



Institute for
Fiscal Studies

Options for local authorities

James Browne

The challenge for local authorities

- The timescale for introduction is very tight
 - Agreeing on draft proposals
 - Two separate consultations
 - Technical implementation issues
 - Schemes must be finalised by 31 January 2013
- LAs have little experience or expertise in designing means tests
- Government hopes new rebate schemes will protect the vulnerable, support work incentives and fit alongside Universal Credit

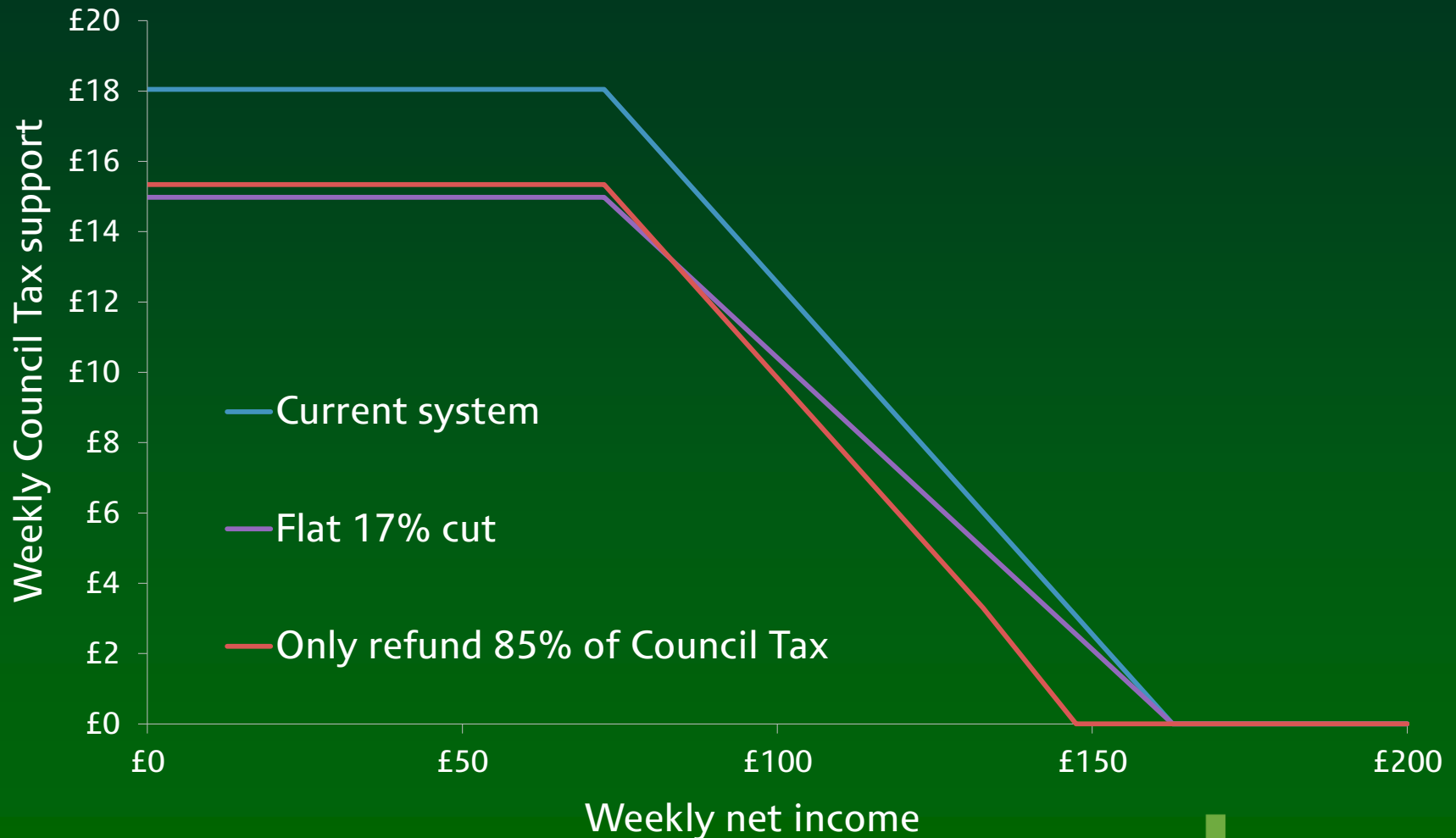
Options available to local authorities

- Large variety of options available
- Given short time available for LAs to design schemes, focus on tweaks to the existing CTB system that reduce expenditure
- We look at three broad categories of changes:
 - Reduce support for all claimants
 - Reduce support for those in higher-banded properties
 - Means-test support more aggressively
- As 85% of CTB spending goes to poorest half of households, and half to the poorest fifth, unsurprising that poorest lose the most
- Also consider a reform to single person discount in council tax
 - LAs in England do not have the power to introduce this reform, but Scottish and Welsh governments could
- In each case, assume pensioners protected
- Model reforms as if implemented across Britain

