Communities and Local Government

Local Government Finance Bill: Localising support for council tax

Updated impact assessment

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June 2012
Department for Communities and Local Government

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Title: **Localising Support for Council Tax** **Lead department or agency:** Department for Communities and Local Government **Other departments or agencies:**	**Impact Assessment (IA)** **IA No:** **Date:** 07/06/2012 **Stage:** Consultation **Source of intervention:** Domestic **Type of measure:** Primary legislation **Contact for enquiries:** Katy Baldwin 0303 44 42643

Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

Tackling Britain's record deficit is Government's top priority. The Government's savings will help to eliminate the structural deficit by 2016/17. This will help keep interest rates down, restore economic stability and reduce the amount of taxpayers' money that would otherwise have to be spent on debt interest. The consequences of not acting could be serious: higher interest rates, business failures and rising unemployment.

The Spending Review was underpinned by a radical programme of public service reform, to change the way services are delivered by redistributing power away from central government. This programme is built on the Coalition principles of increasing freedom and sharing responsibility by localising power and funding.

What are the policy objectives and the intended effects?

To reduce spending on support for council tax, in a way which:

- Supports the improved work incentives to be delivered through Universal Credit, as part of Government's programme of welfare reform;

- Is consistent with Government's localisation agenda, and in particular supports local decision-making and accountability over spending decisions;

- Ensures that vulnerable groups, in particular pensioners, are protected from increases in council tax as a result of this reform.

- Gives local authorities a greater stake in the economic future of their area, and creating stronger incentives

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

The options being considered are:

- Do nothing: Central Government to continue to set the constraints of the council tax benefit scheme, without reducing the Annual Managed Expenditure (AME) budget.

- Option 1: Localise support for council tax and reduce expenditure by 10%: Localise support for council tax, subject to the constraint that awards to pensioners continue to be paid at the same rate, and reduce the budget by £410 million per annum for England and transfer it to Departmental Expenditure Limit (DEL).

Will the policy be reviewed? It will/will not be reviewed. **If applicable, set review date:** Month/Year

What is the basis for this review? Please select. **If applicable, set sunset clause date:** Month/Year

Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Yes/No

SELECT SIGNATORY Sign-off For consultation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: .... Date: ....

Summary: Analysis and Evidence

Policy Option 1

Description:

Price Base Year	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	**High:** Optional	**Best Estimate: £0**

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate			£410 m	**£3,537m**

Description and scale of key monetised costs by 'main affected groups'

The main affected groups will be working age council tax benefit recipients, on the basis that local authorities will be able to choose – through the design of their scheme – whether some awards should be reduced. Decisions to absorb the saving through reduced spending on other areas, or increased revenue from council tax could affect groups other than current recipients. The distribution of the £410m costs across these groups will depend on the decisions of individual local authorities.

Other key non-monetised costs by 'main affected groups'

Changes to the scheme will mean that there are likely to be some transitional administration costs. Detailed work will be needed to determine the amount of funding for the administration of local schemes.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate			£410 m	**£3,537m**

Description and scale of key monetised benefits by 'main affected groups'

Central Government will make a saving of £410 m in England, contributing to Government's budget deficit reduction plan.

Other key non-monetised benefits by 'main affected groups'

Other benefits include giving local authorities more control over council tax and a greater stake in the economic future of their area, providing incentives to boost employment.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

The key sensitivity is the local authority response to the reforms. Authorities will have discretion over exactly how they achieve the necessary savings and how the new council tax support scheme for working age claimants will work.

The key risks surround future need for council tax support. If demographic changes or economic circumstances mean that eligibility for council tax support increases significantly then the consequence of switching from AME to DEL will be that authorities bear more of the risk of a shortfall in funds.

Direct impact on business (Equivalent Annual) £m):			**In scope of OIOO?**	**Measure qualifies as**
Costs: 0	**Benefits:** 0	**Net:** 0	Yes/No	IN/OUT

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			Options		
From what date will the policy be implemented?			01/01/2010		
Which organisation(s) will enforce the policy?					
What is the annual change in enforcement cost (£m)?					
Does enforcement comply with Hampton principles?			Yes/No		
Does implementation go beyond minimum EU requirements?			Yes/No		
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:**		**Non-traded:**
Does the proposal have an impact on competition?			Yes/No		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			**Costs:**		**Benefits:**
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	**Micro**	**< 20**	**Small**	**Medium**	**Large**
Are any of these organisations exempt?	Yes/No	Yes/No	Yes/No	Yes/No	Yes/No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on…?	**Impact**	**Page ref within IA**
Statutory equality duties[1] Statutory Equality Duties Impact Test guidance	Yes/No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	Yes/No	
Small firms Small Firms Impact Test guidance	Yes/No	
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	Yes/No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	Yes/No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	Yes/No	
Human rights Human Rights Impact Test guidance	Yes/No	
Justice system Justice Impact Test guidance	Yes/No	
Rural proofing Rural Proofing Impact Test guidance	Yes/No	
Sustainable development Sustainable Development Impact Test guidance	Yes/No	

[1] Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessments of earlier stages (e.g. Consultation, Final, Enactment) and those of the matching IN or OUTs measures.

No.	Legislation or publication
1	HMT, *Spending Review 2010* http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf
2	DCLG, *Localising Support for Council Tax: Funding arrangements consultation* http://www.communities.gov.uk/publications/localgovernment/2146644
3	OBR, *Economic & Fiscal Outlook (March 2012) Charts & Tables* http://budgetresponsibility.independent.gov.uk/wordpress/docs/March-2012-EFO-charts-and-tables.xls
4	DWP, *Subsidised Expenditure by Local Authority District, 2010/11* http://statistics.dwp.gov.uk/asd/asd4/h_tables_budget_2012.xls

+ Add another row

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y_0	Y_1	Y_2	Y_3	Y_4	Y_5	Y_6	Y_7	Y_8	Y_9
Transition costs										
Annual recurring cost										
Total annual costs										
Transition benefits										
Annual recurring benefits										
Total annual benefits										

* For non-monetised benefits please see summary pages and main evidence base section

Evidence Base (for summary sheets)

Problem under consideration

Deficit reduction

1. Tackling Britain's record deficit is Government's top priority. In 2009 the Government borrowed one pound in every four that it spent and at the time of 2010 Spending Review the UK was spending £43 billion on debt interest. Failure to tackle the deficit could mean higher taxes or deeper spending reductions in the future.

2. The Government's savings will help to eliminate the structural deficit by 2016/17. This will help keep interest rates down, restore economic stability and reduce the amount of taxpayers' money that would otherwise have to be spent on debt interest. The consequences of not acting could be serious: higher interest rates, business failures and rising unemployment.

Welfare spending and reform

3. Since 1996-97 spending on working age benefits and tax credits has increased by nearly 40 per cent in real terms, while 1.4 million people have remained on out of work benefits for nine or more of the last ten years, as at 2011. The 2010 Spending Review focussed in particular on reducing welfare costs, putting the welfare system on a sustainable footing through net AME savings from welfare of £7 billion a year, enabling a greater proportion of spending to be spent on services.

