

Needs and Distribution Group meeting July 2017

Paper by Paul Woods

Resources – Local Council Tax Support costs and funding

1 Introduction

- 1.1 At previous meetings there was a discussion about the distributional issues relating to the very different council tax bases of local authorities. This paper provides further information about Local Council Tax Support costs of over £3.4bn and the current funding arrangements, which appears to indicate a significant reduction to funding to under £1.8bn by 2019/20. This has significant distributional issues, placing significant pressure on areas with more people on low incomes. In some cases this is then reflected in less generous Local Council Tax support schemes, placing additional pressure on people of working age. It is a key issue that can and should be addressed as part of the fair funding review.
- 1.2 *Local council tax support is referred to by councils and commentators by more than one name. Councils tend to refer to it simply as “council tax support”, often shortened to “CTS”. Some councils still refer to LCTS as “council tax benefit”. The Welsh equivalent is “council tax reduction”, shortened to “CTR”, although some English councils also refer to it by this term. Published Government documents use both “council tax support” and “council tax reduction”.¹*

2 The Transfer of Council Tax Benefit Costs to councils in 2013/14

- 2.1 In 2013/14 the responsibility for meeting the cost of council tax benefit was transferred from DWP to Councils, with a 10% cut in the funding. The 90% of funding transferred to councils amounted to £3.295bn and the initial cut that local authorities had to manage was £366m plus any growth in this cost pressure. In previous years there had been significant annual growth in costs particularly for people of working age.
- 2.2 The 90% funding was rolled into Local Authorities settlement funding as a separate visible line ‘Council Tax Support Grant’ to provide clarity on funding for the scheme. The funding transferred to individual authorities reflected the very different cost pressures that they faced in 2012/13, which varied significantly depending on the number of people in receipt of benefit, with much higher cost pressures in areas with more people on low incomes.
- 2.3 Councils were allowed to introduce their own Local Support Schemes to help manage the impact of this change by changing some of the benefits that people had previously been entitled to under the national scheme. Pensioner benefits had to be protected so the schemes that were introduced involved an element of payment from those of working age on low incomes.

¹ Extract from Independent Report by Eric Ollerenshaw OBE, for DCLG March 2016

- 2.4 Information about the various council tax local support arrangements has been reported upon by the NAO, LGA and organisations such as the Joseph Rowntree Foundation and the New Policy Institute (NPI). An independent review “Three Years On: An Independent Review of Local Council Tax Support Schemes” by Eric Ollerenshaw OBE commissioned by DCLG was published in March 2016. The report made 14 recommendations to ways of improving the LCTS scheme and the recommendation on funding was –

“Government should be transparent about how much funding for LCTS is paid through Revenue Support Grant, and it should be explicit about the future funding of LCTS schemes, including any expectations on how LCTS should be locally funded.”

- 2.5 The local schemes are different and pass varying degrees of the initial 10% Government Funding cut onto local taxpayers. Some authorities have sought to recover the 10% funding cut and others have chosen to absorb some or all of the funding cut by making savings elsewhere. Further changes have been made to schemes due to the perception of higher additional funding cuts. The independent report noted that DCLG does not collect the same level of information about LCTS schemes and costs as in Wales. The independent report recommended that -

“Government should take steps to better understand the impact of LCTS on individuals and councils, widening the data it holds on LCTS. This will enable future policy evaluation.”

- 2.6 Initially 76 of 326 councils did not cut council tax support for residents and many did not pass on the full 10% cut in benefit funding. Some phased in minimum payments for certain groups over more than one year. Others have changed the schemes over time. With pensioner benefits costs being protected, the cut in funding for working age benefits was much higher than 10% and closer to 20% of the funding for the benefits for this age group. The New Policy Institute has published information about all 326 schemes in England.

- 2.7 The latest report by the New Policy Institute - Key changes to council tax support in 2017/18 by Carla Ayrton and Otis Long was published in April 2017. It reports further changes to 66 schemes in 2016/17 and 74 schemes in 2017/18. There are now only 37 local authorities who have made no changes to their CTB schemes, and 277 out of 326 have cut the amount of CTS available to claimants by introducing a minimum payment or a band cap. It reports that – *“A large majority of councils have decided to raise their Council Tax for the year 2017/18. Councils are struggling to provide their statutory services whilst the funding they receive from central government for these services continues to decrease. The funding for local CTS schemes has not been ring-fenced and is part of this decreasing pot of money. This means that councils may feel they have no choice but to pass on their funding cuts to the CTS scheme in comparison to the CTB scheme to their poorest residents rather than absorb them elsewhere in the budget.”* A copy of the report is attached to this note.