Reducing support for all claimants

- 2 policies we consider:
 - 1) Across the board 17% cut
 - 2) Only refund 85% of council tax liability

Options for reducing expenditure on CTB

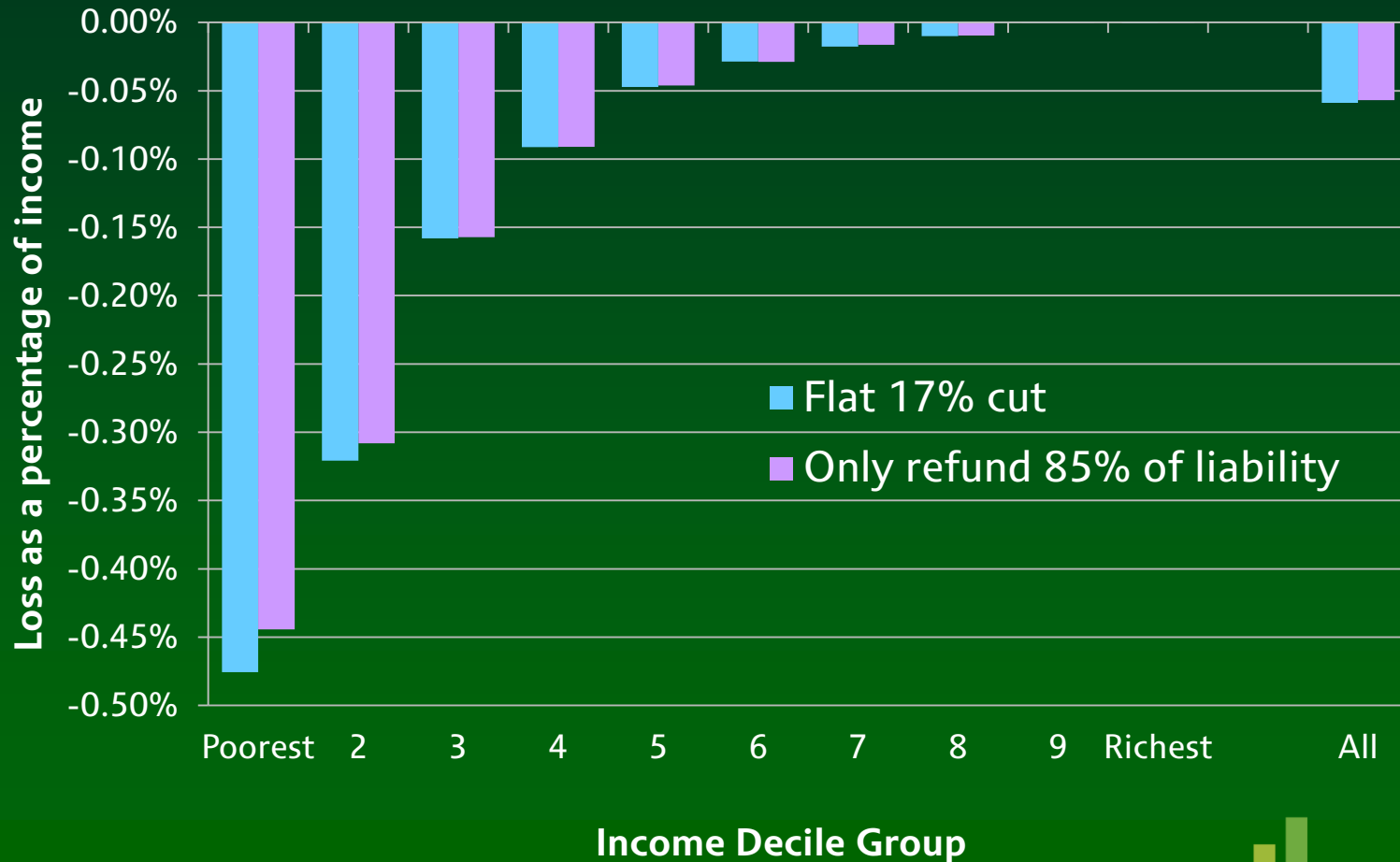


Note: assumes single adult in Band C property

Reducing support for all claimants

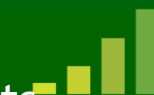
- 2 policies we consider:
 - 1) Across the board 17% cut
 - 2) Only refund 85% of council tax liability
- Both require LAs to collect some council tax from those with very low incomes
 - Poll tax experience suggests this might be difficult
- As with all reforms that reduce council tax rebate entitlement, poorest lose most
 - Reducing maximum entitlement to 85% of council tax liability involves slightly lower losses for poorest fifth and slightly higher losses for those slightly richer

