



Resolution Foundation

No Clear Benefit

The financial impact of Council Tax Benefit reform on low income households

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January 2013

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Contents

Executive Summary	3
Introduction.....	5
1. Council Tax Benefit: the existing system	6
2. The reform of Council Tax support.....	7
3. What are local authorities planning to do?	10
4. What are the implications for low income households?.....	13
4.1 Recipient households not in employment	13
4.2 Recipient households in employment.....	14
5. Future challenges: the interaction of local Council Tax Support schemes with Universal Credit.....	19
Conclusion	20

Executive Summary

Council Tax Benefit (CTB) is a means-tested benefit providing assistance to nearly 6 million low income families in the UK, of whom 3.2 million are of working-age. On 1 April 2013 CTB will cease to exist. From that date, each of England's 326 local authorities (and the Scottish and Welsh Governments) will be handed responsibility for providing Council Tax support to some of the country's poorest households through locally designed 'Council Tax Support Schemes'.

The new local system of Council Tax support is accompanied by both a 10 per cent cut in funding from central government and rules which mean that current pensioner levels of support must be protected. Analysis carried out for this report shows that almost three quarters of English local authorities, faced with these constraints, are set to respond to localisation by introducing less generous systems of support.

This report provides, for the first time, a sense of what these changes will mean for low income families. It shows that as a result of the localisation of Council Tax support many of the 2.5 million working-age recipients of CTB not in employment – those who currently receive maximum CTB and pay no Council Tax – will now have to pay some small amounts. A typical CTB recipient in this category will face annual Council Tax bills of between **£96 (£1.80 per week)** and **£255 (£4.90 per week)** a year under the reforms.

Given the variation in local authority plans across England, the financial impact of the reforms on the almost 700,000 CTB recipients in employment varies widely. The vast majority of working households currently receiving partial CTB already pay some Council Tax. All families (with children and without) currently claiming CTB will see their Council Tax bills rise if they live in a local authority that is set to introduce a less generous system of support. Of the families we assess the worst affected families are single parents who work part-time and depend on childcare:

- A typical single parent with children in childcare and working part-time on the National Minimum Wage (NMW) will face increases in their annual Council Tax bill ranging from **£96** (an increase of **55 per cent** on their current payment) to **£577** (an increase of **333 per cent** on their current payment) depending on the severity of the local scheme introduced.

But other family types will also face significant increases. For example:

- A typical couple with children where only one partner is in full-time work on the NMW will face increases in their annual Council Tax bill ranging from **£96** (an increase of **12 per cent** on their current payment) to **£304** (an increase of **37 per cent** on their current payment).
- A typical single parent working part-time on the NMW, and not paying for childcare will face increases in their annual Council Tax bill ranging from **£96** (an increase of **14 per cent**) to **£446** (an increase of **66 per cent**) depending on the severity of the local scheme introduced.

These estimates represent the financial impact of Council Tax Benefit reform under the current tax and benefit system. In future years there is a very real possibility that new systems of local Council Tax support could undermine, though not eliminate, the intended improvements to work incentives that the government's Universal Credit (UC) scheme is intended to deliver. The government has made much of the fact that, under UC, there will be "virtually no households" that face Marginal Deduction Rates (MDRs) of

over 80 per cent, meaning that virtually no one will lose more than 80 pence of each additional pound they earn through taxes and withdrawn benefits (as opposed to MDRs of up to 96 per cent for some under the current system). Yet this is true only if Council Tax support is ignored. Once Council Tax support has been included, the MDRs of most households receiving both UC and Council Tax support (around 620,000 CTB claimants or 9 in 10 of every current claimant in employment) will rise to around 81 per cent – extremely high rates, even if not quite as high as the worst experienced under the current system. Moreover, withdrawal rates could easily rise further if local authorities decide to modify their local Council Tax Support schemes to cope with changing local circumstances and financial pressures. This is the necessary flipside of allowing a complicated patchwork of local systems to influence work incentives.

The potential social and economic implications of CTB reform are far reaching. There is a very real possibility that over the course of the next year large numbers of CTB recipients currently paying no Council Tax will struggle (or refuse) to pay the small amounts of monthly Council Tax that will be required from them. Many local authorities, already aware of the considerable difficulties of collecting Council Tax from residents on low levels of income, are making financial provisions for extensive non-payment while also preparing for an increase in the number of cases of unpaid Council Tax that require the use of bailiff powers and pursuit through the court system. But the implications of the reform are not just confined to those that currently paying no Council Tax. They will also affect low-paid workers already struggling to cope with stagnant wages, rising living costs and ongoing reductions in tax credits and other in-work support. For these low income households, who already pay some Council Tax, CTB reform looks set to undermine the improvements in work incentives that could have been expected under UC, and importantly, will hit squeezed household budgets hard in the here and now.

Introduction

The United Kingdom (UK) benefit system is about to undergo its most radical restructuring since the creation of the post-war welfare state. From October this year, Universal Credit (UC) will bring together six of the seven main means-tested benefits and tax credits together into a single system with one notable exception: Council Tax Benefit (CTB).

Council Tax Benefit (CTB) is a means-tested benefit, administered by local authorities on the basis of national criteria, that provides assistance to nearly 6 million low income families in the UK.¹ On 1 April 2013 CTB will cease to exist. Contrary to the simplifying (and welcome) impetus that has underpinned the design of UC, support for those who require assistance with their Council Tax bill will, from that date, transfer to each of England's 326 local authorities (and the Scottish and Welsh Governments).²

English local authorities with council tax billing responsibility have until 31 January 2013 to put the final touches to local 'Council Tax Support Schemes' for the 2013/14 financial year that will provide support to current CTB claimants within their locality.³ When designing Council Tax Support schemes, local authorities will have to contend with a 10 per cent cut in grant funding from central government and rules which mean that current levels of pensioner support must be protected. The reforms therefore confront local authorities with a stark choice: either introduce less generous schemes that require working-age low income households to pay more Council Tax or find savings elsewhere to cover the funding shortfall.

