



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Communities and Local Government

Council Tax support

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National Audit Office

Department for Communities and Local Government

Council Tax support

Report by the Comptroller and Auditor General

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Amyas Morse
Comptroller and Auditor General
National Audit Office

5 December 2013

This report evaluates the value for money of the Department's introduction of Council Tax support by assessing whether it achieved its policy objectives while managing the risks to implementation.

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This report can be found on the National Audit Office website at www.nao.org.uk/2013-council-tax

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Key facts

All 326

local authorities launched Council Tax support schemes on time

£414m

estimated reduction in central government spending on support for Council Tax, 2013-14

71%

local authorities introduced minimum Council Tax payments, 2013-14

- 5 million** Council Tax Benefit claimants, 2011-12
- 10 per cent** reduction in central government funding for local authorities to provide support for Council Tax, 2013-14
- 100 per cent** local authorities we sampled that used new powers to charge more Council Tax on selected properties (to help offset reduction in Council Tax support funding)
- 19 months** time the Department took between announcing policy to publishing the *Statement of Intent* (to guide authorities in designing local schemes)
- 9 months** time local authorities had to implement schemes, from *Statement of Intent* to scheme launch deadline
- 41 per cent** local authorities which have introduced minimum payments for Council Tax without any protections within the Council Tax system for vulnerable groups other than pensioners and war pensioners

Summary

1 Since Council Tax was introduced in 1993, people on low incomes have been able to claim support to pay their Council Tax bills. Until 2013-14, this was through Council Tax Benefit. Central government decided, and funded, the amount claimants received and local authorities administered the benefit. Five million people claimed Council Tax Benefit in England in 2011-12, at a cost of £4.3 billion.

2 On 1 April 2013, the Department for Communities and Local Government (the Department) transferred responsibility for Council Tax support to local authorities. Local authorities now have a duty to provide local Council Tax support schemes. The Department set funding to local authorities for Council Tax support in 2013-14 at £3.7 billion, which is 90 per cent of the forecast 2013-14 Council Tax Benefit expenditure. This allowed the Department to make a £414 million saving for central government (excluding implementation costs), which supported the government's programme of deficit reduction. Funding will no longer change to reflect fluctuations in claimant numbers. The Department expects that localising responsibility for Council Tax support will give local authorities a greater stake in promoting local economic growth.

3 As well as making savings and transferring the system to local control, the Department has two other main objectives for this policy:

- To continue to protect vulnerable groups.
- To support the improved work incentives to be delivered through Universal Credit as part of the government's programme of welfare reform.

4 The Department introduced Council Tax support at a time of wider changes, both to local authority funding and the benefits system. The government is significantly reducing local authority funding. This includes a planned reduction in central government funding of 26 per cent, which is a 14 per cent reduction in their overall spending power, over the four years from April 2011, after adjusting for inflation. It has also changed the basis of local government financing. From April 2013, local authorities keep a share of any growth in business rates in their area, which the Department expects will incentivise them to promote local business growth. This ended the Formula Grant system, which redistributed all business rates according to a formula that determined each local authority's grant by considering local authorities' needs and ability to raise resources through Council Tax, and that limited the annual funding changes for each local authority through a 'damping' system.

5 The government is also implementing a number of broader welfare reforms. Most notably, from 2013-14, the Department for Work & Pensions is introducing Universal Credit, a single benefit payment replacing six working-age benefits. As part of this, the government expects to remove local authorities' responsibility for administering Housing Benefit by 2017. The government opted not to include Council Tax Benefit in Universal Credit, but to localise it as Council Tax support instead.

Our report

6 This report evaluates the value for money of the Department's introduction of Council Tax support by assessing whether it achieved its policy objectives while managing the risks to implementation. It also examines the Department's approach to considering the impact of Council Tax support on local authority financial sustainability. We outline our audit approach and evidence base in Appendices One and Two:

- Part One examines how the Department and local authorities achieved the reform's main objectives, to localise Council Tax support and reduce the funding for it.
- Part Two assesses the financial impacts of reducing funding for Council Tax support on local authorities, claimants and other Council Tax payers.
- Part Three examines whether the Department has fully taken account of, and is considering risks to, the longer-term objectives of the policy, to wider government objectives and the impact on local authority finances.

Key findings

Localising Council Tax support

7 **The Department and local authorities introduced Council Tax support on time, achieving the Department's main objectives of localising Council Tax support and contributing to the government's deficit reduction programme.** The implementation costs the Department incurred will reduce planned savings for central government by £152 million over three years. Excluding implementation costs, central government will make a saving of £414 million in 2013-14. Savings are likely to recur in future years, but it is difficult to quantify them (paragraphs 1.3 to 1.6 and 1.19).

8 **The Department made the necessary arrangements to ensure an effective transition to Council Tax support, although it could have engaged earlier with local authorities.** The Department formally consulted local authorities, drafted legislation, and designed a 'default scheme' which local authorities could adapt to design their own schemes. It also designed the policy in close collaboration with two sector working groups and communicated the changes widely with local authorities. However, the Department did not provide detailed guidance to local authorities until May 2012, 19 months after the policy was announced. This meant local authorities had to finalise their schemes within nine months (paragraphs 1.7 to 1.14).

9 The Department compensated local authorities for the costs they incurred in introducing Council Tax support based on an early estimate, and plans to reassess costs when better data are available. The Department is giving local authorities a 'new burdens' grant of £98.3 million for the first two years of the reform to compensate them for the estimated costs of implementation. The Department assessed these costs in May 2012, before local authorities undertook the majority of their development work. The Department intends to revise its assessment of the administrative costs incurred by local authorities as more data become available (paragraphs 1.15 to 1.17).

Financial impact of localising Council Tax support

10 The financial impact of reduced funding for Council Tax support depends upon a range of factors, and will vary between local authorities. The Department stated in its *Impact Assessment* that localising Council Tax support with reduced funding does not of itself constitute a net saving in expenditure across central and local government. The change transfers the costs of providing Council Tax support to local authorities, with central government funding 90 per cent of their forecast Council Tax Benefit expenditure. It is for local authorities to decide how to manage the funding reduction. This could be through reducing entitlements for some claimants, reducing funding for other services, making efficiency savings, using reserves, or using new flexibilities over Council Tax discounts and exemptions. Each local authority's flexibility in managing the funding reductions varies according to its financial situation and other local factors (such as its ability to raise Council Tax on second homes) (paragraphs 2.1 to 2.3, and 2.19 to 2.21).

11 Most local authorities have reduced support for claimants to meet some of their funding reduction, but there is a risk this may have an effect on their Council Tax collection costs. Seventy-one per cent of local authorities have passed some of the funding reductions to claimants, introducing schemes that require working-age claimants to pay at least some Council Tax, regardless of income. Some local authorities also told us that they have incurred extra Council Tax collection costs as a result of implementing minimum payment schemes. The Department has acknowledged that local authorities could face higher costs. However, it decided not to fund them, on the grounds that local authorities can choose what kind of scheme to implement (paragraphs 2.4 to 2.7).

12 The Department provided unplanned funding to cushion the impact on claimants in the first year, although this came too late for some local authorities to respond. In early autumn 2012, information from local authorities' consultations on their local schemes became available, and it became clear to the Department that many local authorities intended to implement schemes that asked claimants to pay a significant proportion of Council Tax. While local authorities were free to do this in keeping with the principle of localism, the Department responded by announcing a one-year Transitional Grant, designed to encourage local authorities to introduce schemes that limited the financial impact on claimants. Although at least 62 local authorities changed their scheme after the Grant was announced, at least 65 had already finished public consultation on their proposed scheme. The Department paid out a total of £53 million of the Transitional Grant, which it found from other programmes that were under budget. As the Grant had not been planned for during design of the policy, the Department had not taken these costs into account in its *Impact Assessment* (paragraphs 2.8 to 2.12).

13 Most local authorities used new powers to charge more Council Tax on some properties, to help offset the funding reduction for Council Tax support. The Department has given local authorities new powers to charge additional Council Tax on selected properties, such as second homes and short-term empty properties. We found that 100 per cent of a sample of 207 had taken advantage of these additional powers, raising an estimated additional income of £178 million. Local authorities' scope for raising income through these new powers varies depending on the proportion of empty and second homes in their area. Our analysis indicates that London authorities could cover on average 73 per cent of the funding reductions through these powers, compared to district councils which could cover on average 142 per cent (paragraphs 2.13 to 2.16 and 2.21).

Additional policy objectives and local authorities' financial sustainability

14 Local authorities had competing priorities when designing their schemes which led to the Department not fully meeting its policy objectives. The Department's expected policy outcomes included that local authorities implement Council Tax support schemes that protect vulnerable people and support improved work incentives. Designing and modelling schemes to meet these objectives is a complex task for local authorities and may require prioritisation of some objectives over others. Some 133 local authorities (41 per cent) have introduced minimum payments of Council Tax with no protections for vulnerable groups within their Council Tax support scheme, other than the mandated protections for pensioners and war pensioners. We also found that some local authorities have designed schemes with features that reduce work incentives for some individuals, although others have also introduced features that increase work incentives. The Department considers the main objective of the reform to provide local authorities with

a significant degree of control over how they manage the reduction in funding for Council Tax support. It therefore accepts that local authorities will make local decisions to balance competing objectives and their own financial circumstances. It has no plans to respond if local authorities' schemes do not fully meet its objectives ahead of the review it is required to undertake within three years of policy implementation (paragraphs 3.2 to 3.14).

