The policy and its likely effects

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Council Tax Benefit – the key facts

• 5.9 million recipients
  – More than any other means-tested benefit or tax credit
  – But only two-thirds of those entitled to it

• £4.9 billion total cost
  – 2.4% of total benefit and tax credit expenditure
  – £15.69 per claimant per week is not large relative to other benefits

• Administered by local authorities but rules set by central government

• Maximum entitlement is the household’s council tax bill
  – Reduced by 20p per £1 of net income above a threshold
  – Two thirds of claimants ‘passported’ to full entitlement by receipt of another benefit
An example of CTB entitlement by income

- CTB covers full council tax bill
- CTB reduced by 20p for each £1 of income above assessed needs

Weekly benefit received vs. Weekly net income chart:
- Y-axis: £0 to £25
- X-axis: £0 to £250
- CTB covers full council tax bill at £20
- CTB reduced by 20p for each £1 of income above assessed needs
Distributional impact of council tax and CTB

- Average council tax (left axis)
- Average CTB entitlement (left axis)
- Average CTB received (left axis)
- Gross council tax liability (right axis)
- Net council tax liability, with non take-up of CTB (right axis)
- Net council tax liability, full take-up of CTB (right axis)
Distributional impact of council tax and CTB

Income Decile Group

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Criticisms of CTB

• Complexity and non-take-up
  – One in three eligible families do not claim their entitlement

• Weakens incentives to work
  – Small effect on average; more significant for some groups

• Weakens incentives to save in certain forms

• An artificial incentive for claimants to live in bigger properties

• Weakens local accountability and distorts LAs’ incentives
  – Spending an extra £1 requires raising less than £1 from local residents
The policy

- CTB will be abolished from April 2013
- LAs in England, and the Scottish and Welsh governments, given grants to run their own rebate schemes instead
  - But pensioners in England will get current, nationally set, entitlements
  - Scotland and Wales both decided to operate centralised schemes
- Grants will be 90% of what unreformed CTB would have cost
  - We assume 90% in each LA and in Scotland and Wales
  - After we went to press, the government proposed min & max cuts as % of total spending, illustrated as affecting only 14 LAs. We ignore this.
- Free to spend more or less than these grants on rebate schemes
  - Scotland: maintain existing entitlements, find savings elsewhere
  - Wales: pass on the 10% cut to claimants – but not yet decided how
  - We will publish a separate report on options for Wales in June
  - What will English LAs do?
Localising support for council tax

Two stated aims of localisation:
1. Allow local variation, to reflect local priorities
2. Give LAs incentives to promote employment and growth

Localisation will further these aims
But will also have a variety of other effects

We identify four types of effects:
• Consequences of having local variation
• Adding risk to LA finances
• Incentives for LAs
• Administration costs and incentives in two-tier areas
Consequences of local variation

- Localisation will allow schemes to reflect local priorities
- LAs may also be able to learn from a wider variety of experiences
- The end of a nationally uniform income safety-net
- Reduced transparency
- Increased bureaucracy
Adding risk to local authority finances

- LAs will receive fixed grants instead of having actual costs refunded
- So face shortfall (surplus) if cost higher (lower) than expected
  - eg change in unemployment or take-up
- If shortfall, only option is to draw on reserves
  - Cannot borrow or increase council tax in-year
  - If insufficient reserves, would have to cut spending for rest of the year
- LAs with low reserves may want to budget with extra caution
  - Find savings >10% to leave a cushion and hope to build up reserves
- Risk accentuated by (partial) localisation of business rates
  - eg closure of major local employer brings two sets of costs
- Unallocated reserves average 74% of CTB across English LAs
  - But only 3% of total spending (<1% in 25 Las)
Incentives for local authorities (1)

• LAs will receive fixed grants instead of having actual costs refunded
• So they have an incentive to reduce the cost of rebates
• There are many ways to do this
  – Try to increase employment and incomes among claimants
  – Discourage claimants from living in the area
  – Discourage development of low-value properties
  – Don’t promote take-up of rebates
  – Reduce payments made due to error and fraud
  – Reduce council tax rates
• Some of these remove undesirable distortions; others create them
• Difficult to say how far LAs will act on these incentives
Incentives for local authorities (2): future grants

• Strength of incentives will depend on how grants set in future
  – Government has not yet decided on this

• If grants adjust to reflect changing cost of rebates, gain from reducing costs only temporary
  – More frequent adjustments → weaker incentives

• Fixing grants for long periods targets changing needs less closely

• Fixing grants gives LAs more certainty how much they will receive
  – But predictable adjustments may give more certainty in overall budget

• One of the most important decisions the government has yet to take
Admin costs and incentives in two-tier areas

• Shires of England have two tiers of local government
  – County councils span several district councils
  – District councils administer council tax, but keep <15% of the revenue
• District councils will design and administer new rebate schemes
  – They pay/keep 100% of changes in administrative costs
  – But less than 15% of changes in entitlements, on average
• In the shires, administration of CTB is 6% of the total cost but 30% of the cost to district councils
  ➢ An incentive to focus disproportionately on minimising admin costs
    – Even at the expense of other objectives
• Again, not clear how far they will act on these incentives
Scale of the cuts

- Funding being cut by £480m per year: £19 per household
- But not £19 per household everywhere
  - Cut proportional to spending on CTB
Annual funding cut per dwelling, by region

Annual cut per dwelling

- London
- North East
- North West
- West Midlands
- Yorkshire
- East Midlands
- South West
- South East
- East Anglia
- England
- Wales
- Scotland

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Distribution of funding cuts per dwelling across LAs

% of LAs with cut per dwelling below this level

Annual cut per dwelling

£0 £5 £10 £15 £20 £25 £30 £35 £40

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Scale of the cuts

• Funding being cut by £480m per year: £19 per household
• But not £19 per household everywhere
  – Cut proportional to spending on CTB
• No obligation to spend exactly the amount of the grant on rebates
  – Wales spending exactly the grant; Scotland protecting all claimants
  – What about LAs in England?
• If protect all entitlements, would require savings elsewhere:
  – 1.9% increase in council tax rates or 0.4% cut in local service spending
• If don’t find any savings elsewhere:
  – 19% cut in support for working-age claimants on average
  – Higher where pensioners account for a larger share of CTB
Cuts in working-age support, by region
Assuming cuts fully passed on to claimants

<table>
<thead>
<tr>
<th>Region</th>
<th>% Reduction in Working-Age Support</th>
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<tbody>
<tr>
<td>East Anglia</td>
<td>21%</td>
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<tr>
<td>South West</td>
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<td>East Midlands</td>
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</tbody>
</table>
Distribution of cuts in working-age support
England only, assuming cuts fully passed on to claimants

% of LAs with cuts in working-age support below this level

% cut in working-age support

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Exceeds 25% for 1 in 10 LAs

33% in East Dorset and in Craven, North Yorkshire

14% in Hackney and in Tower Hamlets
Summary

• Localisation and cuts are two distinct policy choices

• Localisation will have a range of effects
  – Allow schemes to reflect local priorities
  – Reduce transparency and increase bureaucracy
  – Give LAs an incentive to reduce cost of rebates – in a number of ways

• Scale of the cut varies across Britain
  – Might not all be passed on to claimants of council tax support
  – If passed on, in England implies bigger % cuts for working-age claimants where pensioners account for a larger share of CTB
  – So how might LAs design new rebate schemes to make savings?