Local authorities that do not decide upon their own scheme by the 31 January deadline will have a default scheme prescribed to them by the Secretary of State for Communities and Local Government that is based on existing national CTB criteria and allowances – in effect forcing local authorities to absorb a 10 per cent funding shortfall from elsewhere in their budget.

¹ Council Tax and CTB do not exist in Northern Ireland which operates a different local property tax

² In Wales and Scotland, the devolved governments will be given grants and can make their own decisions over what should replace CTB, without the requirement to protect pensioners that is being imposed on English local authorities

³ See the Local Government Finance Bill which received Royal Assent on 31 October 2012

1. Council Tax Benefit: the existing system

CTB is an income-related benefit paid to people on low incomes who are liable to pay Council Tax. There are two types of CTB: ‘**main CTB**’, based on an individual’s annual Council Tax liability and their assumed needs and resources, and ‘**alternative maximum CTB**’, also known as Second Adult Rebate. The Second Adult Rebate is not based on an individual’s needs or resources, but exists to assist individuals who share their home with other non-dependent low earners who have no responsibility to pay Council Tax. The maximum amount of Second Adult Rebate is limited to 25 per cent of an individual’s Council Tax liability and may be awarded to a claimant if they would be better off with this option than any rebate under ‘main CTB’.

The amount of CTB entitlement is calculated on a weekly basis according to an individual’s daily liability for Council Tax (after deducting any disability reductions, discount or transitional relief). The means test for CTB follows the rules for other income-related benefits such as Income Support and income-based Jobseeker’s Allowance (JSA). People with income at, or below, the level of the applicable amount (overwhelmingly those on out-of-work benefits) are entitled to maximum CTB covering the whole of their weekly eligible Council Tax bill.⁴ Of the 5.9 million current CTB recipients in the UK, including those aged over 65, 3.9 million (66 per cent) are “passported” on this basis⁵ and they account for 70 per cent of CTB expenditure.⁶

2 million (34 per cent) of all CTB recipients claim the benefit on a “non-passported” status that requires means-testing to determine how much of a given annual Council Tax liability will be offset by a CTB rebate.⁷ Recipients that are not eligible for income-related benefits, including people who are working, receive CTB subject to an income taper of 20 per cent. This means that for every £1 of income above the income threshold (“the applicable amount”), Council Tax support is reduced by 20 pence. It is also worth noting that in CTB includes a capital limit – £6,000 for people of working age and £10,000 for those of pensionable age – above which an assumed income is used to calculate support. CTB is not payable to people who hold capital above £16,000.

The cost of CTB is currently met by the Department of Work and Pensions (DWP) out of Annually Managed Expenditure (AME) and is paid to local authorities as a reimbursement of their expenditure. Between 1997-98 and 2009-10 expenditure on CTB increased by over half in real terms, driven mainly by rising Council Tax levels.⁸

⁴ Less any set contributions assumed in respect of non-dependent adults who live in the household but are not themselves liable for Council Tax.

⁵ 1.1 million receiving Income Support, 0.6 million receiving Jobseeker’s Allowance, 0.5 million receiving Employment and Support Allowance and 1.6 million receiving Pension Credit

⁶ Source: DWP *Quarterly Statistical Summary*, March 2012 see, http://statistics.dwp.gov.uk/asd/asd1/stats_summary/stats_summary_mar12.pdf

⁷ Non-passported claimants can, however, still receive maximum CTB on a means-tested basis

⁸ CLG, *Local Government Finance Bill: localising support for council tax – impact assessment* (updated), June 2012 p.6

2. The reform of Council Tax support

Reform of CTB is part of a wider package of changes to local government finance.⁹ According to the Department of Communities and Local Government (DCLG) the reform of Council Tax support is intended to achieve three distinct goals¹⁰:

- ❖ To allow local authorities more freedom to pursue local priorities in light of local financial circumstances;
- ❖ To strengthen local authorities' incentives to promote employment and growth in the local economy;
- ❖ To reinforce local control over Council Tax and increase local financial accountability and decision-making.

Under the new arrangements, each English local authority with Council Tax billing responsibility¹¹ will be required to provide assistance for low income households unable to cover the full costs of Council Tax through the creation of new local 'Council Tax Support schemes'. These schemes will be funded by grants¹² from central government that represent only 90 per cent of current CTB expenditure in each locality¹³ – a funding reduction that is larger in cash terms in areas where CTB spending is higher i.e. areas that contain high levels of deprivation. The UK government estimates that CTB reform will save £480 million per year across Britain,¹⁴ of which £410 million comes from England. It should be noted that the decision to reform and localise Council Tax support and to reduce grant funding by 10 per cent are not intrinsically linked. Either could have been implemented without the other: the government could have made cuts to the existing CTB system at the national level, or could have localised responsibility for Council Tax support without reducing funding.

Moreover, the government has also placed significant constraints on local discretion by retaining control of the criteria for assessing support for pensioner households and thereby ensuring that the levels of Council Tax assistance provided to pensioners are not reduced. Protecting recipient pensioner households compounds the cuts to local authority grant funding for the provision of Council Tax support, transforming reductions of 10 per cent into average reductions in support of 19 per cent for working-age recipients. Indeed, in areas with a high proportion of pensioners, the cut to the working-age claimant population may well be as high as 33 per cent according to some estimates.¹⁵

⁹ See The Local Government Finance Bill

¹⁰ CLG, *Localising Support for Council Tax in England*, August 2011

¹¹ The United Kingdom typically has several overlapping "tiers" of local government serving the same area. One local authority in each area is designated as the billing authority, with responsibility for collecting Council Tax on behalf of all the local authorities operating in that area.

