

Local Welfare Safety Net Inquiry: Submission from the New Policy Institute

The New Policy Institute (NPI) is an independent research institute that produces evidence-based research on social and economic issues. We are pleased to respond to the Committee's call for evidence on the local welfare safety net. This is a subject where we have both a wide-ranging view and in-depth knowledge, the latter from research projects to do with Council Tax Support (CTS).

The idea that the welfare state should provide a minimum level of income to support those in need was uncontroversial for 60 years. The form and level of support were the subject of continuing debate and periodic reform but not the principle. In recent years, numerous reforms have compromised the solidity and consistency of this income minimum. All parts of the UK have been affected but the process has gone furthest in England. In particular, these reforms have opened the door to local variation in support, either by design or because of local variation in housing and labour markets and demography. Hence the sense of a 'postcode lottery'.

Our submission contains four parts: an overview of the key policies; the causes of local variation; findings arising from our research on CTS; and recommendations.

1. Overview of policies that introduce the possibility of local variation

- 1.1 Table 1 lists five changes to the benefit system which have reduced the disposable income of some but not all working-age recipients of social security and which have done so in a way which opens up the possibility of local variation. In the first case (sanctioning) it is the income itself which is reduced. In the other four, the drop in disposable income is because the same income has to go further to cover the loss in support for housing cost and/or council tax.
- 1.2 The table provides an indication of the numbers affected in each case, comparing 2014/15 with 2004/05 and 2009/10 where possible. In 2014/15, 510,000 sanctions were served on claimants of JSA. Since some were sanctioned more than once, the number of individuals sanctioned will be lower than this. In addition, an average of 1.5 million households receiving means-tested benefits did not get full CTS and so had to pay some council tax from their income in 2014/15.
- 1.3 Over the same period, 24,000 households were affected by the benefit cap; and an estimated 330,000 households in the social rented sector "passported" onto housing benefit were affected by the removal of the spare room subsidy (the 'bedroom tax'). Finally, in August 2014 an estimated 330,000 households in the private rented sector "passported" onto local housing allowance lost out due to the reduced local caps introduced in 2013. In all these cases, housing benefit fell short of the total amount of rent due; some rent therefore had to be paid from income.

- 1.4 Two of these five numbers are estimates based on NPI modelling of data on CTS schemes and Local Housing Allowance data.¹ What matters here are the magnitudes: a few tens of thousands affected by the benefit cap, several hundreds of thousands affected by each of JSA sanctions, the removal of the spare room subsidy and the LHA restrictions; and well in excess of a million affected by CTS. The numbers cannot meaningfully be totalled up as some households are affected more than once.
- 1.5 Of the five policies outlined in the table, only the sanction regime applied ten years ago, when far fewer sanctions were issued. Sanctions and the LHA restrictions were the only ones that applied in 2010 or 2011.

Table 1: Policies introducing local variation and the numbers affected (GB)

Policy change	Indicator	2004/05	2009/10 (or 2011)	2014/15 ²
Operation of the JSA sanction regime – ongoing	Total number of sanctions applied that year	230,000	480,000	510,000
Household benefit cap (£350 for singles, £500 for others) - 2013	Average number of households capped	--	--	24,000
Local CTS replaces Council Tax Benefit (CTB) in England – 2013	Households receiving a passported benefit and less than full CTS	--	--	1,470,000
LHA lowered from the cost of property at 50th percentile in the local market area to 30th percentile cap introduced - 2011	Housing benefit claimants in the private sector receiving a passported benefit whose rent was above the maximum that could be claimed	--	200,000 ³	330,000 ⁴
Removal of the spare room subsidy for social tenants - 2013	Housing benefit claimants in the social rented sector receiving a passported benefit and whose benefit is being reduced because they have a spare room	--	--	330,000

¹ FOI 5282, DWP

² Data on sanctions, households subject to the benefit cap and the removal of the spare room subsidy are from stat x-plore; estimates of the number affected by LHA and numbers affected by Council Tax Support are based on NPI modelling

³ Estimate for August 2011. Only new claims starting after April 2011 would have been affected by 30th percentile LHA caps.

