

The poisoned chalice

What replacing CTB means for local authorities in England

Peter Kenway



THE POISONED CHALICE

WHAT REPLACING CTB MEANS FOR LOCAL AUTHORITIES IN ENGLAND

Peter Kenway

Contents

Summary and introduction	1
Which pensioners are to be protected?	3
Paying for a 10% cut	6
Conclusion: the poisoned chalice	12

Published by the New Policy Institute

First published 2011

New Policy Institute
306 Coppergate House
16 Brune Street
London E1 7NJ
www.npi.org.uk

ISBN 978-1-902080-27-0

Peter Kenway is Director of the New Policy Institute

SUMMARY AND INTRODUCTION

This paper analyses the implications for English local authorities of the Government's consultation document on the replacement of council tax benefit (CTB). Local authorities now have 18 months to design, construct and introduce their own replacement for CTB, a means-tested benefit with nearly six million recipients. There is still a lot of uncertainty: a consultation document is, after all, never definitive,

The bulk of the paper examines the options facing local authorities as they struggle to devise schemes that satisfy the stringent conditions set out by the Government. The discussion is organised under two headings, concerning the extent of support that is guaranteed to pensioners, and the possible ways of meeting the requirement for a 10% cut in the overall amount of CTB. The paper's conclusion considers what the consultation document tells us about the real meaning of "localisation" and the dangers that this version of it poses to local authorities.

In summary, the three main messages of the paper are as follows:

- The extent to which pensioners are to be guaranteed support is unclear and almost certainly does not follow from the Government's basic principle of protecting those who are vulnerable. This has consequences both for the financing of a CTB replacement and for its complexity.
- Except *perhaps* in a handful of local authorities with a fairly high proportion of CTB going to recipients in working households, the 10% cut cannot be achieved without workless, working-age households paying some council tax. Given the difficulties in collecting small sums from households who have no money to spare, we would expect most authorities to absorb the cut through reduced expenditure elsewhere. Absorbing the cut in this way does not spare local authorities from the need to introduce complex schemes to assess eligibility.

- Under the guise of “localisation”, the replacement of CTB is actually a policy-making process in which central government departments assert their right to decree the outcomes they want without taking responsibility for seeing that those outcomes can be achieved. In agreeing to make this all work, local authorities face administrative, financial and political risks.

WHICH PENSIONERS ARE TO BE PROTECTED?

The consultation document leaves no doubt about the importance attached to pensioners: “in introducing a localised system of support for council tax” it declares, the Government “will seek to ensure that the most vulnerable in society, in particular low income pensioners, are protected”.¹ It then goes on to assert that “for pensioners there should be no change in the current level of awards, as a result of this reform”.² Two paragraphs later, it adds that Government will prescribe the arrangements so as to

*avoid low-income pensioners experiencing any increase in their council tax liability as a result of this reform and ... ensure that pensioners who become eligible for support with council tax at any time in the future will enjoy the same support as existing eligible pensioners.*³

There are some difficulties here. For a start, while these statements appear strong, they are incomplete. Which pensioners are to be counted as “low income”? Does “no change in the current level of awards” preclude future awards being different from what they would have been under current arrangements? What would count as “the same support” under different conditions? The problem here is that benefit entitlement has to be expressed in terms that are precise both legally and arithmetically. Until that is done, expressions of intent like this which populate the consultation document are as liable to mislead as to inform.

¹ *Localising Support for Council Tax in England*, CLG, 2011, paragraph 5.1.

² *Localising Support for Council Tax in England*, CLG, 2011, paragraph 5.2.

³ *Localising Support for Council Tax in England*, CLG, 2011, paragraph 5.4.

More fundamentally, the second and third statements, which set out what Government will prescribe, do not follow from the original proposition about protecting low income pensioners. That is because the current system of CTB provides at least *some* support for pensioners who are far from being “low income” on any definition. This point was made in an NPI-authored report published by the LGA in 2007 which gave as an example a pensioner couple whose weekly council tax was £38 per week. This couple would be entitled to some CTB support so long as their net income was below £395 per week.⁴ At that time, a couple without dependent children on that money would have been on average (median) income for the population as whole.⁵

Whether such a pensioner couple should get support is certainly debateable. In our view, there are some good arguments both ways. What is clear is the case for supporting them cannot be derived from the principle that *low income* pensioners are to be protected. Among pensioners, a couple on £395 a week actually has an above-average income.

This lack of clarity really matters. For example, a replacement scheme has to be much more complex if it has to assess eligibility for partial support (that is, where CTB ends up covering some but not all of a pensioner’s council tax) than if it is restricted to those whose CTB covers their council tax in full. Neither can local authorities be sure how much of the money devoted to CTB is to be guaranteed to pensioners.

⁴ *A benefit to eight million households: what CTB does and how to improve it*, LGA, 2007: table 2. Note that the reference to eight million here applies to Britain as a whole and counts both recipients and eligible non-recipients.