¹² Levels of funding will be set through an upfront allocation for all billing and major precepting authorities from 2014 based on 90 per cent of the forecast subsidised CTB expenditure for 2013/14. Funding will be switched from Annually Managed Expenditure (AME) to Departmental Expenditure Limits (DEL) meaning that spending will no longer rise to meet demand from changes in any given council tax support caseload. With funding altered from a demand-led system to one that is cash limited, LAs will bear more of the risk of any shortfall of funds.

¹³ Recent statements made by DCLG officials to Local Government leaders suggested that this 10 per cent budget cut would be reduced by a further 8.5 per cent in 2014/15 but the Department has since denied that further cuts to Council Tax support grants are planned see <http://bit.ly/UdNnOA>

¹⁴ This figure is based on the Department for Work and Pensions' latest estimate of spending on Council Tax support in 2013–14, which excludes Northern Ireland, with grant spending assumed to be 90 per cent of spending in each nation rather than equal per-person grants.

¹⁵ IFS, *Reforming Council Tax Benefit*, Commentary C123, May 2012

DCLG maintains that the freedom to introduce less generous systems of Council Tax support (thereby collecting increased amounts of Council Tax from working-age CTB recipients) provides all the discretion local authorities need to implement the reform.¹⁶ If local authorities do not want to ask low income households for more Council Tax, they argue, they have the freedom to look for alternative means of making savings that might lessen the reduction in support to vulnerable working-age claimants. These alternatives might include increasing Council Tax revenues (though not, in accordance with the provisions of the Localism Act of 2011, by more than 2 per cent without holding a referendum), removing certain Council Tax exemptions, removing the Second Adult Rebate, capping Council Tax payment support in higher council bands or simply choosing to absorb the reduction in expenditure by making up the budgetary shortfall elsewhere.

Both the Scottish and Welsh Governments have felt able to absorb the full costs of the funding reduction and thereby maintain existing levels of Council Tax support for claimants within their borders. Yet for many English local authorities absorbing extra (and expanding) financial costs is simply not an option at a time when many are still attempting to manage deep spending cuts and face rapidly rising costs in areas such as social care.¹⁷ The reforms therefore confront local authorities with a stark choice: either introduce less generous schemes that require working age low income households to pay increased rates of Council Tax or find savings elsewhere to cover the funding shortfall at a time of severe financial challenge.¹⁸

The reform process has also been complicated by new proposals announced two years after the policy was first announced. On 16 October 2012 the government made clear that it would recycle a proportion of £410 million that it estimates will be saved annually as a result of CTB localisation in England into a £100 million package of one year transitional finance to support local authorities to develop “well-designed council tax support schemes” and to maintain “positive incentives to work.”¹⁹ What this means in practice is that access to a share of this £100 million of transitional relief (a share which in many local areas will not cover the 10 per cent reduction in current CTB expenditure) is dependent on local authorities designing their local Council Tax Support schemes such that they meet the government’s criteria for “best practice.” Best practice in this instance means ensuring that:

- ❖ No claimant who is currently on maximum CTB ends up paying more than **8.5 per cent** of their annual Council Tax liability
- ❖ The rate at which Council Tax support is withdrawn as income rises – i.e. the income taper – is no higher than 25 per cent (it is currently 20 per cent within the national CTB scheme)
- ❖ There is no sharp reduction in support for those entering work.

The timing of the government’s announcement on transitional relief – two years after the policy was originally announced, less than four months before the deadline by which local authorities have to finalise their schemes and with many having already consulted with their local residents on proposed schemes – has been vigorously criticised.²⁰

¹⁶ CLG, Local Government Finance Bill: localising support for council tax – impact assessment (updated), June 2012

¹⁷ See Local Government Association (LGA) financial projections http://www.local.gov.uk/web/guest/publications/-/journal_content/56/10171/3626323/PUBLICATION-TEMPLATE

¹⁸ Already tight local government financial settlements were further reduced as a result of the 2012 Autumn Statement

¹⁹ Baroness Hanham, Ministerial Statement, CLG *Localising Council Tax support*, 16 October 2012

²⁰ IFS, *Late changes to Council Tax Benefit reforms*, October 2012

It is hard to see how local authorities, even with the benefit of transitional relief, can design Council Tax Support schemes that meet the “best practice” criteria within the reduced funding envelope provided for localised Council Tax support. It is also unclear why the additional funding is time-limited to one year, a move that will force local authorities accepting relief funding to once again devise and publicly consult upon replacement local Council Tax Support Schemes for implementation in the 2013-14 financial year. Coupled with the switch in funding for Council Tax support from Annually Managed Expenditure (AME) to Departmental Expenditure Limits (DEL) – meaning that spending will no longer rise to meet increasing demand – the nature of reform presents most local authorities with a major challenge.

