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Communities and Local Government Committee

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Summary

The council tax is an important source of revenue for local government. Perceptions of the legitimacy of the council tax are more likely to be undermined if there is not an effective mechanism in place to alleviate the financial burden it places on low-income households.

Attitudes towards council tax are influenced by various views of its fairness. One of the common concerns raised about council tax is that it does not take sufficient account of households' income. Council tax relief enables the council tax system to take account of the income of some low-income households, and reduces their council tax liability accordingly. A reduction in council tax liability is not a social security benefit designed to provide income support to those in need yet it is still called a benefit and in many ways operates like one. Its governing rules tend to be aligned with the benefit rather than the tax system and people only receive it if they make a claim rather than being automatically entitled. We believe that council tax benefit should be treated as part of the tax system to more accurately reflect its true nature and have called on the Government to remove the 'benefit' label immediately as a first step.

At present, there are significant weaknesses in the operation of council tax benefit that reduce its ability to alleviate effectively the financial burden of council tax on low-income households for two main reasons. First, the rules governing council tax benefit eligibility and entitlement are too restrictive to reduce adequately the burden of council tax upon those in greatest need of relief and, secondly, take-up is so low that relief is not reaching all those whom it is intended to help.

The Government's policy focus is on increasing take-up among pensioners. While this is an important task it is not the only issue that needs to be addressed. The restrictive nature of the rules governing council tax benefit eligibility result in a situation where an estimated 600,000 children are below the poverty line in households which are not eligible for any council tax benefit. We note that the Government currently saves an estimated £1.8 billion a year from unclaimed council tax benefit. Using some of these funds to widen the eligibility and entitlement rules governing council tax benefit could make a substantial difference to the fairness of the council tax system. We call on the Government to take action as matter of urgency to address the restrictive nature of the rules governing council tax benefit as well as to increase take-up among all eligible low-income households

1 Introduction

The national policy context

1. Council tax is the only locally levied tax on households in England and the only tax whose rate is determined by local authorities. It is “an unusual hybrid: both a property-based tax, and a charge on local service users”.¹ Council tax was one of the issues examined in Sir Michael Lyons’ final report, *Place-shaping: a shared ambition for the future of local government*, which was published in March 2007. Sir Michael was appointed by the Government to undertake an independent review of local government finance. His remit and timescale were extended in 2005 to include the role and function of local government. Sir Michael concluded that council tax “was not broken” and should be retained on the grounds that it provided a stable source of income for local government.²

2. Sir Michael did, however, find that there were significant shortcomings within the council tax system. He concluded that reform was necessary and, in the short term, that council tax benefit reform was needed to address the perceived unfairness of the tax for the poorest households in particular.³ Calls for reform of council tax benefit are not new—our predecessor Committee examined issues around council tax benefit as part of its inquiry on local government finance in 2004—but have largely gone unheeded by Government.⁴

3. In response to a question on council tax, the Secretary of State for Communities and Local Government, Rt hon. Hazel Blears MP, told us recently “what people want is a sense that taxation is fair and transparent”.⁵ We agree. Sir Michael argued that, rightly or wrongly, public dissatisfaction with council tax centres on various perceptions of its fairness. A common criticism levelled against the tax is that it is unfair because it does not take sufficient account of ability to pay, placing a higher burden on those who are, for example, asset-rich but income-poor.⁶ On the other hand, others argue that council tax is fair precisely because liability takes into account the value of property as well as income.⁷

4. Public discontent with council tax is also influenced by the perceived unfairness of above-inflation increases in council tax rates and their impact on low-income households, with most public attention being focused on pensioner households. In part the sharpness of recent increases has been caused by reforms in the early 1990s which reduced the proportion of local authority revenue raised locally to around 20 per cent. Although this has since increased slightly there is still a significant gearing problem for local authorities: each one per cent increase in expenditure leads to a council tax increase of four to five per

¹ Sir Michael Lyons, *Place Shaping: a shared ambition for the future of local government* (hereafter ‘*The Lyons Report*’, March 2007, para 7.4

² *The Lyons Report*, para 7.170

³ *The Lyons Report*, para 7.121

⁴ ODPM: Housing, Planning, Local Government and the Regions Committee, *Local Government Revenue* (hereafter ‘*Local Government Revenue*’), paras 125-132

⁵ Minutes of Evidence taken before the Communities and Local Government Committee, *Introductory hearing with the Secretary of State*, July 2007, HC898-I, Q 2

⁶ *The Lyons Report*, para 7.16

⁷ *The Lyons Report*, para 7.17

cent.⁸ Over time local authority expenditure has risen more sharply than the central government funding supporting that expenditure, meaning that the revenue required from council tax has risen far more steeply than spending.

5. Sir Michael was struck by the strength of public feeling provoked in response to property taxes; a feeling which is exacerbated by the council tax's highly visible nature.⁹ Experience with the short-lived community charge (also known as 'the poll tax'), in place between 1990-1993, indicates the political risks inherent in allowing public perceptions of unfairness and disquiet over local taxation to persist. The high-profile nature of campaigns against council tax, particularly from pensioner groups, indicates the continuing significance of such concerns.

6. The credibility of the council tax as a fair tax is based on having effective mechanisms in place to alleviate the financial burden on low-income households. These mechanisms are currently provided through specific 'discounts', such as the 25 per cent reduction in council tax liability for single-adult households, and council tax benefit which offers some cushioning to those on low incomes. There is doubt whether in practice council tax benefit does this adequately, for two main reasons. First, the rules governing council tax benefit eligibility are too restrictive to provide adequate financial relief to low-income households and, secondly, even where council tax benefit applies, take-up is so low that relief is not reaching those it is intended to help.

7. A number of witnesses argued that council tax benefit is 'mean' and that the eligibility rules are inconsistent with other parts of the tax and benefit system. An estimated 1.4 million adults live in poverty and yet are still liable to pay full council tax. The Government's statistics show that there are around 600,000 children living in poverty whose families have to pay full council tax.¹⁰

8. Sir Michael's research shows that if there were to be full take-up of council tax benefit, liability would appear to be a "relatively constant proportion of people's income throughout the income distribution".¹¹ Yet council tax benefit has the lowest level of take-up of any means-tested benefit. In 2004-05, only between 62 and 68 per cent of those eligible to claim did so.¹² In consequence, the poorest 10 per cent of households are spending more than twice the percentage of their income on council tax as the richest 10 per cent. Increasing take-up could do much to reverse this position.

⁸ CIPFA, *Finance and General Statistics*, reproduced in House of Commons Standard Note SG 2648

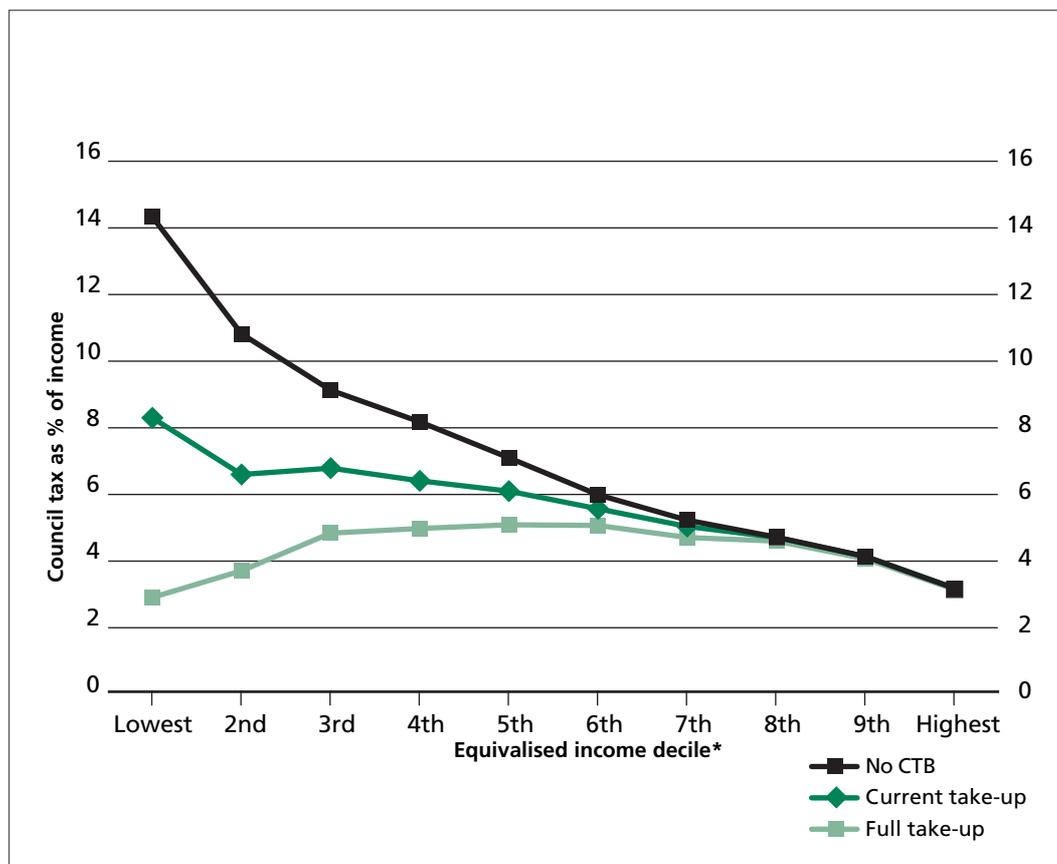
⁹ *The Lyons Report*, para 7.15

¹⁰ Poverty is defined here as those with an income below 60 per cent of the national median income. Supplementary memorandum from the Department for Work and Pensions, CTB 21, para 2

