

Council tax support:

the story continues

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Introduction

In April 2013, council tax benefit (CTB), which was funded in full through CTB subsidy, was abolished. In its place, the government has required each council to design and implement its own scheme of council tax support (CTS). Schemes are now funded through business rates retention. This came with a 10 per cent reduction in 2013/14 for each council from the forecast amount that would have been paid in CTB subsidy, had the old regime continued into that year. The grant is not ring-fenced, and there is no stipulation that councils reduce total entitlement by 10 per cent. In fact the government encouraged councils to maintain entitlement, or to bear some of the funding reduction themselves through offering a transitional grant in the first year of the scheme.

As with other significant changes in recent years, councils have adapted admirably to the new regime, and it has quickly become part of the local government finance landscape. But this report details some of the challenges councils have faced along the way.

In early 2014, we published our analysis of the 'story so far' on council tax support¹. We highlighted the hidden reduction in funding amounting to a gap of £1 billion by 2015/16, and the increased regressiveness of council tax once the safety net of full CTB was removed. We pointed to the moderate success of the transition grant in encouraging councils to limit reductions in support, but also the knock-on effects this has on council services. Early indications were that collection rates had not suffered as drastically as some had predicted.

This report is based on results from a survey of chief finance officers of all 353 councils in England, conducted during October and November 2014. We received 136 responses, which is 39 per cent of English councils. While these results should be taken as a snapshot of the views of this particular group of respondents, rather than representative of all chief finance officers, this level of response means that the results are likely to provide a good indication of the position of the sector.

The report also uses other evidence and stories that we received from local authorities. It makes proposals to improve the system by mitigating financial risks and providing councils with more financial incentives, with the aim of making council tax support live up to its potential.

One of the key issues emerging is that councils are facing financial pressures as a result of the funding arrangements for CTS, but are considering factors other than purely financial ones in designing their schemes. Councils have come up with innovative methods to reduce worklessness but there is no evidence that the localisation of council tax support has had a significant impact on incentivising this. Our survey indicates that, if local government funding continues to reduce, it is very likely that some of these future reductions will be borne by council tax support claimants.

1 Council Tax Support: the Story So Far, LGA 2014

Funding

The LGA has continued to call for the element of settlement funding relating to CTS to be separately identified for each council, as it was in 2013/14, in order that councils can design their schemes and consult their residents each year in full possession of the facts, but this did not happen either in 2014/15 or in the provisional 2015/16 Local Government Finance Settlement.

Based on our previous analysis², there is a **£1 billion shortfall between the cost of maintaining the pre-2013 scheme, and the funding available in 2015/16**. Councils have taken different approaches to this, some passing on the full reduction to their claimants, some absorbing it in full from other budgets, and some absorbing it in part.

The shortfall in each council will be funded through some combination of the following:

- increased council tax bills for council tax support claimants
- a reduction in the claimant count
- increased council tax bills for a minority of taxpayers through the technical changes to council tax regulations for second homes and empty homes
- increased council tax bills for all
- reductions in other council budgets.

It is very difficult to say how much of the total shortfall will fall under each of the five headings, and the answer will be different in each billing authority.

Scheme design

In 2014/15, 45 councils out of 326 will continue to provide the levels of support available under CTB. This is 13 fewer than in 2013/14. 244 councils require all households to pay at least some council tax regardless of income (a minimum payment), 15 more than in 2013/14.³

We asked councils about their plans for 2015/16 council tax support schemes. 83 per cent of respondents said that they were not planning to change their council tax schemes next year, even though funding available for schemes is reducing. Only 14 per cent said that they definitely plan to change their scheme.

Our analysis focuses on the billing authorities who design schemes but we also sought the views of major preceptors. One of the respondents to our survey had this to say:

“The impact of council tax support is far greater on preceptors than billing authorities, yet the power to set schemes rests with the billing authorities. This is a disproportionate and unbalanced balance of power. There should be stronger legislative links to precepting authorities in setting the schemes.”

2 Council Tax Support: the Story So Far, LGA 2014

3 www.jrf.org.uk/publications/low-income-families-changes-council-tax

Some respondents to our survey stated that, although funding was reducing, they were planning on making their scheme more generous to claimants in 2015/16. One of these councils stated that the predicted reduction in claimant numbers, along with the reduction in arrears they expected to result from introducing a lower minimum payment, would make the change cost neutral overall.

One of the intentions of the localisation was that councils would benefit financially from economic growth in their area through a reduction in the cost of providing council tax support. But just as claimants in some areas bore some of the burden of the funding reduction, some councils chose to pass the benefits of the economic uplift to their claimants too.