⁵ Median before housing cost equivalised weekly income for a couple without dependent children in 2007/08 was £393. *Households Below Average Income*, DWP, 2009, table 2.3.

This uncertainty will remain even when Government does set out its precise requirements since it is not just a question of how much money should go to pensioners in theory but also of how big a proportion of it is actually claimed. This gap between theory and reality does not matter to local authorities at the moment because the Treasury simply pays out whatever has been claimed. By turning CTB into a grant, as Government intends, it will be local authorities who will have to cope in future with uncertainty.

While Government certainly needs to clarify what it wants, the deeper difficulty is that its choices have wider consequences. In an orderly system of policy making, those consequences would influence Government in its choice of goals. In the process followed here, where Government merely decrees what it wants, that essential reflection is precluded by design.

PAYING FOR A 10% CUT

If the precise degree of protection to be afforded to pensioners remains unclear, the really serious challenge for local authorities arises from the imposition of a cut in the amount of money paid out in CTB. In one way, the significance of this lies less in the size of the cut than in the fact that CTB will in future be a grant. As noted above, this has the effect of transferring risk from the Treasury to local authorities. The significance of the 10% cut itself is that it appears to imply that support in future will be more restricted than support in the past.

The first point is that with pensioners protected, a 10% *overall* cut means that other recipients, that is those of working-age, will face a cut of more than 10%. In autumn 2010, 38% of CTB in England went to households containing someone aged 65+. ⁶ Taking this as a proxy for the pensioner households who will be fully protected, a 10% overall cut requires a 16% cut for the other 62% of recipient households. Since some of these others are actually pensioners, 16% is an under-estimate of the cut that will have to be borne by working-age CTB recipients.

Across English local authorities, this pensioner proportion varies from 58% in East Dorset to 23% in Hackney. Table 1 shows the top and bottom ten local authorities on this measure. Whereas the top 10 are all rural and spread across the country, the bottom ten are all in London, mainly inner London.

⁶ The source data for the analysis in this section is contained in the Deposited Paper DEP2011-0223 at:
<http://www.parliament.uk/deposits/depositedpapers/2011/DEP2011-0223.xls>

Table 1: percentage of CTB going to households aged 65+: top and bottom 10 local authorities

Top 10		Bottom 10	
East Dorset	58%	Southwark	27%
South Staffordshire	56%	Westminster	27%
Ryedale	56%	Islington	27%
Craven	56%	Enfield	27%
East Devon	55%	Lambeth	27%
North Kesteven	55%	Croydon	26%
Ribble Valley	55%	Lewisham	25%
Harborough	54%	Tower Hamlets	25%
North Norfolk	54%	Newham	24%
Rutland	54%	Hackney	23%

This large variation in the protected proportion translates into a large variation in the percentage CTB cut that would have to be borne by the unprotected others, from 24% in East Dorset to 13% in Hackney. Working-age CTB recipients in areas where there is a high proportion of pensioner recipients are very exposed.

One way that a local authority could cope with this is to absorb the cost of the CTB cut – some £400m annually – through a cutback in expenditure elsewhere. Representing just a quarter of one per cent of all local authority spending, the CTB cut is very small. Coming on top of far deeper cuts it may nevertheless be very hard to absorb.

So if instead a local authority decides that the cut in CTB should be borne by recipients of CTB, what are its options? Put another way, who among the working age recipients of CTB should it prioritise? One possibility is that those in work, who may be supposed to have more money than those not in work, should bear the brunt of the cut in support

This is not the place to discuss either the justice or the political wisdom of imposing a tax increase on much the same group of low income workers who were hit by the abolition of the 10p tax band in 2007. Neither (for a moment) is it the place to consider what might happen to work incentives. Instead, there is just the basic arithmetical point that cutting the CTB of *working* households will only be enough on its own if the share of CTB going to such households at the moment exceeds 10% of the total.⁷ As table 2 shows, while there are indeed authorities that meet that condition – in fact about 100 out of 325 – most do not.

Table 2: percentage of CTB going to working households aged under 65: top and bottom 10 local authorities⁸

Top 10		Bottom 10	
Harrow	20%	Sunderland	5.1%
Brent	19%	Barnsley	5.1%
Barnet	18%	St. Helens	5.1%
Hackney	18%	Sefton	5.0%
Kingston-upon-Thames	18%	Knowsley	4.9%
Newham	17%	Halton	4.8%
Redbridge	16%	Croydon	3.3%
Enfield	16%	Pendle	3.1%
Waltham Forest	16%	Uttlesford	3.0%
Haringey	16%	Fareham	2.4%

⁷ This statement assumes that every local authority faces a 10% cut. In practice, the actual allocation of the cut remains to be decided.

⁸ As per the source data, these percentages only relate to working households who have not been passported onto CTB.

Yet this calculation takes no account of one of the consultation's main principles, that a new scheme 'should support work incentives, and in particular avoid disincentives to move into work'.⁹ The problem is that an authority that now devotes only 10% or so of its CTB to working households can only save that 10% by removing *all* support from any and every working household the moment someone in it enters work. For anyone who is not going to earn all that much anyway – which is the group that the government is concerned about – this creates a big disincentive.