Revenue Support Grant	1,978.68	1,587.84	1,108.83	801.92	427.45	397.15	253.20
Baseline Business Rates	1,316.36	1,342.00	1,367.65	1,379.04	1,588.48	1,413.14	1,504.13
TOTAL	3,295.04	2,929.84	2,476.48	2,180.96	2,015.93	1,810.29	1,757.33

Figures for 2017/18 include the impact of 100% Business Rate Pilots, but this is not yet reflected in the figures for 2018/19 and 2019/20.

3.5 The calculation of the estimated cut in funding for council tax benefit costs is summarised in Appendix A.

3.6 The distributional impact is less easy to calculate or estimate. DCLG have previously pointed out that if a cut is not applied to LCTS, it would have resulted in a larger cut to other services within the Upper and Lower Tier blocks. This means that the distributional impact is not as clear or as stark as it would appear to be.

4 Actual Costs in 2014/15 and 2015/16 and Estimates for 2016/17 to 2019/20

4.1 The Revenue Outturn returns for 2014/15 included statistics about Council Tax Reduction scheme costs and income foregone. The total cost of Council Tax Income forgone by local authorities in England was £3.565bn, of which £1.64bn related to the cost of pensioner benefits. The following summary shows that costs vary significantly between local authorities depending on the proportion of people on low incomes in their areas. Cost ranged from £23 per person in the City of London to over £123 per person in Hartlepool.

4.2 Table 3 below shows variations in the cost between region as well as showing a selection of the authorities with the highest and lowest costs.

Table 3: Council Tax Revenue Foregone – Distributional Variations

Council Tax Revenue Forgone - 2014/15 Outturn				
LA Name	Pensioners	Working age people	Total	Cost per Head of Population £/Population
	£000's £000	£000's £000	£000's £000	
England Total:	1,639,936	1,924,636	3,564,572	65.35
Regions				
East	172,702	171,822	344,524	57.04
East Midlands	135,376	140,500	275,876	59.18
West Midlands	185,784	213,305	399,089	69.69
London	229,249	397,238	626,487	72.97
North East	107,114	120,465	227,579	86.29
North West	250,554	283,930	534,484	74.72
South East	226,603	260,013	486,616	54.69
South West	169,138	159,884	329,022	60.49
Yorkshire & Humber	163,416	177,479	340,895	63.04
High Cost Authorities				
Hartlepool UA	5,240	6,274	11,514	123.72
Liverpool	24,171	33,164	57,335	123.61
Hastings	4,053	6,748	10,801	117.98
Islington	8,570	16,855	25,425	116.02
Knowsley	8,056	8,402	16,458	111.93
Middlesbrough UA	6,377	9,145	15,522	110.45
Thanet	6,573	8,452	15,025	109.23
Hackney	9,213	18,420	27,633	108.61
Blackpool UA	7,251	8,125	15,376	107.97
Walsall	12,269	15,970	28,239	103.38
Haringey	10,055	17,028	27,083	101.84
Tower Hamlets	7,642	20,273	27,915	100.79
Norwich	5,816	8,059	13,875	100.77
Low Cost Authorities				
Stafford	2,655	1,992	4,647	34.85
Rutland UA	898	454	1,352	34.66
Surrey Heath	1,592	1,414	3,006	34.39
Ribble Valley	1,211	742	1,953	33.67
South Northamptonshire	1,728	1,150	2,878	32.72
Harborough	1,776	1,065	2,841	32.36
Wandsworth	3,704	6,347	10,051	31.51
Fareham	2,095	1,460	3,555	30.83
Windsor and Maidenhead UA	2,436	2,171	4,607	30.80
Isles of Scilly UA	46	26	72	30.57
Hart	1,386	1,416	2,802	29.76
Wokingham UA	2,360	2,241	4,601	28.00
City of London	93	116	209	22.83

- 4.3 The level of the costs forgone in 2014/15 also reflected the fact that some councils (76 of 325) did not cut council tax support for residents and many did not pass on the full 10% cut in benefit funding.
- 4.4 The Revenue Outturn Statistics for 2015/16 show a total cost of Council Tax Income forgone of £3.206bn, of which £1.481bn related to pensioners. However 26 of 325 authorities did not provide figures. Including their 2014/15 figures produces an updated total of £3.45bn, (£1.59bn related to pensioners).
- 4.5 The Revenue Estimate Statistics for 2016/17 show a total costs of Council Tax Income forgone of £3.38bn, of which £1.56bn related to pensioners. However 6 of 325 authorities did not provide figures. Including their most recent figures produces an updated total of £3.44bn of which £1.59bn related to pensioners. Outturn figures are expected to be published later this year.
- 4.6 Although further changes have been introduced to Local Council Tax Support schemes, which would raise income and reduce council tax foregone, the actual cost in 2015/16 and the estimated cost in 2016/17 of c £3.4bn is higher than the original transfer of funds of £3.295bn.