4. The following table shows that council tax benefit expenditure has more than doubled between 1997-98 and 2010-11.

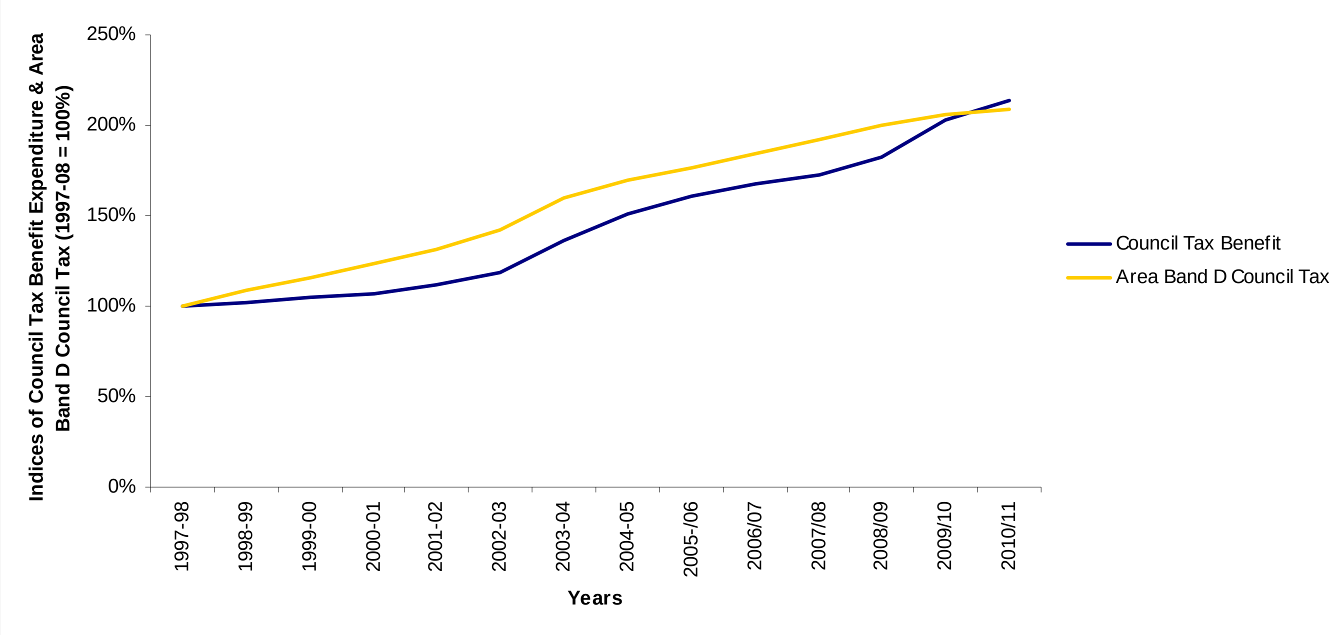
Council Tax Benefit Expenditure in England, 1997-08 to 2010-11

Year	Council Tax Benefit Expenditure*	Percentage change
	£m	%
1997-98	2,014	-
1998-99	2,046	2%
1999-00	2,103	3%
2000-01	2,151	2%
2001-02	2,250	5%
2002-03	2,384	6%
2003-04	2,746	15%
2004-05	3,040	11%
2005-06	3,230	6%
2006-07	3,385	5%
2007-08	3,471	3%
2008-09	3,672	6%
2009-10	4,095	12%
2010-11	4,299	5%

Source: DWP Expenditure Tables (outturn) 1997-08 to 2010-11
**figures rounded to the nearest thousand*

5. Council tax benefit expenditure has increased from £2bn to £4bn from 1997-08 to 2010-11. A key factor behind the increase in council tax benefit expenditure is the associated increase in council tax levels. This can be seen clearly in the following chart showing the rate of growth of council tax benefit expenditure compared to council tax levels from 1997-08 to 2010-11.

Index of Council Tax Benefit Expenditure and Area Band D Council Tax Levels from 1997-08 to 2010-11 in England



Source: DWP Expenditure Tables (outturn) 1997-08 to 2010-11; DCLG Band D Council Tax, 1993-04 to 2010-11. Area Band D Council Tax includes Parish Precepts

6. Between 1997-98 and 2010-11, both council tax benefit expenditure and average Area Band D council tax have more than doubled. Even if the number of council tax benefit claimants were to remain unchanged, council tax benefit expenditure increases if average council tax levels increase because council tax benefit depends on the overall council tax liability.

7. The Spending Review announced measures to change the welfare system, ensuring that it promotes work and personal responsibility while controlling expenditure. The new Universal Credit will replace the current complex system of means tested working age benefits with an integrated payment, reducing fraud and error and ensuring that work always pays.

8. The Government confirmed at the Spending Review that it will continue to support the most vulnerable while ensuring all sections of society who are able to do so contribute to deficit reduction, and announced that it would be preserving key benefits for older and vulnerable people, including Winter Fuel Payments, free eye tests, prescriptions and TV licences.

Localisation

9. The Spending Review was also underpinned by a radical programme of public service reform, to change the way services are delivered by redistributing power away from central government. This programme is built on the Coalition principles of increasing freedom and sharing responsibility by localising power and funding, including by removing ring-fencing around resources.

Rationale for intervention

10. Reducing spending on support for council tax is an important contribution to Government's programme of deficit reduction, saving £470 million a year in Great Britain from 2013-14 which, based on previous shares of expenditure equates to £410 million a year in England. Localising support for council tax in England is intended to:

   a. Give local authorities a significant degree of control over how a 10% reduction in expenditure on the current council tax benefit bill is achieved, allowing councils to balance local priorities and their own financial circumstances. Reducing the costs of support for council tax is a contribution to the Government's vital programme of deficit reduction.

   b. Give local authorities a financial stake in the provision of support for council tax and so a greater stake in the economic future of their local area, so supporting the Government's wider agenda to enable stronger, balanced economic growth across the country. This reform will create stronger incentives for councils to get people back into work and so support the positive work incentives that will be introduced through the Government's plans for Universal Credit.

c. Provide local authorities with the opportunity to reform the system of support for working age claimants. In particular it will enable local authorities to align the system of support for working age households much more closely with the existing system of council tax discounts and exemptions, simplifying the complex system of criteria and allowances.

d. Reinforce local control over council tax. Enabling decisions to be taken locally about the provision of support with council tax is consistent with a drive for greater local financial accountability and decision-making, including Government's proposals for local referendums on council tax levels.

11. The Government has considered the situation for low income pensioners who would currently be eligible for support with their council tax bill. Unlike most other groups, pensioners cannot be expected to seek paid employment to increase their income. The Government therefore proposes that as a vulnerable group, low income pensioners should be protected from any reduction in support as a result of this reform.

12. Specifically it proposes that Government will prescribe how pensioners should be treated within local schemes. This will avoid low-income pensioners experiencing any increase in their council tax liability as a result of this reform and will also ensure that pensioners who become eligible for support with council tax at any time in the future will enjoy support on the same basis as existing eligible pensioners.

Policy objective

13. To reduce spending on support for council tax, in a way which:

a. Supports the improved work incentives to be delivered through Universal Credit, as part of Government's programme of welfare reform;

b. Is consistent with Government's localisation agenda, and in particular supports local decision-making and accountability over spending decisions;

c. Ensures that vulnerable groups, in particular pensioners, are protected from increases in council tax as a result of this reform.

Description of options considered (including do nothing)

14. The options being considered are:

- Do nothing: Central Government to continue to set the constraints of the council tax benefit scheme, without reducing the Annual Managed Expenditure (AME) budget.

- Option 1 - Localise support for council tax and reduce expenditure by 10%: Localise support for council tax, subject to the constraint that the award to pensioners continues to be paid at the same rate, and reduce the budget by £410 million and transfer it to Departmental Expenditure Limit (DEL). Support for council tax will remain outside of Universal Credit.

15. Given that discretion for support for council tax will be partly handed to local authorities, there could be a large number of different schemes. Since we cannot predict all these variations, or estimate their impacts, this Impact Assessment focuses on a small number of possible scenarios. The key aspects of the policy that are not yet finalised, or open to local authorities' discretion are:

a. **Design of local schemes for working age claimants**: Authorities will have different total numbers of claimants as well as varying shares of working age and pensioner claimants. Authorities will have different priorities for which claimants to protect from reductions in support for council tax. This will lead to authorities designing a number of different schemes.