¹¹ *The Lyons Report*, para 7.21

¹² Department for Work and Pensions, *Income Related Benefits, Estimates of Take-up 2004/5*, (2006), p 62

Chart 1: Council tax as a proportion of household income after housing costs, including estimated take-up in 2006-7¹³



Data source: *The Lyons Report, Chart 7.9, p 250*

* Note-the 'equivalised income decile' category used in this chart refers to household income by decile which has been adjusted to account for variation in household size and composition.

9. Citizens Advice states individuals on low incomes who are entitled to council tax benefit can be placed in financial hardship by not claiming.¹⁴ The National Audit Office has estimated that for every 10 per cent increase in council tax benefit and housing benefit take-up, 100,000 pensioners would be lifted out of poverty.¹⁵ The Government says that council tax benefit "makes an important contribution to the financial security of nearly 5 million people on low incomes".¹⁶ We do not dispute this figure but many other households, because of restrictive eligibility criteria or low levels of benefit take-up, continue to experience greater financial hardship than they would if council tax benefit provided greater relief.

¹³ Estimates of current take-up are based on latest published figures (which relate to the entitled recipients in 2004/5) as against income and council tax data for 2006-07. The estimates of full take-up are based on two data sources. The first is the number of recipients. The second is an estimate of the number of people who are eligible, but not receiving council tax benefit, derived from the Family Resources Survey.

¹⁴ Memorandum from Citizens Advice, CTB 6, para 2.1

¹⁵ Memorandum from Help the Aged, CTB 5, para 6

¹⁶ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 4.4.1

10. Public perceptions of the legitimacy of the council tax are likely to be further undermined if the mechanism designed to alleviate the financial burden it places on low-income households is not effective. Council tax benefit eligibility, entitlement and take-up must be improved.

Our inquiry

11. The focus of this inquiry has been on examining the effectiveness of council tax benefit in sustaining council tax as a source of local government revenue. We published our terms of reference and issued a call for evidence in May 2007. We received 23 memoranda and held one oral evidence session on 18 June 2007. We would like to thank all those who have contributed. We are particularly grateful to our two specialist advisers for this inquiry, Rita Hale OBE, former Director of Rita Hale & Associates Ltd. and a local government consultant, and Professor Tony Travers, Director, Greater London Group, London School of Economics.

12. Most figures relating to council tax benefit take-up are based on 'caseload' comparisons. These are comparisons between the number of people entitled to the benefit and the number who receive it. It is also possible to use benefit expenditure as a measure of take-up but the figures we give in this report relate exclusively to caseload, except where a different measure is specified.

13. The Department for Communities and Local Government has overall responsibility for council tax. Policy responsibility for council tax however benefit lies with the Department for Work and Pensions (DWP), alongside its responsibilities for other benefits. Those local authorities issuing council tax bills are responsible for administering council tax benefit alongside housing benefit.

2 Council tax benefit eligibility and entitlements

Council tax benefit and poverty

14. Dr Kenway, Director of the New Policy Institute (NPI), stated that part of the problem with council tax is that 3.2 million working age adults live in poverty and yet are still paying full council tax, and one and a half million children are living in poverty whose families still pay full council tax.¹⁷ Some, but not all, of these households will be eligible for council tax benefit. The Government estimates that some 1.4 million adults living in poverty are liable to pay full council tax and that 600,000 children live in families below the poverty line which are not eligible for any council tax benefit.¹⁸ Research by NPI indicates that:

45 per cent of children in poverty are in households that get no council tax benefit, while a further 21 per cent are in households that get only partial council tax benefit. In 2002/3, this represented no fewer than 2.4 million children. Of these, a quarter of a million are in households whose income falls below the poverty line by an amount less than they pay in council tax—in other words, the council tax they pay may be said to be the immediate cause of their being in poverty.¹⁹

The Government has an ambitious commitment to eradicate child poverty in the UK by 2020. **Given the Government's commitment to eradicating child poverty it is difficult to see how it can justify the maintenance of council tax benefit rules that even on its own estimates leave some 600,000 children living in poverty whose families are still liable to pay full council tax.**

Council tax benefit and making work pay

15. Council tax benefit entitlement is determined on the basis of thresholds. The lower threshold is the level of income at or below which full benefit is payable. If income is above the lower threshold but under the upper threshold then claimants are entitled to some council tax benefit. The value of that entitlement is calculated on the basis that for every pound of extra income over the lower threshold, entitlement is reduced by 20 pence.²⁰ This formula is known as the council tax benefit taper.

16. Several witnesses argued that the way that this taper interacts with other tapers and parts of the tax system can be a disincentive to people moving off benefits and into work. People can be discouraged from taking paid or higher paid work resulting in what is often referred to as the poverty trap. Many benefits use tapers but of differing values: housing benefit has a taper of 65 per cent while for working tax credit it is 37 per cent and for

¹⁷ Q 39

¹⁸ Supplementary memorandum from the Department for Work and Pensions, CTB 21, para 2

¹⁹ Poverty is defined here as households with an income below 60 per cent of the national median income. New Policy Institute, *Council Tax Benefit for Working Age Households* (March 2005), p 1

²⁰ Memorandum from the Department of Communities and Local Government and the Department for Work and Pensions, CTB 15, Annex 1, para 5

council tax benefit, 20 per cent. Problems can also occur when benefit tapers interact. For example when a person goes into work and is in receipt of tax credit the housing benefit and council tax benefit tapers combine to mean that for each additional pound earned, the worker actually benefits by just 15 pence.²¹ Peter McCann of Halton Borough Council argued that such steep tapers were a “huge disincentive” to work.²² London Councils agreed, and stated that the tapers were a particular problem at the point at which a claimant begins earning income around the minimum wage level.²³ The two case studies below, detailing real circumstances, demonstrate the impact of such taper interactions on the decisions of people to return to work.

Case study one

“A Sussex CAB 48740928 07/11/2006 Worthing And District reported a case in which their client, a 34-year-old single male, was coming to the end of his drug rehabilitation programme and wanted to return to work since he had not worked for 10 years. The client was in receipt of long term incapacity benefit (IB), housing benefit (HB) and council tax benefit (CTB). The client had been offered a full time job, but was reluctant to accept it because he feared that he would be worse off because he would not be entitled to HB or council tax benefit. The employment was for 38 hours per week at £6.50 an hour. Because the client was on IB, he was not entitled to any extensions of benefit if he were to take up a job offer, unlike those who receive income support (IS) or jobseekers allowance (JSA). By returning to full time employment, the client would be entitled to working tax credit (WTC) but not to HB or council tax benefit. The client was therefore better off remaining unemployed and receiving benefits.”²⁴

Case study two

“A CAB in Somerset 68641350 23/03/2007 North Somerset reported that their client, a 46-year-old in receipt of incapacity benefit whose partner was not working and who had a 15 year old son, wished to start working for 40 hours per week, at £6.50 per hour. The client was receiving £30.90 income support; £44.38 child tax credit (CTC); £81.45, housing benefit; £22.42 council tax benefit and £76.65 non means tested benefits, which amounted to £255.80 in all. A calculation performed by the adviser showed that if the client proceeded with his intention to return to work, he would receive £44.38 CTC; £76.58 working tax credit (WTC); £17.45 non means tested benefits; plus £211.07 net income from work—£349.48 in total. However, the client would then need to pay rent & council tax worth approximately £103.87 per week meaning that overall the client would therefore be worse off. Unsurprisingly the client decided not to return to work.”²⁵