Another respondent stated that their council would be awarding an inflationary uplift in council tax support awards. This is despite the fact that increases in headline council tax rates have been kept below inflation for several years.

The above findings indicate that, firstly, there is a range of different approaches to council tax support scheme design in 2015/16, but also that, for many councils, the council tax support scheme is not as simple as an equation which calculates how the shortfall should be funded.

Here is a selection of comments from our survey relating to plans for council tax support in 2015/16:

“The percentage to be paid by claimants will increase and ongoing Council Tax Support will be wrapped up with work-related support for jobseekers - subject to an ongoing consultation exercise”

“(we are planning an) increase in minimum contribution rate from 8.5 per cent to either 15 per cent or 25 per cent... there are other changes under consideration for example removing second adult rebate, reducing savings limits and counting child benefit as income”

“Originally we reduced the required contribution from eligible working age claimants. We hope by doing so to reduce the level of overall arrears. This together with a general reduction in the number of claimants should ensure the change is cost neutral.”

“The current scheme is cost neutral and the Council are currently exploring options for the scheme for 2015/16 with the expectation that it will remain cost neutral.”

The Transitional Grant

A transitional grant was offered, in 2013/14 only, for councils whose schemes met certain criteria, the most important of which was a cap on reductions at 8.5 per cent of a claimant's gross council tax liability.

Of the 326 billing authorities, 195 (60 per cent) designed schemes that were eligible for the transitional grant in 2013/14.

Many councils changed the scheme they initially proposed to one which met the terms of the grant, and in many of these the grant did not even cover the costs of a grant-compliant scheme. That is to say, **some councils accepted the transitional grant at a net cost to the council.**⁴

We reported anecdotal evidence last year that many councils who were eligible for the grant in the first year of the scheme were maintaining a 'transition grant-compliant' scheme in the second year, even though the grant was not being offered after 2013/14.

Our survey asked whether councils received the grant in 2013/14, and if so, whether their scheme in 2014/15 met the criteria for the grant. **68 per cent of the 74 councils in our survey which received the grant in 2013/14 maintained a 'grant-compliant' scheme in 2014/15.** Of these, 82 per cent had a provisional 2015/16 scheme which would still meet the terms of the grant.


We also asked those who did not accept the grant in 2013/14 whether they would alter their proposed 2015/16 scheme if the grant were offered again under the same terms. **Of the 60 councils which did not accept the transitional grant in 2013/14, only two said that they would change their proposed 2015/16 schemes if the grant were offered again.**

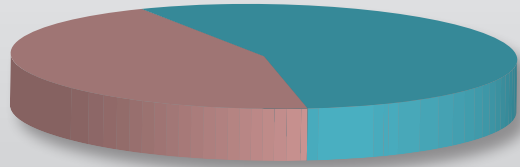
The three findings above all suggest that councils do not necessarily see their council tax support schemes purely in terms of the bottom line impact on their budgets, and there is more to the design of a scheme than simply how to spread the funding reduction between benefits claimants, service users and council tax payers.

The series of charts overleaf shows that most councils which accepted the grant kept a scheme that would have been eligible for the grant in 2014/15, and intend to keep the same scheme next year.




⁴ National Audit Office, Council Tax Support, 2013 www.nao.org.uk/wp-content/uploads/2013/12/10316-001-Council-Tax-Book.pdf

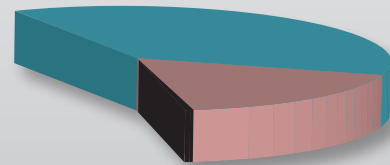
Did you receive the transitional grant in 2013/14?

74 YES 
60 NO 






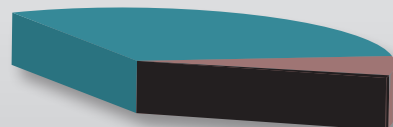
Of the 74 who received the grant, would your 2014/15 scheme be eligible?

50 YES 
23 NO 
1 DON'T KNOW 



Of the 50 whose 2014/15 scheme would have been eligible, would your 2015/16 scheme be eligible?

41 YES 
8 NO 
1 DON'T KNOW 



Collection rates

Overall council tax collection rates in England fell in 2013/14, for only the second year since council tax was introduced, from 97.4 per cent to 97.0 per cent. This drop is not as large as some councils had predicted, and the collection rate is still well in excess of that of most central government taxes collected by HMRC. However the reduction in collection rate was greater in some councils than others. This tended to be in metropolitan areas.

