



Institute for
Fiscal Studies

Reforming Council Tax Benefit

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Yorkshire & Humber Finance Directors' Network meeting
The Orangery, Wakefield, 2 July 2012

www.ifs.org.uk/publications/6183

Council Tax Benefit – the key facts

- 5.9 million recipients
 - More than any other means-tested benefit or tax credit
 - But only two-thirds of those entitled to it
- £4.9 billion total cost
 - 2.4% of total benefit and tax credit expenditure
 - £15.69 per claimant per week is not large relative to other benefits
- 85% of CTB goes to the lower-income half of households
 - And half goes to the lowest-income fifth of households
- Maximum entitlement is the household's council tax bill
 - Reduced by 20p per £1 of net income above a threshold
 - Two thirds of claimants 'passported' to full entitlement by receipt of another benefit

The policy

- CTB will be abolished from April 2013
- LAs in England, and the Scottish and Welsh governments, given grants to run their own rebate schemes instead
 - But pensioners in England will get current, nationally set, entitlements
- Grants based on 90% of what unreformed CTB would have cost in each area
- Free to spend more or less than these grants on rebate schemes

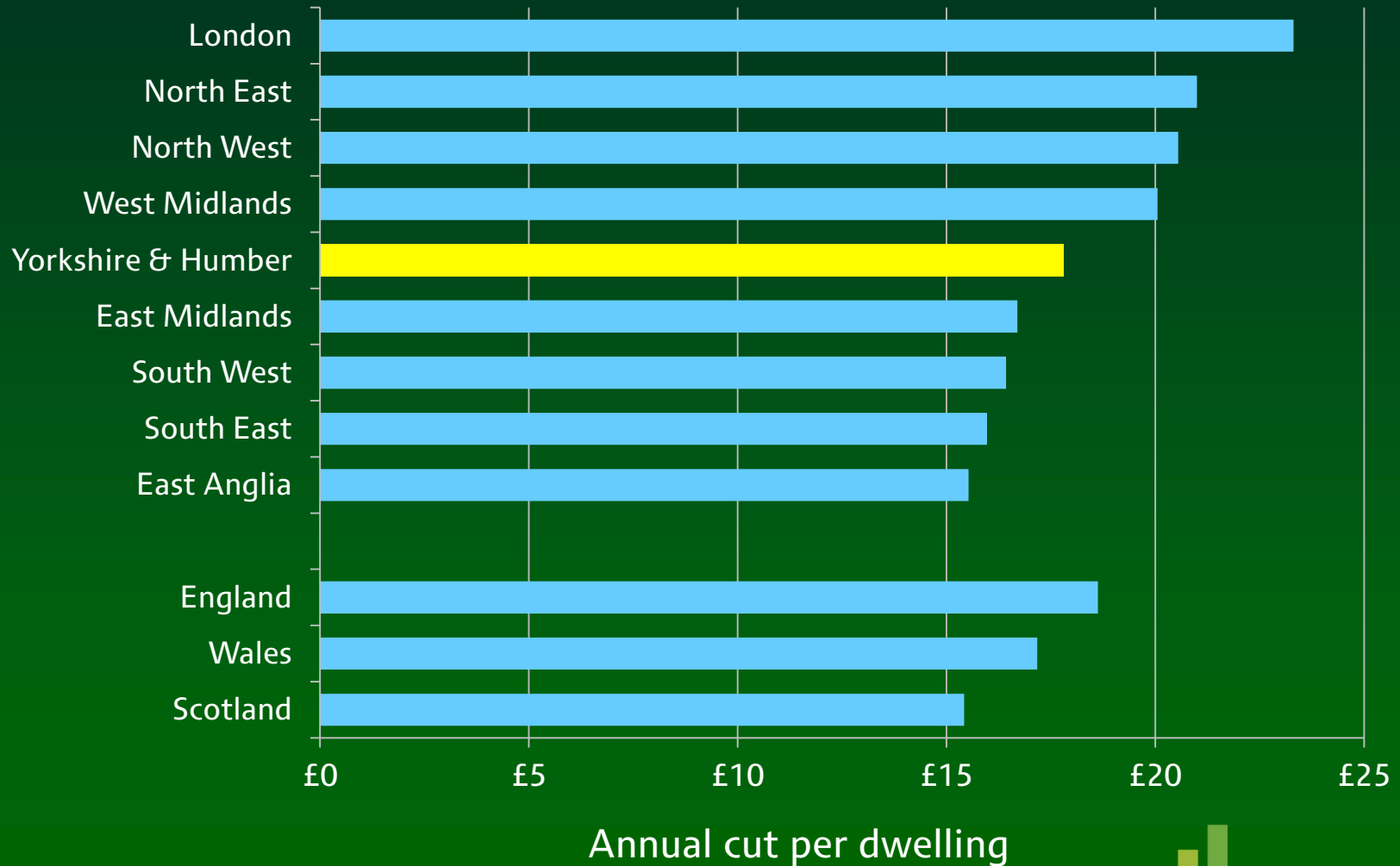
Consequences of localisation

1. Variation in schemes across areas
 - Allows LAs to pursue local priorities and to learn from each other
 - But increases bureaucracy and reduces transparency
2. LAs will receive fixed grants instead of having actual costs refunded
 - Adds risk to LA finances
 - An incentive for LAs to reduce the cost of rebates – whether by promoting employment more, promoting take-up less, or discouraging claimants from living in the area
3. In two-tier areas, an incentive for district councils to focus disproportionately on minimising admin costs

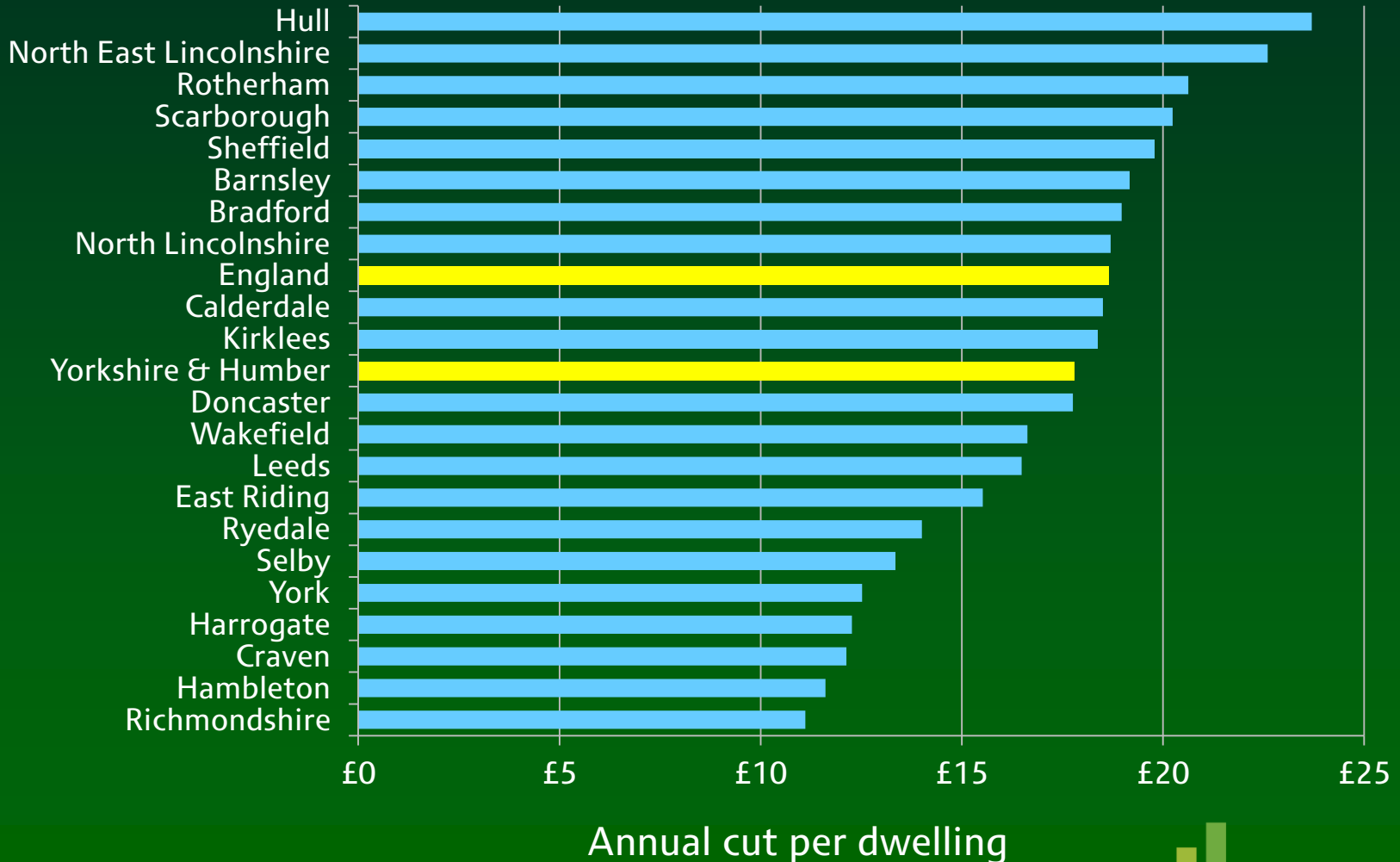
Scale of the cuts

- Funding being cut by £480m per year: £19 per household
- But not £19 per household everywhere
 - Cut proportional to spending on CTB