15 Savings from the Universal Credit programme depend partly on effective data sharing between the Department for Work & Pensions and local authorities, and partly on local authorities changing the design of Council Tax support schemes. At present, local authorities assess claimants once for both Council Tax support and Housing Benefit, using the same processes and people. In future, Housing Benefit will be replaced by Universal Credit. The Department for Work & Pensions expects the removal of Housing Benefit from local authority administration to lead to annual savings of up to £565 million. The Department for Work & Pensions and the Department for Communities and Local Government anticipate that effective claimant data sharing between the Universal Credit and Council Tax support systems will help minimise duplication between the two processes and allow local authorities to reduce their administration costs. The departments are working together to agree the data sharing arrangements, including how best to reduce administrative costs, although it is still too early to say how effective this will be. The Department for Communities and Local Government expects that local authorities will also be able to cut their administrative costs by changing the design of their Council Tax support schemes. However, it has not yet assessed how practicable this will be (paragraphs 3.15 to 3.20).

16 The Department has improved its understanding of the combined impact of government policies on local authorities' financial sustainability, but has not yet attempted to quantify the financial impact of the government's welfare reforms on local authorities. Transferring risks and costs to local authorities, by localising Council Tax support, adds to the broader financial challenges for local authorities. We reported in *Financial sustainability of local authorities* (January 2013) on the combined impact of different funding changes on local authorities, coupled with a reduction in overall central government funding. The Department has begun to assess the combined impact of some of these funding changes, but has not yet quantified the potential financial impacts of the government's welfare reforms, which could lead to increased demand for local authority services (paragraphs 3.21 to 3.29).

Conclusion on value for money

17 Despite a slow start, the Department worked together effectively with local authorities to ensure that Council Tax support was introduced on schedule. Given the demanding timescale this was a considerable achievement, and ensured the Department achieved its main objectives of contributing to deficit reduction and localising the provision of Council Tax support. However, it is not clear if all of the longer-term objectives outlined by the Department before localisation will be met, particularly the protection of vulnerable groups from increases in Council Tax. The Department considers scheme design to be a local decision and accepts that this could mean that not all local authorities' schemes will deliver against the full range of the reform's objectives. In the light of this, the Department is not in a position to ensure that it will achieve value for money in the longer term.

18 Local authorities now bear the financial risk of providing support, potentially contributing further to the overall pressures on their financial sustainability. The impact of this will vary widely depending on local authorities' financial situation and local factors, and the impact of other funding and welfare changes. The Department must satisfy itself that local authorities can manage the cumulative impact of funding changes, so that it can make informed decisions about future funding.

Recommendations

19 Local Council Tax support schemes are in place, and local authorities are responsible for them. However, the Department still has a significant role in safeguarding the long-term value for money of this reform. To help achieve this, the Department should do the following:

- a Reassess local authorities' ongoing costs for administering Council Tax support schemes.** In line with its 'new burdens' doctrine the Department needs to compensate local authorities appropriately for their new duties. It should do this with the most accurate and up-to-date data it can collect.
- b Continue its work with the local government sector to plan the review of the policy and ensure it fully evaluates the extent to which policy objectives have been achieved.** It should particularly explore the possibility of assessing, using a risk-based approach, how far local schemes support wider policy on work incentives and protect vulnerable people.
- c Continue to work with the Department for Work & Pensions and local government to ensure that schemes complement Universal Credit.** The departments should analyse and quantify the expected savings from sharing claimant data between the Department for Work & Pensions and local authorities. The Department for Communities and Local Government should also analyse how schemes could be changed to achieve administrative cost savings.

d Develop its understanding of the likely combined financial impacts on local authorities of funding changes and wider welfare reform. We recommended in our report *Financial sustainability of local authorities* that the Department should evaluate the impact of central government's decisions on local authorities' finances. We are encouraged that since then the Department has assessed the cumulative impact of several funding changes. It needs now to take account of the implications of wider changes to welfare.

20 In this report we evaluate the performance of the Department. We have, however, observed as part of our review that there is scope for local authorities to improve their forecasting and modelling skills. Designing Council Tax support schemes is a complex and unfamiliar task for local authorities. It requires them to consider many different parameters to design the most effective schemes. In the context of wider changes to how local authorities are funded, in particular reforms to business rates, this means that it is more important than ever that local authorities can forecast and model accurately, to manage their finances.

Part One

How Council Tax support was localised

1.1 Since Council Tax was introduced in 1993, people on low incomes have been able to claim support to pay their Council Tax bills. Until 2013-14, this took the form of Council Tax Benefit. Local authorities administered Council Tax Benefit, but it was a national scheme with central government deciding and funding the amount of support claimants received. Council Tax Benefit was the most widely claimed of all means-tested benefits, with five million people claiming £4.3 billion in 2011-12.¹

1.2 On 1 April 2013, Council Tax Benefit was replaced by 326 local Council Tax support schemes, for which the local 'billing' authorities both determine and administer entitlements. Billing authorities are responsible for collecting Council Tax for all the local authorities operating in their area.² The Department for Communities and Local Government (the Department) led the implementation of this reform. It has given local authorities a legal duty to continue to give pensioners the same support they would have received under Council Tax Benefit. Apart from pensioners, local authorities now decide how much support claimants receive.

Department's main objectives for this policy

1.3 The Department's main objectives for Council Tax support were to contribute to the government's programme of deficit reduction and to localise provision of Council Tax support. The Department aimed to achieve its first objective by reducing funding by 10 per cent from the forecast amount (£4.14 billion) the government would have spent on Council Tax Benefit in 2013-14. This equated to a planned reduction of £414 million in 2013-14.

1.4 In localising Council Tax support, the Department is also controlling its expenditure on Council Tax support in future years. The Department for Work & Pensions funded Council Tax Benefit from its annually managed expenditure budget. This meant expenditure automatically rose or fell, depending on claimant numbers and levels of Council Tax. Total government expenditure on Council Tax Benefit more than doubled in cash terms between 1993-94 and 2011-12, driven by rises first to levels of Council Tax and, more recently, numbers of claimants (**Figure 1**).

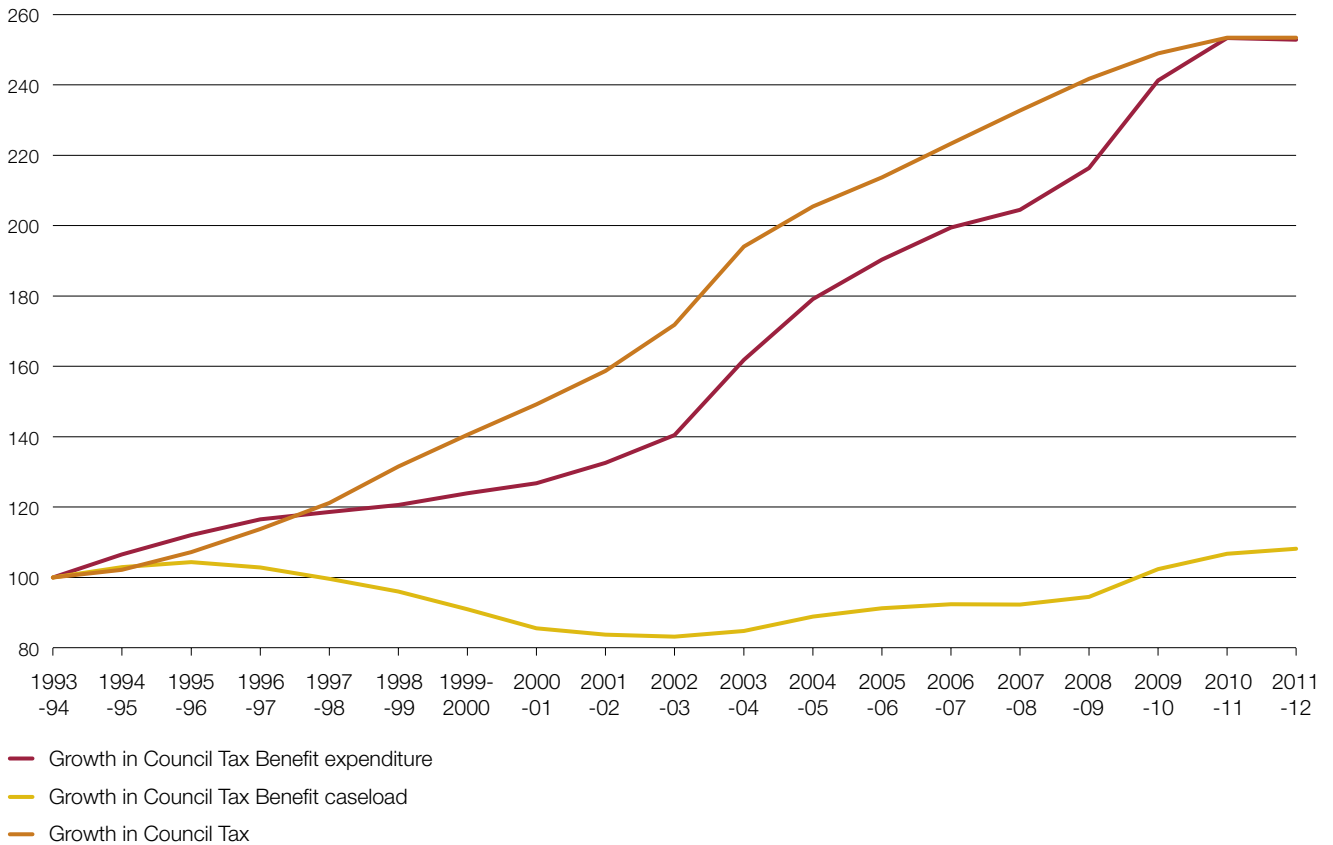
¹ Unless otherwise stated, all figures in this report apply to England only. The number of people claiming Council Tax Benefit is given for 2011-12, which is the latest year for which data are available.