Furthermore, we cannot predict whether local authorities will choose to realise all of the saving through the design of the scheme (by reducing the awards and so collecting increased amounts of council tax from claimants), or whether they will seek to absorb the reduction through other means, as outlined below in paragraph 21.

b. **Distribution of funds**: The Government intends that funding for local authorities to assist with the costs of providing council tax support should be distributed on the basis of shares of previous subsidised council tax benefit expenditure. This ensures that relative costs and take-up levels are reflected in the distribution at the outset. For further information please see the published consultation on funding distribution at: http://www.communities.gov.uk/documents/localgovernment/pdf/2146648.pdf

Costs and benefits

Summary of methodological and data issues

16. This Impact Assessment uses data from:

a. **DCLG Revenue Outturn form**: Revenue Expenditure data comes from the 2010/11 Revenue Outturn returns.

b. **Single Housing Benefit Extract (Single Housing Benefit Extract)**: The data consists of returns of individual records level data from local authorities. The returns are monthly – this Impact Assessment uses the February 2012 data.

17. The Single Housing Benefit Extract data that we have access to is rounded at a local authority level in order to minimise disclosure risks. The consequence of this is that the sum of the local authority level data does not exactly equal the published data, although the difference is small – less than 0.5 percent.

18. For the purposes of the regulations setting out the framework of support for pensioners, a person will be a pensioner if they have attained the qualifying age for state pension credit. This is defined by the State Pension Credit Act 2002 as: 'in the case of a woman, pensionable age, and in the case of a man, the age which is pensionable age in the case of a woman born on the same day as a man'. Womens' pensionable age, as set out in the Pensions Act 1995 (S126 and Schedule 4), is gradually changing over a 10-year period to equalise with that of men. It currently stands at just over 61. Both men and women will continue to qualify for council tax support when they reach state pension credit eligible age.

19. For the purposes of this analysis we have defined the pensioner claimant group as those who are 65 or over, for both men and women (except for the table using Family Resource Survey data which uses a different definition). Although the current State Pension Age for women is 61 it is increasing to 65 by 2020. Therefore this Impact Assessment models a steady state when the State Pension Age has equalised for men and women. As a consequence, the analysis may slightly underestimate the number of pensioner claimants in the early years of localised schemes.

Do nothing

20. Council tax benefit claimants in England would continue to receive £4.1bn of support, funded by the Exchequer through Annual Managed Expenditure. The parameters of the council tax benefit scheme would be set nationally. No costs and benefits have been assessed for this option since it is the do nothing option against which the preferred option will be compared.

Localise support for council tax and reduce expenditure by 10%

21. The following sections look at the impacts on different groups of localising support for council tax and reducing expenditure by 10%.

Impact on local authority budgets

22. While reducing funding for council tax support, this reform is intended to give local authorities some degree of discretion over how this saving is realised. As well as being able to choose – through the design of their scheme – whether some awards should be reduced, thereby increasing the amount of council tax the authority collects from some current welfare claimants, authorities may also choose to realise the saving in other ways. This could be through reconfiguring funding for other services through efficiency savings, using reserves, or using flexibility over council tax. The effect of any one of these decisions could enable local authorities to lessen the reduction in support to vulnerable working age claimants. The possible effect of these decisions on the support local authorities are able to offer has not been shown

23. Depending on the approach taken, this could increase the pressure on local authority budgets. The following section aims to illustrate the possible scale of these pressures on local authority budgets.

24. The following analysis forecasts the changes to council tax benefit in 2013/14, using 2010/11 council tax benefit expenditure data to distribute between classes.

25. Budget pressures are calculated by dividing an authority's funding gap (current council tax benefit expenditure less future, reduced council tax benefit funding) by its revenue expenditure. The Funding gap is calculated using February 2012 DWP Single Housing Benefit Extract data. Revenue Expenditure is taken from DCLG's 2010-11 Outturn forms.

26. Financial pressures will be shared between the billing authorities and the major precepting authorities covering the same geographical area. The table shows the funding pressure on billing authorities' budgets, after the pressure has been shared between the billing authority and its major precepting authorities.

27. Budget pressures are, on average, higher for fire and rescue authorities than other classes of authority (0.79% for fire and rescue authorities compared to less than 0.5% for other major precepting and billing authorities). Details of Government's funding proposals are set out in a consultation, which can be found at:
http://www.communities.gov.uk/documents/localgovernment/pdf/2146648.pdf

Budget pressures by class where each authority's funding is cut by 10%, Forecast for England 2013/14 disaggregated using 2010/11 subsidised council tax benefit expenditure data

		Budget Pressure Range	
	Average Budget Pressure	Lower Limit	Upper Limit
Shire Districts	0.46%	0.18%	0.86%
Metropolitan Districts	0.43%	0.32%	0.56%
Unitary Authorities	0.40%	0.08%	0.58%
London Boroughs	0.39%	0.18%	0.55%
Shire Counties	0.36%	0.28%	0.48%
Greater London Authority	0.24%	0.24%	0.24%
Police Authorities	0.39%	0.22%	0.55%
Fire and Rescue Authorities	0.79%	0.56%	0.86%

Sources: Local Authority Revenue Expenditure and Financing England 2010-11, DWP Single Housing Benefit Extract Database February 2012
This analysis is based on the funding allocations announced in the Funding Arrangements Consultation, found here: http://www.communities.gov.uk/publications/localgovernment/2146644
If the budget pressure for the Isles of Scilly is excluded, the lower limit of the Unitary Authorities class is 0.19%.
Figures for London Boroughs include a share attributed to the Greater London Authority.

Impact on individual claimants and work incentives

28. Passported claimants are those who receive a qualifying benefit such that they are entitled to a council tax benefit award equal to 100% of their council tax liability without further means testing. Non-passported claimants are means tested to determine their council tax benefit award, but may still receive 100% support.

29. The table below shows the number of claimants and the amount of annual expenditure in England, according to January 2011 Single Housing Benefit Extract data. In England there are 4.9m claimants receiving around £4.2bn in council tax benefit. Over 60% of claimants are aged under 65, accounting for a similar share of total expenditure. Passported claimants account for 66% of claimants and over 70% of expenditure.

Number of claimants and annual expenditure by claimant group, January 2011 Single Housing Benefit Extract data, England

Group	Claimants (m)	% Claimants	Annual Expenditure (£bn)	% Annual Expenditure
Under 65, passported*	2.1	42%	£1.9	45%
Under 65, non-passported*	1	20%	£0.7	17%
Total under 65	**3.1**	**62%**	**£2.6**	**62%**
65 or over, passported*	1.2	24%	£1.1	26%
65 or over, non-passported*	0.7	13%	£0.5	12%
Total 65 or over	**1.9**	**38%**	**£1.6**	**38%**
TOTAL (England, excl Isles of Scilly)	**4.9**	**100%**	**£4.2**	**100%**

Source: DWP Single Housing Benefit Extract database, January 2011
*figures rounded to nearest thousand, totals may not add up due to rounding

30. The table below illustrates the number of claimants likely to be affected by a reduction in funding and the average reduction in award for different claimant groups.

No reduction in award for claimants 65 years or over, England

Age	Claimant Group	Number of claimants affected (thousand)	Reduction in weekly council tax benefit	% reduction in weekly council tax benefit
Under 65 years*	Single, no child dependant	1,380	£2.42	16%
	Single with child dependant(s)	943	£2.52	16%
	Couple, no child dependant	281	£3.13	16%
	Couple with child dependant(s)	471	£3.11	16%
	All	**3,075**	**£2.64**	16%

Source: DWP Single Housing Benefit Extract database, January 2011
*figures rounded to nearest thousand, totals may not add up due to rounding

31. It has not been possible to update the above two tables as the more recently published data is only available at Great Britain level, not England. By comparing the February 2012 and January 2011 Great Britain level data it can be seen that the difference between the figures are small (generally less than 5%). Therefore, there is no reason to believe that there would be a large difference in the England level figures between January 2011 and February 2012.