3. What are local authorities planning to do?

Over half of all local authorities (184 out of 326) have now confirmed their plans, providing us with a robust indication of the range of local schemes that will be in place from 1 April. A detailed analysis of chosen schemes²¹ has been made available to us by the New Policy Institute (NPI)²² who have collected and collated data on published local authority decisions over the course of several months. The evidence makes clear that while there is considerable variation when it comes to the *detail* of different Council Tax Support schemes²³, the overwhelming majority of local authorities have designed local schemes that broadly approximate one of four model scheme designs. Those model schemes can be summarised as follows:

- ❖ **Scheme 1 – ‘no change’:** the confirmed schemes of 51 local authorities (28 per cent) fall within this category. A small number of these 51 authorities are making some adjustments to the current system (for example by removing the Second Adult Rebate) but none are planning to introduce flat-rate cash cuts that would alter existing levels of support for all recipients.
- ❖ **Scheme 2 – ‘moderate increase’:** the confirmed schemes of 60 local authorities (33 per cent) fall within this category. All of these 60 authorities are planning to introduce a flat-rate cash cut (by council tax band) the value of which is calculated at **8.5 per cent** of the maximum Council Tax liability for a given Council Tax band in a given area.
- ❖ **Scheme 3 – ‘large increase’:** the plans of 26 local authorities (14 per cent) fall within this category. All of these 26 authorities are planning to introduce a flat-rate cash cut (by council tax band) the value of which is calculated at **20 per cent** of the maximum Council Tax liability for a given Council Tax band in a given area.²⁴
- ❖ **Scheme 4 – ‘severe increase’:** the plans of 39 local authorities (21 per cent) fall within this category. As with the above ‘large’ model scheme, all of these 39 authorities are planning to introduce a flat-rate cash cut (by council tax band) the value of which is calculated at **20 per cent** of the maximum Council Tax liability for a given Council Tax band in a given area. However, in addition to this flat-rate cash cut each authority in this category also plans to make at least one additional significant change. We assume that all local authorities in this category will adopt one of the most common of those changes: the inclusion of child benefit as income when calculating levels of Council Tax support, which has the effect of increasing assessed income levels and therefore further reducing the amount of support provided.

Of the local authorities that have confirmed their intentions, eight plan to introduce schemes that do not approximate any of these four model schemes. These eight councils have opted instead for a range of other

²¹ The NPI sourced the information from publicly available documents published by individual local authorities. In each instance designated confirmed scheme either refer to the final scheme that has been approved by a meeting of a given local authorities’ full council, or the proposed final schemes that have been recommended to a given local authorities’ full council for approval (the researchers are not aware of any council to have a rejected at scheme at this stage).

²² The New Policy Institute (NPI) is an independent think tank which produces evidence-based research on a range of social and economic issues including income, work, housing and poverty see, <http://www.npi.org.uk/>

²³ To be expected given that authorities vary widely in terms of the total numbers of CTB claimants present, the shares of working age and pensioner claimants – less deprived areas typically have higher shares of pensioner claimants) and in their likely priorities in contemplating which claimants to protect from reductions in support.

²⁴ The local authorities placed within this category are planning to introduce flat-rate cash cuts ranging from 15 per cent to 30 per cent but 20 per cent is the modal value

major changes such as a Band Cap.²⁵ **Table 1** summarises the breakdown of model chosen schemes for each of 184 local authorities that have confirmed their plans.

Table 1: Breakdown of confirmed Local Authorities Council Tax Support schemes

	Scheme 1 <i>- no change</i>	Scheme 2 <i>- modest</i>	Scheme 3 <i>- large</i>	Scheme 4 <i>- severe</i>	Misc	Total
Number	51	60	26	39	8	184
Proportion	28%	33%	14%	21%	4%	100%

Source: NPI

Note: Data sourced from publicly available documents published by individual local authorities. In each instance designated confirmed scheme either refer to the final scheme that has been approved by a meeting of a given local authorities' full council, or the proposed final schemes that have been recommended to a given local authorities' full council for approval.

The results make clear that just under three quarters of local authorities are introducing less generous systems of Council Tax support. Two thirds of councils plan to introduce schemes whose main features are a flat-rate cash cut (by council tax band) of varying degrees of severity that would see the levels of support provided to current CTB recipients reduce by a constant proportion of their the maximum Council Tax liability for a given Council Tax band in a given area.