² In this report, 'local authorities' refers to billing authorities unless otherwise stated.

Figure 1
Annual growth in Council Tax Benefit expenditure

Expenditure on Council Tax Benefit has correlated with rates of Council Tax and caseload

Indexed rise (1993-94 = 100)



Note

1 Annual changes for Council Tax Benefit and Band D Council Tax calculated in cash terms.

Source: Department for Work & Pensions

1.5 The government has now transferred funding to the Department's budget for local authorities. As the government determines the size of this budget, it will control the funding it gives local authorities for their Council Tax support expenditure. Local authorities must now manage increases in Council Tax support claimant numbers within their own budgets. Conversely, they will benefit from decreases in claimants.

1.6 By controlling central government's Council Tax support expenditure, the Department expects there to be future annual savings for central government. It is difficult to quantify future savings, however, as their value depends on what Council Tax Benefit expenditure would have been if it had not been replaced by Council Tax support. Central government will make savings in future years if Council Tax Benefit expenditure would have been more than the level at which the Department funds local authorities for Council Tax support.

How localisation was achieved

1.7 Successful implementation of Council Tax support schemes depended on local authorities having final schemes in place by 31 January 2013. To do this local authorities had to:

- consider scheme options;
- consult on their scheme design with precepting authorities³ and local residents; and
- contract IT suppliers to change benefits processing software.

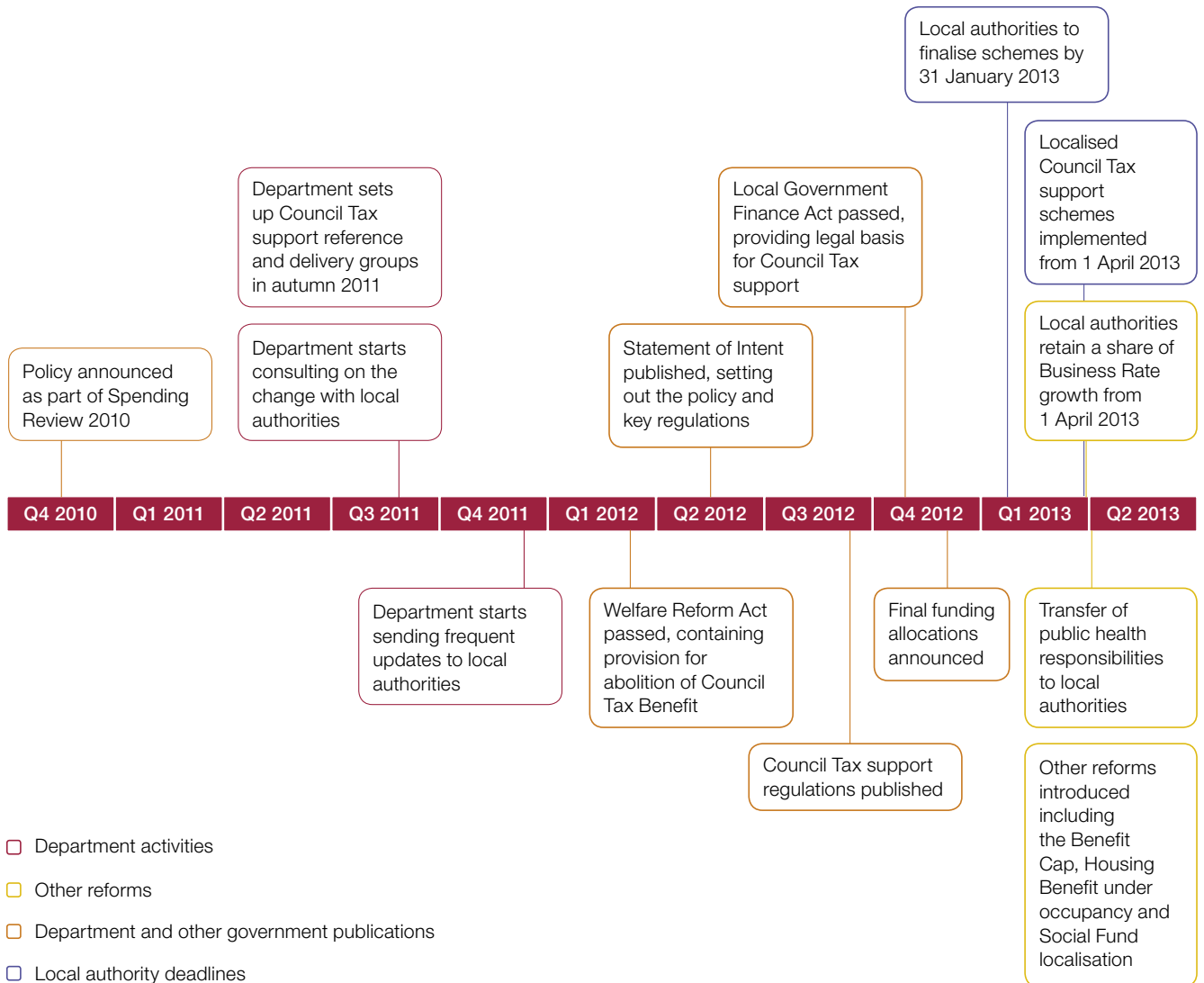
1.8 The short timescales the Department gave local authorities compounded local authorities' challenges in finalising the schemes on time. The Department published *Localising Support for Council Tax: A Statement of Intent* in May 2012, 19 months after the policy was first announced in the 2010 Spending Review.⁴ This was the first time it had given local authorities detailed information to design their schemes. Local authorities then had nine months before their schemes had to be finalised. In addition, local authorities had to manage other major changes simultaneously, including localisation of business rates and significant welfare reforms (**Figure 2**).

1.9 In the end, the short timeline proved not to be a barrier to the introduction of Council Tax support. All 326 local authorities had schemes in place by 31 January 2013. The Department could therefore reduce expenditure on Council Tax support on 1 April 2013. If localisation had been delayed, the government would have had to find unplanned savings (or increase borrowing) in 2013-14.

³ Major 'precepting' authorities, such as county councils, police and fire authorities, receive a proportion of Council Tax collected by billing authorities for providing services in their area.

⁴ Department for Communities and Local Government, *Localising Support for Council Tax: A Statement of Intent*, May 2012.

Figure 2
Timeline: implementing Council Tax support



Source: National Audit Office

Department's 'default' scheme

1.10 The Department took a number of actions to help local authorities implement schemes on time. One of its main contributions was to design a 'default' scheme. The 'default' scheme maintained support entitlements for all claimants as they were under Council Tax Benefit. Local authorities used it as a template for their own schemes, making necessary amendments to adjust it to their own preferred scheme design.

1.11 Local authorities would have had to automatically adopt the 'default' scheme if they had not had their own scheme ready in time. Local authorities that implemented schemes identical to the default scheme had to absorb the full reduction to funding in their overall budget, as they had to match the support provided under Council Tax Benefit. Most local authorities, however, made changes to certain parameters of the scheme, such as reducing claimants' maximum entitlements to Council Tax support, to offset their central government funding reduction (paragraph 2.4). Only 57 local authorities implemented schemes identical to the default scheme. Of these local authorities, the Department is aware of seven that had to adopt the default scheme because their own was not ready in time.

Department's collaborative approach

1.12 We previously reported on central government's communications with local government. We said that departments should give clear and frequent updates on policy implementation, and engage early with local authorities and stakeholders as key partners.⁵ Local authorities responding to our consultation as part of this study were critical about the late engagement of the Department and said they would have liked more detailed information on Council Tax support localisation earlier.

1.13 However, we also found evidence of good practice. For example, the Department:

- engaged with local authorities at 91 events between August 2011 and April 2013;
- gave local authorities frequent updates, including joint letters from the permanent secretaries of the Department and the Department for Work & Pensions; and
- published guidance to local authorities in May 2012 on how they should consider work incentives and protecting vulnerable groups, when designing schemes.

⁵ Comptroller and Auditor General, *Central government's engagement and communication with local government*, Session 2012-13, HC 187, National Audit Office, June 2012, p. 10.

1.14 The Department also established two groups, each made up of representatives from local authorities and other stakeholders, to consult on the principles (reference group) and details (delivery group) of localisation, 11 months after the initial policy announcement. In April 2013, the delivery group commented on the Department's efforts in a lessons-learned session. It considered that at first officials had shown limited knowledge of the policy area, and that there had appeared to be a lack of accountancy skills within the Department. However, it was complimentary about how officials worked with local authorities, giving genuine opportunities for stakeholders to influence policy decisions. In a similar exercise, the reference group commended the Department's regular emails to local authorities.

Implementation costs

1.15 The principal costs of implementing local Council Tax support schemes fell to local authorities. They incurred costs for:

- designing and modelling local schemes;
- communicating the changes and consulting with their communities;
- paying IT suppliers for new benefit processing software; and
- setting up a system of appeals against Council Tax support decisions.

'New burdens' funding for local authorities' new duties

1.16 Under its 'new burdens' doctrine, the Department has stated that local authorities should be funded for any new costs they incur because of central government policy.⁶ In spring 2012, the Department asked a sample of 30 local authorities to estimate their costs in localising Council Tax support, to compensate them for the costs they incurred, with 23 responding. The Department standardised the cost estimates it received, and is providing 'new burdens' funding totalling £98.3 million by 2014-15.

1.17 The assessment took place at a time when local authorities were not in a position to carry out a full assessment of their implementation and recurring costs. The Department, however, intends to review its 'new burdens' cost assessment as part of its work with the Department for Work & Pensions to understand the ongoing costs of administering, reviewing and revising Council Tax support schemes (see paragraphs 3.15 to 3.20).