⁴ Estimate for August 2014

2. What causes the variation to be local?

- 2.1 How do these policies introduce variations that have a local pattern to them? There are three different ways in which this happens. The first is where a national policy has different local impacts as a result of differences in local conditions, chiefly to do with the housing stock. The second is where a national policy is implemented differently in different areas. The third is where the policies themselves vary from one area to another reflecting local choices.
- 2.2 The benefit cap, which limits the total amount that a workless household can claim in benefits, is an example (at the moment) of a uniform nationwide policy which has an uneven impact locally.⁵ Around 46 per cent of households subject to the cap in 2014/15 lived in London.⁶ This disproportionately high number is largely because high London rents drive up the amount that households need to claim in Housing Benefit.
- 2.3 The removal of the spare room subsidy is another uniform policy which exhibits great local variation in its impact. Households can move to smaller social lettings to avoid it, but this option is not available to all. Our analysis shows that in every region in England the number of single or couple households who were facing benefit cuts under this policy was at least double the number of one bed social lettings in 2013/14.⁷ The mismatch between the local housing stock and the size of local households is particularly evident in the North East and North West of England where there were more than three times the number of 'one bed' households' in the social rented sector affected by the policy than there were one bed social lettings in 2013/14.
- 2.4 With LHA, setting the maximum amount of housing benefit that can be claimed with reference to local rents should, by definition, allow local conditions to be reflected, thereby limiting local variations in outcome. This falls down in local areas where the number of private tenants claiming housing benefit is large relative to the overall size of the private rented sector.
- 2.5 Big differences between local areas in the proportion of JSA claimants to whom a sanction has been applied are harder to explain. Variations in local labour market conditions may play a part but their influence is obscure compared with the part variations in local housing markets play for housing benefit. JSA claimants living in rural areas may find it physically harder to comply with the conditions than those in urban areas. None of this, however, is capable of accounting for, say, the 50%

⁵ In July 2015 the government announced that the cap would be lowered to £442 in London and £385 elsewhere from April 2016.

⁶ Source: DWP Stat X-Plore

⁷ Forthcoming analysis from NPI, to be published in Monitoring Poverty and Social Exclusion 2015, JRF.

higher proportion of JSA claimants sanctioned in Dundee than in Glasgow.⁸ It is hard to avoid the sense that the degree of variation seen across the whole country reflects differences in how a national policy is being implemented locally.

- 2.6 The third and final source of local variation is where the policy itself is different from one area to another. CTS, the replacement for Council Tax Benefit (CTB) in England, is the leading instance of it, with each of the 326 lower-tier local authorities designing their own scheme.⁹ Since the bulk of our evidence relates to the findings of a series of research projects into CTS, we devote the remainder of the submission to it.

3. Council tax support (CTS): summary of research findings

- 3.1 Since autumn 2012, we have conducted four research projects on the introduction and development of CTS by English local authorities, funded by the Joseph Rowntree Foundation. The first three projects used Freedom of Information (FOI) requests to analyse all local schemes in England, and modelled local variations in the effect on claimants. This extensive data collection and analysis is the basis of the most comprehensive public record of CTS schemes, available on www.counciltaxsupport.org. The final project drew on qualitative interviews with 15 local authority revenue and benefits officers to analyse how and why decisions were taken on scheme design and implementation, and to highlight examples of best practice.
- 3.2 This part of the submission responds directly to two key issues that are within the scope of this inquiry, namely: variations between different areas, in both scheme design and outcomes; and identifying good practice in the design and implementation of local CTS schemes.
- 3.3 In addition, the final part of the submission addresses a third key issue, namely, reflections on the extent to which a 'postcode lottery' exists and how this might be mitigated as far as support for council tax is concerned.