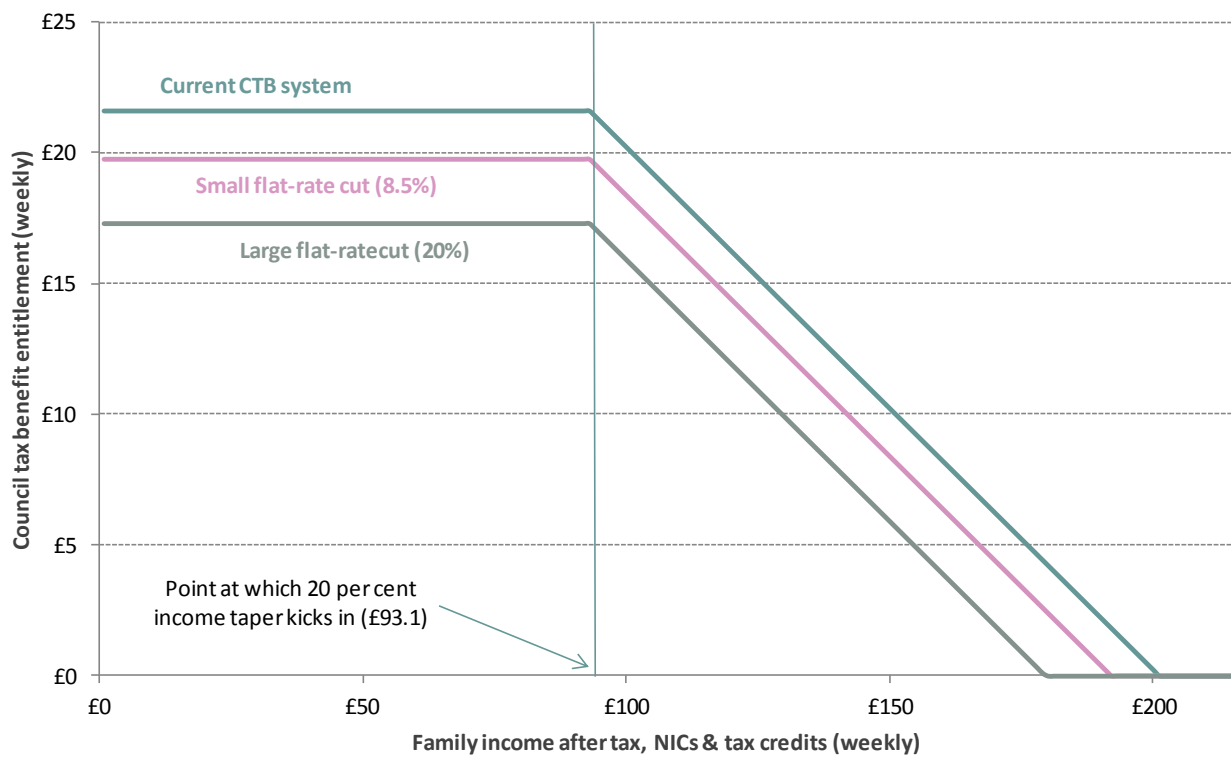
Figure 1 below shows what such a flat-rate cash cut means in comparison to existing levels of support under the CTB system for a single adult household living in a Band B property with an average Council Tax liability for 2012-13 of £20.60 per week.²⁶ It makes clear that the current CTB income taper begins to apply at the point where income after tax, National Insurance Contributions (NICs) and tax credits exceeds the sum of all disregards and allowances. It shows that under model scheme 1 (a small flat-rate cash cut) Council Tax support is reduced by 8.5 per cent of a claimants' total council tax liability – in this case equivalent to a reduction in support of £1.84 per week. It shows that under model scheme 2 (a large flat-rate cash cut) Council Tax support is reduced by 20 per cent of a claimants' total council tax liability – in this case equivalent to a reduction in support of £4.32 per week.

To illustrate what such a flat-rate cash cut to current CTB support means for individual households imagine two neighbouring households: one is a single parent working full-time and one is a couple, one working full-time and one part-time. The total Council Tax liability of each household, based on a comparable Council Tax Band, is £1,000 per year. The single parent currently pays £200 a year in Council Tax after receiving CTB and the couple currently pay £500 after receiving CTB. Following a flat-rate cash cut of 20 per cent per annum from their total liability the single parent will see her Council Tax bill rise to £400 per year (£200 plus 20 per cent of £1,000) and the couple to £700 (£500 plus 20 per cent of £1,000). Thus, while under this scenario each household would see identical rises in their Council Tax bill in cash terms, the increase represents a larger percentage increase for the single parent (a 100 per cent increase) than the couple (a 40 per cent increase).

²⁵ A Band Cap hat would see the amount of council tax support capped at the maximum claimable if a claimant lived in one of the lower council tax bands, in effect meaning that the extra Council Tax payable on a higher band property would have to be met by the household itself.

²⁶ DCLG Statistical Release, 21 March 2012 - 'Council Tax Levels Set by Local Authorities in England – 2012-13'.

Figure 1: Comparison of weekly Council Tax support for a single adult Band B household under alternative systems



Source: RF Analysis

Note: The current CTB income taper of 20 per cent (retained under each model scheme) kicks in at the point where family income after tax, NICs and tax credits exceeds the sum of all disregards (in this instance £22.10) and allowances (in this instance £71). It is important to note that the cash value of the flat-rate deduction will obviously vary by Council Tax band. For example, for a Band D household the flat-rate reduction would be £2.35 under model scheme1 (compared to £1.84 per week under Band B) and £5.54 under model scheme 2 (compared to £4.32 per week). Households whose current entitlement is less than the flat-rate cash deduction will no longer be entitled to any Council Tax support. Households that are not eligible for support under the current system are obviously not affected by the flat-rate cash reductions.

4. What are the implications for low income households?

In this section we explore the financial impact on household incomes of each of the four model Council Tax Support schemes outlined above on a range of stylised households eligible for Council Tax support. We begin by examining the impact of each model scheme on current CTB claimants who are not in employment and who therefore currently receive maximum support under the national CTB system (i.e. they pay no Council Tax). We then turn to an exploration of the impact of each model schemes on claimants who are working and who therefore already pay some Council Tax.²⁷ For all the examples in this category, household incomes are assumed to be sufficiently high to ensure that they only receive partial support, i.e. these are working households and are required to pay at least some proportion of their annual Council Tax liability. What we are interested in is the increase in Council Tax bills that these stylised families will face under each model scheme.

We only explore working-age claimants and therefore exclude from our analysis current CTB claimants aged over 65. As discussed above, in reforming the CTB system the government chose to retain control of the criteria for determining levels of Council Tax support for pensioners to ensure that they remain unchanged. As **Table 2** makes clear, of the 5.9 million recipients of CTB, just over 2.7 million are aged over 65, leaving a working-age recipient population who are potentially affected by CTB reform of just over 3.2 million. The household breakdown and employment status of these 3.2 million recipients is shown in **Table 2** below.

Table 2: Estimated working-age recipients of Council Tax Benefit, August 2012

Family type	Total	Not in employment (Passported and non- passported)	In employment (Non-passported)
All recipients	3,160,000	2,490,000	670,000
Single, no child dependant	1,430,000	1,300,000	130,000
Single, with child dependant(s)	970,000	710,000	260,000
Couple, no child dependant	270,000	220,000	50,000
Couple, with child dependant(s)	490,000	260,000	230,000

Source: NPI analysis of written answer from Steve Webb MP, Minister of State Department of Work and Pensions, 10 December 2012. Original source: Single Housing Benefit Extract (SHBE). See column 78W
<http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm121210/text/121210w0003.htm#1212116000488>

Notes: The economic status of all council tax benefit (CTB) recipients is not available. Information is available only for those recipients whose claim is not passported. A small proportion of the passported cases will be in part-time employment. Information on partner's employment status is not available.