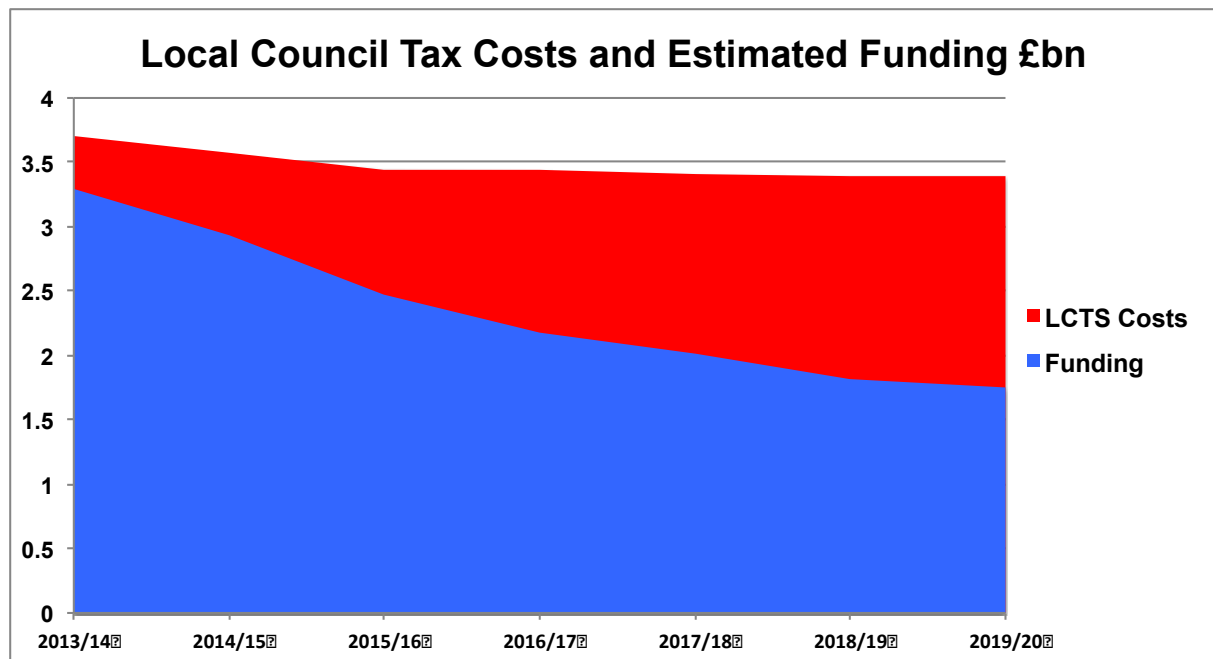
- 4.7 The estimate for 2016/17 shows little increase on 2015/16, despite a 0.9% increase in the number of dwellings and a 3.1% average increase in Band D council Tax. The reason for this is the changes to council tax support schemes and a reduction in caseload numbers eligible for support, which resulted in a 1% increase in the council taxbase. This has offset the additional pressure of the increase in the council tax level and growth in the number of properties.
- 4.8 The RA budget estimates for 2017/18 have recently been published and the total reported cost of £8.607bn is clearly incorrect. I carried out a data verification check and found three large errors –
- Broadlands reported £5,348m instead of £5.3m!
 - City of London reported £190m instead of £0.19m!
 - Kingston Upon Thames reported negative rather than positive numbers!

Correcting these errors gave a total of £3.093bn, of which £1.425bn relates to pensioners. However, 35 authorities did not report their figures, so the total cost is understated. On a like for like comparison the 2017/18 adjusted reported total cost is very slightly (0.4%) lower than equivalent figures in 2016/17 (after excluding the authorities that did not report figures). A simple adjustment by including 99.6% of the previous years figures for the missing 35 authorities would indicate a total cost of £3.41bn, of which £1.56bn relates to pensioners.

