

Independent Review of Council Tax support schemes

January 2016



1. The Local Government Association (LGA) welcomes the chance to submit written evidence to the Independent Review.
2. The LGA is here to support, promote and improve local government. We will fight local government's corner and support councils through challenging times by making the case for greater devolution, helping councils tackle their challenges and assisting them to deliver better value for money services.
3. This response has been agreed by Resources Portfolio lead members.

Terms of reference

4. The LGA notes that, as set out in the legislation, the review will focus on the effectiveness, efficiency, fairness and transparency of the different LCTS schemes. It will also consider their impact on the localism agenda, and will make recommendations as to whether or not the schemes should be brought within Universal Credit.

Key Points

5. The localisation of council tax benefit (CTB) in 2013 along with a cut in funding and nationally determined protections, left councils facing a significant challenge. Nonetheless all councils introduced council tax support schemes on time and the overall effect on council tax collection has been small. Councils have taken various measures to facilitate efficient collection.
6. The LGA considers that in the interest of fairness, of localism and as part of greater freedoms and flexibilities in the council tax the Government should give councils devolved responsibility to determine discounts and protections, both for council tax as a whole and for council tax support schemes.
7. External funding for schemes is not transparent. Since 2014-15 this funding, which was transferred into the Settlement Funding Assessment has not been separately identified. The government cannot demonstrate how much funding for council tax support schemes is including in core settlement funding.

Submission

8. The LGA does not consider that the interests of devolution and localism, nor that of efficient administration, would best be served by council tax support schemes being included in universal credit.

Introduction

9. The localisation of council tax benefit (CTB) in 2013 along with a cut in funding and nationally determined protections, left councils facing a significant challenge. The change meant that councils had to consider levying council tax from low income working age adults, who in many cases had not paid council tax before, or finding savings or extra income from elsewhere. The change was introduced at a time when councils were already having to make significant spending reductions following the 2010 Spending review.
10. The localisation of CTS was a transfer of risk from central to local government. There was an immediate 10 per cent cut at the outset. Whilst some authorities have since benefitted from reductions in demand as the economy has recovered since 2012-13, this could quickly be reversed if the economy deteriorates at a time when funding is reduced.

Effectiveness and efficiency

11. As stated by the National Audit Office, all councils introduced council tax support schemes on time. Although there has been an effect on overall council tax collection this has been small, with 97% of all council tax being collected in year in both 2013-14 and 2014-15, compared with 97.4% in the last year of the old council tax benefit regime.
12. The inclusion of protected groups in council tax support schemes has led to more complexity than would otherwise be the case if councils were allowed to design their schemes from scratch in consultation with local residents.
13. As the LGA noted in a report published in January 2015¹; as councils expected collection rates to fall upon the implementation of localised support schemes, they would introduce new measures to improve collection rates. But prior to the introduction of local council tax support schemes, most councils had a range of measures in place to maintain and improve council tax collection rates.
14. Of the councils surveyed by the LGA at the time:
 - 4 per cent offered a discount for payment by direct debit

¹ Council Tax Support – The story continues:

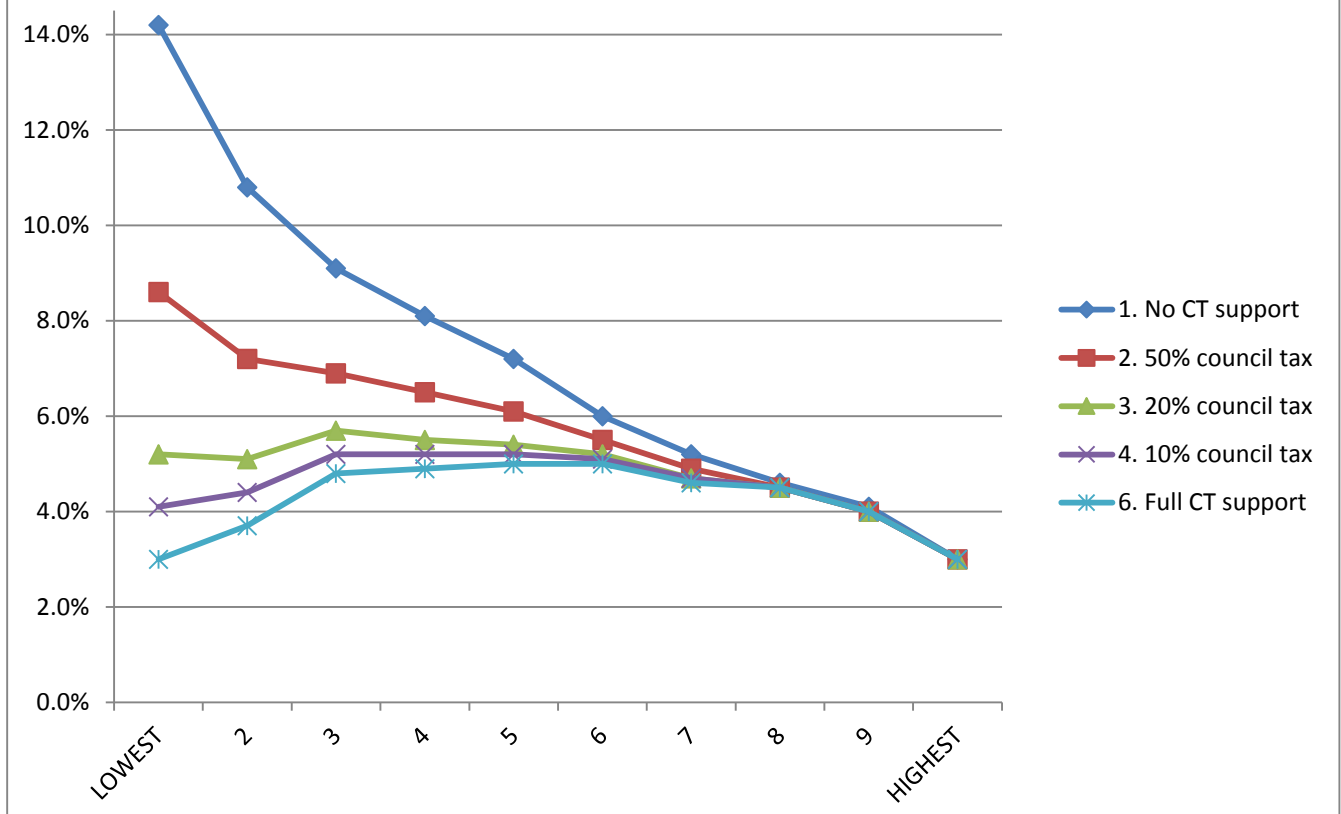
http://www.local.gov.uk/publications/-/journal_content/56/10180/6869795/PUBLICATION