Variations in CTS schemes

- 3.4 We start by summarising the main details of the CTS schemes operated by the 326 English local (billing) authorities. The main focus is on the schemes as they are now (from April 2015) although we also comment on developments since the schemes were introduced two years earlier.
- 3.5 Under CTB (which ran until 2013), the council tax liabilities of low-income households were reduced, often to nothing. Those on means-tested benefits

⁸ Monitoring Poverty and Social Exclusion in Scotland, 2015, Joseph Rowntree Foundation, indicator 20.

⁹ The Scottish and Welsh governments have so far maintained the protections that applied under CTB.

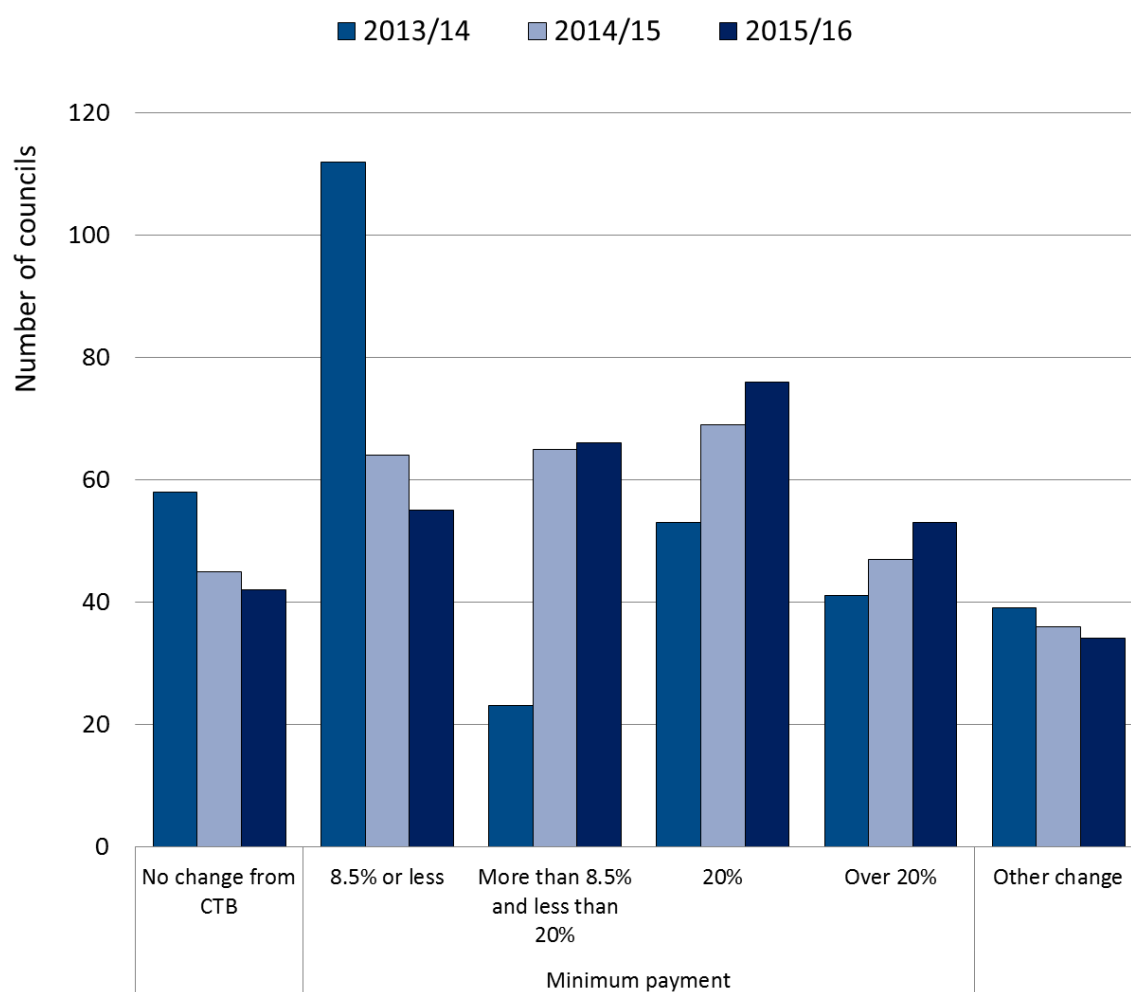
received full CTB whilst those in low income employment received partial CTB (i.e. they paid some of their council tax liability but not all). CTB was a national policy, in that the design of the scheme did not vary across areas. It was administered by local authorities but financed, via annual managed expenditure, by the DWP.