Distributional impact of options that reduce entitlements for all claimants



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- As with all reforms that reduce council tax rebate entitlement, poorest lose most
 - Reducing maximum entitlement to 85% of council tax liability involves slightly lower losses for poorest fifth and slightly higher losses for those slightly richer
- Reducing means-tested benefit tends to strengthen incentive to do paid work, particularly for those with the weakest incentives
- Reduce expenditure by around 10% in most LAs
 - Exact percentage depends on how many CTB claimants are pensioners



Reducing support for those in high-band properties

- 2 policies we consider:
 - 1) Restrict support to the level for a Band B property
 - 2) Remove entitlement from those in Band D and above
- Neither saves the full 10% in Great Britain as a whole: 3.8% and 7.2% respectively
 - But huge variation between different areas of England: both save more than 10% in London
- Affects those living in more expensive areas or larger properties
 - Tend to be families with children
 - Slightly less regressive than policies that reduce support for all claimants

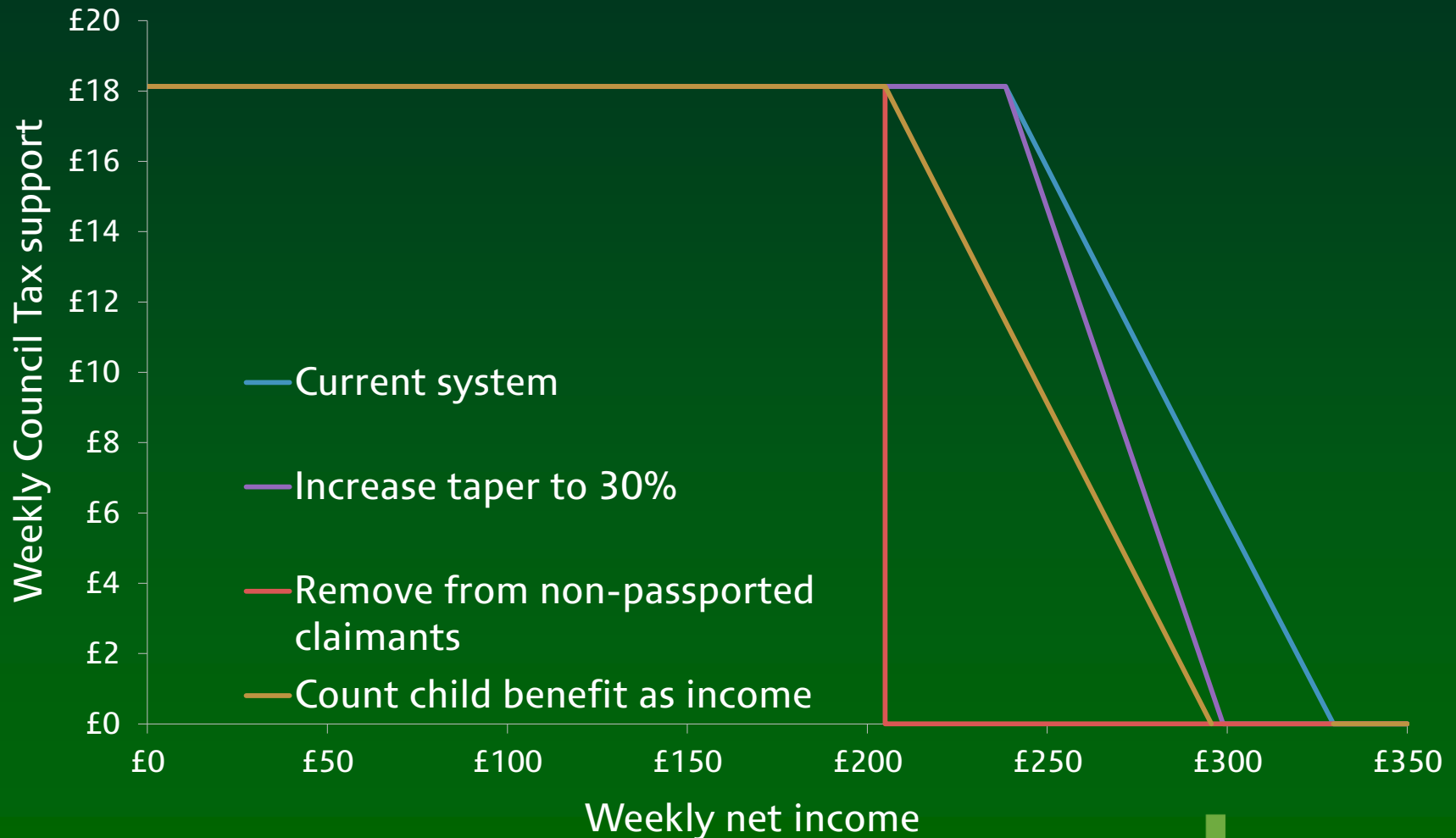
Reducing support for those in high-band properties (2)