Annual funding cut per dwelling, by region



Annual funding cut per dwelling in Y&H, by LA

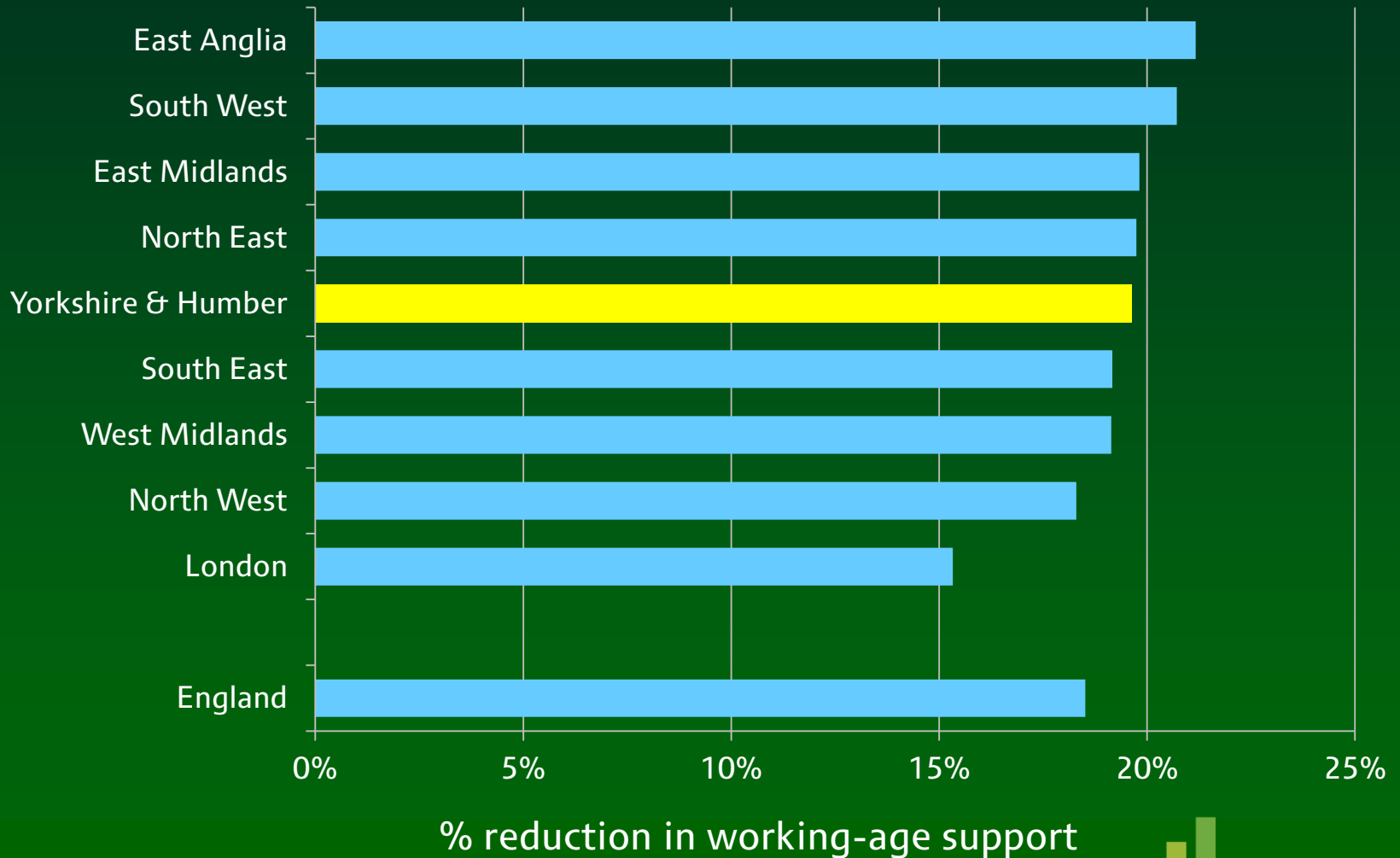


Scale of the cuts

- Funding being cut by £480m per year: £19 per household
- But not £19 per household everywhere
 - Cut proportional to spending on CTB
- No obligation to spend exactly the amount of the grant on rebates
- If protect all entitlements, would require savings elsewhere:
 - 1.9% increase in council tax rates or 0.4% cut in local service spending
- If don't find any savings elsewhere:
 - 19% cut in support for working-age claimants on average
 - Higher where pensioners account for a larger share of CTB