⁶ Department for Communities and Local Government, *New Burdens Doctrine*, June 2011.

Grant funding and the Department's planned savings

1.18 The 'new burdens' funding reduced the planned saving to the departmental budget in 2012–2015. Although the Department acknowledged in its *Impact Assessment* that it was likely there would be implementation costs such as these, there was no attempt at that time to estimate how big they would be. The Department therefore did not estimate the net impact these costs would have on the overall financial benefit it expected the policy to achieve.

1.19 In 2013-14, the Department also incurred costs through the introduction of its Transitional Grant (see paragraphs 2.8 to 2.12). Taken together with the 'new burdens' funding, the Department has incurred implementation costs that will reduce savings to central government by £152 million over the three years 2012-13 to 2014-15. The Department met the costs from within its overall budget, meaning the full saving for central government was secured.

Part Two

The financial impact of Council Tax support

2.1 Introducing Council Tax support allowed the Department for Communities and Local Government to reduce central government expenditure on support for Council Tax. The Department acknowledged in its *Impact Assessment*, however, that reducing funding for Council Tax support would not constitute a net benefit. The saving to central government would be matched by costs to claimants, other council taxpayers or residents and local authorities, depending on local authority scheme choices.⁷

2.2 Financial impacts on local authorities, claimants and other taxpayers will vary depending on a range of factors. Local authorities can decide how to manage the loss of funding for support for Council Tax in several ways. For example, they could absorb it within their budgets, utilise their reserves, make efficiency savings, manage fraud and error, reduce entitlements to support for Council Tax bills, or make use of wider flexibilities within the Council Tax system. Local authorities' decisions on how to manage the funding reduction will be based on local political judgement but also on their specific circumstances, not least their overall financial position.

Funding reductions

2.3 The Department's reduction to Council Tax support funding meant that all local authorities faced a funding shortfall. When planning the policy, the Department calculated that local authorities would face a shortfall of between 0.08 and 2.5 per cent of their total budgets. The Department sought to mitigate the impact by capping the maximum possible cut at 0.88 per cent of a local authority's budget. The money for this was found by increasing the cut to those that were least affected (those whose funding shortfalls were less than 0.22 per cent of their budgets).

⁷ Department for Communities and Local Government, *Updated Impact Assessment*, June 2012, p. 2 and p. 11.

Passing on funding reductions to claimants

2.4 Most local authorities opted to pass at least some of the funding reductions on to claimants, by requiring every working-age claimant to make a minimum contribution to their Council Tax bill:

- From data we collated, we estimate that 71 per cent of the 326 local authorities have introduced schemes with minimum payments for working-age claimants. The level of these payments ranges widely across England from 5 per cent to 33 per cent of a Council Tax bill (**Figure 3**).
- From 113 local authorities surveyed by the Society of District Council Treasurers (56 per cent response rate), 73 per cent said that they had passed some or all of the reductions on to claimants.⁸ Results from the survey also suggest that 48 (42 per cent) district councils have set up discretionary hardship funds to help reduce the financial impact on some individual claimants.
- From 49 responses to our consultation from London, metropolitan and unitary authorities (39 per cent response rate), 90 per cent passed all or some of the reductions on to claimants.

Impact on collection rates and costs

2.5 By passing the Council Tax support funding reduction on to claimants, local authorities will have to collect Council Tax from people not used to paying it. There is a risk that Council Tax collection rates for this group of people will be lower than for the average Council Tax payer, at least initially. District councils returning the Society of District Council Treasurers survey, for example, expect that the average collection rate from this group will be 74 per cent. This is compared with a 98 per cent collection rate across all Council Tax payers. Despite recognising this risk in its *Impact Assessment*, the Department did not provide 'new burdens' funding for these potential costs.⁹ It argued that local authorities should not have designed schemes which require people to pay Council Tax they cannot afford.

2.6 The financial implications of reduced collection rates are not limited to potential lost Council Tax revenue. Some local authorities are spending more in collecting Council Tax. Birmingham City Council and Epping Forest District Council, for example, told us they employed additional members of staff to deal with the increased burden of Council Tax collection. South Somerset District Council told us it reviewed all Council Tax support recipients who received a reminder notice (about 2,300 claimants) for their Council Tax arrears, and telephoned those who had not brought their account up to date to help them get their payments back on track.

⁸ Of all respondents, 3 per cent did not answer this question.

⁹ Department for Communities and Local Government, *Updated Impact Assessment*, p. 18.

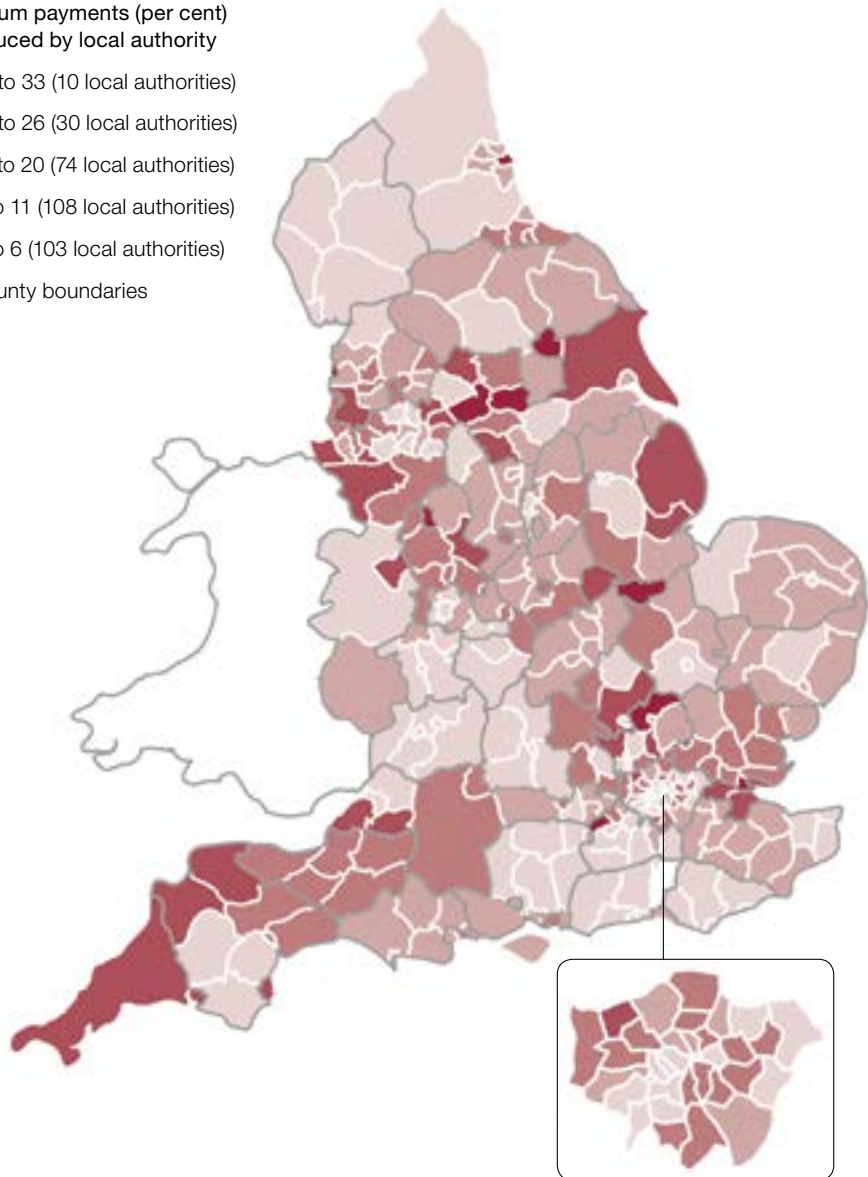
Figure 3

Levels of minimum payments in Council Tax support schemes across England

Most local authorities are asking working-age claimants to pay Council Tax, with the amounts varying widely across England

Minimum payments (per cent) introduced by local authority

- 27 to 33 (10 local authorities)
- 21 to 26 (30 local authorities)
- 12 to 20 (74 local authorities)
- 7 to 11 (108 local authorities)
- 0 to 6 (103 local authorities)
- County boundaries

**Notes**

- 1 Data collated by the National Audit Office from 326 local authority websites after the Department announced the Transitional Grant. We have no information for one local authority, shown as white.
- 2 The dark lines show the boundaries of county councils, unitary authorities, metropolitan boroughs, and London boroughs. The light lines show the boundaries of district councils. These are located within the boundaries of county councils.

Source: National Audit Office

2.7 Local authorities introducing schemes with minimum payments that we interviewed also told us of an increase in court summonses and liability orders. Liability orders give local authorities the authority to collect the money claimants owe them. For example, Milton Keynes Council introduced a minimum payment of 20 per cent. The Council saw the combined total of final notices, court summonses and liability orders issued in June 2013 increase by 167 per cent compared to those issued in June 2012, increasing administrative burden for the Council. The impact on Council Tax collection costs and number of court summonses and liability orders could be transitional, though, as Council Tax support claimants become accustomed to paying Council Tax.

Transitional Grant

2.8 In early autumn 2012, information from local authorities' consultations on their local schemes became available, and it became clear to the Department that a large proportion of local authorities intended to cover some or all of their funding reduction by introducing minimum Council Tax payments. This would have resulted in claimants receiving significantly less support than under Council Tax Benefit. The Department told us that this was not in line with information from earlier discussions with local authority officers, which indicated that most local authorities planned to absorb the funding reductions in their budgets.