- Requires LAs to collect some council tax from those with very low incomes living in more expensive properties
 - Though as living in expensive properties, may not be as poor as low current income suggests in all cases
 - Strengthens work incentives for those affected
- Restricting to Band B means families have to pay full cost of living in more expensive properties
 - Attractive feature of policy
- Removing entitlement from Band D and above means very strong disincentive to move from Band C to D
 - And those affected lose significantly: average loss £987

Means-testing more aggressively

- 3 policies we consider:
 - 1) Increase withdrawal rate from 20% to 30%
 - 2) Remove entitlement from non-passported claimants
 - 3) Count child benefit as income

Options for reducing expenditure on CTB



Note: lone parent with 2 children in Band C property

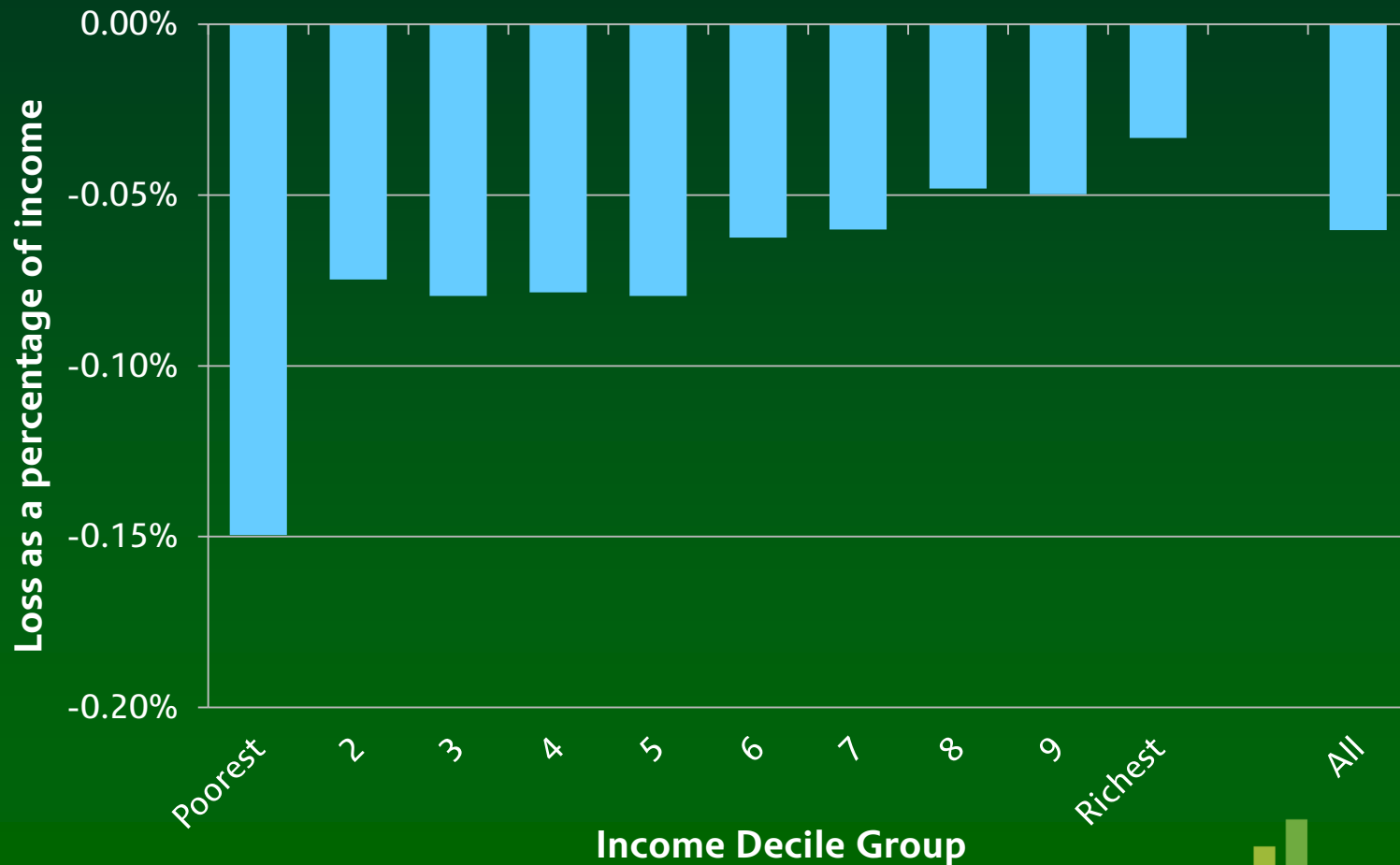
Means-testing more aggressively

- 3 policies we consider:
 - 1) Increase withdrawal rate from 20% to 30%
 - 2) Remove entitlement from non-passported claimants
 - 3) Count child benefit as income
- Each of these protects the poorest claimants
 - Low-to-middle income households lose the most, particularly lone parents in paid work
- Because take-up among those on the taper is low, 1) and 3) do not significantly reduce expenditure (only about 2%)
 - However, 2) reduces expenditure by nearly 15% if introduced across Britain
- Ambiguous effects on work incentives
 - Unlike previous reforms which unambiguously strengthened them

