

## **Communities, Equality and Local Government Committee**

**25 June 2014**

### **Evidence Paper – Council Tax Support**

#### **Background**

1. As part of the October 2010 Spending Review, the UK Government announced its intention to abolish Council Tax Benefit (CTB) and reduce spending on replacement schemes, initially by 10%. CTB was abolished on 31 March 2013 and the responsibility for developing replacement schemes was passed to Local Authorities in England and taken up by the Welsh and Scottish Governments.
2. The functions were not devolved to the Welsh or Scottish Governments. Social security benefits remain non-devolved and no powers were transferred in relation to these. The UK Government announced it would transfer funding for Council Tax Support, net of the 10 per cent initial cut, to the devolved administrations in expectation they would develop support schemes which operate within the underlying council tax system. The funding was also moved from AME to DEL, meaning future schemes must be delivered within fixed Welsh Government budgets.
3. Following the UK Government's decision to abolish CTB, the Welsh Government introduced Council Tax Reduction Schemes (CTRS) for 2013-14 which maintain entitlements for eligible households. This was supported by an additional £22 million to supplement the £222 million transferred from the UK Government, making a total of £244 million. This approach is being maintained in 2014-15, with Local Government having to address the funding implications of any additional shortfall, the costs which arise almost entirely as a result of local decisions on Council Tax (CT) levels.

#### **CTRS Review**

4. The Welsh Government has therefore protected low income and vulnerable households from the potential effects of the UK Government's decision to abolish CTB and reduce funding for replacement schemes. However, given the estimated increases in the cost of maintaining this protection, Ministers agreed in June 2013 to a review to develop options and make recommendations for an equitable and sustainable scheme, which provides the maximum possible protection for low income households. The preferred solution is to be implemented from 2015-16.

#### **Financial context**

5. The UK Government transfer to the Welsh Budget for CTRS was £222 million in 2013-14 and in 2014-15. From 2015-16, there will not be an identifiable allocation from the UK Government for CTRS as this will have been absorbed within the Welsh Budget. The Welsh Government's budget reflects a baseline adjustment to the Local Government MEG of £222 million in respect of CTRS for 2014-15 and 2015-16. For 2014-15, £244 million (£222 million transfer plus £22 million from Welsh Government) is being distributed as part of the Revenue Support Grant (RSG) to support the delivery of schemes which maintain entitlements, with Local Authorities required to take account of any additional funding implications.
6. The £244 million is provided to Local Authorities to replace the CT which they cannot collect from households who qualify for CTRS. It forms part of the income Local Authorities may spend on local services, ie. it is not 'spent' on the schemes themselves. A Local Authority will experience a funding shortfall if there is a gap between the funding provided and the amount of CT which it could have raised from households who receive a reduction. As caseloads are declining modestly, and the funding provision reflects the amount required at the time the schemes were established, such gaps are almost entirely a result of local decisions regarding increases in CT.

#### **CTRS in 2013-14**

7. In December 2013, I published An Interim Report on Council Tax Reduction Schemes in Wales, for the period May to October 2013:  
<http://wales.gov.uk/topics/localgovernment/finandfunding/counciltax/council-tax-support/council-tax-reduction-schemes-in-wales-interim-report/?lang=en>
8. The report provided an update on the operation of CTRS in Wales, aiding transparency in an area where substantial funding is being managed by the Welsh Government. Specifically, it provides Local Authority level data on CTRS caseload and funding implications for the six-month period May to October 2013.
9. The report shows caseload across Wales in October 2013 stood at around 318,000 and accounted for £246 million of council tax. Caseload decreased month-on-month over the period May to October by 1.6%. These figures are a snapshot of total caseload and cost in relation to open (live) cases at a particular moment in time, and do not account for closed cases.
10. As of March 2014, caseload was around 316,500 and accounted for £244 million. However, this figure does not represent total for the year as it does not account for cases which have closed during the year, which we expect to exceed £2 million.
11. Around 70% of applicants are entitled to the maximum reduction in their Council Tax liability based on receipt of other qualifying benefits (for example, Job Seekers Allowance or Employment Support Allowance).
12. An Annual Report on Council Tax Reduction Schemes is due to be published in the Summer. This will detail total CTRS expenditure on open and closed cases

for the year 2013-14. It will also explore trends in caseload and funding implications during the first year of operation of Council Tax Reduction Schemes.