17. Sir Michael pointed out in his report on local government that the issue of work incentives is much wider than that of council tax reform. We agree. Any reform is “best

²¹ Supplementary memorandum from Citizens Advice, CTB 20

²² Q 29-30

²³ Memorandum from London Councils, CTB 4

²⁴ Memorandum from Citizens Advice, CTB 20

²⁵ Memorandum from Citizens Advice, CTB 20

considered in the context of wider welfare reform policy” but this should not be an excuse for inaction.²⁶ As the Institute of Revenues Ratings and Valuations (IRRV) argued, a Government review of the council tax benefit taper is long overdue but the issue has been “largely ignored by government” for some 20 years.²⁷ **The council tax benefit taper, and its interaction with other parts of the tax and benefit system, can act as a disincentive to work. We recommend that the Government address this issue with some urgency and recognise the detrimental effects of the council tax benefit taper in its work on welfare reform.**

Aligning council tax benefit thresholds

18. Government figures show that currently an estimated 700,000 adults are not eligible to pay income tax but are still liable to pay full council tax. Some of our witnesses believe that the upper council tax benefit threshold, above which households become liable to pay full council tax, should be raised to match the threshold at which income tax becomes payable.²⁸ Dr Kenway, for instance, argued that “the income-based council tax should be no more harsh for people than the proper income tax system”.²⁹ Sir Michael examined the case for raising council tax benefit thresholds to match income tax thresholds in his report. His modelling showed that 1.6 million adults would be net beneficiaries of this change and the total cost would be £700 million.³⁰ He concluded that this is “unlikely to be affordable in the short term, though it has some advantages as an option for targeting support towards low-income households”.³¹ The Chartered Institute of Taxation pointed out that full alignment of council tax benefit thresholds with income tax allowances is impossible “while there are different bases of assessment, with income tax being based on individual income” and council tax benefit on household income.³² As Sir Michael pointed out, any changes to council tax benefit thresholds for eligibility need to be considered against any consequential impact on other income-related benefits.³³ The Minister, James Plaskitt MP, agreed explaining that while the DWP was aware of perceived inconsistencies within the benefit system and was considering options for simplification, such matters had to be examined across the whole range of benefits. He added:

sometimes it could be the case that you can make an alternation in one part of the system that looks like a simplification but it might create another anomaly somewhere else.³⁴

²⁶ *The Lyons Report*, para 7.162

²⁷ Memorandum from the Institute of Revenues, Ratings and Valuation, CTB 11

²⁸ Memorandum from London Councils

²⁹ Q 51

³⁰ *The Lyons Report*, Annex C, para 110

³¹ *The Lyons Report*, Annex C, para 110

³² Memorandum from the Low Incomes Tax Reform Group, the Chartered Institute of Taxation, CTB 14, para 23

³³ *The Lyons Report*, para 7.153

³⁴ Q 117

19. We recommend that the Government includes examination of the consequences of aligning council tax benefit eligibility thresholds with thresholds used in other parts of the tax and benefit system in its research programme.

The treatment of savings

Saving limits

20. At present households' savings are taken into account in the determination of eligibility for council tax benefit. In April 2006 the lower savings level was raised from £3,000 to £6,000. Savings over £16,000 remove any entitlement to council tax benefit except for those over 60 and in receipt of the guaranteed credit element of pension credit. Non-pensioners, no matter how low their income, will not qualify for council tax benefit if they have savings of more than £16,000.

21. A number of organisations have pointed to inconsistencies, illustrated in table 1, in the treatment of savings within the council tax benefit, pension credit, tax credit and income tax systems.

Table 1: Capital limits (as of April 2006)

Benefit	Lower limit	Upper limit
Housing Benefit, Council Tax Benefit (no upper limit for those getting Pension Credit guarantee credit)	£6,000	£16,000
Income Support, income-based Jobseeker's Allowance (JSA)	£6,000	£16,000
Pension Credit	£6,000	None
Tax Credit	None	None

Source: CLG Committee

22. The use of the upper savings limit in determining eligibility means that people with broadly similar financial circumstances can receive markedly different levels of council tax benefit, as the following case study illustrates.

Case study three

“Couple A: Joint income of £285 a week including an assessed income of £8 a week from their savings of £10,000.

= will receive council tax benefit of £16 a week

= pay £17 a week in council tax equal to approx 6% of their income

Couple B: Joint income of £168 a week including an assessed income of £21 a week from their savings of £16,500.

= no help with council tax

= pay £33 a week equal to approx 20% of their income

Couple A are £6000 better off for the whole year. Yet it is couple A who receive over £800 in state help with their council tax bills. In this situation it is only rational for Couple B to spend their savings until they are below the savings limit.”³⁵

23. The Chartered Institute of Taxation argued for the abolition of the upper savings limit which, it pointed out, “leads to a cliff-edge situation in which a change of £1 in income or savings can lead to somebody going from paying all their rent and council tax, to paying none of it—or vice versa”.³⁶ Ms Pearson of Help the Aged explained that the upper savings limit creates a situation where “for people who have savings over £16,000 the only rational thing for them to do is to spend the extra savings”.³⁷ On this basis a disincentive to saving is embedded in the tax system. The Government acknowledges that raising the upper savings limit would “be likely to send positive signals about encouraging savings”.³⁸ Other witnesses pointed to the ‘meanness’ of £16,000 savings limit. The IRRV said it had been held at an unrealistically low level.³⁹

24. The use of savings limits in the council tax benefit system is consistent with the operation of some other benefits such as income support and housing benefit but not consistent with the tax system where savings (except for the income they generate) are ignored. If council tax relief is to be considered as a part of the tax system, as we believe it should be (see paras 47-50), it becomes hard to justify the continued use of savings limits.

25. Sir Michael investigated options for changing the savings limits for pensioners. His research showed that raising the upper limit to £50,000 would make an estimated additional 370,000 pensioner households eligible for council tax benefit, including some

³⁵ Memorandum from Help the Aged, CTB 5, para 7

³⁶ Memorandum from the Low Incomes Tax Reform Group, the Chartered Institute of Taxation, CTB 14, para 20

³⁷ Q 31

³⁸ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 6.2.2

³⁹ Memorandum from the Institute of Revenues, Ratings and Valuations, CTB 11

135,000 of the poorest pensioner households. Abolishing the upper limit entirely would include a further 50,000 pensioner households.⁴⁰ Sir Michael recommended that the upper savings limit for pensioners should be raised to £50,000 immediately and that in the long term it should be abolished altogether.⁴¹

Table 2: Cost and impact of reform of council tax benefit upper saving limit for pensioners

	Council tax benefit costs	Likely to benefit	Newly-entitled households weekly average gain
Increase upper capital limit to £50,000 for pensioners	£195 million	370,000 pensioner households	£10.10
Abolish upper capital limit for pensioners	£220 million	420,000 pensioner households	£10.00

Source: *The Lyons Report*, table 7.1

26. The cost implications of raising or abolishing the upper saving limit for pensioners are significant. Table 2 shows that it would cost the Government up to £195 million a year if the upper limit for pensioners was raised to £50,000, and up to £220 million each year if the upper limit was abolished for pensioners. Even the more expensive option of abolition would cost less in any one year than the £800 million devoted to the £200 one-off payment to pensioner households in 2005 and would target support more effectively.⁴² The operation of tapers would still mean that income from savings would be taken into account even if the upper savings limit itself was abolished.

27. Sir Michael's proposals have support. Ms Pearson of Help the Aged, for instance, told us that the upper limit should be changed for pensioners because they "do not then have the opportunity to build those savings back up".⁴³ Others have argued that these changes should also apply to working age households. Mr Herbert of Citizens Advice argued that "we would not want to see pensioners disproportionately benefiting" from a change.⁴⁴

28. The Government has not responded formally to Sir Michael's recommendations on the upper saving limit for pensioners but the Minister for Local Government, Phil Woolas MP, accepted that the current situation could be viewed as anomalous.⁴⁵ The Government also told us that "DWP is keeping the level of this limit under review".⁴⁶

29. We urge the Government to consider sympathetically proposals to raise, and ultimately abolish the use of, an upper savings limit in determining eligibility for council tax benefit, not just for pensioners, but for all.

⁴⁰ *The Lyons Report*, para 7.158

⁴¹ *The Lyons Report*, Recommendations 7.10 and 7.11

⁴² *The Lyons Report*, para 7.159

⁴³ Q 33

⁴⁴ Q 33

⁴⁵ Q 112

⁴⁶ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 6.2.2

The use of notional income from savings

30. At present the assessment for council tax benefit eligibility takes into account an estimate of income from savings (between £6,000-16,000) based on a set formula, not actual income. For working age adults, the rules of council tax benefit state that every £250 of savings is assumed to produce a weekly income of £1.