- 4.9 Council Tax statistics for 2017/18 show an increase in Council Tax Income Requirement of £1.56bn (6%) from £26.08bn to £27.64bn. Figures include parish precepts and the Social Care precept. The 6% increase reflected a 2% uplift in the council tax base plus a 4% increase in the average Band D tax. This increase is not reflected in council tax support costs because more council are asking working age people to pay more council tax. The latest report from the New Policy Institute shows that more councils have changed their schemes for 2017/18 to reduce council tax income forgone and that there appears to be a further reduction in caseload. These changes have offset the increase in the level of Council Tax and the 0.9% growth in the number of properties paying council tax.
- 4.10 For 2018/19 and 2019/20 the Government also expects the annual uplift in council tax income to be above inflation due to additional Social Care precepts and a continued growth in the council tax base. These are included in the spending power projections. It is now clear that at least half of the growth in the council tax base between 2013/14 and 2016/17 was due to additional income from changes to Council Tax support costs. If no further changes to LCTS schemes take place in 2018/19 and 2019/20, council tax income projections in the spending power figures will be overstated. The level of Council Tax Income forgone will also depend of the extent of any further changes to LCTS schemes and any further reductions in caseload. The annual inflationary uplift appears likely to be offset by changes in caseload. At this time a continuing income foregone pressure of around £3.4bn appears to be a realistic estimate.
- 4.11 The gap between this ‘cost’ and grant support is growing each year. If funding

by 2019/20 falls to £1.8bn or less, the gap between funding and costs of £3.4bn could be substantial - £1.6bn. This is growing funding gap is illustrated in the following chart.

Chart 1: Local Council Tax Support Cost and Estimated Funding



4.12 This growing pressure will fall much more heavily on local authorities in areas with more people on low income.

5 Reflecting Council TAX Support Costs as a Reduction in Council Tax Resources

5.1 Rather than show this cost as a substantial 'Need to Spend' of c £3.4bn as part of a needs assessment model, it should more appropriately be shown as a reduction in resources as part of an estimate for Council Tax Resources. This reflects the current reality of the position where the impact of the Council Tax Reduction scheme is deducted to arrive at the figure for the Council Taxbase for tax setting purposes.

5.2 The Council Tax Resource adjustment would be calculated using the data on council tax bands for each council, multiplied by a standard Band D council tax level and making a standard assumption about collection rates e.g. (98%).

5.3 Using the current Council Tax Base figure would include impact of the different schemes adopted across the country and would reflect local political decisions in the resource assessment. The impact of local political decisions could be removed from the resource adjustment by reflecting the impact of an 'average' scheme. This could reflect an average funding impact, or it may require

collecting information about the impact of this from Local Authorities as part of future CTB1 returns or by a special return.

- 5.4 Consideration would need to be given as to whether this adjustment to the Resources amount would be calculated, for example by applying a Standard Band D amount and a standard Local Council Tax Scheme and what this would be. Further consideration should be given as to how changes over time in pensioners / working age people on low incomes could be taken into account.

Council Tax Support Grant Funding 2013/14 to 2019/20

COUNCIL TAX SUPPORT GRANT FUNDING

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m	£m	£m
RSG							
Upper Tier	536.46	245.14	65.37	29.09	40.65	19.78	205.44
Lower Tier	36.70	52.29	68.92	09.03	49.99	34.65	19.87
Fire	05.48	03.38	4.53	3.79	6.78	2.69	7.87
Isles Scilly	0.03	0.03	0.02	0.01	0.03	0.02	0.02
	978.68	587.84	108.83	01.92	27.45	97.15	253.20
Baseline NDR							
Upper Tier	22.17	42.08	061.99	070.84	247.72	088.53	167.98
Lower Tier	24.00	28.36	32.73	34.67	51.90	47.16	55.95
Fire	0.17	1.54	2.91	3.51	8.83	7.43	0.18
Isles Scilly	0.02	0.02	0.02	0.02	0.03	0.02	0.02
	316.36	342.00	367.65	379.04	588.48	413.14	504.13
TOTAL							
Upper Tier	558.63	287.22	927.36	699.93	588.37	408.31	373.42
Lower Tier	60.70	80.65	101.64	43.69	101.89	81.81	75.82
Fire	75.65	61.92	47.43	37.30	25.61	20.12	18.05
Isles Scilly	0.06	0.05	0.04	0.04	0.05	0.05	0.04
	295.04	929.84	476.48	180.97	2015.92	810.29	757.33

Figures for 2017/18 include the impact of 100% Business Rate pilots, but this is not yet reflected in the figures for 2018/19 and 2019/20.

Figures are indicative and based on applying proportionate changes from one year to the next (on a like for like basis where it is possible to do so) to the cumulatively adjusted figure for 2013/14. The mix of RSG/Business rates is likely to change in 2018/19 and 2019/20 as they do not appear to have been adjusted to reflect the impact of 100% Business Rates pilots in 2017/18.