## **Approach to the Review**

13. The purpose of the Review was to examine the options and provide and/or commission analysis of the impact on citizens and local authorities, and make recommendations for the design of an equitable and sustainable scheme within the funding constraints. The review included a number of work-streams and tasks:

- Modelling the likely future cost of CTRS, based on assumptions about future budgets and CT increases
- Analysis of the nature and impact of Council Tax Reduction Schemes introduced by English Local Authorities, using information obtained from the Institute for Fiscal Studies, the National Audit Office, the New Policy Forum, the Joseph Rowntree Foundation, and others
- Procurement of an application to enable the likely impacts on households of different options to be accurately modelled at a Local Authority and Wales wide level
- Full assessment of the Equality and UNCRC impacts
- Consultation with stakeholders, through the Task and Finish and Reference Groups (see below), through attendance at relevant Local Authority and WLGA groups, and through a formal stakeholder consultation from December 2013 to March 2014

14. Two Groups were established to support the work of the Review:

- a Task and Finish Group chaired by the Director, Local Government, to oversee the delivery of the review and recommendations for the future of CTRS. Membership consisted of representatives of WLGA, SoLACE, Citizens Advice, and Local Authority benefits practitioners, along with WG officials; and
- a Reference Group, chaired by the Deputy Director, Local Government Finance and Performance, to provide expert advice and support to the Task and Finish Group.

## **Outcome of the review**

15. In conducting this review, we carefully considered the financial context, and the emerging evidence about the impact in England in Local Authority areas where entitlements have been reduced. We modelled the impact of various options, in particular the implications for groups with protected characteristics under the Equality Act. This analysis informed a detailed Equality Impact Assessment (EIA), and UNCRC assessment. We also consulted a wide range of stakeholders, asking for views on whether or not to maintain entitlements and the likely impacts of doing so, based on the various options for reducing entitlements. Views on the equality implications were explicitly sought. The Task and Finish Group has provided support, advice and challenge throughout the review.

16. The outcome is the Welsh Government has decided to continue with the arrangements currently in place for providing Council Tax Support through our Council Tax Reduction Schemes. Full entitlement to support will be maintained through a single national framework scheme for at least two years from 2015-16.

I published a Written Statement to this effect on 5 June, along with the summary of consultation responses, the EIA, and the UNCRC assessment.

17. This decision means the Welsh Government is continuing to protect low income and vulnerable households, by ensuring all eligible applicants receive their full entitlement to Council Tax Support. These groups are already struggling to cope with the impacts of welfare reform. This will avoid the impacts being experienced in England, where over two million low-income households are faced with having to pay more of their Council Tax bill. In England, Council Tax liability varies by Local Authority and a multitude of different schemes operate, however, on average affected households are now paying £154 a year in Council Tax. Council Tax debt queries recorded by Citizens Advice have increased by up to 40% in some areas of England since the introduction of minimum Council Tax payments. Research also shows in English Local Authorities which have cut entitlements, the number of liability orders issued by Magistrates Courts for non-payment of Council Tax has increased by 30%. Similar impacts would have been felt in Wales had entitlements been reduced.
18. We intend to continue to fund Council Tax Reduction Schemes at current levels, whilst Local Government will need to plan for any additional financial implications arising from local increases in Council Tax. This arrangement reflects the shared responsibility for the schemes and the fact caseloads are gradually declining. The Welsh Government funding replaces the Council Tax income which Local Authorities cannot collect from those households who qualify for a reduction.

### **The longer term**

19. The decision to maintain entitlements for at least a further two years provides stability and certainty for both recipients of CTRS and Local Authorities. For Authorities, it also avoids the administrative implications of having to collect small bills and pursue debt from households previously not liable for any CT and, therefore, not accustomed to paying it. In the longer term, we will need to consider the implications of any reduction in the number of Authorities through mergers, as well as any impacts of the full roll-out of Universal Credit.