- 3.6 Since 2013, English local authorities have been responsible for designing their own local schemes, effectively determining the council tax liabilities of low-income households in their area. Councils have near full autonomy over the design of local schemes, but their choices are constrained in some ways. One constraint is the fact that the CTS funding that has been allocated to local authorities is fixed: local authorities are therefore liable for any increase (and benefit from any reduction) in the cost of local scheme. In addition, councils are required to maintain the same level of support for pensioners as existed under CTB. The initial grant for CTS (in 2013) was 10% less than the amount devoted to CTB in 2012.
- 3.7 There are a range of features that councils have introduced or adjusted under CTS in England:
- **‘Minimum payment’**. This is the most common change whereby all working-age CTS claimants have to pay some proportion of their council tax. In April 2013, 229 councils introduced a minimum payment, rising to 250 by April 2015.
 - **Second adult rebates**: 190 councils have removed or reduced the second adult rebate, whereby people living with another adult who does not contribute to council tax receive a discount on the amount owed.
 - **Band caps**: 75 councils have introduced a ‘band cap’, which means limiting the amount of benefit received in higher value properties to the amount provided to those in lower value properties.
 - **Lower savings allowances**: 72 councils have lowered the amount of savings that low income households are allowed before they are required to pay council tax (irrespective of income).
 - **Income tapering**: 23 councils have changed the income taper, the rate at which CTS is withdrawn as income increases.
- 3.8 Other changes include introducing a minimum CTS award, lowering the savings limit (from £16,000 to £6,000) or altering means-tested components such as by disregarding the child maintenance allowance or a given amount of money earned through employment.
- 3.9 Figure 1 shows the distribution of minimum payments, usually set as a percentage of a household’s full council tax liability. As can be seen, these percentages have crept up since 2013. Starting on the left hand side of the graph, we see that 42 councils

have Council Tax Support schemes with no minimum payment in 2015/16, down from 58 in CTS's first year 2013/14.

3.10 Meanwhile, 55 councils have relatively small minimum payments (8.5% or less) in 2015/16, down from 112 councils in 2013/14. This can be explained in part by the transition funding that was available to councils in 2013/14 if they adopted a minimum payment below this level. Finally, the number of councils who have introduced a minimum payment of at least 20% rose from 94 to 129 in the same period.

Figure 1: council tax 'minimum payments'