4.1 Recipient households not in employment

As **Table 2** above shows, 2.5 million CTB recipients fall into this category. These 2.5 million CTB recipients receive maximum CTB which ensures they pay no Council Tax. A significant proportion of these recipients receive maximum CTB automatically on a “passported” basis as a result of their eligibility for benefits including income support, JSA or income-related Employment Support Allowance (ESA). However, some “non-passported” claimants that are not in employment and not in receipt of one of the above benefits also receive maximum CTB on a means-tested basis.

²⁷ Small numbers of working households do receive full CTB support if their income is low enough. However, in this note we assume the part-time adults work 24 hrs/week that the incomes are above this level.

To get a sense of the financial impact of Council Tax Benefit reform on current CTB recipients not in employment we calculate the reduction in Council Tax assistance that a typical recipient household in this category would face under each of our four model Council Tax Support schemes. We assume that the annual Council Tax liability for each recipient household prior to support is an average Band B Area Council Tax of £1,126.²⁸

As the results in **Table 3** illustrate, in all cases where local authorities decide to implement a less generous system of Council Tax support (schemes 2, 3 and 4), claimants that currently receive maximum CTB and who therefore currently pay no Council Tax would be required to pay small amounts of Council Tax ranging from £96 to £255 per year.

Table 3: Impact of local Council Tax Support schemes on ‘passported’ claimants who currently receive maximum CTB

	Annual Council Tax bill	Payment Increase under			
		Scheme 1 - <i>no change</i>	Scheme 2 - <i>modest</i>	Scheme 3 - <i>large</i>	Scheme 4 - <i>severe</i>
<i>Passported claimant</i>		£0	£96	£255	£255
Minimum payment per week	£0	£0	£1.80	£4.90	£4.90

Source: RF analysis

Note: Council tax liability is £1,126, the 2012/13 average for Band B in England.²⁹

For example, our estimates suggest that if local authorities adopt Council Tax Support schemes that conform with the government’s preferred “best practice” design i.e. a modest cut involving a flat-rate cash reduction equivalent to 8.5 per cent of one’s maximum liability (Scheme 2), claimants who currently receive maximum CTB would be required to pay £96 per year in Council Tax (£1.80 per week). Under schemes premised on larger flat-rate cash cuts (with or without additional criteria) of 20 per cent of one’s maximum liability, claimants that currently receive maximum CTB would be required to pay £255 per year in Council Tax (£4.90 per week).

Given existing difficulties facing local authorities when it comes to collecting Council Tax payments from residents on minimal levels of income, many local authorities planning to introduce some form of flat-rate cash cut are preparing for an increase in the number of Council Tax payments they have to pursue through the court system and for more extensive use of bailiff powers to collect outstanding payments. Many are also making financial provisions for extensive non-payment. Indeed, the challenges in collecting small amounts of Council Tax from those not in employment may be a central factor in the decisions of over 30 per cent of local authorities to absorb the bulk of the costs of Council Tax support localisation in 2013/14 by adopting schemes that do not include minimum payments from all current recipients.

4.2 Recipient households in employment

Claimants of Council Tax support that are in employment receive partial CTB and are therefore already required to pay a proportion of their annual Council Tax liability on a means-tested basis. As **Table 2** made clear, there are 670,000 claimants in this group. The precise amount of CTB that each of these claimants receives, and which therefore determines the proportion of their annual liability that remains to be settled,

²⁸ The most common Council Tax band among CTB recipients is Band A according to 2010/11 FRS data. However, the median CTB recipient is found in Band B so we therefore use this Council Tax band in our calculations throughout.

²⁹ DCLG Statistical Release, 21 March 2012 - ‘Council Tax Levels Set by Local Authorities in England – 2012-13’.

is calculated on the basis of a complex formula that takes into a range of criteria including savings and income.

To get a sense of the financial impact of Council Tax Benefit reform on current CTB recipients in employment we calculate the reduction in Council Tax assistance that a range of stylised households in this category would face under each model Council Tax Support scheme. Those stylised low income working-age recipient families are as follows:

- ❖ Single adult, no children
- ❖ Single adult with children
- ❖ Single adult with children in childcare

- ❖ Couple, no children
- ❖ Couple, no children (one working)
- ❖ Couple with children (both working)
- ❖ Couple with children (one working)
- ❖ Couple with children in childcare (both working)

In all cases adults are assumed to be aged 25 or over.³⁰ Adults that are working are assumed to be earning the current adult National Minimum Wage (NMW) rate of £6.19 per hour for 37.5 hours per week if in full-time work, and 24 hours per week if working part-time. Families with children are assumed to have two children.

Table 4 below shows the results. As one would expect, percentage increases are greatest under the most severe scheme (scheme 4) which is premised on a flat-rate cash cut of 20 per cent with at least one additional significant change. However, aside from single adults without children in full-time work, all current single adult CTB recipients in local authority areas that introduce a less generous support scheme will face increased Council Tax bills.

³⁰ Council tax benefit entitlement, like Tax Credits and Housing Benefit, depends upon age. For all calculations presented here adults are assumed to be aged 25 or over.