2.9 The Department responded to this new information by announcing in October 2012, a one-off Transitional Grant of up to £100 million to help limit financial impacts on claimants in the first year of the reform. One of the criteria to qualify for the Grant was that schemes had to limit minimum Council Tax payments to 8.5 per cent of an individual's Council Tax bill. In the end, the Department paid out £53.3 million. This money was transferred from a range of the Department's programmes as part of its monthly budgeting process, by which it transfers funding from budgets that are forecast to underspend to new or higher priorities. As the Grant had not been planned for as part of the original policy design, the Department had not taken account of the £53.3 million costs in the *Impact Assessment*.

2.10 The Grant did have some effect in changing local authorities' schemes. The New Policy Institute inspected local authorities' draft schemes before and after the Department announced the Transitional Grant, in October 2012 and March 2013. From our analysis of this information we found that 62 (43 per cent) of the 145 local authorities with documentation available changed their scheme and subsequently met eligibility requirements for the Grant.

2.11 However, because the Department introduced the Grant only three months before the deadline for local authorities to have schemes ready, it came too late to influence a significant number of local authorities. At least 65 local authorities (41 per cent of 158 sampled local authorities) had already finished the public consultation on their proposed scheme before the Grant was announced. Where local authorities changed their schemes and re-consulted with their residents, the Department did not provide any funding for additional consultation costs.

2.12 At least 28 local authorities that received the Grant had already announced schemes that complied with the Transitional Grant criteria. This meant the Department paid out at least £4.5 million for local authorities to introduce schemes they were going to introduce anyway (19 per cent of the £19.3 million funding provided to a sample of 145 local authorities). The Department considers this was acceptable as it wanted to recognise local authorities that implemented what it considered to be well-designed schemes.

Discretion on Council Tax discounts

2.13 Reducing the Council Tax support provided to claimants was not the only way open to local authorities to manage the funding reductions. For example, at the same time as reducing funding for Council Tax support, the Department gave local authorities new powers that allow them to increase their Council Tax income. From 1 April 2013, local authorities have had greater discretion over the Council Tax discounts and exemptions they give to owners of certain types of properties, such as second homes and vacant dwellings. This allows local authorities to increase the income raised through Council Tax.

2.14 Many local authorities have used these new discretions to help absorb the funding reductions in Council Tax support. Seventy-one per cent of 113 district councils responding to the Society of District Council Treasurers' survey and 59 per cent of the 49 authorities responding to our consultation explicitly said they had reduced Council Tax discounts and exemptions to help offset the funding reductions.

2.15 The Department has not explicitly linked this reform to Council Tax support. However, it is possible to analyse the combined effects of both together to see how far the reduction of Council Tax support funding is compensated for, or outweighed by, the increase in income from using new Council Tax flexibilities alone.

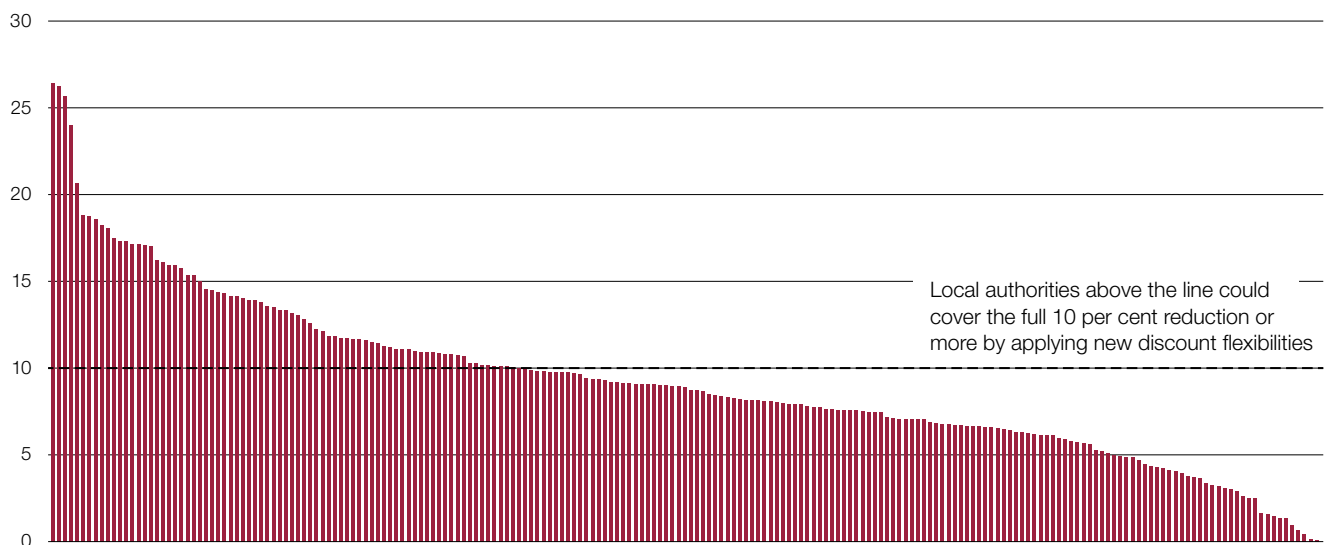
2.16 We collected information from 207 local authorities about their discounts and exemptions and estimated the additional income they would be able to collect in 2013-14. For our calculation, we assumed that their Council Tax collection rates and the number of properties meeting the relevant discount and exemption criteria remain the same as in 2012-13. One hundred per cent of the sampled local authorities had used these new flexibilities, with an estimated additional income across the sample of £178 million. We estimate that 37 per cent of the 207 local authorities could cover the full 10 per cent reduction in Council Tax support funding in this way and 84 per cent could cover half of the reduction (**Figure 4** overleaf). This does not include further revenue which could be raised through adjustments to discounts for long-term empty properties as the data were not available at the time of modelling.

Figure 4

Additional estimated income from Council Tax discounts as a proportion of forecast Council Tax support spend 2013-14

Seventy-seven of 207 sampled local authorities could cover the 10 per cent reduction in support funding or more by using new Council Tax discount flexibilities

Percentage



Notes

- 1 We selected a random sample of 218 local authorities. Data on changes to discounts and exemptions were available for 207 local authorities. We have used local authorities' housing statistics to calculate the net value of these changes against the cut to funding.
- 2 Excludes the impact of changes to discounts available to long-term empty properties.
- 3 Percentage shown for each local authority is the estimated additional revenue gained through changes to discounts, as a percentage of their forecast Council Tax Benefit expenditure in 2013-14, which was used as the basis of the 10 per cent funding reduction.

Source: National Audit Office modelling based on data published on local authority websites

Approaches to managing funding reductions

2.17 Passing on the funding reduction to claimants and using other flexibilities in the Council Tax system was the most common way to manage the funding reductions. However, some local authorities used other means to reduce the impact on claimants and other Council Tax payers. Of local authorities responding to our consultation, 22 per cent said that they reduced spending on other services to absorb the Council Tax support funding reduction, while 14 per cent used part of their reserves. Of district councils surveyed by the Society of District Council Treasurers, 26 per cent said that they funded the shortfall partly through efficiency savings.

2.18 The variety of approaches reflects local authorities' discretion in how to distribute the impact of the funding reductions between their own budgets, administrative efficiency savings, claimants, and other Council Tax payers. There are, however, a number of external factors that limited their flexibility over how to distribute the funding reduction and the effect of these factors is not uniform across the sector. These include the:

- wider funding pressures local authorities are facing through overall reductions in central government funding and increased demand for certain services;
- amount of pensioners claiming Council Tax support in their locality, as pensioners' entitlements are legally protected; and
- nature of property ownership within the local authority.

Other funding pressures

2.19 Local authorities' ability to absorb the funding reductions needs to be considered against their wider funding pressures. We highlighted in our report *Financial sustainability of local authorities* that central government reductions to funding do not have a uniform effect across local authorities.¹⁰ In 2012-13 the reduction in local authority spending power ranged between 1.1 and 8.8 per cent.¹¹ Local authorities with greater reductions in spending power, and in particular those who also face a greater reduction in Council Tax support funding, had less flexibility to absorb the reduction within their budget.

Pensioner claimants

2.20 Another aspect of this policy that has a variable impact is the treatment of pensioners. The Department has legislated to ensure local authorities continue to provide pensioners with the same entitlements they would have received under Council Tax Benefit. The Institute for Fiscal Studies has shown that the proportion of pensioners that claimed Council Tax Benefit ranged widely between local authorities (**Figure 5** overleaf). Given pensioners are protected, the higher the proportion of pensioner claimants, the bigger the cut that would have to be passed on to working-age claimants if local authorities chose to recover their costs. If all local authorities had passed on a 10 per cent funding cut in full, the Institute for Fiscal Studies estimated this would have meant the cut to working-age claimants ranging between 14 and 33 per cent.¹²

10 Comptroller and Auditor General, *Financial sustainability of local authorities*, Session 2012-13, HC 888, National Audit Office, January 2013.

11 Spending power is calculated by taking account of central government contributions to local authorities, Council Tax, and NHS social care funding.