31. Citizens Advice argued that this is “unrealistic”, as it assumes a rate of return of 10.4 per cent even though the current base interest rate is 5.5 per cent.⁴⁷ NPI stated that the implied rates of interest are “absurd”.⁴⁸ The Chartered Institute of Taxation called for the Government to review the notional income rate for savings.⁴⁹ The Minister, James Plaskitt MP, argued that it was incorrect to equate the notional income rate with interest rates and explained that the assumption behind its use is “that people will use savings in order to help pay the council tax” and that “the more capital you have at your disposal the more you will draw on it to pay your council tax.”⁵⁰

32. NPI argues that “to tax people on notional rather than actual income may be administratively convenient but it is also utterly unprincipled”.⁵¹ Citizens Advice pointed out that under the tax credits system actual, rather than notional, income from savings and investments is taken into account. It therefore argues that the use of notional income in determining council tax benefit eligibility should be abolished.⁵² The Minister, James Plaskitt MP, stated that the Government has no plans at the current time to make any changes to the use of notional income, but that this issue is always kept “under review”.⁵³ Although any changes to the use of notional income in council tax benefit need to be considered as part of wider reform measures, moving to the use of actual income to determine entitlement would be consistent with the treatment of council tax relief as a reduction in tax liability rather than a benefit entitlement.

Age differentials

33. Council tax benefit threshold levels vary according to age. Council tax benefit treats single people under 25 less favourably than people over 25.⁵⁴ Working age households start paying council tax at levels of income “little more than half the levels at which pensioners start paying”.⁵⁵ NPI pointed out that every £1,000 of savings, within the thresholds, is assumed to yield an income of £4 per week for a working-age household but only £2 per week for a pensioner one.⁵⁶ This means that under the current rules working-age

⁴⁷ Memorandum from Citizens Advice, CTB 6, para 7.2

⁴⁸ Memorandum from the New Policy Institute, CTB 12, para 15

⁴⁹ Memorandum from the Low Income Reform Group, the Chartered Institute of Taxation, CTB 14, para 21

⁵⁰ Q114

⁵¹ Memorandum from the New Policy Institute, CTB 12, para 15

⁵² Memorandum from Citizens Advice, CTB 6, para 7

⁵³ Q 113

⁵⁴ New Policy Institute, *Council Tax Benefit for Working Age Households* (March 2005), p 2

⁵⁵ New Policy Institute, *Council Tax Benefit for Working Age Households* (March 2005), p 2

⁵⁶ Memorandum from the New Policy Institute, CTB 12, para 15

households are expected to draw upon their savings at double the rate of pensioner households.

34. The way in which back-dated claims are treated also depends on the age of the claimant. People over 60 may have benefit payments back-dated for up to 12 months “providing they can show that they qualified for the whole period”.⁵⁷ Working-age people may only claim backdated payments for 12 months “if they can show they have a good reason for not claiming earlier”.⁵⁸ The Chartered Institute of Taxation told us there was “no logic in this age distinction” and called for it to be removed.⁵⁹

35. Some witnesses argued that any reform of council tax benefit should include removal of age distinctions: indeed the IRRV told us that reform would “not be sustainable in terms of age equality legislation” if the distinctions were retained.⁶⁰ The Minister, James Plaskitt MP, told us that the Government was committed to simplifying the benefits system as a whole, but pointed out that “it is sometimes not as straightforward as it might appear at first”.⁶¹ Even so, we believe that age-related anomalies should be removed unless there are clear and objective grounds for their continuation. **The Government should review age-related anomalies in council tax benefit with a view to removing them as part of its work to simplify the benefits system for claimants.**

⁵⁷ Memorandum from Citizens Advice, CTB 14, para 19

⁵⁸ Memorandum from Citizens Advice, CTB 14, para 19

⁵⁹ Memorandum from Citizens Advice, CTB 14, para 19

⁶⁰ Memorandum from the Institute of Revenues, Ratings and Valuation, CTB 11

⁶¹ Q 117-8

3 Council tax benefit take-up

36. Council tax benefit has the lowest level of take-up of any means-tested benefit and take-up levels have decreased significantly in the last decade. In 1997 estimated take-up was between 78 and 82 per cent of those eligible. By in 2004-5 this figure had fallen to between 62 and 68 per cent.⁶² This means that some 2.27 to 2.95 million people are not claiming council tax benefit even though they are eligible to do so.⁶³ By comparison the latest figures on housing benefit show an estimated take-up rate among those eligible of between 84 to 91 per cent and for income support of between 83 to 94 per cent.⁶⁴

37. The Government cites a number of factors to account for the decline in council tax benefit take-up since 1997. Above-inflation increases in threshold levels, particularly those affecting pensioners, have made more people eligible and the Government argues that this accounts for “around half of the observed reduction in take-up”.⁶⁵ It acknowledges however that even without the effect of higher thresholds there would have still been a fall of around five percentage points.⁶⁶ The Government also suggested that people may not take up their entitlement because they think the amount of benefit they might receive would be too small to be worth the effort: national take-up estimates show that “44 per cent of entitled non-recipients of council tax benefit were entitled to less than £10 per week.”⁶⁷ But the converse is also true: the majority of eligible non-recipients would receive more than £10 a week. Even for those entitled to less the amount may still be significant, particularly to those in poverty.

38. The type of accommodation people live in can affect the level of contact they are have with government agencies: those in social housing, for instance, are likely to have higher levels of contact with the local authority and therefore access to information about council tax benefit than those who own their own home.⁶⁸ Take-up rates are lower among owner-occupiers than among those holding any other form of tenure: 36 to 41 per cent of those entitled to claim, compared to 78 to 86 per cent for private sector tenants and 87 to 93 per cent for those in social housing.⁶⁹ The Government has suggested that recent increases in the levels of home-ownership may therefore be a further cause behind declining take-up.⁷⁰ Another possible factor behind the low take-up by owner-occupiers may be that a

⁶² Department for Work and Pensions, *Income Related Benefits, Estimates of Take-up 2004/5*, 2006, p 62

⁶³ Department for Work and Pensions, *Income Related Benefits, Estimates of Take-up 2004/5*, 2006, p 62

⁶⁴ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, Annex 7

⁶⁵ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, Annex 7, para 12

⁶⁶ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, Annex 7, para 12

⁶⁷ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, See also Q 89

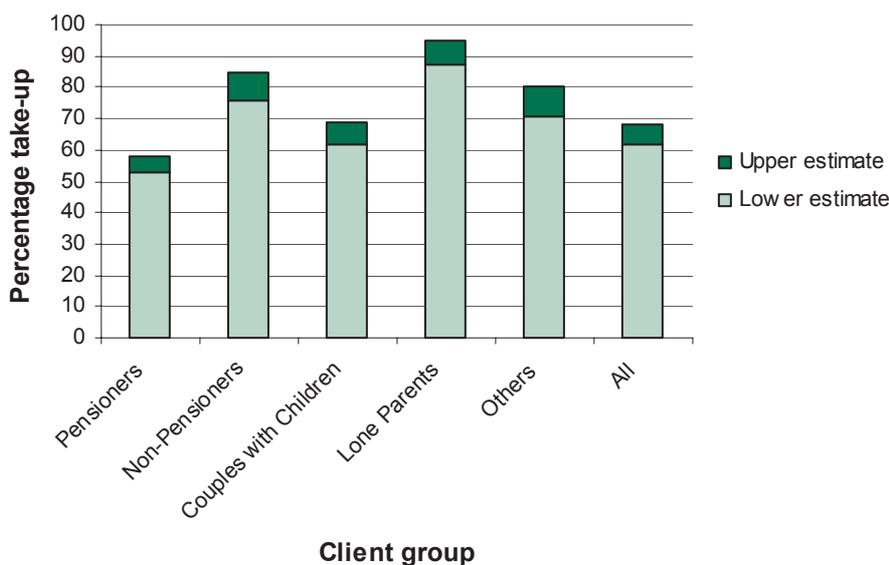
⁶⁸ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 12

⁶⁹ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, Annex 6,

⁷⁰ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 12

significant proportion of these are pensioner households: eligible pensioners have the lowest take-up of all groups at 53 to 58 per cent. Of non-pensioner groups, eligible couples with children have a take-up rate of 62 to 69 per cent, lone parents 87 to 95 per cent and those of working-age without children 71 to 82 per cent.⁷¹

Chart 2: Council tax benefit take-up by client group 2004/5



Data Source: Department for Work and Pensions, *Income Related Benefits, Estimates of Take-up 2004/5, 2006*, p 61, table 4.1

Increasing take-up

39. There are a number of possible barriers to individuals claiming council tax benefit. Those cited most frequently by our witnesses were a lack of awareness of entitlement; the complex, off-putting claims process; and a perceived stigma associated with means-tested benefits generally.