It is difficult to isolate how much of the change on collection rate is due to the introduction of localised council tax support but research by the New Policy Institute⁵ found that:

94 per cent of councils that replicated the previous CTB system saw no change in their council tax collection rates compared to 69 per cent of councils that made changes. Of those councils where the collection rate fell, the drop was between 0.5 and 1 percentage points.

Changes in collection rates varied by minimum payment level. As the minimum payment level increased, the proportion of councils seeing their collection rate fall increased. The collection rate fell in 15 per cent of councils that introduced minimum payments of 8.5 per cent or less, rising to 63 per cent in councils with minimum payments of at least 20 per cent.

In our survey, we asked councils to estimate the impact of their scheme alone on their council tax collection rate.

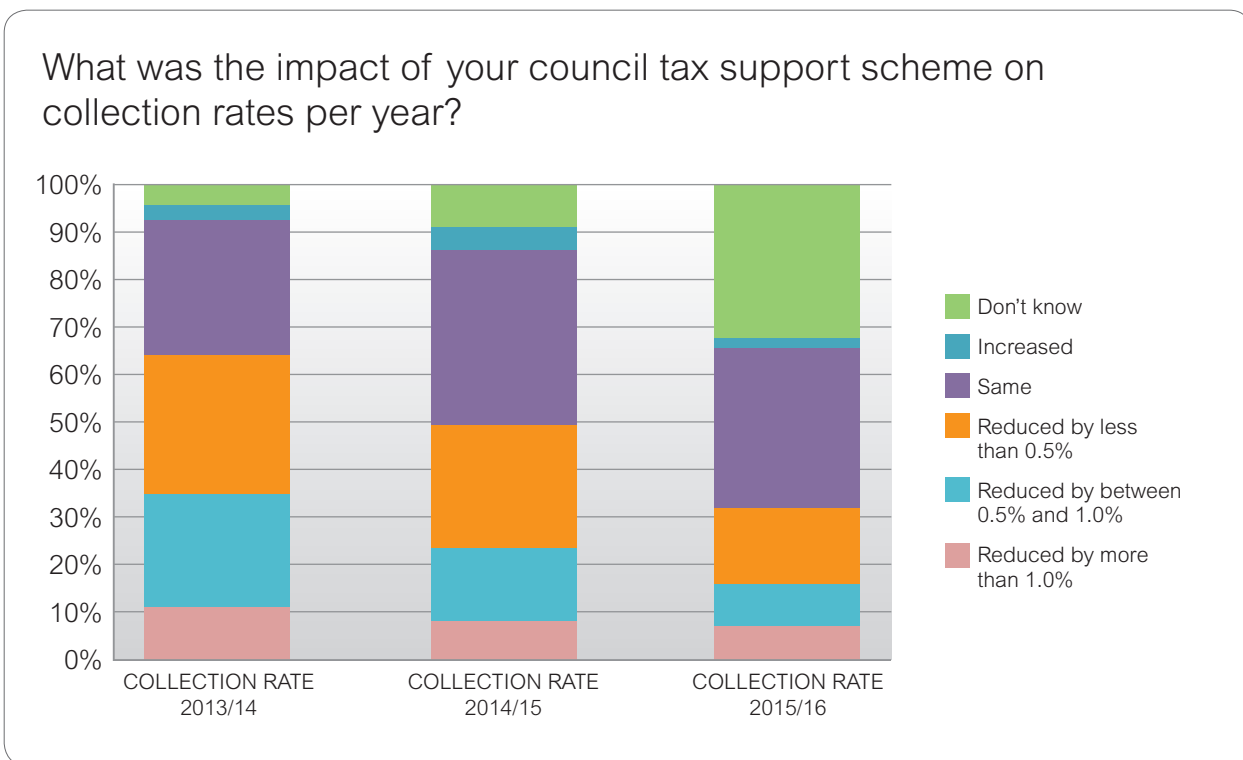
Among those who introduced a minimum payment higher than 8.5 per cent in 2013/14, 53 per cent estimated that their scheme had caused a drop in their collection rate in that year.

Among those who introduced a minimum payment of 8.5 per cent or less in 2013/14, 49 per cent estimated that their scheme caused a drop in their collection rate that year.

However, those councils which believed that their scheme led to a larger reduction in collection rates were councils which introduced minimum payments of greater than 8.5 per cent.

⁵ The impacts of Council Tax Support reduction on arrears, collection rates and court and administration costs, New Policy Institute, 2014

We asked councils to isolate the impact of their CTS scheme on collection rates, and the chart below shows this impact in 2013/14, and estimates for 2014/15 and 2015/16.



