	North East	1
Redditch	46%	54%	67%	33%	47%	53%	19%	£19.27	West Midlands	2
Reigate and Banstead	49%	51%	61%	39%	50%	50%	20%	£12.31	South East	5
Renfrewshire	47%	53%	65%	34%	47%	53%	19%	£17.34	Scotland	2
Rhondda, Cynon, Taff	47%	53%	75%	25%	47%	53%	19%	£19.98	Wales	1
Ribble Valley	67%	33%	60%	40%	68%	32%	31%	£9.64	North West	5
Richmond upon Thames	40%	60%	62%	37%	42%	58%	17%	£16.13	London	5
Richmondshire	74%	26%	58%	26%	69%	31%	32%	£11.11	Yorkshire	4

	Proportion of claimants				Proportion of spending going to		% cut for those of working age	Annual cut per household	Region or Nation	IMD quintile
	Pensioners	Non-pensioners	Passported	Non-passported	Pensioners	Non-pensioners				
Rochdale	41%	59%	71%	29%	41%	59%	17%	£23.64	North West	1
Rochford	60%	40%	60%	40%	60%	40%	25%	£15.59	South East	5
Rossendale	52%	48%	67%	32%	52%	48%	21%	£20.07	North West	2
Rother	58%	42%	63%	37%	59%	41%	25%	£19.15	South East	3
Rotherham	50%	50%	69%	30%	49%	51%	20%	£20.63	Yorkshire	1
Rugby	47%	53%	60%	40%	48%	52%	19%	£15.23	West Midlands	4
Runnymede	50%	50%	57%	43%	51%	49%	21%	£13.70	South East	5
Rushcliffe	58%	42%	59%	41%	59%	41%	24%	£11.39	East Midlands	5
Rushmoor	45%	55%	62%	38%	47%	53%	19%	£13.39	South East	4
Rutland	57%	43%	48%	52%	59%	41%	24%	£12.03	East Midlands	5
Ryedale	64%	36%	60%	40%	65%	35%	28%	£14.01	Yorkshire	4
Salford	41%	59%	70%	30%	41%	59%	17%	£24.79	North West	1
Sandwell	48%	52%	71%	28%	48%	52%	19%	£25.50	West Midlands	1
Scarborough	54%	46%	64%	36%	54%	46%	22%	£20.24	Yorkshire	2
Scottish Borders	61%	39%	66%	34%	60%	40%	25%	£10.93	Scotland	4
Sedgemoor	51%	49%	62%	38%	52%	48%	21%	£16.53	South West	3
Sefton	52%	48%	72%	28%	52%	48%	21%	£21.58	North West	2
Selby	53%	47%	61%	39%	54%	46%	22%	£13.35	Yorkshire	4
Sevenoaks	49%	51%	60%	40%	50%	50%	20%	£14.66	South East	5
Sheffield	49%	51%	70%	30%	49%	51%	20%	£19.78	Yorkshire	1
Shepway	49%	51%	64%	36%	49%	51%	20%	£22.00	South East	2
Shetland Islands	69%	31%	69%	30%	68%	32%	31%	£7.43	Scotland	5
Shropshire	60%	40%	65%	35%	60%	40%	25%	£15.38	West Midlands	3
Slough	37%	63%	65%	35%	39%	61%	16%	£21.70	South East	2
Solihull	49%	51%	66%	34%	49%	51%	20%	£16.34	West Midlands	3
South Ayrshire	49%	51%	66%	34%	50%	50%	20%	£17.19	Scotland	2
South Bucks	54%	46%	60%	40%	55%	45%	22%	£12.24	South East	5
South	54%	46%	59%	41%	55%	45%	22%	£10.01	East Anglia	5