Lack of awareness and inertia

40. There are different routes by which people may claim council tax benefit. They may contact their local authority directly or claim council tax benefit alongside other DWP benefits such as income support, jobseekers’ allowance, and pension credit.⁷² The less contact people have with these government bodies the less likely they are to be aware that council tax benefit may be available. Ms Pearson of Help the Aged argued that a related barrier preventing people claiming council tax benefit is a “degree of inertia”.⁷³ As the

⁷¹ Department for Work and Pensions, *Income Related Benefits, Estimates of Take-up 2004/5, 2006*, p 61

⁷² Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 10.1.1

⁷³ Q 3

Government suggested inertia may be compounded by perceptions that, for some people, the amount of benefit entitlement is insufficient to justify the effort of claiming.

Reducing complexity

41. The determination of council tax benefit eligibility depends upon a complex set of rules including the use of thresholds discussed earlier (see paras 15-19). These thresholds take account of personal allowances, which vary according to age and marital status, and any premiums which may apply because of extra needs.⁷⁴ Receipt of other benefits may also affect eligibility and entitlement to council tax benefit.

42. The complexity of rules to determine eligibility is not confined to council tax benefit. The Work and Pensions Committee has examined the complexity of benefits that the DWP administers and the problems of interactions between them in its recent inquiry into *Benefits Simplification*.⁷⁵ The DWP has acknowledged that there is a clear relationship between complexity and take-up, and that inevitably the more complex the benefits system, the lower the take up.⁷⁶ Complicated eligibility criteria make it difficult for potential claimants to work out whether they may receive the benefit and, if so, how much.

43. To receive council tax benefit it is necessary to submit a completed claim form to the relevant local authority together with a number of personal documents to verify their position. Entitlement is then assessed by the local authority and liability to pay adjusted accordingly. Each local authority issues its own claim form based on good practice guidance issued by the DWP. Even this ‘best-practice’ form is 26 pages long.

44. The Government has already taken some steps designed to make the claims process more straightforward and to increase take-up. It has encouraged local authorities to issue joint housing benefit and council tax benefit claim forms to reduce the amount of paperwork for those claiming both.⁷⁷ This may also serve to increase the take-up of council tax benefit as those claiming housing benefit can be assessed for council tax benefit at the same time. In December 2005 the DWP introduced a shortened council tax benefit claim form of only three pages for those in receipt of pension credit. This form is completed by Pension Service staff during a home visit or over the telephone and then given to the client to check, sign and send on to the relevant local authority.⁷⁸ The Government believes this measure has resulted in a further 65,000 council tax benefit claims.⁷⁹ As Help the Aged pointed out, however, “50 per cent of those simple forms are not being returned to local

⁷⁴ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 10.1.1, Annex 1, para 5

⁷⁵ Work and Pensions Committee, Seventh Report of Session 2006-7, *Benefits Simplification*, HC663-I

⁷⁶ Committee of Public Accounts, Twenty-sixth Report of Session 2006-7, *Department for Work and Pensions: Progress in tackling pensioner poverty—encouraging take-up of entitlements*, HC 169, Q 37

⁷⁷ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, Annex 3

⁷⁸ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 4.5.3

⁷⁹ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 4.5.6

authorities”.⁸⁰ This suggests that simplification of the claim form, although welcome, is not on its own sufficient to improve take-up significantly.

45. Despite these efforts to simplify the claims process, our evidence suggests that complexity is still a significant barrier to take up. All non-pensioners and a proportion of pensioners still need to complete the longer form: the shorter is only available to those claiming pension credit.⁸¹ Both Help the Aged and Citizens Advice agreed that many people find the length of the main claim form off-putting.⁸²

Stigma

46. A belief that there is a stigma attached to means-tested benefits may also stop some people claiming council tax benefit.⁸³ The Audit Commission told us “it is widely recognised that the term ‘benefit’ may deter some eligible people from submitting a claim”.⁸⁴ IndependentAge told us that its research indicated that “one in seven pensioners would not undergo means-testing, even if this meant foregoing benefits”.⁸⁵ The IRRV argues that older people may be put off claiming council tax benefit if they perceive it as state aid rather than a legitimate tax saving.⁸⁶

Rebate

47. In 2004 our predecessor Committee recommended that council tax benefit should be rebranded as a rebate rather than a benefit in order to improve take-up and to reflect accurately its true nature.⁸⁷ At the time the Government was not persuaded that this change alone would be effective in increasing take-up, but agreed to “consider” the proposal, alongside other measures.⁸⁸ Sir Michael supported the Committee’s original recommendation as well as the reasoning behind it. He pointed out that under the old domestic rates system take-up of the associated rebate was around 75 per cent of all those eligible and was some 90 per cent among eligible pensioner households and therefore significantly higher than current take-up rates for council tax benefit.⁸⁹

48. There was much support for renaming among our witnesses, several of whom argued that it would help to overcome the perceived stigma attached to council tax benefit.⁹⁰ The Audit Commission told us that using the term rebate would be consistent with the existing

⁸⁰ Q 3

⁸¹ Memorandum from Help the Aged, CTB 5, para 4

⁸² Q 4-5

⁸³ Memorandum from Citizens Advice, CTB 6, para 2.2

⁸⁴ Memorandum from the Audit Commission, CTB 2, para 6

⁸⁵ Memorandum from Independent Age, CTB 10, para 2.4

⁸⁶ Memorandum from the Institute of Revenues Ratings and Valuation, CTB 11

⁸⁷ *Local Government Revenue*, para 132

⁸⁸ Government response to the ODPM Select Committee report: *Local Government Revenue*, Cm 6321,

⁸⁹ *The Lyons Report*, para 7.123

⁹⁰ See, for instance, Memoranda from Portsmouth City Council, CTB 1; Citizens Advice, CTB 6, para 2.1; Help the Aged, CTB 5, para 2.2; Independent Age, CTB 10; Institute of Revenues, Ratings and Valuation, CTB 11

‘Second Adult Rebate’ which is already administered by councils and provides a reduction in the council tax bill for some people.⁹¹

49. Using the term rebate rather than a benefit would also reflect more accurately council tax benefit’s true nature as a reduction in tax liability.⁹² As the Low Incomes Tax Reform Group pointed out, “no-one suggests that income tax should be based on a flat rate charge and then every citizen should put in a claim for allowances and reliefs in order to receive a rebate”.⁹³ The NPI also argued that rebranding council tax benefit is worthwhile in itself if it “is the linguistic key that allows Government to see council tax benefit as part of the tax system rather than the benefit system”.⁹⁴ Northgate Information Solutions, a technology services company, questioned whether there was sufficient evidence to demonstrate whether a name change would have a significant impact.⁹⁵

50. Although the Government has not formally responded to Sir Michael’s recommendation to call council tax relief a rebate the Minister for Local Government and Community Cohesion told us that the label ‘council tax benefit’ should be changed “to something that is not ‘benefit’”.⁹⁶ We agree. Removing the erroneous label of ‘benefit’ from reductions in council tax liability would not only be more accurate but could also reduce any stigma associated with entitlement and therefore serve to increase take up. **We recommend an immediate change to describe all reductions in council tax liability as the rebates that they actually are.**

Policy focus on pensioner take up

51. The Government says “pensioners on low incomes are the most vulnerable people in our society” and that its priority is therefore to increase take-up levels among this group.⁹⁷ The Government’s basis for the claim of ‘most vulnerable’ is not obvious but it is clear that take-up rates among pensioners are low and that many are as a consequence paying more council tax than they should. Between £1 billion and £1.4 billion of council tax benefit to which pensioners are entitled to is left unclaimed each year. This equates to around £600 per pensioner household, per year.⁹⁸ The Government’s efforts to improve take up among pensioners include improvements to the work of the Pension Service and the administration of council tax benefit as well as enhanced data-sharing between the government agencies involved.⁹⁹

⁹¹ Memorandum from the Audit Commission, CTB 2, para 7

⁹² Memorandum from Help the Aged, CTB 5, para 2

⁹³ Memorandum from the Low Incomes Reform Group, the Chartered Institute of Taxation, CTB 14, para 10

⁹⁴ Memorandum from the New Policy Institute, CTB 12, para 3

⁹⁵ Memorandum from Northgate Information Solutions, CTB 7, para 9

⁹⁶ Q 71

⁹⁷ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 4.4

⁹⁸ Memorandum from Age Concern England, CTB 8, para 2.1

⁹⁹ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 4.5–5

The role of the Pension Service

52. The Pension Service helps pensioners to claim pension-related benefits, the main ones being the state pension and pension credit. It operates through a network of local pension centres and a telephone service. At present those who contact the Pension Service and are eligible for pension credit are also assessed for council tax benefit but telephone customers who are ineligible for pension credit are not, and nor are those who contact the Pension Service to claim state pension only.