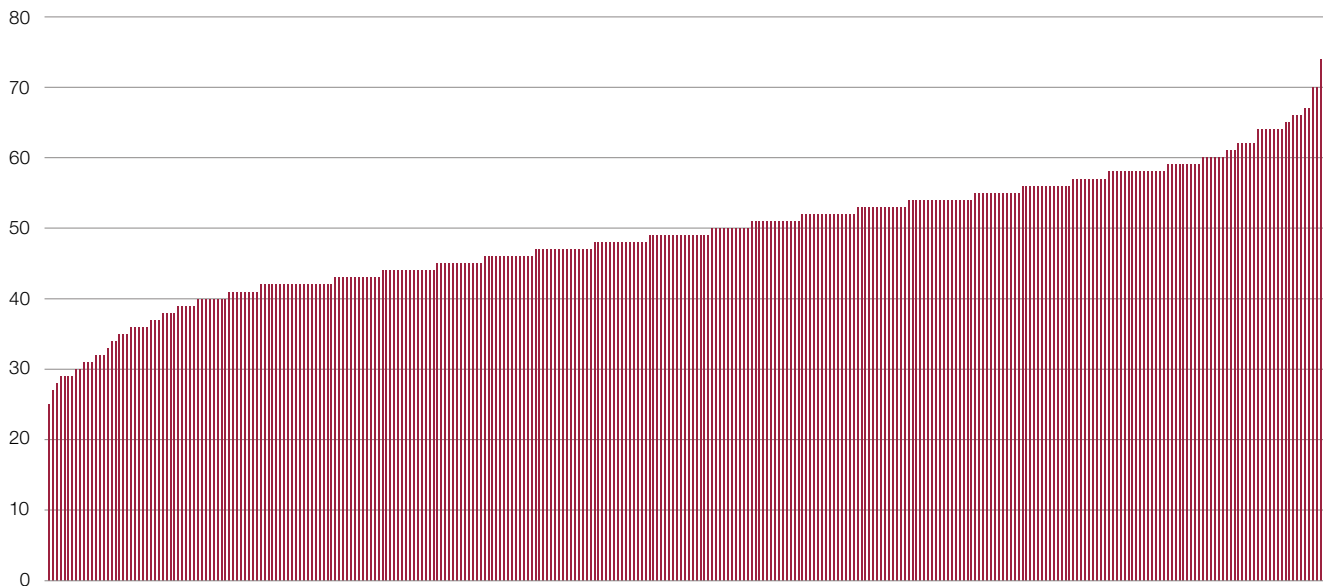
12 Stuart Adam and James Browne, *Reforming Council Tax Benefit*, Institute for Fiscal Studies, May 2012, pp. 132-147.

Figure 5

Proportion of Council Tax Benefit claimants who are pensioners

The amount of pensioners claiming Council Tax Benefit as a proportion of total claimants ranged from 25 to 74 per cent across local authorities

Pensioners as a percentage of total claimants



Source: Institute for Fiscal Studies based on Department for Work & Pensions' data as of May 2011

Income through changing Council Tax discounts and exemptions

2.21 Local authorities' ability to offset the funding reductions through changing their Council Tax discounts and exemptions varies. Local authorities that do not have a sufficient number of the types of properties, such as second homes, that qualify for Council Tax discounts and exemptions cannot benefit substantially from the new flexibilities. Using our sample of 207 local authorities, we estimate that the average district council could raise 142 per cent of the funding reductions by changing discounts and exemptions to the lowest possible level. In contrast, the average London borough could only raise 73 per cent of funding reductions by lowering discounts and exemptions in a similar way. Local circumstances and low numbers of properties that qualify for Council Tax discounts and exemptions mean that some local authorities will have fewer options for offsetting their reduction in Council Tax support funding by raising extra Council Tax in other ways.

Part Three

Impact on long-term objectives

3.1 The Department achieved its main policy objectives of the transition to localised Council Tax support: reducing government expenditure and transferring responsibility for providing Council Tax support to local authorities. It is not clear, however, whether all local authorities can design Council Tax support schemes that fully achieve the Department's and wider long-term objectives, while managing the financial risks presented by the policy and broader funding challenges.

Expected additional objectives to be achieved by schemes

3.2 The Department expects local authorities to implement Council Tax support schemes in a way that supports the achievement of longer-term objectives. According to the Department's *Impact Assessment*, schemes should protect vulnerable people and improve work incentives. The Department told us that the way Council Tax support had been localised should serve as an incentive for local authorities to design schemes in this way. For example, if schemes encourage people to work more, local authorities will be able to reduce their Council Tax support expenditure.

3.3 This will not be the only factor which will drive local authorities' scheme designs, however. For example, local authorities may seek to reduce the entitlements they offer to what they calculate they can afford in total scheme cost. Conversely, where they consider reducing entitlements, they will have to weigh up the potential impacts on their collection rates and the administrative costs of collecting more Council Tax.

3.4 Designing Council Tax support schemes that take all of these factors into account is both complex and new for local authorities. It requires expertise in forecasting and modelling the impact of scheme choices on a range of issues, an expertise which some local authorities told us they do not have in house.

3.5 In addition, designing schemes will require local authorities to balance various competing objectives. Local authorities that want to pass some of the funding reductions on to claimants may, for example, focus on minimising the Council Tax payments for all claimants, but focus less on work incentives or protection of specific vulnerable groups. Alternatively, they could provide complete protection to specific vulnerable groups, or offer strong work incentives, but at the cost of asking for higher minimum Council Tax payments by other working-age claimants who may also be in need. The Department considers scheme design to be a local decision and accepts that this could mean that not all local authorities' schemes will deliver against the full range of the reform's objectives.

Work incentives

3.6 One of the key benefits that the Department expects the localisation of Council Tax support to deliver is the strengthening of work incentives.¹³ However, although the Department issued guidance to local authorities in May 2012 on this, only three of 21 local authorities we spoke to cited improving work incentives as an important motivation for their scheme design.

3.7 Moreover, some local authorities have introduced features that the Department has highlighted as having a potentially negative effect on work incentives for some individuals compared with the previous system. In its guidance, the Department points out that increasing the income taper rate, that is the rate at which Council Tax support is withdrawn as an individual earns more above a minimum level, may lead to poor work incentives.¹⁴ For example, if a local scheme introduces a taper rate of 25 per cent, a person will lose 93 pence of every additional pound they earn, when the withdrawal of Council Tax support is combined with the withdrawal of Housing Benefit, Income Tax and National Insurance. The loss will increase to 97 pence for each additional pound if the taper rate increases to 30 per cent. Nineteen local authorities have increased the income taper rate above the level of 20 per cent under Council Tax Benefit. Fourteen of these have increased taper rates to 25 per cent in their local schemes, with four increasing them to 30 per cent.¹⁵

3.8 On the other hand, increasing the taper rate will narrow the range of incomes for which a local scheme weakens work incentives, as support is reduced to zero at a faster rate when a claimant's income increases. The Department also expects the introduction of Universal Credit to improve work incentives, by allowing claimants who increase their earnings to keep more of this additional money than under the current benefits system.

¹³ "Local schemes will help to deliver the positive incentives to work that will reduce poverty and reliance on support for council tax in the long term." Department for Communities and Local Government, *The Government Response to the Communities and Local Government Select Committee Report: Implementation of Welfare Reform by Local Authorities*, Cm 8635, June 2013, p 20.

¹⁴ Department for Communities and Local Government, *Localising Support for Council Tax: Taking Work Incentives into Account*, December 2012, p 18.

¹⁵ One local authority introduced a taper rate of 21 per cent.

3.9 The Department is aware that some local authorities have increased their income taper rate and hence in one aspect will weaken work incentives for some claimants. The Department is also aware of local authorities that have improved work incentives. For example, some local authorities have increased the amount of additional income claimants can receive before Council Tax support is withdrawn. Others extended the period claimants continue to temporarily receive Council Tax support when they start earning above a certain threshold.

3.10 The Department considers scheme designs to be a local choice, and thus, in line with its localism policy, it has no plans to intervene to ensure that schemes support work incentives ahead of the review it is required to undertake within three years of policy implementation.

Protecting vulnerable groups

3.11 Another of the Department's additional objectives is that vulnerable groups are protected from increases in Council Tax.¹⁶ So far, local authorities' protections of vulnerable groups (for example, the disabled, carers, and single parents with children under five) vary widely. On the one hand, 57 local authorities have retained the full protections for vulnerable groups as under the old system. On the other hand, 133 local authorities have introduced minimum payments of Council Tax without protections for any vulnerable groups within the rules of their schemes (other than pensioners, whose entitlements are protected under statute, and war pensioners, whose protection is encouraged under the Armed Forces Covenant).¹⁷

3.12 The Department produced guidance in May 2012 that referred local authorities to their existing statutory duties to protect vulnerable groups. However, it left local authorities to determine how this guidance should be interpreted. In addition, to protect pensioners, the Department passed legislation to mandate the same entitlements as under the old system.

3.13 Some local authorities told us the mandatory protection of pensioners affected their decision as to how many additional groups of vulnerable people they could protect. The more vulnerable groups local authorities chose to protect from paying Council Tax in addition to pensioners, the higher the contribution they had to recover from the remaining working-age population if they chose to pass on the reductions in central government funding for Council Tax support to claimants.

¹⁶ It said it would localise Council Tax support in a way which "Ensures that vulnerable groups, in particular pensioners, are protected from increases in council tax as a result of this reform". Department for Communities and Local Government, *Updated Impact Assessment*, June 2012, p 1.

¹⁷ The Armed Forces Covenant sets out the relationship between the nation, the state and the armed forces.

3.14 The Department has reviewed scheme documents to collect information about local authorities' protection of vulnerable groups. It also acquires 'soft' intelligence through its interaction with local authorities, third-sector organisations, and claimant groups. Based on the information it has collected, the Department is aware that some local authorities have chosen not to protect any vulnerable groups other than mandated groups within the rules of their schemes. The Department accepts that, in line with its localism policy, local authorities should take such decisions in consultation with their local communities. It considers the onus to be on local authorities to consult effectively with their communities, and on affected groups and individuals to challenge local authorities on how they have incorporated equality considerations into their schemes. The Department has no plans to intervene to ensure that schemes protect vulnerable groups ahead of the review it is required to undertake within three years of policy implementation.