32. There is a slightly larger difference in the number of claimants whose claimant group is ‘couple with child dependant(s)’. The number of claimants in this group rose by 7% between January 2011 and February 2012. However, due to smaller fluctuations in the numbers for the other claimant groups

and the fact that this claimant group is relatively small, the overall number of claimants has risen by less than 3%.

33. In order to put these possible reductions in support for council tax in context, it is helpful to consider the average weekly income of various family types. The following table shows average weekly income by family type using Family Resource Survey data from 2008/09. It is important to note that the definition of pensioners is different for the Family Resource Survey than we have used elsewhere in the analysis. The results are not directly comparable to the tables on reduction in council tax benefit award since it uses different data for a different time period. Although the average incomes of these various family types are useful as a guide, it is likely that council tax benefit claimants within these groups would have an income of below the average.

Family Type	**Average Weekly income**
Pensioner Couple[1,2]	£362
Pensioner Single[1,2]	£262
U65/60 Couple with children	£408
U65/60 Couple without children	£375
U65/60 Lone Parent	£329
U65/60 Single, no children	£256

Source: 2008/09 Family Resource Survey

Categories only take account of head of household being over pensionable age
Pensioner defined as over 65 for men and over 60 for women. This is different to the pensioner definition in the rest of the Impact Assessment due to data restrictions.
Rounded to nearest £
Due to disclosure rules, some households are excluded from the dataset with some other anonymisation or rounding of variables

34. Although the net impact of the policy is simply a transfer from council tax payers to Government (and therefore a reduction in demands on general taxation, by bringing decisions about local tax reliefs closer to those responsible for raising local taxation), there will be some groups who see a reduction in their income. These groups may be: working age council tax benefit claimants, council tax payers or any recipients of local services that may be reduced in order to meet any funding shortfall. However, an accurate analysis of the reduction in income of these groups is not possible since the design of any council tax support scheme for working age people will be at the discretion of local authorities. In addition, the means by which a local authority recovers any shortfall in funding will be for themselves to decide.

The impact on working age claimants of three possible localised schemes, including the impact on work incentives

35. Authorities will be free to set their own eligibility criteria and rates of award for working age claimants. We cannot predict exactly what authorities will choose to do, and there are factors that will determine the overall impacts that have not yet been decided (for example funding allocation) but the following are some of the factors they will likely take into account in the design of their schemes:

   a. **The relative share of working age to pensioner claimants**: Given that pensioners will be protected from reduction in support for council tax, a higher share of pensioner claimants in a particular authority means that they would have to make proportionately higher cuts to the working age claimants. This assumes they did not find the savings in other ways, as outlined in paragraph 22.

   b. **The existence of other vulnerable groups amongst working age claimants**: Authorities may wish to protect vulnerable groups such as carers or the disabled from reduction in support.

c. **The increased difficulty of collecting council tax from low income claimants**: Authorities may want to design a scheme that minimises the amount of council tax they are required to collect from low income claimants since they may judge them to be a collection rate risk.

d. **Work incentives**: Authorities may wish to preserve as far as possible the incentive to enter work or to increase earnings.

e. **Simplicity**: Authorities may design their scheme so that it is easily administered, minimising the amount of information required from claimants.

f. **Transparency**: Authorities may design their scheme so that claimants can easily understand how much support they are entitled to.

36. The council tax benefit taper is the rate at which council tax benefit is withdrawn as income increases. Currently this rate is set at 20%, net of changes to tax and benefits / tax credits. So for every additional pound earned 20p of council tax benefit is withdrawn. However, this taper does not begin to take effect until a claimant's income has exceeded a minimum level. This minimum level is known as their applicable amount and varies according to, amongst other things, whether the claimant is single or part of a couple, whether they have dependant children and whether they are pensioners.

37. In order to make the required savings, authorities may choose to change the parameters of the scheme. They could reduce the personal allowances or increase the taper rate, or some combination of the two.

38. This Impact Assessment presents only 3 scenarios out of the many possible scenarios for a localised scheme. The hypothetical scenarios are intended to provide examples of ways that local authorities could implement a localised scheme, and the impact on work incentives. Given the breadth of population mixes within and without local authorities, these scenarios are for illustrative purposes only – they do not represent Central Government's prediction of what authorities will do, or Central Government's judgement of what authorities should do. They represent a broad range of possibilities.

39. Furthermore, this analysis does not show the effects of other changes to parts of the local government finance or welfare system. For example, the effect of the introduction of Universal Credit, which will affect the overall pattern of work incentives, is not shown. The scenarios have been modelled on a current benefit system basis as these reforms are expected to occur in April 2013, while Universal Credit is not scheduled to be introduced until October 2013.

40. For each of the scenarios we have modelled:

- the council tax net participation tax rate (Net participation tax rate) – this measures how much the gain to work is eroded by the withdrawal of council tax support for an individual entering employment. This is calculated by first working out the gain to work excluding any change in council tax support and then working out what proportion of this is taken away by any lost council tax support; and
- the actual council tax support as the claimant's earnings increase.

41. The consultation document *Localising Support for Council Tax in England* suggested a 20% maximum net participation tax rate for council tax support to both protect work incentives and give local authorities flexibility to design schemes that meet local needs and allow them to make the reductions in spending agreed at the Spending Review. It has not been possible to devise an approach that ensures that net participation tax rates are kept below 20% for all claimants in any scenario. This is due to the inherent poor work incentives of the current benefit system, which is the basis on which these scenarios have been modelled. Universal Credit is expected to improve this situation by increasing gains to work, which in turn will significantly reduce the numbers facing net participation tax rates from council tax support above 20% - particularly under the stepped approach outlined in scenario 3. The effect of this has not been shown.

42. It is also important to recognise that the three scenarios as presented would not necessarily lead to the 10% saving being realised, nor would they necessarily realise the same level of savings in different areas. It is theoretically possible that the parameters of each of the following scenarios could be set to deliver the same savings. However, due to modelling constraints, this has not been done.

43. The scenarios have been chosen to show the relationship between parameters such as the taper or personal allowances and outcomes such as the participation tax rate (net participation tax rate of council tax support) and the level of council tax support. Readers should exercise caution when comparing results across scenarios.

44. For all scenarios the following should be borne in mind:

  a. Households without children must work at least 30 hours per week to qualify for Working Tax Credits[1] - equivalent to around £180 at national minimum wage. The effect for single adults is that the total income element of the net participation tax rate calculation is smaller, and consequently the council tax support element is relatively larger. This threshold is the driver behind the 'cliff-edge' effect seen in the net participation tax rate charts.

  b. Households with children receive Child Tax Credit (no hours restriction), and Working Tax Credits from 16 hours - equivalent to around £95 at national minimum wage. This latter threshold drives the 'cliff-edge' seen amongst these households, as the claimant moves from the benefit to tax credit systems.

  c. The highest net participation tax rate of council tax support occurs once the claimant household has moved off the main means-tested benefit system (e.g. Job Seekers Allowance, Income Support, Employment and Support Agency), but whilst council tax support is still being tapered as earnings increase. In this range council tax support deductions are a comparatively larger share of the overall deduction / taper rates.

Scenario 1: All working age claimants have their award cut by 16%

45. In this scenario, local authorities would calculate claimants' council tax support as now, before reducing it by 16%.