53. The Government has taken a number of steps to improve pensioner take up through the Pension Service. In 2005 the Pension Service identified customers in receipt of pension credit but not council tax benefit and passed their details to the relevant local authorities. In a separate exercise the information required to complete the shorter claim form was gathered from the same group of people by telephone. From September 2007 onwards customers who ring the Pension Service to report a change of circumstances will also be asked whether they would like to claim council tax benefit and, if they do, the shortened form will be used.¹⁰⁰

54. These measures have focused on increasing council tax benefit take up among those eligible for pension credit. As Sir Michael pointed out they do not “simplify the process for up to 1.2 million pensioners who are not eligible for pension credit but are entitled to, and not claiming, council tax benefit. At present those people cannot claim council tax benefit via the Pension Service since telephone calls are terminated at the point at which pension credit eligibility is ruled out.¹⁰¹ Although much of the information needed to claim council tax benefit is taken in the course of the call these details cannot be retained by the Pension Service’s IT systems and are not used. Sir Michael recommended that the Pension Service adapts its IT systems to enable it to act as a portal to rebates for all callers, regardless of pension credit eligibility.¹⁰² Citizens Advice stated that this “would seem eminently sensible”.¹⁰³

55. In its written evidence the Government did not favour extending the Pension Service’s telephone service to act as a portal for all of its existing callers. It argued that customers who contact the Pension Service to apply for the state pension only are not asked for income-related information as it is not required to determine entitlement to the state pension. If these customers were to be assessed for council tax benefit entitlement as well the duration of each telephone call would be extended, adding to the Pension Service’s costs. Doing so could also, according the Government, “raise customer expectations unfairly” as many would not be eligible.¹⁰⁴ The Minister, James Plaskitt MP, appeared to offer a slightly different opinion. In response to our questions on whether the Pension

¹⁰⁰ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 4.5

¹⁰¹ *The Lyons Report*, para 7.138

¹⁰² *The Lyons Report*, Recommendation 7.7

¹⁰³ Memorandum from Citizens Advice, CTB 6, para 4.7

¹⁰⁴ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 5.1.4

Service should act as a portal for council tax benefit for all callers, he said “Broadly, yes”, adding that “I will use any method I can to try and improve the take-up”.¹⁰⁵

56. Requiring the Pension Service to assess all telephone callers for council tax benefit eligibility may be a disproportionate response as a large number may not meet the criteria. It would be less burdensome to extend its council tax benefit portal function just to those who ring to claim pension credit. This would mean not terminating the assessment process where ineligibility for pension credit was established but continuing until council tax benefit eligibility could be determined. The Government stated that an estimated one million pensioners are entitled to council tax benefit but not pension credit but of these some 800,000 do not receive it. Based on these figures we estimate that around 80 per cent of the Pension Services’ existing callers (a total of 41,185 pensioners whose applications are discontinued) who are not eligible for pension credit may be eligible for council tax benefit and may directly benefit from this extension to the Pension Service’s role. **We recommend that the Pension Service acts as a portal to council tax benefit for all telephone customers calling to claim pension credit.**

57. Anecdotal evidence suggests that there may be room for the Pension Service to improve take up through more marginal measures as well. Citizens Advice reports that its local bureaux find that Pension Service staff visiting pensioners to help them claim pension credit do not always identify those who may be eligible for council tax benefit and therefore calls for all Pension Service staff involved in home visits to be better trained.¹⁰⁶ Improvements could also be made to standard pension credit entitlement letters which at present do not provide information about other benefits. Doing so could improve take up.¹⁰⁷ Any suitable opportunities for signposting pensioners to council tax benefit should be fully exploited, especially where the costs involved are marginal.

Working age households

58. The NPI and Dr Orton questioned the Government’s prioritisation of pensioners over those of working age in its efforts to improve council tax benefit take up. Overall non-pensioners do have a much higher rate of take up than pensioners—76 per cent compared to 53 per cent—but a more detailed breakdown reveals low levels of take up among groups such as couples with children who have a take up rate of between 62 to 69 per cent.¹⁰⁸ Action to increase take up among these households would assist the Government in meeting its objective to eradicate child poverty as well as increasing take up rates across the board.

Data-sharing and automatic assessment

59. Sir Michael argued that take-up for pensioners would be improved if the Pension Service were able to send automatically information on potentially eligible claimants to the

¹⁰⁵ QQ 72-74

¹⁰⁶ Memorandum from Citizens Advice, CTB 6, para 4.3

¹⁰⁷ Memorandum from Citizens Advice, CTB 6, para 4.3

¹⁰⁸ Department for Work and Pensions, *Income related benefits, estimates of take-up 2004/5, 2006*, p 61, table 4.1

relevant local authority.¹⁰⁹ Local authorities could then use this information to target more effectively efforts to improve take up.¹¹⁰ They would, for instance, be able to tell potential claimants how much benefit they could receive. The NPI argued that enhanced data-sharing between agencies could also assist with increasing the take up of council tax benefit by non-pensioner households. It called for HM Revenue and Customs (HMRC) to share the data it holds on those that are potentially eligible for council tax benefit with local authorities, arguing that it must hold data for those claiming tax credit.¹¹¹

60. The Government has conducted some research on enhanced data-sharing and the Minister told us that the DWP was “exploring” the potential for further data sharing between departments including HMRC.¹¹² There are nevertheless still concerns: one argument against greater data sharing centres on privacy issues. Dr Michael Orton, however, said “I do not think members of the public share such fears about data protection”.¹¹³ Similarly Help the Aged said “many pensioners we speak to assume that their data is already being shared” between public bodies and therefore did not understand the need to provide data again.¹¹⁴ The Audit Commission stated that changes would be required to ensure that Data Protection Act requirements were fully met when agencies share data.¹¹⁵

61. We recommend that the Government accelerate efforts to promote inter-agency data-sharing, particularly between the Pension Service, HMRC and local authorities, as a means of increasing council tax benefit take up. Supporting research should include an examination of the impact of data protection legislation on the potential for greater data-sharing and options for maintaining privacy for individuals who do not agree to their data being shared.

Automatic entitlement approach

62. As Dr Kenway said “there is an argument, given the difficulties with take up and the expense of take-up campaigns, at least for considering whether one should do something more radical”.¹¹⁶ Other witnesses agreed, some suggesting as one option the introduction of automatic assessment of eligibility before bills are issued to householders.¹¹⁷ This would remove the need for customers to claim council tax benefit. Sir Michael called for the Government to pursue work on automation “as a matter of urgency” as he believed that automatic entitlement to council tax benefit was essential to increasing take-up rates significantly.¹¹⁸

¹⁰⁹ *The Lyons Report*, para 7.141

¹¹⁰ Q 94

¹¹¹ Memorandum from the New Policy Institute, CTB 12, para 24

¹¹² Q 78

¹¹³ Q 46

¹¹⁴ Q 12

¹¹⁵ Memorandum from the Audit Commission, CTB 2, para 13

¹¹⁶ Q 58

¹¹⁷ Memorandum from Age Concern England, CTB 8, para 5.1

¹¹⁸ *The Lyons Report*, para 7.147

63. Help the Aged argued in favour of an automatic system exclusively for older people. It believes that “the only way the current property based system of local taxation can be made fair for older people is by introducing a system which pays council tax benefit to older people automatically”.¹¹⁹ It justifies limiting automatic entitlement to older people on the grounds that it is easier to do for this group as their incomes tend to vary less than those of working-age people.¹²⁰ The IRRV supported consideration of an automatic entitlement for older people.¹²¹

64. There are, however, a number of difficulties in moving towards automatic entitlement either for pensioners only or more widely. For entitlement to be determined automatically, before bills are issued, the Government would need to have accurate data on incomes. Even in the case of pensioners, as Mr Herbert of Citizens Advice acknowledged, the Government may not have the required information: many do not complete a tax return.¹²² The Audit Commission stated that “the more automatic the process the greater risk of fraud, so councils would need to risk assess claims and perform additional security checks”.¹²³ Age Concern agreed that “there are some risks with automatic delivery” although it thought these were “more than outweighed by the real need to make the council tax system fairer for those on low incomes”.¹²⁴