Table 4: Impact of Council Tax Support schemes on single adult minimum wage households

	Annual earnings	Final net income	Final net income after childcare costs	Current annual Council Tax bill	% of total Council Tax liability	Payment Increase under			
						Scheme 1 <i>- no change</i>	Scheme 2 <i>- modest</i>	Scheme 3 <i>- large</i>	Scheme 4 <i>- severe</i>
<i>Single adult, no children</i>									
Full-time NMW	£12,104	£10,623	£10,623	£1,126	100%	<i>Already required to pay full Council Tax liability</i>			
Part-time NMW	£7,746	£9,221	£9,221	£753	67%	n/a	£96(+13%)	£225(+30%)	£255(+30%)
<i>Single parent with children</i>									
Full-time NMW	£12,104	£20,848	£20,848	£1,088	97%	n/a	£39(+4%)	£39(+4%)	£39(+4%)
Part-time NMW	£7,746	£20,542	£20,542	£680	60%	n/a	£96(14%)	£225(+33%)	£446(+66%)
<i>Single parent with children in childcare</i>									
Full-time NMW	£12,104	£34,654	£20,197	£220	20%	n/a	£96(+44%)	£225(+102%)	£577(+262%)
Part-time NMW	£7,746	£28,604	£20,162	£173	15%	n/a	£96(+55%)	£225(+130%)	£577(+333%)

Source: RF analysis

Notes: Adults are assumed to be aged 25 or over; Cases where children are in childcare assumes two young children (aged two and four) using 1.2 hours of childcare per hour worked by second earner at a cost of £3.95 per hour for all hours in excess of the Early Years Entitlement (i.e. total cost of £14,457 per year for full time care, £8,442 per year for part-time childcare). Childcare costs affect Council Tax Benefit entitlement because they are disregarded from the income measure used to determine eligibility, although this is partially offset by the fact that facing childcare costs increases tax credit entitlement, which in turn increases the income measure used for the Council Tax Benefit means test. Childcare also affects tax credits and housing benefit entitlement, see Counting the Cost of Childcare, RF (2012); Part-time work corresponds to 24 hours per week; Full-time work corresponds to 37.5 hours per week. Council tax liability is the 2012/13 average for Band B in England.³¹ For calculation of final net income the families are assumed to receive Housing Benefit towards rent of £90 per week where eligible. In all cases, families are assumed to hold savings of less than £6,000 (the current threshold above which council tax support would be based on an assumed income level). As in the case of those claimants not in employment, we assume that the annual council tax liability for each household is the average Band B Area Council Tax of £1,126.

³¹ DCLG Statistical Release, 21 March 2012 - 'Council Tax Levels Set by Local Authorities in England – 2012-13'.

Single parent families with children in childcare are the hardest hit. A typical single parent with children in childcare working part-time will face increases in their annual Council Tax bill ranging from **£96** (an increase of **55 per cent** from their payment) under the most modest scheme to **£577** (an increase of **333 per cent** in their payment) under the most severe. However, all family types will face an increase of at least 4 per cent in their Council Tax bills. For example, a single parent with children not in childcare working part-time will see increases in their annual Council Tax bill of between **£96** (an increase of **14 per cent** in their payment) to **£446** (an increase of **66 per cent** in their payment) depending on the severity of the scheme they find themselves subject to.

Table 5 below replicates the above analysis for two-adult households. As is shown, many low income two adult families will be unaffected by Council Tax Benefit reform as their net income is sufficiently high to ensure that they are already required to pay their full Council Tax liability. However, couples with children not in childcare where only one partner is in full-time work will be hit hard with their Council Tax bill increasing by anything between **£96** per year (an increase of **12 per cent** in their payment) under the mildest scheme to **£304** per year (an increase of **37 per cent** in their payments that will mean they now pay their full liability of £1,126) under the most severe option. Couples with children in childcare where both partners are working full-time on the NMW will also see a modest increase in their bills.

Table 5: Impact of Council Tax Support schemes on two-adult minimum wage households

	Annual earnings	Final net income	Final net income after childcare costs	Current annual Council Tax bill	% of total Council Tax liability	Payment Increase under			
						Scheme 1 <i>- no change</i>	Scheme 2 <i>- modest</i>	Scheme 3 <i>- large</i>	Scheme 4 <i>- severe</i>
<i>Couple, no children</i>									
Both working FT on NMW	£24,207	£20,404	£20,404	£1,126	100%	<i>Already required to pay full Council Tax liability</i>			
One FT, one PT on NMW	£19,850	£17,369	£17,369	£1,126	100%	<i>Already required to pay full Council Tax liability</i>			
One FT single earner on NMW	£12,104	£12,846	£12,846	£1,126	100%	<i>Already required to pay full Council Tax liability</i>			
<i>Couple with children</i>									
Both working FT on NMW	£24,207	£25,453	£25,453	£1,126	100%	<i>Already required to pay full Council Tax liability</i>			
One FT, one PT on NMW	£19,850	£24,205	£24,453	£1,126	100%	<i>Already required to pay full Council Tax liability</i>			
One FT single earner on NMW	£12,104	£21,976	£21,976	£822	73%	n/a	£96(+12%)	£225(+27%)	£304(+37%)
<i>Couple with children in childcare</i>									
Both working FT on NMW	£24,207	£36,653	£22,196	£1,115	87%	n/a	£11(+1%)	£11(+1%)	£11(+1%)
One FT, one PT on NMW	£19,850	£30,821	£22,379	£1,126	95%	<i>Already required to pay full Council Tax liability</i>			