Reducing single person discount

- Single people get 25% reduction in council tax liability
 - Not part of CTB: will not be localised to LAs in England under reforms
 - Could be introduced in Scotland and Wales though
- Reduction from 25% to 17.5% would raise the equivalent of 10.7% of CTB spending across Great Britain as a whole
- Those on CTB protected: rebate rises to cover additional liability
- Only reform we consider where most revenue comes from higher income groups
 - Though non take-up of rebates means poorest tenth lose most as a percentage of income

Distributional impact of reducing single person discount to 17.5%



Reducing single person discount

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 - Not part of CTB: will not be localised to LAs in England under reforms
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- Reduction from 25% to 17.5% would raise the equivalent of 10.7% of CTB spending across Great Britain as a whole
- Those on CTB protected: rebate rises to cover additional liability
- Only reform we consider where most revenue comes from higher income groups
 - Though non take-up of rebates means poorest tenth lose most as a percentage of income
- Slightly weakens incentive to work for single people
- Single person discount encourages inefficient use of housing stock
 - Single people living in more expensive properties than they otherwise would



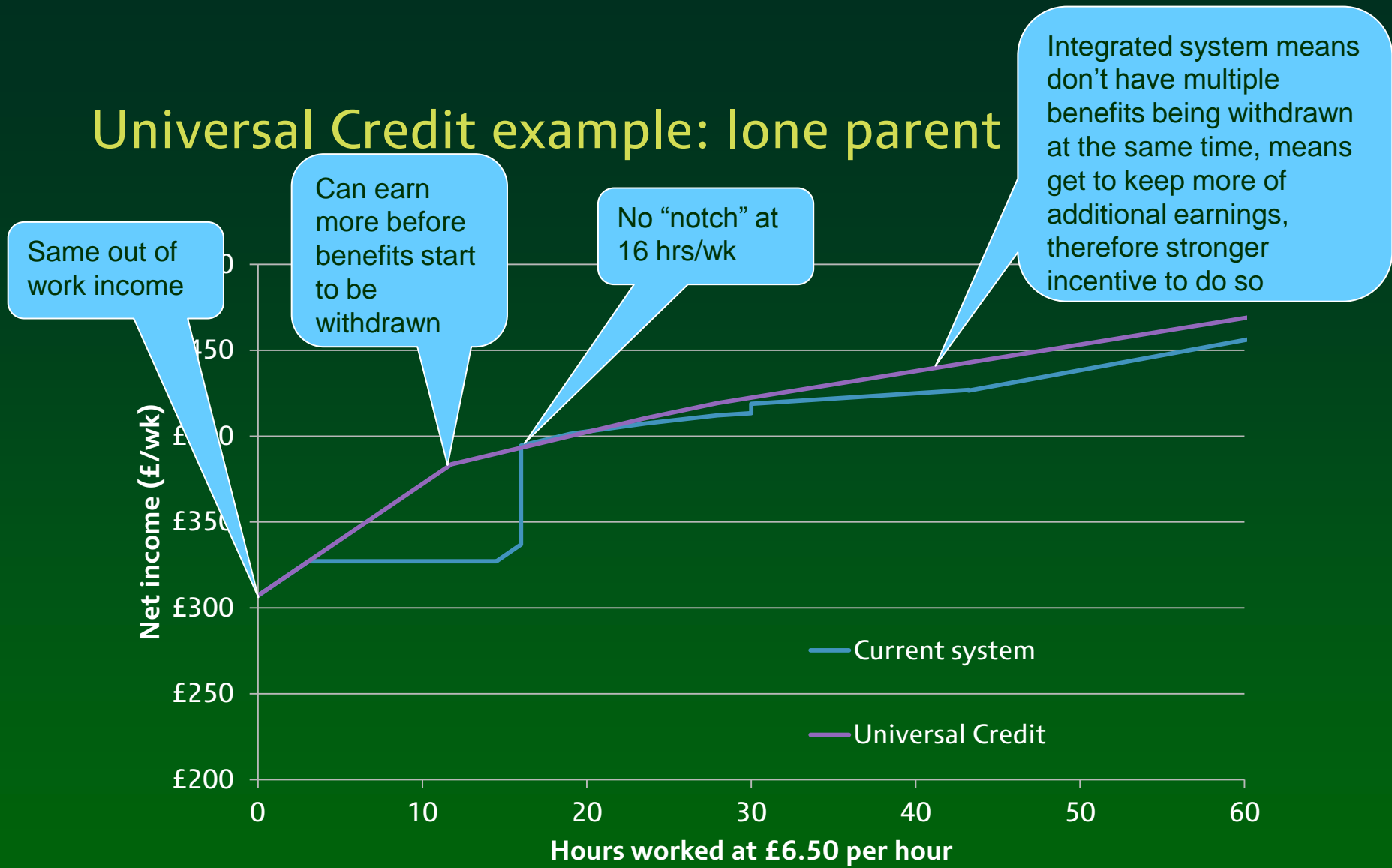
Summary

- All options for cutting support for council tax tend to hit poor the most
 - Unsurprising: poorest half receive 85% of CTB spending, poorest fifth receive half
- Reforms that save 10% typically involve reducing support for those entitled to maximum amount
 - Require councils to collect some tax from those with lowest incomes
- More aggressive means-testing can protect poorest
 - But to save full 10%, must be so severe that some people would be worse off after a pay rise
- Reducing single person discount has different distributional effect
 - Reduces distortion, only slightly weakens work incentives
 - Central government should consider doing this, or devolving power to councils in England

What is Universal Credit?

- Replacing six of the seven main means-tested benefits for those of working age
 - Income Support, income-based Job-Seeker's Allowance, income-based Employment and Support Allowance, Housing Benefit, Child Tax Credit and Working Tax Credit
- CTB is the seventh
- Two key advantages are simplification of benefit system and strengthening work incentives

Universal Credit example: lone parent



Assumes: £6.50/hr, £80 rent



What is Universal Credit?

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 - Income Support, income-based Job-Seeker's Allowance, income-based Employment and Support Allowance, Housing Benefit, Child Tax Credit and Working Tax Credit
- CTB is the seventh
- Two key advantages are simplification of benefit system and strengthening work incentives
 - Keeping council tax rebates separate definitely undermines the first
 - How much it undermines the second depends on choices LAs make