65. The Minister, James Plaskitt MP, said that a fully automated system for all potential claimants of council tax benefit would be “very difficult, frankly”, particularly for owner-occupiers about whom benefits agencies were unlikely to hold data.¹²⁵ He recognised however that it would be easier for other particular client groups such as lone parents who were already in the benefit system.¹²⁶ The Pension Service Solution Centre in Glasgow studied the feasibility of introducing an automated payment of council tax benefit as a means to reduce the complexity of the claims process from the perspective of the individual recipient.¹²⁷ **The Government should publish the findings of the Pension Service solution project on the automated payment of council tax benefit. We recommend that the Government investigates further the feasibility of introducing automatic assessment and billing, starting with those groups for which it could most easily be achieved. Its research should extend to an analysis of the risks of fraud.**

Government performance and incentives in raising take up

66. Although council tax benefit payments are made by local authorities, the costs are met in full from central sources. The Government currently spends £3.9 billion on council tax benefit payments each year but, as Sir Michael reported, “up to £1.8 billion per year in

¹¹⁹ Memorandum from the Help the Aged, CTB 5, para 6

¹²⁰ Q 8

¹²¹ Memorandum from the Institute of Revenues Ratings and Valuation, CTB 11

¹²² Q 12

¹²³ Memorandum from the Audit Commission, CTB 2, para 15

¹²⁴ Memorandum from Age Concern England, CTB 8, para 5.1

¹²⁵ Q 76

¹²⁶ Q 79

¹²⁷ Work and Pensions Committee, Seventh Report of Session 2006-07, *Benefits Simplification*, HC 463-II, Ev 174

council tax benefit entitlement” remains unclaimed.¹²⁸ The Government has estimated that a 10 per cent increase in take up (taking the overall take-up figure to 74 per cent) would lead to additional expenditure of £0.4 billion.¹²⁹ The perverse incentive is obvious: the more the Government does to increase take up, the more it has to pay out in council tax benefit. Although this is true of all benefits paid by central government, it is particularly noteworthy with council tax benefit, owing to the scale of the savings—£1.8 billion.

67. There is no public service agreement target (PSA) relating to council tax benefit take-up although the DWP does have a PSA target focused on raising pension credit take-up. The Public Accounts Committee noted that the DWP “is currently considering a more general target relating to pensioner poverty and benefits for pensioners in the context of the 2007 Comprehensive Spending Review”.¹³⁰ A more general target that encompasses council tax benefit and take-up would be a useful way to focus Whitehall’s attention on increasing take-up. It would also mitigate at least partly the effects of any perverse incentive. **We recommend that the Government encompasses in any general PSA target related to benefits and pensioner poverty promotion of council tax benefit take-up.**

Local action on take up

68. Several witnesses highlighted the role of local government in increasing take-up. The IRRV told us:

if the Government is serious about increasing council tax benefit take-up and indeed the take-up of other welfare benefits available to pensioners, it needs to put local authorities at the forefront of that strategy: after all local authorities have a proven track record of managing and delivering change, including major IT projects. They are innovative and have greater flexibility and speedier decision-making processes than the larger government agencies.¹³¹

Similarly the Audit Commission has found that take-up campaigns are most effective when based on local intelligence and knowledge.¹³²

69. Local councils, primarily those responsible for the administration of council tax, pursue a variety of local take-up campaigns. The Local Government Association pointed out that many councils run these campaigns as part of local authorities’ overall responsibility for well-being in their areas.¹³³ Some councils have been very effective in increasing take up either through individual action or with the support of Citizens Advice.¹³⁴ In Kent, for instance, different councils’ IT systems have been linked making it easier to target support

¹²⁸ *The Lyons Report*, para 7.135

¹²⁹ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 16

¹³⁰ Committee of Public Accounts, Twenty-sixth Report of Session 2006-7, *Department for Work and Pensions: Progress in tackling pensioner poverty-encouraging take-up of entitlements*, HC169

¹³¹ Memorandum from the Institute of Revenues, Ratings and Valuations, CTB 11

¹³² Memorandum from the Audit Commission, CTB 2, para 12

¹³³ Memorandum from the Local Government Association, CTB 13, para 7

¹³⁴ Memorandum from Citizens Advice, CTB 6, para 3.1

to pensioner owner-occupiers.¹³⁵ Kirklees Council introduced a financial incentive, a small council tax reduction, to encourage pensioners to have a ‘benefit check’. This resulted in an additional 1,000 council tax benefit claims.¹³⁶ Halton Borough Council introduced a ‘Benefits Express’ service to customers. Mr McCann of Halton Borough Council explained:

we have taken the service to the person’s home and we have filled the forms in there with them and processed the claims on-line in the person’s home, which removes a great barrier for claiming benefit.¹³⁷

This service has reduced the processing time for claims from an average of eight weeks to less than 48 hours.¹³⁸ **Local authorities are best-placed to lead on local measures to increase council benefit take up.**

Measuring local authorities’ performance

70. Citizens Advice argued that despite some examples of good practice in local action to increase take up, overall performance was “patchy and examples of poor practice continue to be reported by bureaux on a regular basis”.¹³⁹ It believes that local authorities should be required to take positive steps to identify who should be eligible for council tax benefit.¹⁴⁰ The DWP stated that “it encourages local authorities to undertake take-up activity” through benefit performance standards and good practice guidance”.¹⁴¹ These performance standards are used by the DWP to assess each local authority with responsibility for council tax benefit administration.¹⁴² The performance standards used to focus on administrative efficiency but were extended in 2005 to include take up¹⁴³ The current standards now include two ‘enablers’ (or indicators) encouraging local authorities to promote take up, although the majority of indicators still focus on administrative performance.¹⁴⁴ The Minister for Local Government, Phil Woolas MP, agreed that there was scope for a greater emphasis on outcomes over administration in monitoring local authority performance, although he pointed out that there is a correlation between administrative improvements and increasing take-up—slow and complex systems deter potential claimants.¹⁴⁵ **The current performance standards for local authorities should be revised to increase the focus on raising council tax benefit take up not just administrative efficiency.**

¹³⁵ Memorandum from the Audit Commission, CTB 2, para 9

¹³⁶ Memorandum from the Audit Commission, CTB 2, para 11

¹³⁷ Q 9

¹³⁸ Memorandum from Halton Borough Council, CTB 9, Appendix 2

¹³⁹ Memorandum from Citizens Advice, CTB 6, para 3.2

¹⁴⁰ Memorandum from Citizens Advice, CTB 6, para 3.3

¹⁴¹ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 15

¹⁴² The Department for Work and Pensions, *HB/CTB Performance Standards*, www.dwp.gov.uk

¹⁴³ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 15

¹⁴⁴ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 15

¹⁴⁵ Q 119

71. The Government has estimated figures on national council tax benefit take-up rates. These figures are based on data from two sources—the Family Resources Survey and the number of council tax benefit recipients. The Family Resources Survey is a nationally representative sample and cannot be used for local estimates.¹⁴⁶ Local authorities monitor the number of council tax benefit recipients in their areas but they do not know the number of people who are eligible and not claiming. The absence of any local data on council tax benefit take up presents a difficulty in developing performance measures focused on outcomes.

72. A local authority may be very successful in increasing the number of recipients but there could still be a large number of eligible people who are not claiming. Mr McCann of Halton Borough Council explained that “if somebody is at home and not claiming benefit but paying council tax there is no way we would know that those people should be claiming council tax benefit”.¹⁴⁷ Similarly, without knowing how many people in an area are eligible for but not claiming council tax benefit it is difficult for local authorities to judge whether local campaigns to promote take up are justified or on which parts of the community they should be targeted. The IRRV has called for the provision of better, more detailed data to local authorities.¹⁴⁸ **We recommend that the Government gathers the information required to provide estimates of the numbers entitled to but not claiming council tax benefit by local authority area.**

Financial support and incentives for local authorities

73. The Government provides funding to local authorities to administer council tax benefit. The Local Government Association has argued that it is important that the council tax benefit administration grant is not cut by the Government. It pointed out that the DWP had previously proposed to cut this grant by five per cent.¹⁴⁹ It also stated that the current administration grant does not automatically increase alongside the numbers of recipients because of the lagged nature of the data on benefit recipients. This means that “there is no immediate incentive for authorities to increase take-up” as it will lead to a short-term rise in their administration costs.¹⁵⁰ The Government has provided some limited additional funding to local authorities to increase council tax benefit and housing benefit take-up through a Performance Standards Fund, allocating £2.2 million to 38 local authorities in awards ranging from £5,000 to £300,000.

