

# the council tax poverty trap

Apart from being in London, what have all these council flats got in common? The answer is they are all properties which are already subject to council tax benefit restriction, or could be, following the next council tax revaluation.

If you believe that benefit restriction only affects those living in expensive or luxurious accommodation, think again. These images explode the myth and so too do the astonishing figures produced by the New Policy Institute (NPI) in its latest report *The Council Tax Poverty Trap*. NPI estimates that five times as many households could face restriction in the capital following revaluation. That's 50,000 households facing hardship from a policy that is outside their influence, and which saves the public purse a pittance. The ALG believes deprived claimants in London do not deserve to face an extra financial burden that they can ill afford. We wholeheartedly support NPI's conclusion that this punitive policy should be abolished immediately.

Sir Robin Wales  
ALG Chair



## Background

In April 1998 the Government introduced legislation to restrict the council tax benefit of claimants who live in properties in council tax bands above band E. From that date new claimants and claimants who moved to new accommodation would no longer receive any benefit on the proportion of council tax above band E.

This policy has compounded the deprivation of a number of already poor households in high value property areas like London. It forces households to make up the difference between their council tax benefit and their actual council tax from fixed rate benefits such as income support. This policy has created significant personal hardship by penalising poor claimants according to where they live.

## Measuring the impact of council tax benefit restriction

The 1997 Department of Social Security consultation paper concluded that *'it is unfair to expect taxpayers to subsidise claimants who live in the most expensive properties and who are in some cases comparatively asset rich'*.

It described the purpose of introducing council tax benefit restriction as *'to encourage people to accept greater financial responsibility for their decision to move into or remain in expensive properties'* and *'to safeguard the interests of the taxpayer'*.

## measuring the impact of council tax benefit restriction

In order to test these assumptions and to find out more about the impact of council tax benefit restriction, the ALG asked the New Policy Institute (NPI) to undertake the following:

- to examine whether claimants in any particular region were disproportionately affected by this policy
- to identify the impact on tenants in social housing
- to examine the distribution of restriction before and after council tax revaluation
- to draw conclusions about the validity of this policy and its future role.

### Who is affected by council tax benefit restriction?

Based on analysis of data from the Department of Work and Pensions (DWP), the NPI's principal findings were as follows:

- More than half of the 17,000 households whose council tax benefit is restricted live in London.
- Information from the DWP on council tax benefit expenditure 2000/01 indicates that the saving to the Treasury was just £4.5 million, less than a quarter of 1 per cent of the annual council tax benefit bill for England.
- Claimants renting accommodation, either social or private, were more likely to be restricted
- More than 70 per cent of the households whose council tax benefit is restricted in London were renting accommodation, and therefore unable to release equity to cover the additional cost of council tax

### Are claimants in London facing an unfair burden?

NPI found that deprived claimants in London were disproportionately penalised by council tax benefit restriction. The percentage share of benefit restrictions in the capital is significantly higher than its percentage share of properties in bands F to H. This indicates that it is by far and away the worst affected region.

- Data from the DWP show that 53 per cent of cases currently restricted live in London.
- Only 25 per cent of properties in band F to H are in London, but its percentage share of restrictions is more than double this.

- London has a much higher percentage of claimants renting accommodation than other regions and DWP data indicate that this group is more likely to be restricted than those who own their own home.

Many claimants in band F to H receiving benefit when the restriction was introduced are still receiving protection. These figures also show that London has a high percentage of claimants who may be restricted in the future if protection is lost.

- London has 45 per cent, or 7,000, of the 16,000 protected claimants.

### Are homeless families more likely to face restriction in London?

London also faces a unique problem not experienced elsewhere. Limited supply of lower value accommodation in the capital, particularly in inner London, means that authorities cannot always offer homeless households properties below band F. Large numbers of council-owned and other socially-rented properties are in the restricted bands. If the homeless household rejects an offer of permanent accommodation it may be deemed to be intentionally homeless. They face a catch 22 situation.

### What impact will revaluation have?

The impact of updating the existing eight-band national model will significantly increase the number of potentially restricted claimants in London.

- NPI estimates that restrictions in London will rise by a factor of at least five.
- This could increase council tax benefit restrictions in the capital from 9,000 to approximately 50,000. Revaluation would have a comparatively minimal impact on restrictions in the other regions.
- If this were to happen, the proportion of council tax benefit claimants in London in bands F to H with restricted benefit would rise from around 50 per cent to more than 80 per cent, creating hardship in five times as many households as it does today.

### The need for change

The original justification for introducing council tax benefit restriction was that it was inappropriate for households on low incomes to be subsidised in high value accommodation. If benefit claimants choose to occupy high value accommodation they should be prepared to make a contribution towards its cost.

NPI points out that the huge increase in households that will face council tax benefit restriction after revaluation '*will be a consequence of living in an area of high average property values, rather than reflecting a clear choice to occupy expensive accommodation.*'

NPI therefore concludes that '*the effects of this policy are iniquitous even now; its removal would ease considerable hardship for individual families. If it is wrong after revaluation it is wrong now. We therefore conclude that consideration should be given to its immediate abolition.*'

**The ALG fully supports NPI's conclusions and asks the Department for Work and Pensions to urgently review the rationale behind council tax benefit restriction.**

A copy of the NPI report *The Council Tax Poverty Trap – measuring the impact of Council Tax Benefit Restriction*, published in July 2003, can be obtained from the ALG.