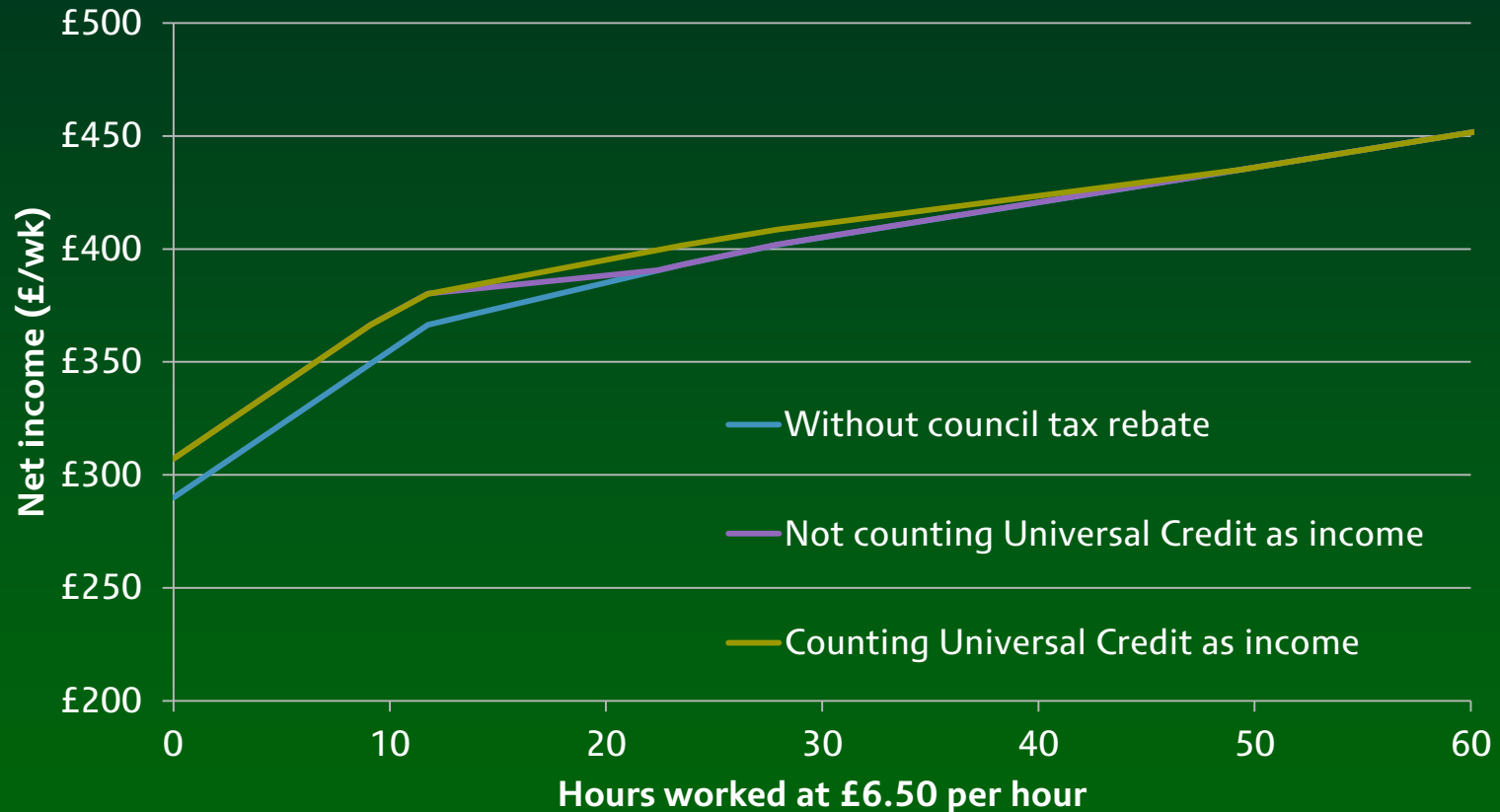
Integration with Universal Credit

1. Count Universal Credit as income in means test for council tax rebates?
2. What to do about passporting claimants on out-of-work benefits to full entitlement?

Should Universal Credit be counted as income for council tax rebate means test?

- Some benefits being replaced by Universal Credit are counted as income in CTB at the moment, while others are not
 - Tax credits are counted as income
 - Income Support, income-based JSA and ESA and Housing Benefit are not
- This means that some changes will have to be made whatever is chosen

Budget constraint for example lone parent with these council tax rebates



Assumes: £6.50/hr, £80/week rent.