To reduce this disincentive – as the consultation makes clear – the withdrawal of CTB must be tapered.¹⁰ Only authorities that devote considerably more than 10% to CTB now can hope to save 10% in total whilst still tapering the support away. A definitive answer requires a lot of detail. Our guess is that fewer than a dozen authorities – almost all of them in outer London – have even the slightest prospect of making an overall 10% saving exclusively from their working recipients whilst still protecting work incentives. Most local authorities, very possibly even all, would have to find the money from elsewhere.

⁹ *Localising Support for Council Tax in England*, CLG, 2011, paragraph 5.2.

¹⁰ Even when CTB is tapered, there is still the concern that the CTB and universal credit (UC) tapers produce a combined taper that is a major disincentive to enter work. The way to avoid this is to hold a household's UC at its maximum value until household income has reached the level where CTB has fallen to zero. In these circumstances, where CTB is the first benefit to go as income rises, Government would want to set the CTB taper itself. A strong candidate is 65% instead of the current 20% (but where CTB is tapered away at the same time as other benefits). By allowing CTB to taper first, responsibility for ensuring that the total taper does not exceed 65% rests with the DWP which must ensure that UC is held at its maximum for long enough. In this way, the aspect of this that matters most to the DWP – that is, protecting the taper – rests in its own hands.

For all other local authorities – that is, the vast majority – the only way to recoup the 10% cut from CTB recipients themselves whilst maintaining work incentives is to reduce CTB below its maximum for at least some workless, working-age households – in other words, to oblige them to start paying at least some council tax. To illustrate what this would mean, table 3 shows how the amounts would vary across local authorities on the assumption that *all* working-age households currently getting CTB have to pay something. As can be seen, it is the poor across the rural south of England, needing to find £4 a week or more, who would be the hardest hit.¹¹

Table 3: minimum average weekly council tax for working-age households to finance an overall 10% CTB cut: top and bottom 10 local authorities¹²

Top 10		Bottom 10	
East Dorset	£4.90	Derby	£2.10
Wealden	£4.10	Lambeth	£2.10
Purbeck	£4.10	Southwark	£2.10
Christchurch	£4.10	Newham	£2.10
Rutland	£4.10	Peterborough	£2.10
Rochford	£4.00	Kingston upon Hull	£2.10
South Bucks	£4.00	City of London	£2.00
Ryedale	£3.90	Manchester	£1.90
Waverley	£3.90	Westminster	£1.50
Stratford-on-Avon	£3.80	Wandsworth	£1.40

¹¹ It should be noted that doing this does not spare local authorities from the need to introduce a fairly complex system involving the taper in order to assess CTB entitlement for low income, working households.

¹² As per the source data, these percentages only relate to working households who have not been passported onto CTB.

At one point the consultation document worries about how to balance local authority flexibility with the need to protect vulnerable, working-age households. While not all working-age CTB recipients could necessarily be called “vulnerable” they most certainly are all “low income”. Apart from those in work, all other working-age recipients of CTB depend on out-of-work income replacement, usually means-tested, benefits. These benefits are worth far less than those of pensioners and they also fall far below the socially determined “minimum income standard”. Flexibility sounds attractive. Unless an authority is confident that it can separate poor households into those that are “vulnerable” – and therefore deserving of a tax exemption – and those that are not, that flexibility is actually a sham.

CONCLUSION: THE POISONED CHALICE

As an exercise in “localisation”, it is striking how prescriptive the consultation document is, especially regarding support for pensioners and the preservation of work incentives. Since these two matters pretty much tie down what any replacement scheme has to do, the scope for local discretion is negligible unless – and perhaps even if – an authority wants to start collecting council tax from virtually every workless, working-age household in the area.

But this does not mean that “localisation” is a charade. That would have been the case if the document had presented local authorities with only one properly thought-through option. But that is not what it does. Instead, confined to vague yet strong prescriptive principles, it reflects an approach in which Government insists on the right to require outcomes without concerning itself with how, if at all, they are to be achieved or what their consequences might be. This is power without responsibility. It is not the localisation of policy-making but its disintegration. Reflecting a collective failure on the part of the departments involved, in this case CLG, DWP and Treasury, it is local authorities who are being expected somehow to make it all work.

When the abolition of CTB was announced, the welcome for it was partly based on a gut feeling that “localisation” must be a good thing. The consultation document at least leaves no room for any further misunderstanding on that score. As local authorities, both individually and collectively, consider how to respond, they need to be aware of the risks they run. Those risks are of three kinds. The first is administrative, associated with having to introduce a complex system whose *best* hope is to do nearly as well as the system it is replacing. The second is financial, arising from the acceptance of an arrangement in which local authorities pick up the tab for whatever eligibility criteria Government chooses to set. The third is political, coming from acquiescing in a policy whose clear implication is that desperately poor people should be paying tax – and that local authorities should be the ones to pursue them for it.