All the councils we surveyed which introduced the default scheme⁶ said that their scheme in 2013/14 had no impact on collection rates. The collection rate did fall, however, in 15 per cent of authorities that introduced the default scheme, so the introduction of localised schemes is not the only factor contributing to changes in the overall collection rate.

We also asked about the impact of proposed schemes on collection rates in 2014/15 and 2015/16, but councils were less certain about the impact in future years.

From the above we can conclude that, whilst most councils which introduced minimum payments saw collection rates fall, **the fall in overall collection rate is greater in areas which introduced higher minimum payments.**

⁶ Under the default scheme, entitlements are calculated under the same basis as the previous Council Tax Benefit entitlements – claimants will see no change in their bills and the entire cost of the funding reduction in that area is borne by other council budgets.

Measures taken to improve council tax collection rates

We might expect that, as councils expected collection rates to fall upon the implementation of localised support schemes, they would introduce new measures to improve collection rates.

But even 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. Of the councils we surveyed:

- 4 per cent offered a discount for payment by direct debit
- 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

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.

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.

Here is a selection of comments we received on the methods for improving collection rates introduced since April 2013:

“Extra reminder introduced for CTS customers previously entitled to 100 per cent support; increased use of Attachment to Benefit.”⁷

“Additional stages were added to the recovery timetable for council tax reduction cases who were previously in receipt of 100 per cent council tax benefit.”

“The facility to set up direct debits on the website has been introduced.”

“Extension of text messages to include reminder notices. Customers are able to set up direct debit over the web. Recovery cycle moved back a few days in each month to exclude more cases from the recovery cycle. More resources allocated to the period between liability order and allocation of cases to enforcement agents to attempt to get more cases set up for arrangements and attachments.”

A number of councils mentioned that the recovery, reminder or payment arrangements for those previously entitled to full CTB differed from those for other tax payers.

⁷ If Council Tax debt is subject to a Liability Order then the council may issue an order, known as an attachment, to employers or a Benefits Agency to take direct deductions from benefits or salary until the debt is clear. The deduction rate is set by central government and reviewed annually.

Hardship funds

We asked councils whether they had created a hardship fund for claimants impacted by reductions in council tax support. 49 per cent of councils had set aside a budget specifically for this purpose. In 2013/14, the amounts for these funds ranged from £5,000 to £1 million.

Only two councils had overspent their hardship fund budget in 2013/14, although the overspend was immaterial. 76 per cent of councils that set aside a hardship fund spent less than half of the amount they had set aside, and ten councils spent nothing at all from their hardship fund.

Most councils maintained the same level of fund in 2014/15, and plan to do so in 2015/16. We did not ask whether these were one-off or recurring budgets but the results indicate that these items are in general being set aside with the balance carried forward or topped up in future years.

Many councils stated that they have set the level of their hardship funds by taking into account the call upon the funds in future years. This is based on proposed changes to their schemes and projections of demand.

We asked councils whether there were any specific criteria attached to their hardship funds. Those who responded stated that awards were completely discretionary with no set criteria, although one council was considering a change to the hardship fund to include a specific reference to claimants who were members of the armed forces.

Incentives to reduce worklessness

Part of the rationale for the localisation of council tax support was to give councils more of a direct financial stake in the economic wellbeing of their area. In theory, if the number of claimants in an area falls, then the council's financial position will improve (and vice versa), so councils have more of an incentive to encourage growth and jobs locally.

Here is a selection of comments on initiatives to reduce worklessness mentioned by our survey respondents:

We are proactively working within schools and the university to help prepare young people for the world of work

We are working with Job Centre Plus
...extensive work with community and voluntary sector partners

...community based job clubs offering employability support to targeted areas where high levels of deprivation and unemployment exist.

Our survey asked councils what initiatives they had in place before 2013 to reduce worklessness in their area, irrespective of council tax support. Of the councils who responded to our survey, 93 per cent mentioned initiatives they already had in place, including:

- 77 per cent had contributed to initiatives to stimulate economic development
- 55 per cent had taken steps to improve the skills of their local workforce
- 60 per cent had worked with local employers to make apprenticeship opportunities available

- 25 per cent had targeted their work at specific sections of the community
- 32 per cent had worked with bodies such as the local police force to raise aspirations among the workless.