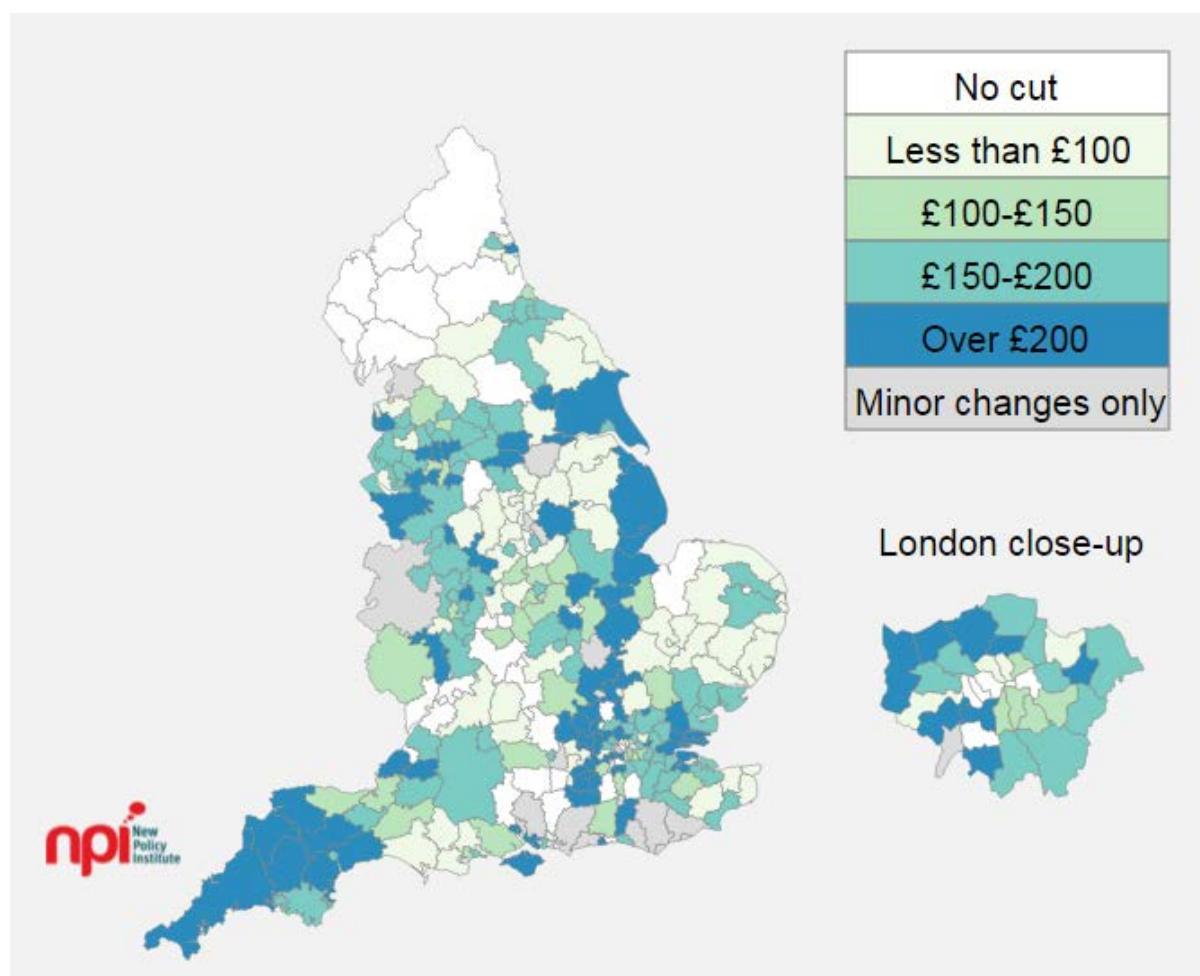


Source: NPI analysis, using FOI requests to local authorities, as displayed on <http://counciltaxsupport.org/schemes/>

3.11 Turning to the impacts, we estimate that 1.5 million working-age households in receipt of means tested benefits are paying some council tax in 2015/16. However, there is a great deal of variation in the average amount that claimants have to spend on council tax.

3.12 To provide an idea of the extent of this variation, Figure 2 shows the average amount of additional council tax paid by CTS claimants in each local authority in England in 2015/16. In 22 local authorities, CTS claimants will pay more than £250 on average in additional council tax in 2015/16. In 56 local authorities the average additional amount paid by CTS claimants will be between £200 and £250 in that year; whilst CTS claimants will pay between £150 and £200 additional council tax in 87 local authorities. At the other end of the spectrum, across 61 local authorities the average amount paid in additional council tax is less than £50, whilst claimants in 99 local authorities face an average additional council tax bill of between £50 and £150.

Figure 2 Average impact on CTS claimants in each area



Source: NPI modelling of the average hit on Council Tax Support claimants, as displayed on <http://counciltaxsupport.org/impacts/>. This analysis focuses on the band cap and minimum payment.

3.13 Some councils have introduced protections for groups they deem vulnerable. Of the councils that have not kept the old CTB scheme in place, 45 per cent (128 of 284) have introduced protections. The list of groups that have been protected in some areas include: families with a disabled person (e.g. those receiving DLA or ESA); recipients of JSA; lone parents with children under 5; war pensioners, widows and disabled, and carers. Protections were not consistent across these local authorities.