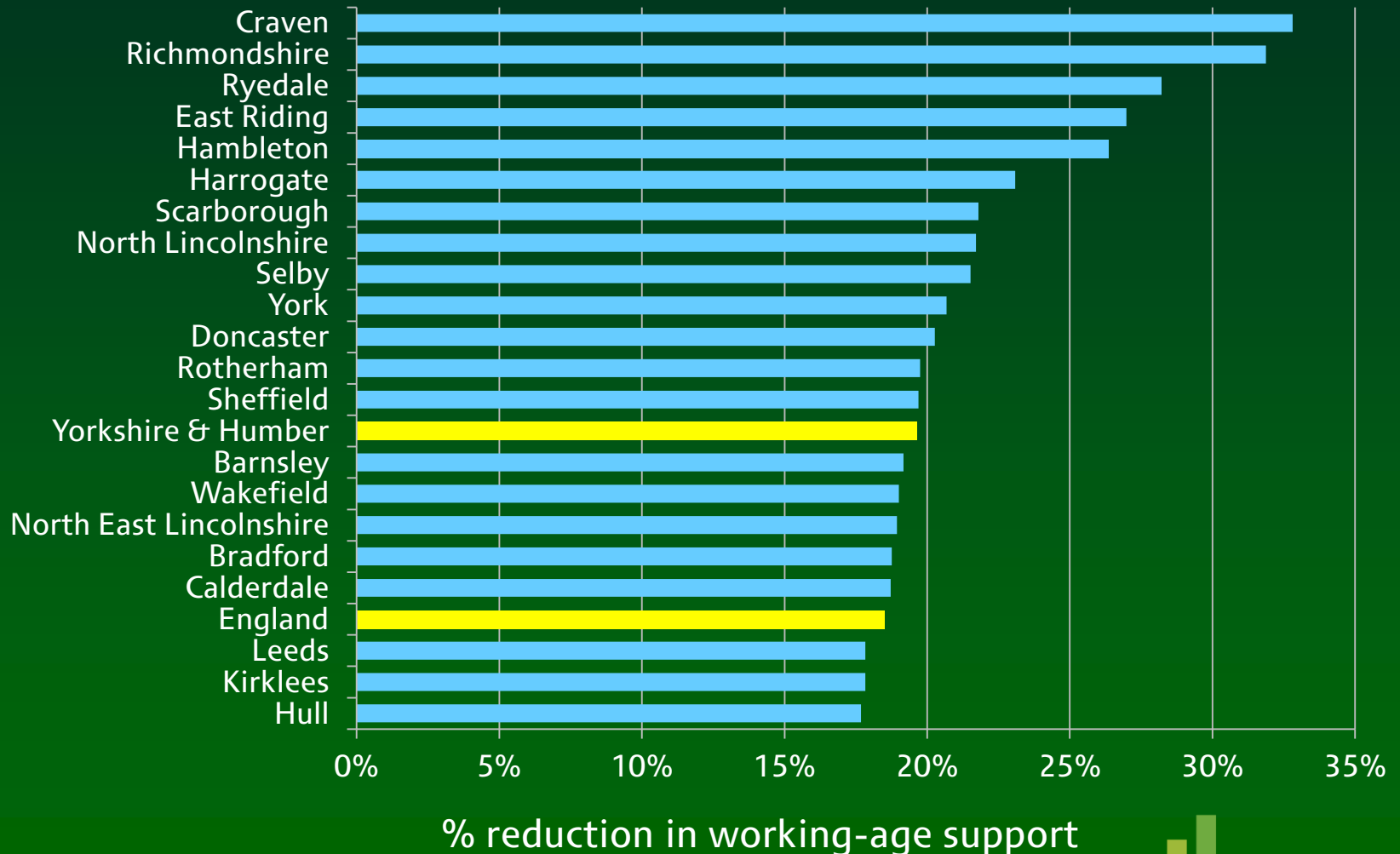
Cuts in working-age support, by region

Assuming cuts fully passed on to claimants



Cuts in working-age support in Y&H, by LA

Assuming cuts fully passed on to claimants



The challenge for local authorities

- The timescale for introduction is very tight
 - Agreeing on draft proposals
 - Two separate consultations
 - Technical implementation issues
 - Schemes must be finalised by 31 January 2013
- LAs have little experience or expertise in designing means tests
- Government hopes new rebate schemes will protect the vulnerable, support work incentives and fit alongside Universal Credit

