National Audit Office

Report
by the Comptroller
and Auditor General

Department for Communities and Local Government

Council Tax support

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Department for Communities and Local Government

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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	£414m	71%
local authorities launched Council Tax support schemes on time	estimated reduction in central government spending on support for Council Tax, 2013-14	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.