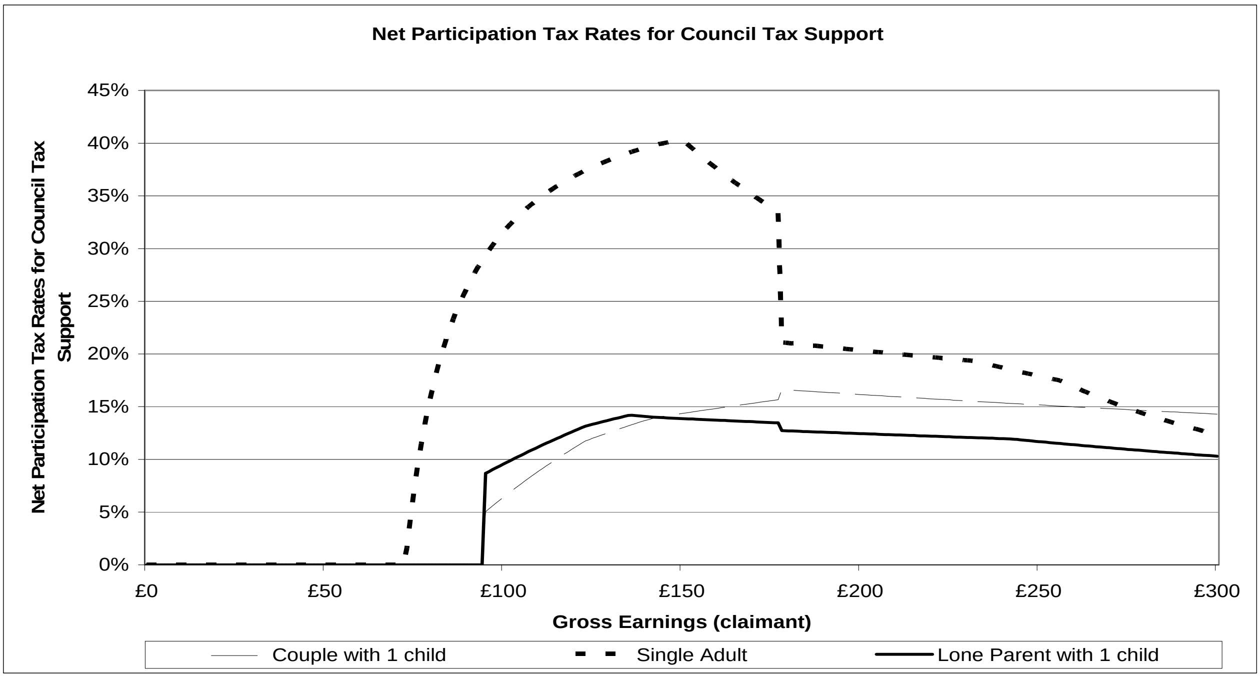
46. The advantages of this scenario include:

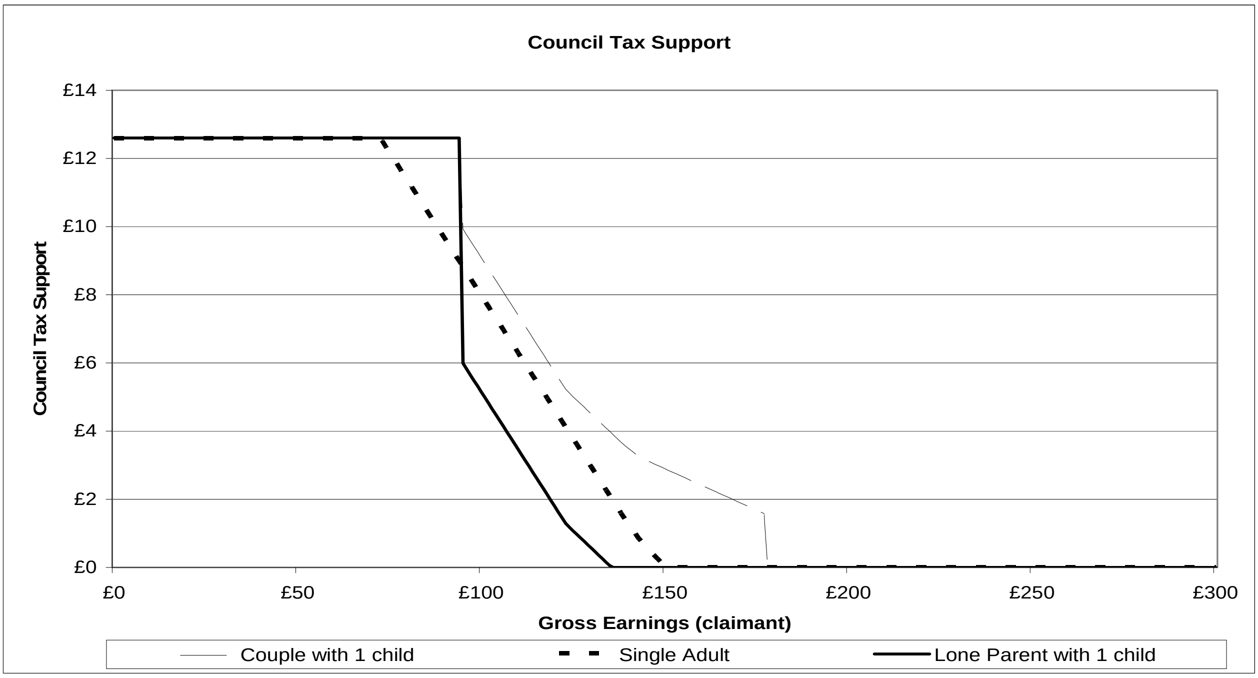
  a. By applying a standard reduction to all working age claimants, it spreads the impact across the widest possible group, thereby minimising the impact on each individual affected claimant.

47. The disadvantages of this scenario include:

  a. It would extend the requirement to collect small amounts of council tax from low income council tax support claimants – which could mean lower council tax collection rates.
  b. The net participation tax rate would increase for all council tax support claimants.

[1] http://www.hmrc.gov.uk/leaflets/wtc2.pdf





48. The cliff-edge seen in the council tax support chart above, is most pronounced for lone parents at the 16 hour equivalent (approximately £95) when the household qualifies for Working Tax Credits. This increase in income “brought to account” (considered) for council tax support purposes is what drives the decline – rather than any particular change in the council tax support system. An equivalent, but smaller, effect can be observed for couples with children due the 30 hour element of Working Tax Credits.

Scenario 2: Increase the taper for all working age claimants to 25%

49. Currently, council tax benefit entitlement is calculated comparing income with the applicable amount. Most income is taken into account, including any working tax credit or child tax credit (though child tax credit is now disregarded for pensioners).

- If net income is equal to or is less than the applicable amount, the customer will receive 100% support less any non-dependant deductions.
- If net income is more than the applicable amount, for each pound of excess weekly income over the applicable amount, council tax benefit will be reduced by 20 pence. This is commonly known as the taper.

50. In this scenario, local authorities would increase the taper rate (on a claimant's earnings) from the current 20% to 25%.