Source: RF analysis

Notes: Adults are assumed to be aged 25 or over; Cases where children are in childcare assumes two young children (aged two and four) using 1.2 hours of childcare per hour worked by second earner at a cost of £3.95 per hour for all hours in excess of the Early Years Entitlement (i.e. total cost of £14,457 per year for full time care, £8,442 per year for part-time childcare). Childcare costs affect Council Tax Benefit entitlement because they are disregarded from the income measure used to determine eligibility, although this is partially offset by the fact that facing childcare costs increases tax credit entitlement, which in turn increases the income measure used for the Council Tax Benefit means test. Childcare also affects tax credits and housing benefit entitlement, see *Counting the Cost of Childcare*, RF (2012); Part-time work corresponds to 24 hours per week; Full-time work corresponds to 37.5 hours per week. Council tax liability is the 2012/13 average for Band B in England.³² For calculation of final net income the families are assumed to receive Housing Benefit towards rent of £90 per week where eligible. In all cases, families are assumed to hold savings of less than £6,000 (the current threshold above which council tax support would be based on an assumed income level). As in the case of those claimants not in employment, we assume that the annual council tax liability for each household is the average Band B Area Council Tax of £1,126.

³² DCLG Statistical Release, 21 March 2012 - 'Council Tax Levels Set by Local Authorities in England – 2012-13'.

5. Future challenges: the interaction of local Council Tax Support schemes with Universal Credit

In this note we have calculated the impact of four model Council Tax Support schemes on a range of stylised families under the existing tax and benefit system. In future years local authorities will also have to integrate their local schemes with Universal Credit (UC), which will replace most means-tested benefits and tax credits from October 2013. There are two challenges that are of particular interest to us:

First, there is a very real concern that new local systems of Council Tax support will undermine, though not eliminate, the intended improvements to work incentives that are a core rationale of UC. The government has rightly lamented the fact that under the current tax and benefit system certain individuals face Marginal Deduction Rates (MDRs)³³ of just under 96 per cent, meaning that they lose 96 pence of each additional pound they earn through taxes and withdrawn benefits. The government has made much of the fact that, under UC, there will be “virtually no households” that face MDRs above 80 per cent.³⁴ Yet this is true only if Council Tax support is excluded from the calculation. In fact, once Council Tax support is included, the MDRs of most households receiving both UC and Council Tax support (around 620,000 CTB claimants or 9 in 10 of every current claimant in employment³⁵) will rise to around 81 per cent.

How this problem develops in future will depend entirely on how local authorities decide to modify local Council Tax Support schemes in the face of changing circumstances and financial pressures. For example, if a local authority decided not to count UC as income in the means test for Council Tax support, MDRs could rise as high as 96 per cent – close to the maximum rate faced under the current tax and benefit system. More plausibly, any decision by a local authority to increase the CTB income taper of 20 per cent would raise withdrawal rates sharply to around 90 per cent – extremely high rates, even if not quite as high as the worst experienced under the current system. This is the necessary flipside of allowing a complicated patchwork of local systems to influence work incentives.

Second, there will be practical challenges in integrating UC with local Council Tax Support schemes. Most importantly, local authorities will face difficulties because when UC has been introduced the qualifying benefits that councils currently use to assess Council Tax support will no longer exist. This is not only an issue in terms of those benefits such as IS, JSA and ESA that are currently used to “passport” claimants automatically to maximum CTB entitlement but also in terms of tax credits and other means-tested support given that as things stand under UC local authorities will cease to have access to recipient benefit information of any kind. If the government does not make it possible to transfer UC data to local authorities then authorities will have to begin to collect their own benefit information from claimants in order to assess support, potentially adding additional layers of complexity on to an already fragmented and complex system of support.

³³ Marginal Deduction Rates express the proportion of a small increase in earnings taken in tax and withdrawn in means-tested benefits.

³⁴ DWP, Universal Credit: Impact Assessment (IA) December 2012

³⁵ Assuming that UC is counted as income for the purposes of calculating Council Tax support and that the current CTB income taper of 20 per cent is retained, see <http://www.ifs.org.uk/comms/comm123.pdf> p.105 Table 7.6. One way to avoid any overlap between the means tests for Council Tax support and UC would be to withdraw Council Tax support rapidly as soon as income rose above zero and to limit maximum support so that it was completely withdrawn prior to the withdrawal of UC. This has the potential to save local authorities substantial sums of money but would hit particular groups’ hard, notably single people without children from whom UC starts to be withdrawn at a very low income level, see <http://www.ifs.org.uk/comms/comm123.pdf> p.99 Table 7.2 option 3

Conclusion

Nearly 6 million families currently depend on CTB support to ensure that they can get by on extremely low incomes. At a time when many local authorities are struggling with the fallout of tight Spending Review settlements, the nature of CTB reform – in cutting current funding by 10 per cent and imposing rules that ensure that support for current and future pensioners is protected – has left many local authorities with little choice but to introduce less generous systems of local support.

The result is that in just over two months millions of working-age CTB recipients – both employed and unemployed – will face increases in their Council Tax bills. In many cases, particularly for single parents who work part-time and depend on childcare and couples with children where only one partner is in full time work, these increases will be substantial. The precise social and economic implications of these changes are as yet unknown. Yet we can be reasonably confident that the result for some of the poorest households in England, when considered within the context of stagnant wages and ongoing reductions in tax credits and other in-work support, will be extremely painful. There is not only a very real possibility that large numbers of CTB recipients currently receiving maximum support will struggle to pay small amounts of monthly Council Tax but also that some of the poorest households in England, who rely on partial support to help them meet their Council Tax liabilities, will see their hard-pressed household budgets squeezed even further and, in future years, their work incentives undermined.

The Resolution Foundation

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- undertaking research and economic analysis to understand the challenges facing people on a low to middle income;
- developing practical and effective policy proposals; and
- engaging with policy makers and stakeholders to influence decision-making and bring about change.

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