



House of Commons
Committee of Public Accounts

Council Tax Support

Forty-eighth Report of Session 2013–14

Report, together with formal minutes, oral and written evidence

*Ordered by the House of Commons
to be printed 5 March 2014*

HC 943

Published on 11 March 2014
by authority of the House of Commons
London: The Stationery Office Limited
£10.00

Committee of Public Accounts

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Summary

The Department for Communities and Local Government (the Department) worked well with local authorities to ensure that local Council Tax support schemes were implemented on time in April 2013 despite a slow start by the Department itself. The Department had four main policy objectives from this change. A significant number of local schemes currently do not meet all of these objectives, particularly that of protecting vulnerable people. The Department's response to this has not been consistent, intervening on one occasion with funding from a Transitional Grant but not another. Some local authorities have introduced Council Tax support schemes in a way that runs counter to broader welfare reforms intended to make work pay. The Department's information about the impact of schemes on vulnerable groups is patchy, and it does not fully understand the impact on the demand for local services of localising Council Tax support and broader welfare reforms. The Department does not yet have firm plans in place with the Department for Work & Pensions to share data between Universal Credit and Council Tax support schemes. Without this, significant savings will not be achieved.

Conclusions and recommendations

1. In April 2013, the Department transferred responsibility for Council Tax support to 326 local authorities. The Department had four main objectives for this policy: to transfer the system to local control; to make savings; to protect vulnerable people; and to support work incentives for claimants created by the Government's wider welfare reforms. Each local authority now has a duty to design and implement a local Council Tax support scheme. Previously Council Tax Benefit, a national scheme, had been claimed by five million people in 2011-12, at a cost of £4.3 billion. Alongside transferring responsibility, the Department also reduced funding to local authorities for Council Tax support by 10% in 2013-14, delivering a £414 million saving for central government. Local authorities have differed in how much of the reduced funding they have passed on to claimants through reduced entitlements.

2. **The Department's interventions to ensure that local authorities' Council Tax support schemes support all four of its policy objectives have been inconsistent.** Contrary to the Department's intentions, many local authority schemes have not protected vulnerable groups other than pensioners and war pensioners, while some have weakened work incentives, undermining Government's determination to reform welfare to make work pay. In 19 local authority areas, individuals will lose more - through the combined impact of Income Tax and National Insurance contributions and the withdrawal of Council Tax Benefit and Housing Benefit - than under the previous scheme, with some losing 97p for every extra £1 earned. However, we were unclear in what circumstances the Department would intervene. Although the Department told us that scheme designs are a local decision, it did intervene in 2012-13 with a Transitional Grant when it realised that many planned local schemes would significantly reduce the support for vulnerable claimants. It also told us it was dissatisfied that 22 local authorities had introduced schemes that counted child maintenance payments as income when calculating Council Tax support entitlements, but it had no plans to intervene in these cases.

Recommendation: *The Department should develop a coherent set of guidelines which set out the extent of local authorities' discretions and obligations, and how the Department will respond when it considers that local authorities' actions jeopardise the achievement of its objectives, especially on welfare reform and incentives to work.*

3. **The Department does not yet fully understand the combined impact of the new Council Tax support schemes and other welfare changes on the demand for local services and the funding of local authorities.** Council Tax support is one of several welfare changes, such as the benefit cap, which the Government has recently introduced, which, along with the localisation of and funding reduction for Council Tax support, do not affect all local authorities equally. We are concerned that the combined impact of welfare changes can lead to increased demand for local services, such as temporary accommodation and housing. There is a risk that local authorities do not have sufficient flexibility to manage demand, given the wider reductions to their funding. The Department has started working with the Department for Work

& Pensions and local authorities to understand the cumulative impact of these changes, but it has not yet calculated their effect on local authorities' costs, to inform government's decisions on future local authority funding.

Recommendation: *The Department should assess the combined impact of Council Tax support and other welfare changes on demand for local authority services and the funding of local authorities to help inform government's future decisions on funding changes affecting local authorities, including how the impact varies across local authorities.*

4. **The Department's funding of local authorities' additional costs resulting from the introduction of local Council Tax support is based on estimates that do not cover all the costs.** The Department is committed to funding local authorities for their additional costs resulting from the design, implementation and administration of Council Tax support schemes, and it is paying them £98 million of 'new burdens' funding for the first two years of the policy. However, this funding is based on an estimate the Department made in 2012, before local authorities had a firm understanding of the actual extra implementation and administration costs. In addition, the Department did not include local authorities' increased Council Tax collection costs in its estimate, even though evidence suggests that these costs are increasing because, in many areas, Council Tax is now being collected from people who were previously exempt from paying under the former Council Tax Benefit. The Department is planning to reassess the funding now that better data are available.