51. Advantages of this scenario include:

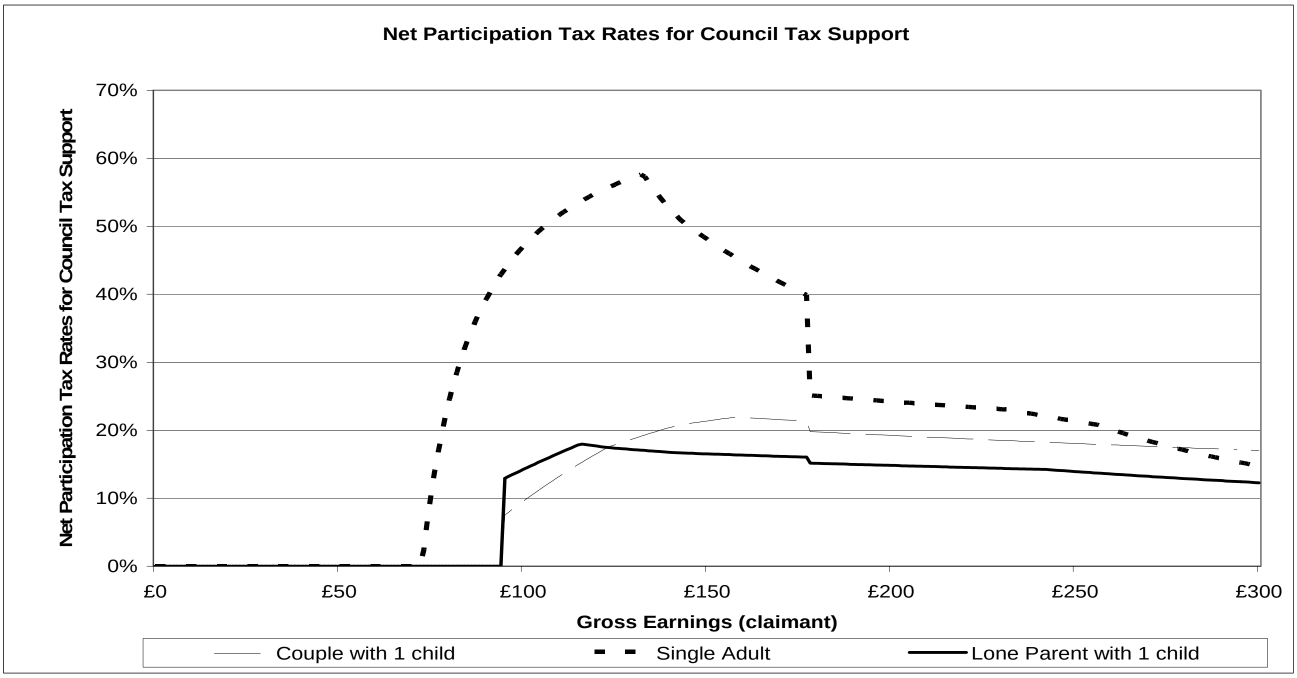
    a. council tax support award does not change for those on the very lowest incomes.

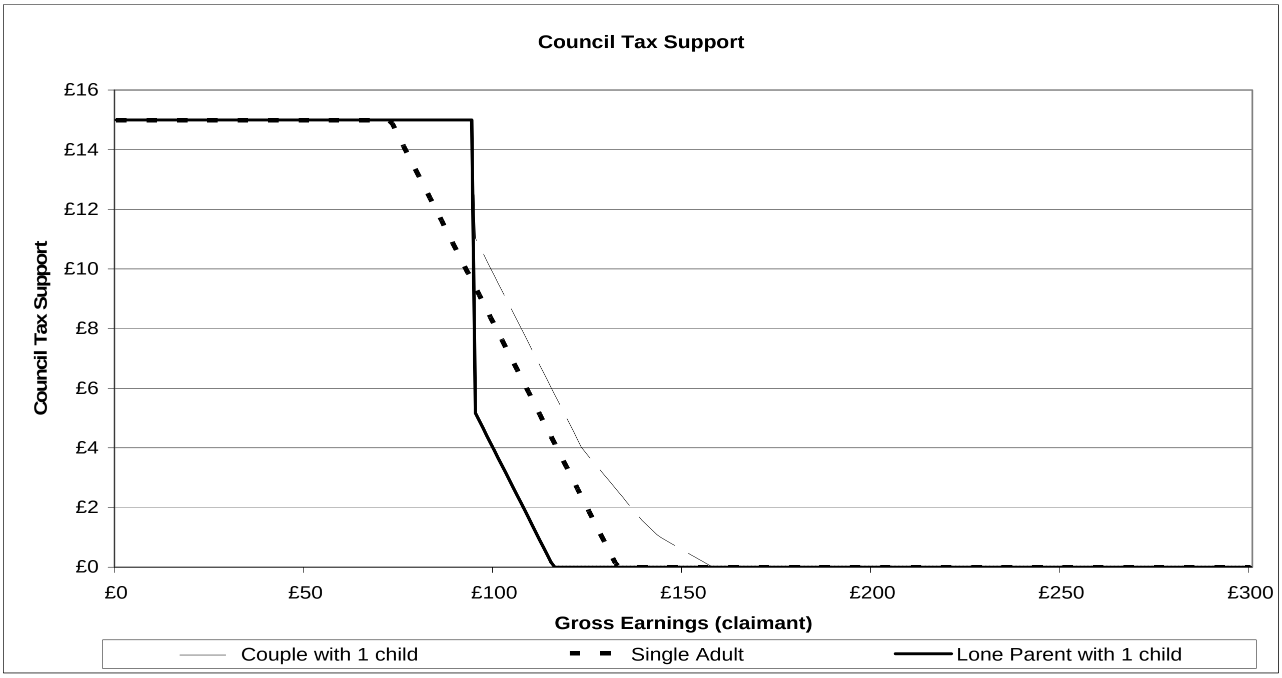
    b. Does not alter local authority requirement over to collect small amounts of council tax from low income claimants.

    c. Reduces the number of eligible council tax support claimants which could lead to lower administration costs.

52. Disadvantages of this scenario include:

    a. Could produce some large percentage reductions in council tax support, especially for those claimants at the end of the taper, compared to the current system.





53. The higher taper rate in this scenario results in council tax support being withdrawn at a quicker rate, as claimant earnings rise. A result of this is the removal of the cliff-edge for couples with children seen in scenario 1.

Scenario 3: Introduce a stepped scheme

54. In this scenario, local authorities would provide council tax support for the full liability when gross earnings are below £100, half support when gross earnings are between £100 and £150, and no support when gross earnings are above £150.

55. The advantages of this scenario include:

    a. The scheme could be transparent for claimants.

    b. Participation tax rates would continue to be low.

    c. This scheme could produce some winners.

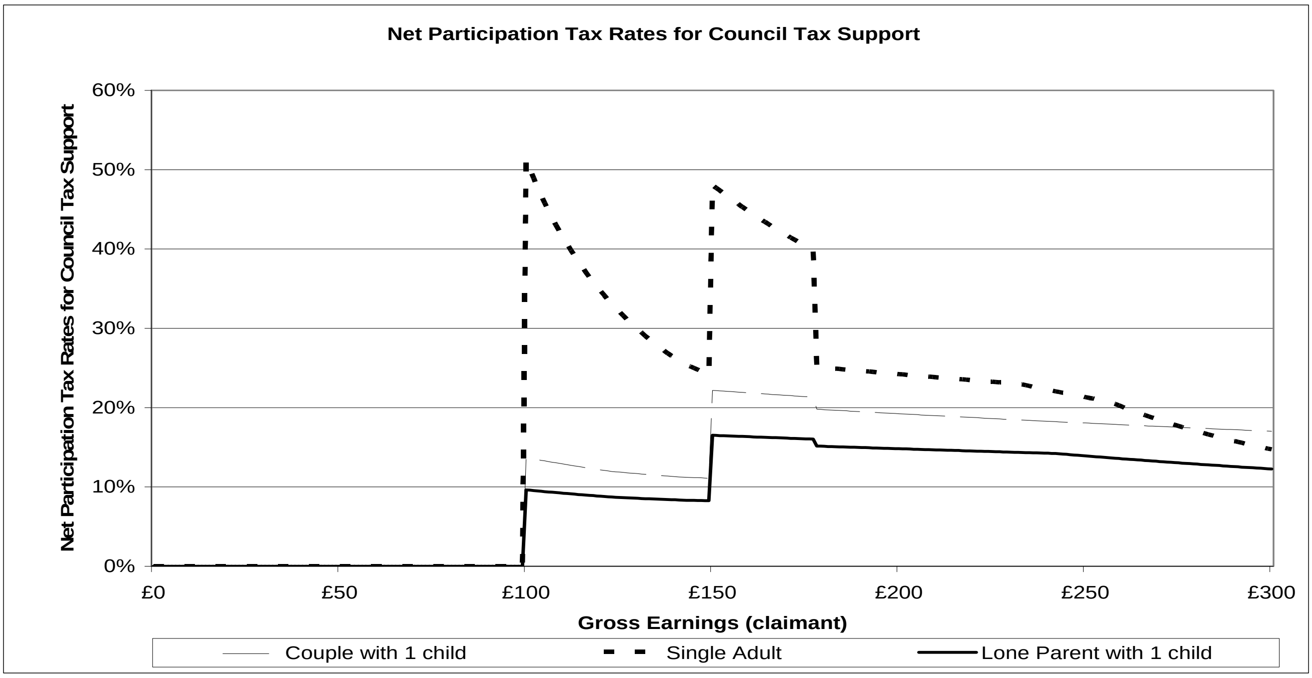
    d. Does not require the collection of small amounts of council tax from low income claimants.

    e. The scheme would be administratively simple.