Should Universal Credit be counted as income for council tax rebate means test?

- Simpler not to count Universal Credit as income, but leads to higher maximum effective marginal tax rate (EMTR)
 - Additional £1 of income reduces Universal Credit entitlement by 65p
 - If Universal Credit is counted as income, this means income for purposes of council tax rebate means test goes up by less...
 - ...and hence council tax rebate falls by less
- Maximum EMTR is 89.9% if not counted as income compared to 81.0% if counted as income
- But there is a trade off: highest EMTRs applies over a wider range of income in the case where UC is counted as income

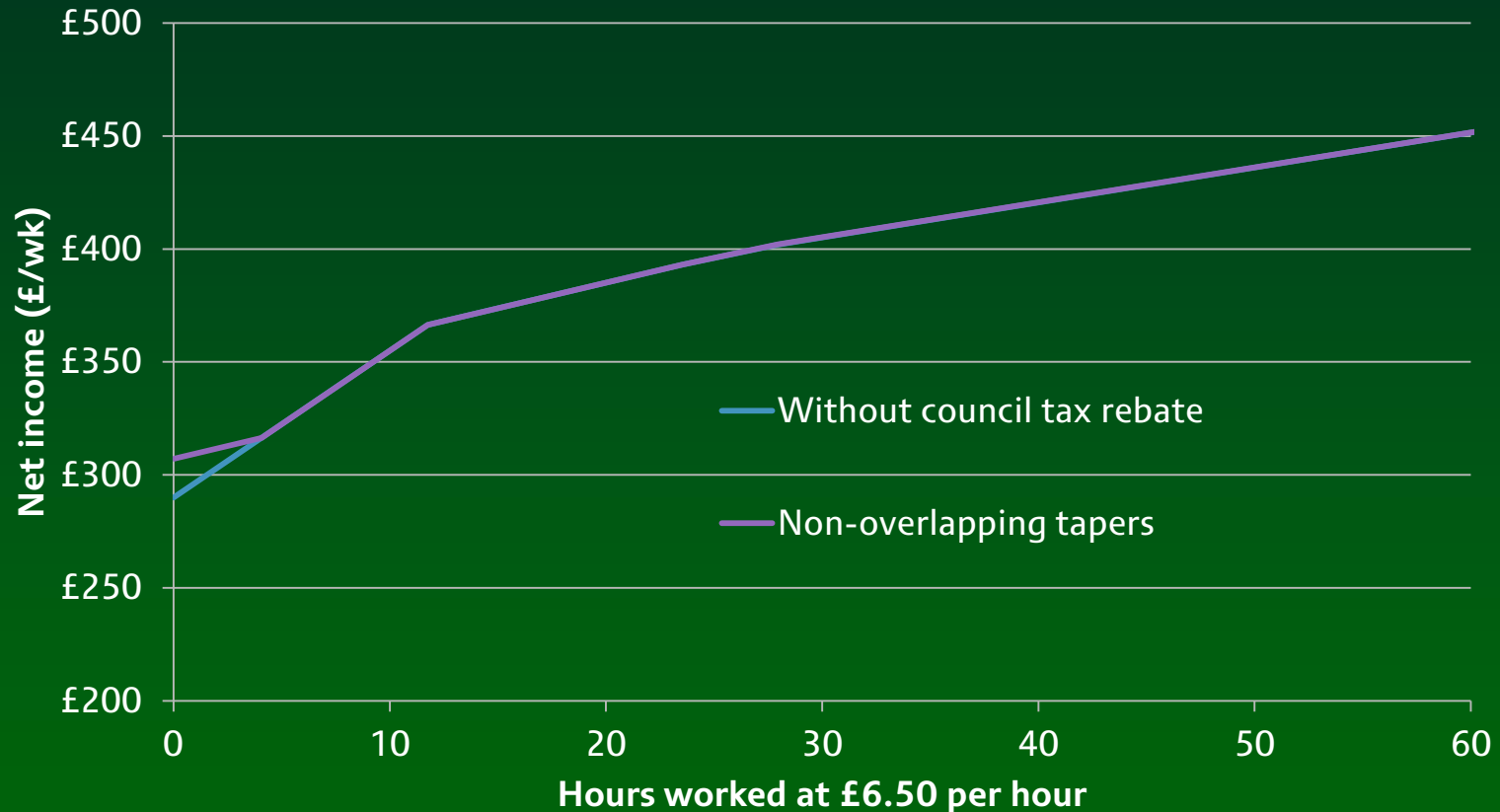
Should Universal Credit be counted as income for council tax rebate means test?