Despite all of this ongoing work prior to the localisation of council tax support, 20 per cent of councils said that they had introduced new initiatives since April 2013. These included:

- providing outreach accommodation for Job Centre Plus sessions with claimants (in a district where there is not a Job Centre Plus office)
- offering a £500 Business Incentive Grant to people wishing to start their own business, a significant number of whom were coming off benefits
- increasing the payment period of Extended Payments (for claimants returning to work) from four to six weeks
- establishing a Multi-Agency Committee consisting of the third sector and voluntary organisations along with other social housing partnerships to work on a number of initiatives to improve job skills, opportunities and reduce worklessness
- commissioning a new employment support team (jointly funded with the Department for Work and Pensions) run by a Voluntary and Community Sector provider to work intensively with benefit cap affected households to support them into work
- commissioning a local social entrepreneur to help people achieve self-employment.

The future

In an uncertain funding environment it is very difficult to say what will happen beyond 2015/16. We asked councils whether, in general, they intended to maintain the parameters of their current scheme or whether they would reduce entitlement in response to further cuts in funding beyond 2015/16.

Only 27 per cent of the councils we surveyed said that they would maintain their current scheme, while 18 per cent of councils in our survey said that they would continue to reduce their support if funding reductions continued. The other councils did not give a response.

We asked whether councils had singled out any groups for special protection beyond 2015/16. Of those that responded, disabled people were the most common group cited as immune from further reductions in CTS with 10 per cent of respondents stating that this group would be protected from further reductions.

Other groups councils intend to protect from further reductions include households with young children, and households subject to the benefit cap. For each group of claimants that is protected, the burden on non-protected claimants and/or council services becomes greater.

A selection of the comments from councils on their future plans is shown below:

“If (funding) reduces further it will become increasingly difficult to maintain a scheme that can support working age customers”

“While we will be maintaining the existing scheme for the foreseeable future the position remains fluid and we will continually review the approach in the context of meeting budget savings”

“The current scheme will be maintained at present but significant budget pressures in the longer term could mean that we may have to change the current scheme, which works well”

Conclusions and recommendations

Our survey has provided us with an indication of how local authorities' experiences of council tax support differ, with each local area facing different challenges and financial risks arising from issues such as collection rates, or changes in caseload. Councils are also discovering different opportunities to grow their economies and benefit financially at the same time. Regardless of such a mix of various experiences, there are some emergent patterns.

1. £1 billion of funding will have been removed from council tax benefit in the three years to 2015/16. The burden of the £1 billion funding gap in 2015/16 is shared between local authority budgets, council tax support recipients, and council tax payers generally.
2. the transition grant has had some success in encouraging councils not only to change the design in the first year, but to maintain that design even after the grant ceased to be paid. This does mean, however, that the removal of the grant has been a net loss to the councils who received it and maintained the scheme.
3. While collection rates are down overall, they are better than expected in the first year of the new regime, and early data suggests that this continues in year two. It may be easier for councils to collect new council tax debt from claimants that were previously on partial council tax benefit than from claimants that were previously on full council tax benefit.
4. About half of billing authorities have introduced a discretionary hardship fund for the hardest-hit council tax support claimants. These are, on the whole, almost completely discretionary, with no restrictions on who can apply. Councils have prudently set aside sufficient amounts for these funds for the initial year of the scheme.
5. The extent to which councils have been incentivised by the localisation of council tax support to encourage economic growth locally is debatable. Councils on the whole have always had an interest in the economic wellbeing of their area, and having more of a financial stake in the local claimant count has not significantly altered this.
6. Most councils do not appear to see their local scheme as a purely financial equation; they are aware of the complex inter-relationships between council tax support, other welfare reforms, and other council services, and design their schemes with regard to all of these elements.
7. Looking to the future, with a lack of transparency over council tax support funding, it is almost inevitable that, if the funding regime remains the same, reductions in general council funding will lead to reductions in council tax support. This will make the council tax more regressive.

With these conclusions in mind, the LGA calls on the next government to

1. Fully fund council tax support, acknowledging that the scheme to date has taken millions of pounds out of funding for council services, and has increased the cost of living for some of the poorest.
2. Make transparent each council's allocation of funding for council tax support in future settlements, so that councils can design their schemes, and consult with their residents, in full possession of the facts.
3. Work with the LGA and councils reform the council tax system and place more control locally, including over all aspects of the council tax support scheme and council tax discounts such as the single person discount. The debate on fiscal devolution has moved on in the year since our last council tax support analysis. There has been a call from all sides to devolve power because placing local decisions in the hands of those who understand local circumstances will contribute to economic growth and prosperity nationally.
4. Analyse the combined impact of all welfare reforms, including council tax support, at a local level, publish the results of this work, and take this impact into account in any future welfare reforms, and future local government funding settlements.



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