74. Dr Kenway was “slightly uncomfortable” with the idea of giving a local authority a financial incentive to do “what it ought to do” anyway.¹⁵¹ The Minister, Phil Woolas MP, argued against introducing direct financial incentives for local authorities to increase take up. **We find no justification for financial incentives for local authorities to increase council tax benefit take up.**

¹⁴⁶ Memorandum from the Department for Communities and Local Government and the Department for Work and Pensions, CTB 15, para 11.2

¹⁴⁷ Q 25

¹⁴⁸ Memorandum from the Institute of Revenues, Ratings and Valuation, CTB 11

¹⁴⁹ Memorandum from the Local Government Association, CTB 13, para 6a

¹⁵⁰ Memorandum from the Local Government Association, CTB 13, para 9

¹⁵¹ Q 61

4 Conclusions

75. Council tax benefit has a critical role to play in alleviating the financial burden of council tax on low-income households but it is currently not doing this effectively. There are two main reasons for this. First, the rules governing council tax benefit eligibility and entitlement are too restrictive to reduce adequately the burden of council tax upon those in greatest need of relief and, secondly, take-up is so low that relief is not reaching those it is intended to help.

76. Council tax benefit is not a social security benefit designed to provide income support to those in need yet it is still called a benefit and in many ways operates like one. Many of the criticisms levelled against council tax benefit stem from a sense of injustice arising from the fact that people who are entitled to a reduction in tax liability are not receiving it and a sense of unfairness because many low-income households are not entitled to relief. We call on the Government to change its approach towards council tax benefit to one which more accurately reflects its true nature as a reduction in tax liability. A useful start in this process would be to remove the 'benefit' label.

Conclusions and recommendations

1. Public perceptions of the legitimacy of the council tax are likely to be further undermined if the mechanism designed to alleviate the financial burden it places on low-income households is not effective. Council tax benefit eligibility, entitlement and take-up must be improved. (Paragraph 10)
2. Given the Government's commitment to eradicating child poverty it is difficult to see how it can justify the maintenance of council tax benefit rules that even on its own estimates leave some 600,000 children living in poverty whose families are still liable to pay full council tax. (Paragraph 14)
3. The council tax benefit taper, and its interaction with other parts of the tax and benefit system, can act as a disincentive to work. We recommend that the Government address this issue with some urgency and recognise the detrimental effects of the council tax benefit taper in its work on welfare reform. (Paragraph 17)
4. We recommend that the Government includes examination of the consequences of aligning council tax benefit eligibility thresholds with thresholds used in other parts of the tax and benefit system in its research programme. (Paragraph 19)
5. We urge the Government to consider sympathetically proposals to raise, and ultimately abolish the use of, an upper savings limit in determining eligibility for council tax benefit, not just for pensioners, but for all. (Paragraph 29)
6. The Government should review age-related anomalies in council tax benefit with a view to removing them as part of its work to simplify the benefits system for claimants. (Paragraph 35)
7. We recommend an immediate change to describe all reductions in council tax liability as the rebates that they actually are. (Paragraph 50)
8. We recommend that the Pension Service acts as a portal to council tax benefit for all telephone customers calling to claim pension credit. (Paragraph 56)
9. We recommend that the Government accelerate efforts to promote inter-agency data-sharing, particularly between the Pension Service, HMRC and local authorities, as a means of increasing council tax benefit take up. Supporting research should include an examination of the impact of data protection legislation on the potential for greater data-sharing and options for maintaining privacy for individuals who do not agree to their data being shared. (Paragraph 61)
10. The Government should publish the findings of the Pension Service solution project on the automated payment of council tax benefit. We recommend that the Government investigates further the feasibility of introducing automatic assessment and billing, starting with those groups for which it could most easily be achieved. Its research should extend to an analysis of the risks of fraud. (Paragraph 65)

11. We recommend that the Government encompasses in any general PSA target related to benefits and pensioner poverty promotion of council tax benefit take-up. (Paragraph 67)
12. Local authorities are best-placed to lead on local measures to increase council benefit take up. (Paragraph 69)
13. The current performance standards for local authorities should be revised to increase the focus on raising council tax benefit take up not just administrative efficiency. (Paragraph 70)
14. We recommend that the Government gathers the information required to provide estimates of the numbers entitled to but not claiming council tax benefit by local authority area. (Paragraph 72)
15. We find no justification for financial incentives for local authorities to increase council tax benefit take up. (Paragraph 74)

Formal minutes

Wednesday 25 July 2007

Members present:

Dr Phyllis Starkey, in the Chair

Sir Paul Beresford

Mr Bill Olnier

Mr Clive Betts

Dr John Pugh

Mr Greg Hands

Emily Thornberry

Anne Main

David Wright

Council Tax Benefit

Draft Report (Local Government Finance: Council Tax Benefit), proposed by the Chairman, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 76 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Eighth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Several Memoranda were ordered to be reported to the House for printing with the Report..

[Adjourned till 9 October at 10.20 am

Witnesses

The following oral evidence is published in volume II of this report, HC 718-II

Monday 18 June 2007

Anna Pearson, **Policy Manager, Help the Aged**, Tony Herbert, **Social Policy Officer, Citizens Advice Bureau**, and Peter McCann, **Head of Benefits and Revenues, Halton Borough Council**

Dr Michael Orton, **Senior Research Fellow, University of Warwick**, and Dr Peter Kenway, **Director, New Policy Institute**

Phil Woolas MP, **Minister for Local Government and Community Cohesion**, and James Plaskitt MP, **Under-Secretary of State**

List of written evidence

The following memoranda are published in volume II of this report, HC 718-II

Portsmouth City Council	CTB 1
The Audit Commission	CTB 2
Dr Michael Orton	CTB 3
London Councils	CTB 4
Help the Aged	CTB 5
Citizens Advice	CTB 6
Northgate Information Solutions	CTB 7
Age Concern England	CTB 8
Halton Borough Council	CTB 9
Independent Age	CTB 10
The Institute of Revenues Rating and Valuation	CTB 11
The New Policy Institute	CTB 12
Local Government Association	CTB 13
The Low Incomes Tax Reform Group, the Chartered Institute of Taxation	CTB 14
Department for Communities and Local Government and the Department for Work and Pensions	CTB 15
Halton Borough Council	CTB 16
Department for Work and Pensions (Supplementary)	CTB 17
Worcestershire County Council	CTB 18
Rushcliffe Borough Council	CTB 19
Citizens Advice (Supplementary)	CTB 20
Department for Work and Pensions (Supplementary)	CTB 21
Help the Aged (Supplementary)	CTB 22
Halton Borough Council (Supplementary)	CTB 23

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2006–07

First Report	The Work of the Committee 2005-2006	HC 198
Second Report	Coastal Towns	HC 351 (<i>Cm 7126</i>)
Third Report	DCLG Annual Report 2006	HC 106 (<i>Cm 7125</i>)
Fourth Report	Is there a Future for Regional Government?	HC 352-I (<i>Cm 7119</i>)
Fifth Report	Refuse Collection	HC 536-I
Sixth Report	Equality	HC 468
Seventh Report	Local Government Finance – Supplementary Business Rate	HC 719
Eighth Report	Local Government Finance – Council Tax Benefit	HC 718

Session 2005–06

First Report	ODPM Annual Report and Accounts	HC 559 (<i>HC 1072</i>)
Second Report	Re-licensing	HC 606 (<i>Cm 6788</i>)
Third Report	Affordability and the Supply of Housing	HC 703-I (<i>Cm 6912</i>)
Fourth Report	The Fire and Rescue Service	HC 872-I (<i>Cm 6919</i>)
Fifth Report	Planning-gain Supplement	HC 1024-I (<i>Cm 7005</i>)
First Special Report	Government Response to the Committee's Fourth Report of Session 2004-05, on the ODPM Annual Reports and Accounts 2004	HC 407
Second Special Report	Government Response to the Committee's Eleventh Report of Session 2004-05, on the Role and Effectiveness of The Local Government Ombudsmen for England	HC 605
Third Special Report	Government Response to the Committee's Seventh Report of Session 2004-05, on the Role and Effectiveness of the Standards Board for England	HC 988
Fourth Special Report	Government Response to the Committee's First Report of Session 2005-06, on the ODPM Annual Report and Accounts 2005	HC 1072