	Proportion of claimants				Proportion of spending going to		% cut for those of working age	Annual cut per household	Region or Nation	IMD quintile
	Pensioners	Non-pensioners	Passported	Non-passported	Pensioners	Non-pensioners				
Cambridgeshire										
South Derbyshire	51%	49%	61%	39%	51%	49%	20%	£13.29	East Midlands	4
South Gloucestershire	54%	46%	61%	38%	55%	45%	22%	£12.55	South West	5
South Hams	55%	45%	59%	41%	57%	43%	23%	£14.58	South West	4
South Holland	64%	36%	61%	40%	64%	36%	28%	£15.27	East Midlands	3
South Kesteven	57%	43%	61%	39%	57%	43%	23%	£12.32	East Midlands	4
South Lakeland	64%	36%	59%	41%	65%	35%	28%	£11.28	North East	4
South Lanarkshire	52%	48%	69%	31%	52%	48%	21%	£16.14	Scotland	2
South Norfolk	58%	42%	58%	42%	59%	41%	24%	£14.42	East Anglia	5
South Northamptonshire	64%	36%	60%	40%	65%	35%	28%	£9.07	East Midlands	5
South Oxfordshire	56%	44%	59%	41%	57%	43%	23%	£10.75	South East	5
South Ribble	55%	45%	64%	36%	56%	44%	23%	£13.43	North West	4
South Somerset	56%	44%	60%	40%	57%	43%	23%	£14.58	South West	4
South Staffordshire	65%	35%	60%	40%	65%	35%	29%	£14.89	West Midlands	4
South Tyneside	47%	53%	69%	31%	47%	53%	19%	£25.80	North East	1
Southampton	40%	60%	66%	34%	40%	60%	17%	£18.98	South East	2
Southend-on-Sea	43%	57%	67%	32%	43%	57%	18%	£19.42	South East	2
Southwark	29%	71%	71%	28%	30%	70%	14%	£22.45	London	1
Spelthorne	46%	54%	65%	36%	47%	53%	19%	£14.90	South East	5
St Albans	47%	53%	60%	40%	48%	52%	19%	£11.85	South East	5
St Edmundsbury	55%	45%	59%	41%	55%	45%	22%	£14.07	East Anglia	4
St Helens	45%	55%	71%	29%	46%	54%	18%	£20.56	North West	1
Stafford	58%	42%	63%	37%	58%	42%	24%	£11.18	West Midlands	4
Staffordshire Moorlands	60%	40%	61%	39%	61%	39%	26%	£13.24	West Midlands	3
Stevenage	42%	58%	63%	37%	42%	58%	17%	£20.96	South East	3
Stirling	51%	49%	68%	32%	51%	49%	20%	£12.59	Scotland	4

	Proportion of claimants				*Proportion of spending going to*		*% cut for those of working age*	*Annual cut per household*	*Region or Nation*	*IMD quintile*
	Pensioners	*Non-pensioners*	*Passported*	*Non-passported*	*Pensioners*	*Non-pensioners*				
Stockport	47%	53%	67%	33%	48%	52%	19%	£17.95	North West	3
Stockton-on-Tees	44%	56%	66%	34%	45%	55%	18%	£20.63	North East	2
Stoke-on-Trent	43%	57%	67%	32%	43%	57%	18%	£21.22	West Midlands	1
Stratford-on-Avon	59%	41%	56%	44%	60%	40%	25%	£14.76	West Midlands	5
Stroud	54%	46%	61%	39%	55%	45%	22%	£14.19	South West	4
Suffolk Coastal	58%	42%	60%	40%	59%	41%	24%	£12.73	East Anglia	4
Sunderland	50%	50%	69%	31%	51%	49%	20%	£22.04	North East	1
Surrey Heath	52%	48%	60%	40%	53%	47%	21%	£10.57	South East	5
Sutton	40%	60%	61%	38%	41%	59%	17%	£18.07	London	4
Swale	46%	54%	66%	34%	46%	54%	18%	£19.54	South East	2
Swansea	46%	54%	71%	29%	46%	54%	19%	£17.02	Wales	3
Swindon	45%	55%	66%	34%	45%	55%	18%	£15.31	South West	3
Tameside	45%	55%	68%	32%	45%	55%	18%	£19.39	North West	1
Tamworth	50%	50%	69%	31%	50%	50%	20%	£18.05	West Midlands	3
Tandridge	49%	51%	60%	41%	51%	49%	20%	£12.55	South East	5
Taunton Deane	52%	48%	63%	37%	53%	47%	21%	£14.12	South West	3
Teignbridge	59%	41%	61%	39%	60%	40%	25%	£17.08	South West	3
Telford and Wrekin	43%	57%	67%	33%	43%	57%	18%	£20.76	West Midlands	2
Tendring	55%	45%	67%	33%	55%	45%	22%	£23.30	South East	2
Test Valley	57%	43%	58%	41%	58%	42%	24%	£11.60	South East	5
Tewkesbury	54%	46%	62%	38%	55%	45%	22%	£12.07	South West	5
Thanet	47%	53%	68%	32%	47%	53%	19%	£24.17	South East	1
The Vale of Glamorgan	47%	53%	69%	31%	47%	53%	19%	£15.51	Wales	5
Three Rivers	45%	55%	61%	39%	46%	54%	19%	£14.90	South East	5
Thurrock	42%	58%	68%	31%	42%	58%	17%	£17.90	South East	3
Tonbridge and Malling	47%	53%	58%	41%	48%	52%	19%	£15.02	South East	5

