

# Council Tax Benefit Briefing October 2012



## Introduction

The Department for Communities and Local Government has set out proposals to replace the current Council Tax benefit system in England with a local scheme that will be treated as one of the discounts and exemptions that residents can claim rather than a separate system. The devolved administrations in Scotland and Wales will be expected to adopt their own arrangements.

## Main proposals

Instead of the government setting the rules about how much support people can get, as is currently the case, local councils will decide who should pay less council tax and how much less they should pay. Local authorities should be able to make adjustments to schemes each year, following a local consultation process at least where significant adjustments are planned.

The main proposals of the scheme are as follows:

- Local authorities will each have a duty to run a scheme to provide support for council tax in their area, although they are free to develop a scheme in partnership with or on behalf of other authorities. This could mean that different councils can offer different amounts of Council Tax benefit to different groups of people. However, each local authority will be required to consult publicly on local schemes.
- Council Tax benefit for pensioners will still be governed by national rules, with eligibility and rates defined in regulations broadly similar to those that currently exist. However, the government will consider whether there are opportunities to simplify the way that support is calculated and administered for pensioners.
- Local authorities should also consider ensuring support for other vulnerable groups, such as the unemployed and those with a disability.
- Local schemes should support work incentives, and in particular avoid disincentives to move into work. This means that for people of working age who receive council tax benefit there will be changes from April 2013 which affect how they will claim support with their council tax bills and how much support they can claim.
- The council tax demand notice will set out how the council tax bill amount has been calculated, including the information used to calculate the amount of any council tax reduction awarded. Local authorities will be required to inform recipients of support how to appeal if they disagree with the council tax bill amount. Unresolved appeals will be made to the Valuation Tribunal for England.

### **Funding of the new scheme**

The government is proposing to give local authorities an amount of money in advance of each financial year and the local authorities will have to share that among those who need it most in their area. Currently funding is paid by the Department for Work and Pensions out of their Annually Managed Expenditure to local authorities as a reimbursement of their expenditure according to nationally-set criteria.

However, in future the funding will be cash limited (in advance of expenditure) and will be paid from the Departmental Expenditure Limit budget of the Department for Communities and Local Government in the form of a fixed grant. Moreover, the amount to be made available will be reduced by 10 per cent. Local authorities will need to consider what additional contingency arrangements should be put in place within their local schemes to take account of unplanned increases in demand or take-up. For example, if unemployment rises in a particular council area, the new claims for Council Tax benefit will have to be funded by other sources of income rather than the fixed grant. This will inevitably have an impact on the provision of other council services.

### **What next?**

The new framework will be established in a local government finance bill currently going through Parliament. It is intended that local authorities will establish their own local schemes by April 2013 and should be consulting on the detail of those schemes now.

### **NPC analysis**

The latest figures from the Department for Work and Pensions show that 2.2m pensioners are in receipt of Council Tax benefit, with a further 1.6m-2.1m older people eligible, but not claiming. Even though pensioners might be largely unaffected by the proposed changes, it is quite clear that the current system is failing to reach almost half of all those pensioners who could be making a claim.

Given that each local authority will be free to design their own Council Tax benefit scheme, a further layer of complexity will be created in the benefits system and a postcode lottery will swiftly develop, where benefit levels will be determined by where the claimant lives, rather than their need. More deprived areas might find that the level of support on offer is therefore lower because of higher demand.

Whilst it is welcome that pensioners have been excluded from the proposed changes, it is clear that the government is using the Council Tax benefit system in a crude way to force people into work, at a time when unemployment rates continue to be high. Ministers believe that by reducing Council Tax benefit rates, the unemployed, carers and people with disabilities will increase their income simply by getting a job or extra employment. Given the current state of the economy, this change is far more likely to result in increased levels of hardship and poverty amongst many vulnerable groups.

A major problem with the proposed new scheme is that the 10% total expenditure reduction being introduced can only apply to claimants of working age. Therefore the actual expenditure reduction that will apply to claimants of working age will be much

greater than 10%; the exact figure depending on the proportion of working-age claimants in each local authority area. In England, this figure ranges from 34% (East Dorset) to 68% (Tower Hamlets). In the report *The impact of the government's proposals for replacing Council Tax Benefit*, Dr Phil Agulnik has calculated that in 26 local authorities, cuts of more than 25% will be required (as a percentage of expenditure on working-age claimants) in order to meet the savings target. The cut in funding will also be larger in areas where council tax benefit spending is highest – the more deprived areas of Britain. The Institute for Fiscal studies (IFS) estimates the cut in funding will range from around £5 per dwelling in the wealthy City of London to £38 per household in Haringey, the fourth most deprived borough in the capital.

The IFS also warns that to limit their spending councils will have "an incentive to discourage low-income families from living in the area" and that raises the possibility that councils will – like the ill-fated poll tax of the early 1990s – be left to chase desperately poor people through the courts for small amounts of unpaid tax.

Cuts of this dimension, targeted specifically at those claimants of working age, are highly likely to have a negative impact on work incentives and could lead to a backlash from vulnerable groups who might feel older people are getting special treatment at their expense. This would be extremely dangerous and could undermine the work we are trying to do to unite the generations.

Wherever possible, NPC groups should seek to join with those representing the unemployed, carers and those with a disability to ensure that the government is not able to create a division between the different age groups.