56. The disadvantages of this scenario include:

    a. Some claimants would face very high marginal deduction rates.

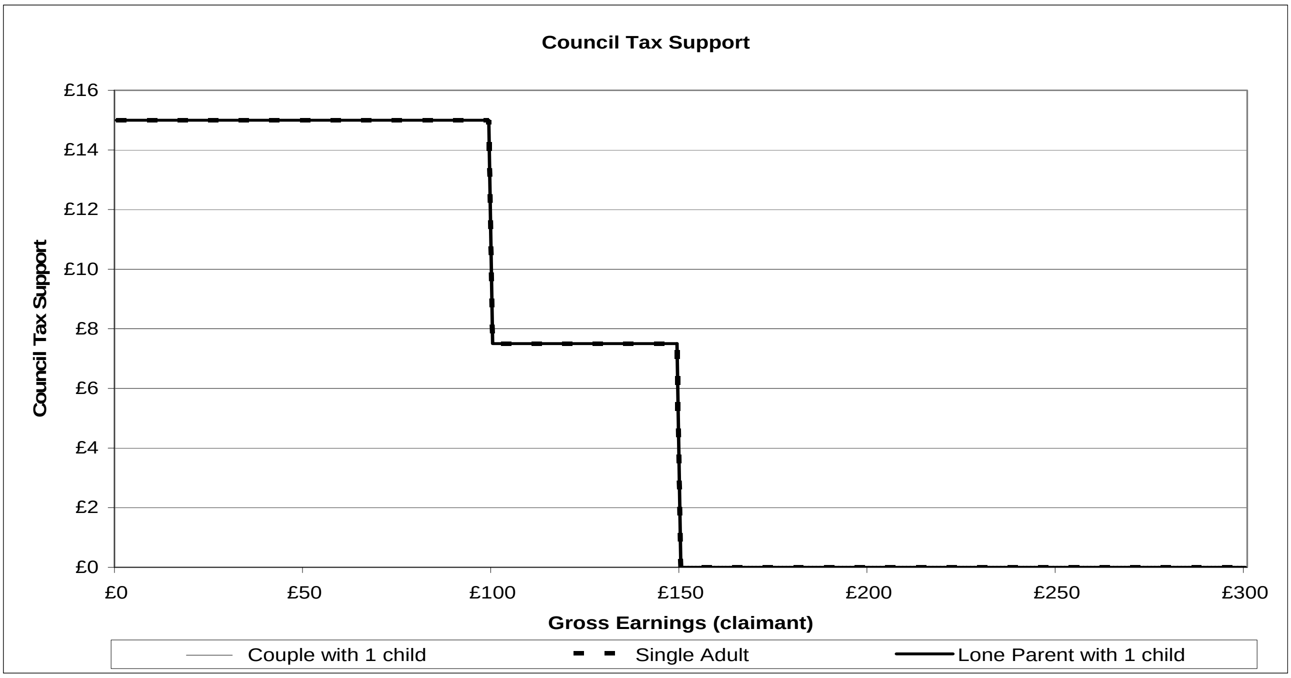
    b. Award is not very responsive to income.



57. The cliff-edges observed in the above chart are a direct consequence of the council tax support in this scenario. As a claimant's income moves beyond the £100 or £150 threshold, there is a abrupt change to the council tax support, which has the effect of rapidly increasing the net participation tax rates – where a marginal change in earning results in a large change in council tax support.

58. The declines observable in net participation tax rates for council tax support at around £180 correlate to claimants qualifying for the 30-hour in Working Tax Credits. As previously described, this rule has the largest impact on single claimants – who do not qualify below this level, and so receive (proportionally) the largest change to their income at this point.

59. In this scenario the treatment of income is standardised between family types, which results in an identical level of council tax support for a given level of earnings irrespective of the household composition. This results in a single line being shown on the chart.



60. This analysis also assumes single claimants are not in receipt of Single Person Discount and Capital, Disregards and Premiums have not been taken into account.

Impact on administration costs

61. Changes to both housing benefit and support for council tax will have implications for their administration. The Government does not intend the administration of local schemes to put pressure on local government finances, in line with the new burdens doctrine. The Government will therefore work with local authorities to assess the net impact of housing benefit centralisation and localisation of support for council tax, including the transitional costs of moving to the new arrangements.

62. The Government is committed to providing ongoing administration funding, and meeting the reasonable additional costs of implementing new schemes. Decisions about ongoing administration costs are linked to decisions about the future funding of housing benefit administration. The Department is working closely with DWP on this, and we expect final decisions to be taken as part of the process of finalising the Universal Credit Business Case in autumn 2012. At Budget 2012, the Government announced that it was making an initial £30m available to support both billing and precepting authorities in designing and consulting on schemes.

Savings to Government

63. The reduction in the council tax benefit budget will save £470 million p.a. for Great Britain, of which an estimated £410 million will fall to England based on a 10% reduction in spending on council tax benefit against forecasts by the Office for Budget Responsibility. This will allow central Government to lower taxes, increase spending elsewhere, reduce borrowing, or some combination of all three. Each of these outcomes has an associated benefit to the economy.

64. Current forecasts of council tax benefit expenditure for 2013/14 are lower than previous forecasts. This is because as well as including the planned 10% reduction in council tax support, the forecast figures reflect the council tax freeze in 2012/13, and also allow for a number of factors which are expected to mean a gradual reduction in current council tax support expenditure over the next 5 years. These include the long term trends in declining pensioner caseloads; reductions in the working age caseload as the country begins to recover from the recession; and changes to non-dependent deduction rates.

65. The Government is committed to tackling the largest budget deficit in the UK's post-war history. The reduction in council tax benefit expenditure is part of the process. Government expects that:

a. public sector net borrowing will decline from its peak of 11.1 per cent of GDP in 2009-10 to 1.1 per cent of GDP in 2016-17;

b. the cyclically-adjusted or 'structural' current deficit will be eliminated by 2016-17, with a projected surplus of 0.5 per cent of GDP in that year; and

c. public sector net debt will peak at 76.3 per cent of GDP in 2014-15 before declining to 76.0 per cent of GDP in 2015-16 and 74.3 per cent of GDP in 2016-17.

66. Tackling the deficit is essential as it will:

a. reduce the UK's vulnerability to further shocks or a loss of market confidence, which could force a much sharper correction – requiring

b. underpin private sector confidence, supporting growth and job creation over the medium term;

c. help keep long-term interest rates down, helping families and businesses through the lower costs of loans and mortgages;

d. keep debt and debt interest paid by the Government – and ultimately the taxpayer – lower than would otherwise have been the case; and

e. avoid accumulating substantial debts to fund spending that benefits today's generation at the expense of tomorrow's, which would be irresponsible and unfair.

Risks and assumptions

67. Given that total funding, under the preferred option, will be fixed for any given year, there is a risk that expenditure may increase for individual local authorities or areas. The following could all lead to increased expenditure:

a. **Economic downturn**: A recession could see unemployment rise or incomes fall leading to a greater eligibility for support with council tax.

b. **Localised job shock**: If a large local employer were to go out of business it might have a substantial impact on local authorities' expenditure as former employees become eligible for support with council tax.

c. **Increase in take-up**: The DWP research report 'Income Related Benefits: Estimates of Take-Up in 2008/09' estimates that, for pensioners, only 57% to 66% of council tax benefit expenditure is claimed. That figure increases to 74% to 84% for working age claimants.

d. **Demographic change and change in demand**: As the number of people aged 65 and over increases then so will the eligibility for support. In addition, changes in economic circumstances, either at a national or local scale, may well impact on the level of eligibility for support.