- 60 per cent ran an information campaign on how to pay council tax
 - 55 per cent undertook a regular systematic audit of their customer records
 - 90 per cent claim to take a robust approach to debt collection
15. A number of other methods of improving collection rates were given including:
- financial capability and inclusion support
 - working with credit unions to help people open bank accounts
 - a prize for signing up to direct debit
 - variable direct debit dates.
16. This indicates that councils have for some time worked hard on improving their collection rate and perhaps did not have much scope to improve them further after the localisation of council tax support. Nonetheless, 21 per cent of the councils we surveyed introduced new methods of improving collection rates since April 2013.

Fairness

17. The reform has had an effect on fairness. The chart overleaf demonstrates that council tax is regressive to income before the council tax benefit is applied. That is, in terms of the pure structure of the tax itself, the highest-income households are liable to pay the lowest proportion of their income in tax, while lower-income households are liable to pay greater proportions of their total income in tax before CTB / CTS. Once eligibility for CTB/CTS is taken into account, council tax liability is a relatively constant proportion of people's incomes throughout the income distribution, becoming relatively progressive to income for those on the lowest incomes, and regressive only in the top three income deciles.
18. The introduction of local council tax support does affect this. In essence, a local council support scheme where the working age poor have to pay a minimum of council tax means that the left hand side of the line rises. This effect will be different in different areas. Nevertheless, as central funding is withdrawn and councils find they have no alternative other than to introduce schemes where the working age poor have to pay, the line will rise. This means that council tax will account for more of the income of the lowest decile even after council tax support.
19. In addition, areas with high proportions of pensioners mean a disproportionate reduction of CTS available to working age people. This is aggravated in coastal areas, which often have deprivation.

Council tax as a proportion of net household income after housing costs by income decile, under different council tax support schemes



20. Despite an extensive debate when the proposals were agreed by Parliament, the Government did not allow any variation of the 25 per cent Single Person Discount which is the largest single council tax discount granted. LGA analysis shows that it is costing councils more than £200 million per year to give a compulsory single person discount to people living in properties rated band E and above where there is only one council taxpayer. The LGA considers that councils should have discretion over this.

Transparency

21. Councils communicate their schemes to residents through publicity and on their websites.

22. However the external funding of the scheme is not transparent. Since 2014-15 this funding, which was transferred into the Settlement Funding Assessment has not been separately identified. The government cannot demonstrate how much funding for council tax support schemes is including in core settlement funding.

Universal Credit

23. The LGA notes that under the legislation through which the review has been set up the government must consider whether council tax support should be brought within universal credit.
24. Although there were synergies from the way that housing benefit and council tax benefit were previously dealt with the LGA does not consider that this would add to efficiency and effectiveness in council tax collection.
25. This is because universal credit is intended to be a single payment to the recipient, unlike the previous council tax benefit scheme where it could be deducted at source by the relevant billing authority. This would mean that councils would have to collect 100% of council tax due to them from council tax support recipients as opposed to typically 8.5%-20% at the moment. This seems certain to lead to more non-collection and enforcement action.
26. It would also not be in the interests of localism as it would force councils to return to a centrally determined scheme. The LGA considers that as an alternative the government should consider giving councils more freedom over protected groups within CTS schemes.
27. Nonetheless, the LGA notes that, as the benefits workload transfers to universal credit, the overhead for councils to process benefits including housing benefit has to be maintained but there will be fewer claimants to spread them over as claimants migrate to universal credit. This should be borne in mind in future decisions on administration funding.

Further information

28. The LGA is happy to discuss any further details with the independent review.