In addition to the variation between the groups protected, there is also variation for the same group across authorities.

- 3.14 There are also instances of authorities offering more generous earnings disregards. Others have chosen to be more generous by disregarding child maintenance allowance from income.

Good practice in CTS design

- 3.15 This section draws on evidence from interviews with 14 councils in early 2015, as analysed in the report *Managing the challenges of Council Tax Support*¹⁰. The study sought examples of best practice, and looked at how schemes can be designed to protect both the revenue of local authorities and the incomes of their least well-off residents.

- 3.16 As local areas vary significantly in size, material deprivation, age and their council tax base, it is not easy to determine the merits of one council's response compared to another. The options available to one council may not be open to another and local demographics can be an important factor in shaping scheme design. Despite this, it is possible to identify elements of good practice in how councils have implemented localised CTS.

- **Designing an appropriate scheme.** In retrospect, some councils accepted that they could have been more ambitious in designing a scheme that would meet local needs. For example, some had the option to make savings by changing other discounts and exemptions. Others sought to tailor their scheme to ensure that it supported a particular vulnerable group.
- **Communication, outreach and advice.** A key aspect of much of the best work done by councils in delivering their schemes effectively, retaining high collection rates and preventing excessive costs associated with recovery. In reaching out to residents who would now have to pay some council tax, councils adopted different approaches, from mail-outs to targeted interventions and one-stop shops. Councils also worked with advice services provided internally or by other organisations.
- **Collection and enforcement.** Where councils introduced CTS schemes requiring low income households to pay council tax, the anticipated increase in arrears and fall in collection rates were mostly not as bad as expected in terms of the effect on council revenues¹¹ Treating 2013-14 as a transition year, some councils sought to avoid issuing court summons and calling in

¹⁰ <http://npi.org.uk/publications/council-tax/managing-challenges-localised-council-tax-support/>

¹¹ Aldridge, H. & Bushe, S. (2014) The impacts of Council Tax Support reduction on arrears, collection rates and court and administration costs, <http://npi.org.uk/publications/council-tax/impacts-council-tax-support-reduction-arrears/>

bailiffs. But with some councils now have residents owing two or more years' of tax, the costs and benefits of using summons is changing.

4. Conclusions and recommendations: beneath the 'postcode lottery'

- 4.1 The social security system provided a UK-wide minimum level of income for 60 years. But in just a few years, this 'safety-net' has acquired many features of a postcode lottery. With CTS, that is because a national system has been replaced by a local system. With housing benefit, it is because national limits, insensitive to local housing market conditions, have been imposed, via the overall benefit cap, the national LHA caps and even local LHA caps set at too low a level for areas where the proportion of private tenants who are poor is high. With JSA sanctioning, until shown otherwise, it must be assumed to reflect large, arbitrary (and therefore unacceptable) variations in administrative practice.
- 4.2 Our recommendations focus on CTS as that has been the main subject of this submission. CTS was introduced quickly and smoothly by English local authorities. But that is no guarantee that it is either right or sustainable. We recommend that the discussion of CTS in this context should consider three questions.
- 4.3 First, what merit does local variation in the CTS schemes have for CTS recipients themselves? Whatever the talk of tailoring the scheme to meet local needs, the overwhelming effect of the shift from CTB to CTS has been to require the poorest residents to pay some council tax. The downside is clear – but where is the upside?
- 4.4 Second, is CTS sustainable? Besides growing arrears and rates of non-payment, the disappearance of HB (as it is rolled in to Universal Credit) may reduce the resources councils have to run CTS schemes. What evidence – good, official statistics collected routinely and collated nationally – are needed to illuminate this question (e.g. statistics on arrears and collection rates specifically for those in receipt of CTS)?
- 4.5 Third, what was wrong, for both recipients and councils, with the old national system of CTB financed through annual managed expenditure? Introduced in 1993 at the same time as council tax, it helped stabilise local government taxation. If it was the right thing then, why should it not be right thing now too?