- Not counting Universal Credit as income in the means test raises other issues
 - Each £1 of unearned income reduces Universal Credit entitlement by £1
 - And currently reduces CTB entitlement by 20p
 - If this was retained in new council tax rebates, would lose £1.20 of support for each additional £1 of income
 - Could not count unearned income in means test for council tax rebate, but expensive giveaway for LAs
- These issues do not arise if Universal Credit is counted as income
 - Additional £1 of unearned income reduces Universal Credit by £1
 - Thus income for the council tax rebate means test is unchanged
 - And hence level of council tax support unchanged
- Level of support for childcare also depends on whether Universal Credit counted as income: see Box 7.2 in report

Avoiding overlapping tapers

- Ensure that entitlement to council tax rebates is exhausted by the point Universal Credit starts to be withdrawn
- To do this:
 - Start withdrawal from the first pound of earnings
 - Increase taper rate to 65%
 - Set maximum levels of support so that entitlement to council tax rebate exhausted by the point Universal Credit starts to be withdrawn

Budget constraint for example lone parent with non-overlapping tapers



Assumes: £6.50/hr, £80/week rent.



Avoiding overlapping tapers

- Ensure that entitlement to council tax rebates is exhausted by the point Universal Credit starts to be withdrawn
- To do this:
 - Start withdrawal from the first pound of earnings
 - Increase taper rate to 65%
 - Set maximum levels of support so that entitlement to council tax rebate exhausted by the point Universal Credit starts to be withdrawn
 - This affects most single people without children but not other groups
- This option reduces cost of council tax rebates by more than 10%
 - Unlike previous ones which cost around the same as the current system

Passporting under Universal Credit

- Currently two-thirds of claimants of CTB are passported on to full CTB through receipt of an out-of-work means-tested benefit
 - Income Support or income-related JSA or ESA
- These benefits are being abolished when Universal Credit is introduced
 - No obvious ‘yes/no’ indicator to give some people maximum rebate
- Requiring all these claimants to go through a full means test would significantly increase burden for claimants and administrative costs for local authorities
- One way to mitigate this would be for DWP to share information from Universal Credit claims with local authorities
 - Contains the same information needed to calculate council tax rebate entitlement
 - But transferring data to LAs would only add to the complexity of an already difficult IT project for DWP

Summary

- Councils will need to consider carefully how their council tax rebates systems will work alongside Universal Credit
- Universal Credit intended to simplify benefit system and strengthen work incentives
 - Localisation has potential to undermine both of these aims
- Difficult to think of reasons why including council tax support within Universal Credit is inferior to what is now being proposed

Overall conclusions

- Localisation has advantages but adds complexity to the system
 - And gives LAs undesirable incentives as well as desirable ones
- LAs must decide whether to pass on cut in funding to claimants or find savings elsewhere
 - Schemes that save full 10% tend to require collecting small amounts of council tax from those with very low incomes
 - If instead try to make full saving by means-testing more aggressively, severe negative implications for work incentives
- Achieving coherence with Universal Credit complicated
- Localisation and cutting support two distinct policy choices
 - Whether cutting support for council tax the best way of saving £500m depends on distributional preferences
 - But advantages of localisation seem to be outweighed by disadvantages