68. Reducing support for council tax could create an additional pressure on authority budgets if authorities struggle to collect from claimants used to paying no, or only small amounts of, council tax. The analysis does not take account of the increased collection rate risk and therefore might underestimate the pressures on authority budgets.

69. The tables below demonstrate the pressures on authorities under different combinations of these scenarios:

10% cut in funding at local authority level and an increase in take-up, Forecast for England 2013/14 disaggregated using 2010/11 subsidised council tax benefit expenditure

		Budget Pressure Range	
	Average Budget Pressure	Lower Limit	Upper Limit
Shire Districts	1.13%	0.44%	2.50%
Metropolitan Districts	1.05%	0.78%	1.37%
Unitary Authorities	0.99%	0.20%	1.41%
London Boroughs	0.95%	0.17%	1.35%
Shire Counties	0.89%	0.69%	1.17%
Greater London Authority	0.59%	0.59%	0.59%
Police Authorities	0.96%	0.55%	1.35%
Fire and Rescue Authorities	1.92%	1.38%	2.53%

Sources: Local Authority Revenue Expenditure and Financing England 2010-11, DWP Single Housing Benefit Extract Database February 2012
If the budget pressure for the Isles of Scilly is excluded, the lower limit of the Unitary Authorities class is 0.47%.
Figures for London Boroughs include a share attributed to the Greater London Authority.
Increased take-up - Given that we do not have any information on how much take-up rates might increase by, we have chosen a scenario whereby take-up rates for all groups increase by 10 percentage points.

10% cut in funding at local authority level, increase in take-up and an increase in demand, Forecast for England 2013/14 disaggregated using 2010/11 subsidised council tax benefit expenditure

		Budget Pressure Range	
	Average Budget Pressure	Lower Limit	Upper Limit
Shire Districts	1.59%	0.62%	3.63%
Metropolitan Districts	1.48%	1.10%	1.92%
Unitary Authorities	1.39%	0.28%	1.99%
London Boroughs	1.33%	0.19%	1.90%
Shire Counties	1.26%	0.97%	1.65%
Greater London Authority	0.84%	0.84%	0.84%
Police Authorities	1.35%	0.77%	1.90%
Fire and Rescue Authorities	2.71%	1.95%	3.65%

Sources: Local Authority Revenue Expenditure and Financing England 2010-11, DWP Single Housing Benefit Extract Database February 2012
If the budget pressure for the Isles of Scilly is excluded, the lower limit of the Unitary Authorities class is 0.66%.
Figures for London Boroughs include a share attributed to the Greater London Authority.
Increased take-up - Given that we do not have any information on how much take-up rates might increase by, we have chosen a scenario whereby take-up rates for all groups increase by 10 percentage points.
Increased demand - We have modelled the scenario whereby eligibility for council tax benefit increases by 10 percentage points.

70. These tables show that if there is upward pressure on eligibility for, or take-up of support with council tax then the pressure on local authorities’ budgets could increase substantially, particularly for fire and rescue authorities. Indeed, the cumulative effect of an increase in take-up and an increase in eligibility is to produce a budget pressure of 2.71% on average for fire and rescue authorities and as high as 3.65% for some authorities.

71. This analysis does not take into account the effect of the savings announced in the Local Government Finance Settlement. Any possible financial pressures produced as a result of the reform of council tax benefit will be affected by the Settlement pressures. Therefore, there is a risk that the pressures on local authority budgets’ presented here may be an underestimate.

72. The sharing of financial pressures between the tiers of local government (as outlined in paragraph 26) could help local authorities manage financial pressures. As with all public spending, the overall amounts of funding to local government, including for support to council tax, and the routes by which that funding is provided, is kept under review through the spending review process.

73. This analysis does not take into account other changes to the benefit and tax system that might affect claimants. For example, the introduction of Universal Credit will also affect many people who are claiming support with council tax. The overall pattern of work incentives presented in the above analysis will look much stronger as a result of Universal Credit.

74. Furthermore, as well as being able to choose – through the design of their scheme – whether some awards should be reduced, thereby increasing the amount of council tax the authority collects from some current welfare claimants, authorities may also choose to realise the saving in other ways. This could be through reconfiguring funding for other services through efficiency savings, using reserves, or using flexibility over council tax. The effect of any one of these decisions could be enable local authorities to lessen the reduction in support to vulnerable working age claimants. The possible effect of these decisions on the support local authorities are able to offer has not been shown.

Direct costs and benefits to business calculations

75. There will be no direct costs or benefits to business.

Wider impacts

Incentive for authorities to promote employment

76. A fixed budget will provide stronger incentives for authorities to get people back into work because authorities will have to fund any excess in expenditure themselves (or will get to retain any surplus of funding over expenditure). By giving local authorities a stake in providing support for council tax, this reform is intended to give councils a greater stake in the economic future of their local area by strengthening the incentive for local authorities to help residents back into employment and so reduce demand for support and lessen the effect of the funding reduction.

Improved targeting of award

77. Localisation of support for council tax may lead to the improved targeting of funds. Local authorities are better placed to make judgements about which of its council tax payers require support. This localisation may lead to innovative approaches that are flexible to the individual circumstances of each authority rather than the uniform approach currently prescribed by central government. This may also help to increase the incentives for local authorities to reduce the level of payments (in terms of discounts granted) made in error or as a result of fraud.

Inclusion in the Business Rates Retention System

78. The Business Rates Retention Scheme, to be implemented from April 2013, will create a growth incentive for local authorities by localising a percentage of the total business rates collected locally (known as 'the local share') and allowing them to keep at least a proportion of the growth on their local share of business rates.

79. In determining the percentage of business rates that is localised, the Government has had regard to the spending control totals for local government set in the 2010 Spending Review; the functions and services to be funded through retained business rates; the interests of local government and the need to ensure future fiscal sustainability.

80. The Government has considered the scope for further simplification of funding and will include council tax support in the business rates retention system from April 2013. Further details of Government's proposed funding arrangements are set out in a published consultation document here:
http://www.communities.gov.uk/documents/localgovernment/pdf/2146648.pdf

The Impact Assessment for the business rates retention system can be found here:
http://www.parliament.uk/documents/impact-assessments/IA11-047.pdf

The economic analysis of the business rates retention scheme can be found here:
http://www.communities.gov.uk/documents/localgovernment/pdf/2146726.pdf

Summary and preferred option with description of implementation plan

81. The preferred option is to localise support for council tax in England, and cut expenditure by 10% against forecasts by the Office for Budget Responsibility. Although the quantified costs and benefits show a zero net benefit/only a small net benefit/a negative net benefit for the preferred option Ministers have decided that localisation is to be preferred because it:
    - Secures the scored saving;
    - Enables local authorities to decide how the saving is to be achieved, balancing their assessment of the likely impacts on council tax collection rates, priorities for local tax-payers and their overall financial position;
    - Reinforces local financial accountability.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. If the policy is subject to a sunset clause, the review should be carried out sufficiently early that any renewal or amendment to legislation can be enacted before the expiry date. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

Basis of the review: [The basis of the review could be statutory (forming part of the legislation), i.e. a sunset clause or a duty to review , or there could be a political commitment to review (PIR)]; In exercising functions in relation to local schemes, including in particular when making and revising schemes, billing authorities will need to comply with the public sector equality duty in section 149 of the Equality Act 2010. It will be for local authorities to keep their local schemes under review, making any adjustments as necessary. The Department is taking powers in the Local Government Finance Bill to require local authorities to supply specified information. The Department will consider whether certain information will be required from local authorities to support future evaluation of the policy.
Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]
Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]
Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]
Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]
Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review]
Reasons for not planning a review: [If there is no plan to do a PIR please provide reasons here]

Add annexes here.