	Proportion of claimants				Proportion of spending going to		% cut for those of working age	Annual cut per household	Region or Nation	IMD quintile
	Pensioners	Non-pensioners	Passported	Non-passported	Pensioners	Non-pensioners				
Torbay	49%	51%	66%	34%	50%	50%	20%	£24.77	South West	1
Torfaen	47%	53%	68%	32%	47%	53%	19%	£19.13	Wales	3
Torridge	58%	42%	64%	36%	59%	41%	24%	£17.69	South West	3
Tower Hamlets	27%	73%	70%	29%	29%	71%	14%	£28.22	London	1
Trafford	46%	54%	67%	33%	47%	53%	19%	£14.16	North West	3
Tunbridge Wells	48%	52%	62%	38%	49%	51%	19%	£13.35	South East	4
Uttlesford	57%	43%	58%	41%	58%	42%	24%	£12.50	South East	5
Vale of White Horse	53%	47%	59%	41%	54%	46%	22%	£11.12	South East	5
Wakefield	47%	53%	67%	33%	47%	53%	19%	£16.63	Yorkshire	2
Walsall	47%	53%	70%	30%	47%	53%	19%	£27.47	West Midlands	1
Waltham Forest	32%	68%	65%	35%	33%	67%	15%	£28.30	London	1
Wandsworth	40%	60%	73%	26%	40%	60%	17%	£8.66	London	2
Warrington	47%	53%	65%	35%	47%	53%	19%	£15.45	North West	3
Warwick	51%	49%	61%	39%	52%	48%	21%	£14.32	West Midlands	4
Watford	40%	60%	58%	42%	42%	58%	17%	£18.63	South East	4
Waveney	56%	44%	66%	34%	56%	44%	23%	£18.72	East Anglia	2
Waverley	52%	48%	56%	44%	54%	46%	22%	£12.30	South East	5
Wealden	59%	41%	56%	44%	60%	40%	25%	£15.44	South East	4
Wellingborough	51%	49%	69%	31%	51%	49%	20%	£15.37	East Midlands	2
Welwyn Hatfield	42%	58%	61%	39%	42%	58%	17%	£17.65	South East	4
West Berkshire	47%	53%	59%	41%	48%	52%	19%	£13.22	South East	5
West Devon	58%	42%	60%	40%	59%	41%	24%	£16.01	South West	3
West Dorset	58%	42%	58%	42%	59%	41%	24%	£15.32	South West	3
West Dunbartonshire	43%	57%	73%	27%	43%	57%	18%	£23.48	Scotland	1
West Lancashire	55%	45%	68%	32%	55%	45%	22%	£19.74	North West	3
West Lindsey	54%	46%	62%	38%	54%	46%	22%	£15.34	East Midlands	3
West Lothian	45%	55%	67%	33%	45%	55%	18%	£14.42	Scotland	3

	Proportion of claimants				*Proportion of spending going to*		*% cut for those of working age*	*Annual cut per household*	*Region or Nation*	*IMD quintile*
	Pensioners	*Non-pensioners*	*Passported*	*Non-passported*	*Pensioners*	*Non-pensioners*				
West Oxfordshire	56%	44%	56%	44%	57%	43%	23%	£10.92	South East	5
West Somerset	56%	44%	61%	39%	57%	43%	23%	£19.42	South West	2
Westminster	32%	68%	75%	25%	34%	66%	15%	£11.23	London	2
Weymouth and Portland	46%	54%	62%	38%	47%	53%	19%	£21.03	South West	2
Wigan	51%	49%	67%	33%	51%	49%	20%	£18.55	North West	1
Wiltshire	53%	47%	60%	40%	54%	46%	22%	£13.41	South West	4
Winchester	56%	44%	58%	42%	57%	43%	23%	£10.94	South East	5
Windsor and Maidenhead	55%	45%	61%	39%	56%	44%	23%	£9.92	South East	5
Wirral	44%	56%	71%	29%	45%	55%	18%	£21.84	North West	1
Woking	44%	56%	62%	38%	45%	55%	18%	£12.80	South East	5
Wokingham	54%	46%	60%	40%	54%	46%	22%	£8.55	South East	5
Wolverhampton	44%	56%	71%	28%	44%	56%	18%	£27.29	West Midlands	1
Worcester	44%	56%	65%	35%	45%	55%	18%	£16.11	West Midlands	3
Worthing	52%	48%	66%	34%	53%	47%	21%	£16.00	South East	3
Wrexham	51%	49%	70%	29%	51%	49%	21%	£16.37	Wales	4
Wychavon	57%	43%	63%	37%	57%	43%	23%	£13.90	West Midlands	4
Wycombe	46%	54%	60%	40%	47%	53%	19%	£14.22	South East	4
Wyre	58%	42%	63%	37%	58%	42%	24%	£18.43	North West	3
Wyre Forest	52%	48%	64%	36%	52%	48%	21%	£19.39	West Midlands	3
York	51%	49%	60%	40%	52%	48%	21%	£12.52	Yorkshire	4

Note: IMD quintile is within nation of Great Britain, with 1 giving the most deprived and 5 the least deprived.
Source: Authors' calculations using DWP (2010), DWP Housing Benefit and Council Tax Benefit Statistics, DWP tabulation tool.

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