Universal Credit and Council Tax support

3.15 Some savings from introducing Universal Credit will depend on how local authorities administer Council Tax support. The Department for Work & Pensions expects a reduction in the total cost of administering the welfare system once it has introduced Universal Credit. Part of the savings to be made are within local authorities, because of the planned replacement of Housing Benefit with Universal Credit and the consequent transfer of administration to central government. In its December 2012 business case, the Department for Work & Pensions anticipates savings of up to £565 million per year from this change. This figure is due to be updated in the next Universal Credit business case.

3.16 In 2012-13, 88 per cent of Housing Benefit claimants also claimed Council Tax Benefit. Local authorities have historically administered Housing Benefit and Council Tax Benefit together, with most claimants assessed once, to calculate the entitlement to both benefits. So far, local authorities have on the whole continued to administer Housing Benefit jointly with Council Tax support.

3.17 Local authorities have a shared delivery infrastructure (IT systems, estates and staff) to assess claimants' entitlement to both Council Tax support and Housing Benefit. For 2013-14, local authorities have budgeted £765 million for the administration cost of Housing Benefit and Council Tax support, a decrease of 1 per cent from 2012-13. To help local authorities with their administration costs the Department for Work & Pensions will pay them a grant of £402 million in 2013-14.

3.18 There is a risk that Council Tax support schemes will reduce the expected savings from Universal Credit. With Council Tax support continuing to be means-tested, the administration cost per claimant will be substantially the same, even with the Housing Benefit element removed. Claimants will apply to the Department for Work & Pensions for Universal Credit. They will apply separately to their local authority for support with their Council Tax bills.

3.19 Unless the Department for Work & Pensions can successfully share claimant data from Universal Credit, local authorities will have to duplicate the whole assessment process. The Department is working together with the Department for Work & Pensions on a data-sharing solution that would enable local authorities to automatically administer claimants in receipt of Universal Credit. The Department states this would significantly reduce administration costs and costs from errors from copying claimant data manually, although it is impossible to fully quantify these savings before the system is in operation. The departments are working together to agree the data-sharing arrangements, including how best to reduce administrative costs, although it is still too early to say how effective this will be.

3.20 The government also anticipates that over time local authorities will be able to achieve administrative savings from changing the design of their Council Tax support schemes. However, it has not assessed how they will do this or what effect this would have on its other policy objectives. The Department is working with the Department for Work & Pensions and local authorities to understand the costs to local authorities of administering Council Tax support.

The impact of Council Tax support and other funding and welfare changes on local authorities' financial sustainability

3.21 Local authorities face increasing financial challenges through the combination of funding and welfare reforms. Localising Council Tax support has increased this financial challenge. Local authorities now bear the risk of a rise in claimant numbers, a risk previously borne by central government, and have less funding to do so.

3.22 In the 2010 Spending Review, the government planned to reduce its funding for local authorities by 26 per cent over the period 2011-12 to 2014-15. HM Treasury forecasts that, taking Council Tax income into account, the overall limit to local authority funding would decrease by 14 per cent between 2011-12 and 2014-15.¹⁸

3.23 In contrast to this overall reduction in funding, the Department has said it will maintain funding for Council Tax support in cash terms in 2014-15 at the same level as 2013-14. The Council Tax support grant will be included within local authorities' overall funding settlement, so it will not be separately identifiable. Maintaining funding for Council Tax support in cash terms makes no difference to local authorities' overall funding limit. However, it will slightly alter the distribution of the overall funding. Local authorities for which Council Tax support funding makes up a larger proportion of their overall income will receive a slightly higher proportion of the overall funding total than otherwise, with the others receiving less.

¹⁸ Figures take account of inflation. HM Treasury, *Spending Review 2010*, October 2010, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/203826/Spending_review_2010.pdf

Other funding and welfare changes and their combined financial impact

3.24 In addition to reducing the funding for local authorities, the Department has also made a major reform to the way in which local authorities are funded. Since April 2013, local authorities can retain up to half of the business rates they raise locally, with their remaining government funding coming from the Revenue Support Grant. This creates financial opportunities for local authorities that experience a rise in business rates revenue, but risks for those that experience a fall. Likewise some authorities will gain more than others from the New Homes Bonus, which rewards local authorities for the numbers of houses built in their area.

3.25 In our report *Financial sustainability of local authorities* we note that the cumulative effect of these funding changes will vary and depend on wider economic conditions.¹⁹ For example, local authorities with higher economic growth may experience a rise in business rate income and a fall in Council Tax support claimants. Conversely, if local authorities experience economic decline, business rates income may fall, and the number of Council Tax support claimants may rise.

3.26 The Department's reduction of Council Tax support funding comes at the same time as other welfare changes that are leading to many claimants receiving less financial support. For example, Housing Benefit claimants with spare rooms are now liable to restrictions in the support they receive to pay their rent and the overall benefit claimants receive is now capped.

3.27 Some local authorities told us that they expected welfare changes to have wider implications for their finances, as reduced income for some benefit claimants might increase demand for local authority services. For example, local authorities have a statutory duty to house local residents. In some local authorities, reducing benefit entitlements may increase the number of people who require temporary housing to avoid being made homeless. Should these risks materialise, local authorities will need to find the necessary resources to fulfil their statutory duties.

The Department's understanding of the combined financial impacts

3.28 When the government announced the localisation of Council Tax support in the 2010 Spending Review, the Department had not analysed the combined impact of funding changes. The Department acknowledged in its *Impact Assessment* that the analysis did not take into account the effect of savings announced in the Local Government Finance Settlement, and that the overall budget pressure cited in the *Impact Assessment* may therefore be an underestimate.

¹⁹ Comptroller and Auditor General, *Financial sustainability of local authorities*, Session 2012-13, HC 888, National Audit Office, January 2013.

3.29 Since then, the Department has developed its understanding of the combined effects of funding changes on local authorities. It has developed work combining the financial effect of each funding change to project the potential future income of every local authority. However, this model focuses on financial and funding changes only. It does not account for potential increased demand on local authority services as a result of welfare and other policy changes. Modelling future demand in advance of the welfare changes is difficult, but as the changes are being implemented data on the actual effects of welfare changes become available. The Department currently has no plans to capture actual effects of welfare changes on demand on local authority services and their costs, to supplement its model of the impact of financial and funding changes on local authorities.

The Department's review of Council Tax support

3.30 The Local Government Finance Act 2012 requires the Department to provide for an independent review of all Council Tax support schemes within three years of the Act coming into effect. The Act requires that the review considers the effectiveness, efficiency, fairness and transparency of local schemes and their impact on the localism agenda. It also requires that the review makes recommendations as to whether Council Tax support schemes should be brought within Universal Credit. The Department is engaging with local government to discuss the timing of the review and the data needed to support it. It told us it may also use this review to understand in more detail how local authority schemes could be changed to make administrative savings.

3.31 The Department currently collects national information from local authorities about Council Tax support costs, and projected pensioner and working-age claimant numbers. It does not collect detailed information about local schemes and is therefore not well placed to understand the breadth of schemes, their impact on claimants, and the impact on the Department's policy. The Department needs to manage carefully the data burden placed on local authorities and it has started discussing with the local government sector how it can ensure that information is available while minimising the costs of data collection for local authorities.

Appendix One

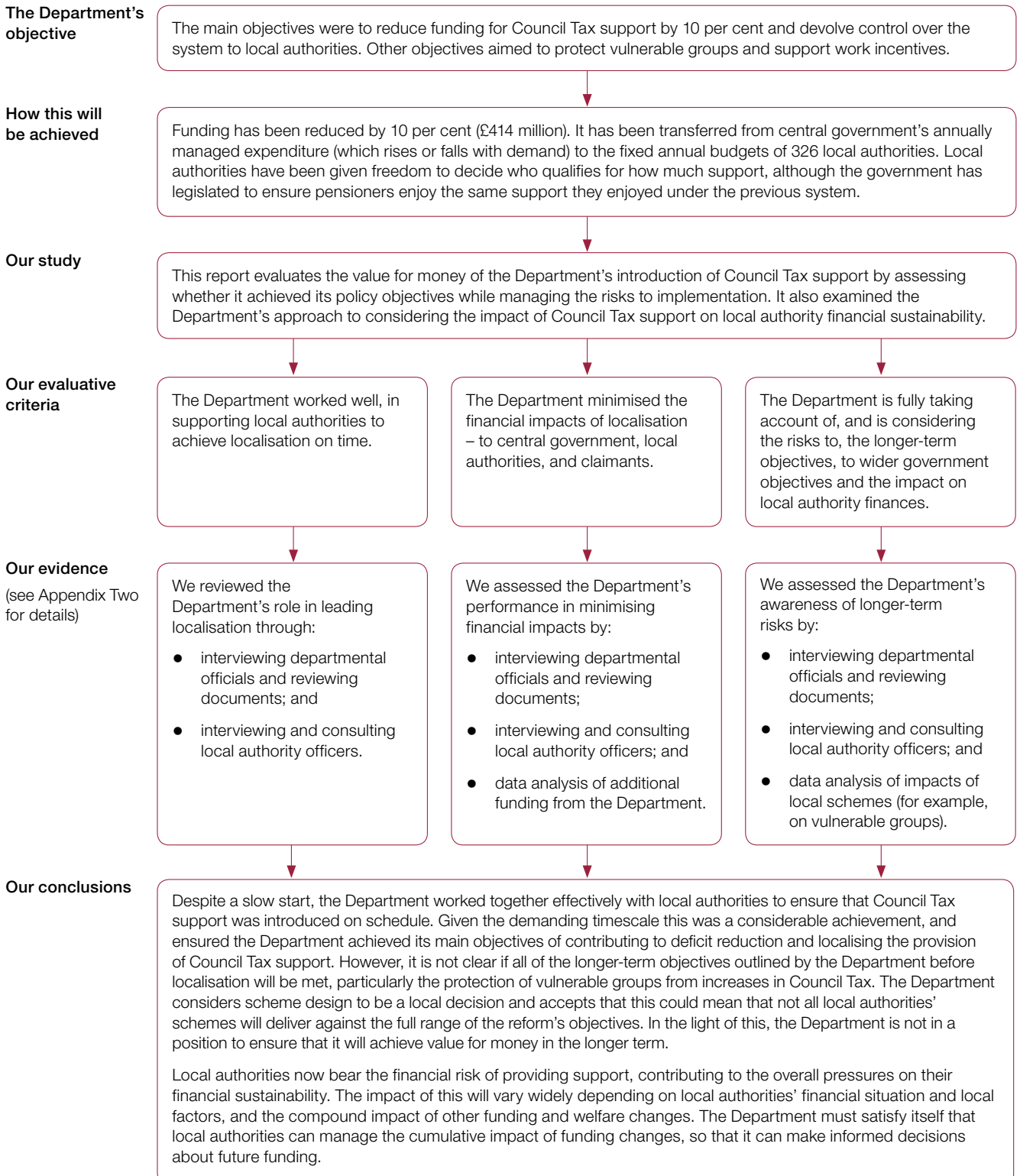
Our audit approach

1 This report examined localising Council Tax support, focusing on the actions of the Department for Communities and Local Government (the Department), which has lead central government responsibility for this policy.