Some options for local authorities

We look in detail at 8 reforms, of 4 types:

- Reducing support for all claimants
 - Reducing support for those in higher-band properties
 - Means-testing more aggressively
 - Reducing the single-person discount in council tax
 - Not an option available to LAs, but one for central government to consider
- *Protecting groups beyond pensioners would reduce savings from these*

Reducing support for all claimants

- 1) Reduce all entitlements by 17% *saves 9.8% in Y&H*
- 2) Only refund 85% of council tax liability *saves 9.3% in Y&H*

- The most regressive of the options we consider
- Requires LAs to collect some council tax from those with the lowest incomes
 - Poll tax experience suggests this might be difficult
- Strengthens work incentives, particularly for those with the weakest incentives at the moment

Reducing support for those in high-band properties

- 3) Restrict support to that for Band B property *saves 0.7% in Y&H*
- 4) Remove entitlement from Bands D and above *saves 0.9% in Y&H*
- ‘High-band properties’ will mean different things in different areas!
- Affects those living in more expensive properties
 - Tend to be families with children
 - Less regressive than reducing support for all claimants
- Requires collecting council tax from some with very low incomes
 - Though living in expensive properties: how ‘poor’ are they?
- Strengthens work incentives for those affected
- Affects incentives to occupy bigger properties

Means-testing more aggressively

- 5) Increase withdrawal rate to 30% *saves 1.5% in Y&H*
- 6) Support only passported claimants *saves 13.6% in Y&H*
- 7) Count Child Benefit as income for means test *saves 1.6% in Y&H*

- Protects the poorest claimants
 - Low-to-middle income lose the most, esp. working lone parents
- Ambiguous effects on work incentives
 - Unlike previous reforms which unambiguously strengthened them
- But saves full 10% only if so severe that some people made worse off by a pay rise

Reducing the single person discount in council tax

8) Reduce discount to 17.5% *raises equivalent of 8.0% in Y&H*

- Most of the revenue comes from higher income groups
 - Those on CTB protected: rebate rises to cover additional liability
 - Though non-take-up → lowest-income tenth lose most as % of income
- Slightly weakens incentive to work for single people
- Encourages more efficient use of housing stock
 - Discount encourages single people to live in more expensive properties

Universal Credit

- Being phased in between October 2013 and December 2017
- Replacing six of the seven main means-tested benefits for those of working age
 - Income Support, income-based Jobseeker's Allowance, income-based Employment and Support Allowance, Housing Benefit, Child Tax Credit and Working Tax Credit
- CTB is the seventh
- Two key advantages are simplifying the system and rationalising work incentives
 - Keeping council tax rebates separate definitely undermines the first
 - How much it undermines the second depends on choices LAs make

Integrating council tax rebates with Universal Credit

Universal Credit raises two key issues for designing council tax rebates:

1. Count Universal Credit as income in the means test?
2. What to do about passporting when separate out-of-work benefits disappear?

Should UC count as income for the means test?

- Some benefits being replaced by UC currently count as income while others do not, so some change is inevitable
- The choice will have several important implications
 - Simplicity
 - Work incentives
 - Treatment of unearned income and childcare
- Question irrelevant if rebates run out before UC withdrawal starts
 - i.e. withdraw rebates rapidly from first £1 of income...
 - ...and to avoid overlap completely, limit maximum entitlement – a big cut for single people without children
 - This would save more than 10% on its own

Passporting under Universal Credit

- Currently two-thirds of CTB claimants are passported on to full CTB through receipt of an out-of-work means-tested benefit
 - Income Support or income-based JSA or ESA
- These benefits will be abolished when Universal Credit is introduced
 - No obvious ‘yes/no’ indicator to give some people maximum rebate
- Requiring all these claimants to go through a full means test would significantly increase burden for claimants and local authorities
- One way to mitigate this would be for DWP to share information from Universal Credit claims with local authorities
 - Contains the information needed to calculate council tax rebate entitlement
 - But transferring data to LAs would only add to the complexity of an already difficult IT project for DWP

Conclusions

- Localisation has advantages but adds complexity to the system
 - And gives LAs undesirable incentives as well as desirable ones
- LAs must decide whether to pass on cut in funding to claimants or find savings elsewhere
 - Schemes that save full 10% tend to require collecting small amounts of council tax from those with very low incomes
 - To save full 10% while protecting poorest, means test must be so severe that some people would be worse off after a pay rise
- LAs also need to consider the complex question of how their rebate schemes will work alongside Universal Credit



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