2 We reviewed:

- how the Department and local authorities achieve the policy's main objectives, to localise Council Tax support and reduce funding for it;
- the financial impacts of the policy on claimants, other Council Tax payers, local authorities and central government; and
- whether the Department has fully taken account of risks to longer term and wider government objectives, as well as the impact on local authority finances.

3 Our audit approach is summarised in **Figure 6**. Our evidence base is described in Appendix Two.

Figure 6**Our audit approach**

Appendix Two

Our evidence base

- 1 We collected the evidence below between June and September 2013. We independently assessed and concluded on how the Department set the framework for localising Council Tax support, and oversaw its implementation.
- 2 We applied a range of quantitative and qualitative techniques in our examination. Our audit approach is outlined in Appendix One.
- 3 To inform the scope and design of our fieldwork and refine our understanding of the reforms and their impact, we conducted 25 semi-structured interviews with a range of stakeholders. These included Department staff, a district council, other government bodies, representative bodies of local government, think tanks and academic commentators.
- 4 The local government expert panel also provided independent scrutiny and advice to the study team.

We assessed how Council Tax support was localised (Part One)

- 5 We spoke to the Department to understand the policy objectives, the level of engagement with local authorities and the Department's role in implementing localised schemes.
- 6 We examined a range of published departmental documentation setting out the details of the reform, funding provisions and modelling of the impact of schemes on claimants:
 - *Localising Support for Council Tax: A Statement of Intent*;²⁰
 - Impact assessments for localising Council Tax support and technical reforms to Council Tax, and other published documentation on the Transitional Grant and New Burdens.
- 7 We examined published and internal Department for Work & Pensions documentation, setting out the details of wider welfare reform, including the impact assessment for Universal Credit.

20 Department for Communities and Local Government, *Localising Support for Council Tax: A Statement of Intent*, May 2012.

8 We computed the indexed annual growth in Council Tax Benefit expenditure using data from the Housing Benefit and Council Tax Benefit expenditure tables,²¹ and Budget 2013 expenditure tables.²² Figures include Council Tax Benefit expenditure funded by the National Asylum Support Service between 1999-2000 and 2004-05 in relation to asylum seekers, which totals £22 million of the £14,649 million expenditure during this period and is not separable between England, Scotland, Wales or by local authority.

9 To examine local authorities' experiences with the program, we engaged with authorities in two ways:

- We conducted 21 structured telephone interviews with local authority representatives, predominantly benefits and revenues managers, to understand the implementation of localised schemes and departmental communication. Of the 21 interviews, 16 were selected to include different local authority types, regions and levels of deprivation. The sample was designed to capture a wide range of local conditions and experiences, rather than be representative of authorities as a whole. A further five local authorities were interviewed either as a result of reference or request. We interviewed representatives of four London boroughs, six unitary authorities, six district councils and five metropolitan authorities.
- We conducted five case study visits with local authority financial directors, chief executives and benefits and revenue managers. The visits were to understand how each local authority had designed and implemented their scheme and how they felt the Department had facilitated localisation. We visited three metropolitan authorities (Birmingham, Coventry and Manchester), one district council (South Somerset) and one county council (Surrey).

10 We analysed the net savings to the Department as achieved through localisation of Council Tax support in 2013-14, using data published by the Department around 'new burdens' and Transitional Grant funding, as well as the impact assessment for Council Tax support.

We assessed the financial impact of Council Tax support (Part Two)

11 We used our interviews with the Department and review of departmental publications to assess the Department's costs, for transferring Council Tax Benefit to Council Tax support. We used our case study visits and telephone interviews to understand the decisions that local authorities took to manage the funding reductions and the costs of implementation.

²¹ Department for Work & Pensions, *Housing Benefit and Council Tax Benefit expenditure*. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/222864/h_tables_Budget_2013.xls, last accessed 14 October 2013.

²² Department for Work & Pensions, *Benefit expenditure and caseload tables 2013*, April 2013. Available at: www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2013, last accessed 14 October 2013.

12 To capture views and impacts across the local government sector more widely we ran a structured consultation for metropolitan, unitary and London borough councils. We received 49 responses from metropolitan, unitary and London borough councils (a 39 per cent response rate). The number of responses (and response rate) by type of authority is:

- metropolitan: six responses (17 per cent);
- unitary authorities: 30 responses (54 per cent); and
- London borough: 13 responses (39 per cent).

13 Unitary authorities were over represented in the sample at the expense of metropolitan authorities. We checked whether adjusting for this would impact any of our report findings significantly and found only that the proportion stating they used reserves (paragraph 2.17) may be underestimated.

14 We also received the results of a Society of District Council Treasurers survey on the localisation of Council Tax support. The questionnaire covered topics such as scheme choice and future changes, protected groups and the impact on the local authority. The survey ran from 8 July to 9 August 2013, and received 113 partially and wholly completed responses from district councils, a response rate of 56 per cent. The survey results are available at: socdct.co.uk/lcts-survey-results/.

15 We have reviewed the schemes of all 326 local authorities. We obtained this data from local authority websites and used the results to provide analysis on minimum payment schemes and to produce a map (Figure 3) demonstrating distribution of these schemes across England.

16 We analysed data extracted from local authority websites by the New Policy Institute, which assessed and classified the 326 local schemes that local authorities implemented both before and after the announcement of the Transitional Grant. The Institute for Fiscal Studies checked a sample of schemes and made a number of amendments; we are using the amended data set. We used this along with published details of Transitional Grant payments to local authorities, to identify the number of local authorities that changed their scheme in response to the announcement, and the value of funding that did not incentivise a change of scheme choice.

17 We collected information from local authority websites to analyse the start date, end date and duration of initial public consultation periods, as well as examine these dates against the announcement of the Transitional Grant. We were able to obtain sufficient data for 158 of 193 randomly sampled authorities.

18 For a sample of local authorities, we estimated the potential revenue change in Council Tax from 2012-13 to 2013-14 due only to technical changes to discounts and exemptions and whether these would make up for the 10 per cent funding cut. This estimate excludes changes in the potential revenue through adjustments to long-term empty properties owing to limitations in the available statistics. Neither have we estimated the potential revenue through local scheme changes such as minimum payments. Our calculation does not take account of the additional administrative burden local authorities may face as a result of reducing discounts and exemptions. We performed this analysis using details of discounts and exemptions applicable under the Council Tax Benefit schemes to 31 March 2013 and Council Tax support schemes from 1 April 2013, as published on local authority websites; and departmental statistical releases on property ownership.²³ Using this sample, we estimated the maximum potential revenue that could be raised by changing discounts and exemptions to their lowest possible level for the median local authority within each class of billing authority.

19 We reviewed a report published by the Institute for Fiscal Studies, *Reforming Council Tax Benefit*,²⁴ which was based on Department for Work & Pensions data, to present the range of pension age claimants of Council Tax support.

We assessed the impact on long-term objectives (Part Three)

20 We examined published departmental documentation, setting out the details of the reform and analysis that it performed to assess the potential impact of localisation. We also reviewed internal departmental documentation around local scheme choices.

21 We used our interviews with the Department to understand how it will monitor the objectives of Council Tax support localisation and work with local authorities. We used our case study visits and telephone interviews to understand the impact of localisation on local authority finances and the approach towards work incentives, and the outlook for Council Tax support and wider reforms.

22 We used the New Policy Institute data to assess the number of local authorities that had increased the income taper rate, and the number retaining the previous system of protections for vulnerable groups. We have also used New Policy Institute data on the protection of vulnerable groups along with data on minimum payments, to quantify the number of local authorities which have implemented minimum payment schemes without introducing any protections.

23 We analysed national data sets for local authority finances. This included the Department's figures for local authority revenue expenditure and financing in England.²⁵ We used this to show the anticipated movement in the costs to administering both Council Tax support and Housing Benefit.

²³ Department for Communities and Local Government, March 2013. Available at: www.gov.uk/government/publications/council-taxbase-2012-in-england, last accessed 14 October 2013.

²⁴ Institute for Fiscal Studies, *Reforming Council Tax Benefit*, May 2012.

²⁵ Department for Communities and Local Government, July 2013. Available at: www.gov.uk/government/publications/local-authority-revenue-expenditure-and-financing-england-2013-to-2014-individual-local-authority-data, last accessed 14 October 2013.



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