Recommendation: *The Department should work with local authorities, using data from the first year of schemes, to recalculate its funding of local authorities' additional burdens, including recurrent increases in collection costs.*

5. **The Department does not have enough information about what impact local scheme choices have had on vulnerable groups.** We are concerned that some local authorities' schemes have had an adverse impact on vulnerable groups, such as poorer families. In 2013-14, an estimated 230 local authorities (71%) introduced schemes which required minimum Council Tax payments from claimants. Of these, 133 local authorities offered no protection to vulnerable groups, other than pensioners and war pensioners. And despite the incentive offered by the Transitional Grant to limit minimum Council Tax payments to 8.5% of an individual's Council Tax bill, 114 local authorities implemented schemes with minimum payments between 12% and 33%. The Department, however, has not collected detailed information about local schemes and is therefore not well placed to understand the breadth of schemes and their impacts on vulnerable groups.

Recommendation: *The Department should collect information that supports a comprehensive analysis of the financial impact of Council Tax support schemes on vulnerable groups, including the number of people and types of claimants affected, and regional variations.*

6. **Ensuring that Council Tax support schemes interact effectively with Universal Credit is a significant challenge for the departments involved.** The Department for Work & Pensions currently expects process efficiencies within local authorities of up

to £565 million per year once Universal Credit has been implemented. This saving depends on local authorities having access to Universal Credit assessment data when calculating Council Tax support entitlements, thereby removing the need to duplicate the whole assessment process. The Department for Communities and Local Government recognises that establishing effective data sharing arrangements between Universal Credit and 326 Council Tax support schemes will be a complex task, but it has not set out any plans for how it will achieve this.

Recommendation: *The Department and the Department for Work & Pensions must develop and publish clear plans for establishing data sharing arrangements between Universal Credit and Council Tax support schemes.*

7. **The Department's planned review of Council Tax support is an opportunity for it to reassess the programme and ensure it meets the Department's objectives.** The Local Government Finance Act 2012 requires the Department to set up an independent review of Council Tax support schemes within three years of the Act coming into effect. The review will consider the efficiency and effectiveness of schemes, their impact in terms of localism, and the interaction of Council Tax support schemes with Universal Credit. However, the Department has not yet established the precise timetable for the review. As the Department does not currently collect detailed information about local schemes, it is not well placed to understand the full impact of the policy on claimants.

Recommendation: *The Department must set out a timetable and terms of reference for the independent review, which should include coverage of the points we have raised. It must also establish and collect the information the review will need, both to answer the questions set by legislation, and to assess the extent to which the Department has met its policy objectives for this reform.*

1 The Department's objectives and funding

1. On the basis of a Report by the Comptroller and Auditor General, we took evidence from the Department for Communities and Local Government (the Department) on Council Tax support.¹

2. Since Council Tax was introduced in 1993, people on low incomes have been able to claim support to pay their Council Tax bills. Until March 2013, this support was provided through Council Tax Benefit. Central government decided and funded the amounts claimants received under this national benefit, with local authorities administering it. In 2011-12, five million people claimed Council Tax Benefit in England, at a cost of £4.3 billion. In April 2013, the Department changed this system and transferred responsibility for Council Tax support to 326 local authorities, which now have the statutory duty to provide local Council Tax support schemes.² The Department was slow to engage with local authorities regarding the new system, and it was 19 months after the announcement of the change in the 2010 Spending review before it issued guidance to local authorities. However, all local authorities introduced Council Tax support schemes on time.³

3. The Department's objectives for this change were: to make savings for central government; to transfer the system to local control; to implement the changes in a way that protect vulnerable people; and to support the work incentives for claimants created by the Government's wider welfare reform.⁴ The Department set the funding to local authorities for Council Tax support at £3.7 billion in 2013-14, which was 10% lower than what the Department for Work & Pensions forecast Council Tax Benefit would have been in 2013-14.⁵ As a result, the Department made a £414 million saving for central government. However, the Department also incurred implementation costs of £152 million which were not offset against these savings, which included £53 million for a Transitional Grant which it introduced at a very late stage.⁶

4. Local authorities varied in how they implemented this reform.⁷ Many passed on some or all of their reduction in funding for Council Tax support to their local claimants by way of reduced entitlements to support. In 2013-14, 71% of local authorities introduced Council Tax support schemes that required working-age claimants to make a minimum contribution to their Council Tax bill.⁸ Under the previous system, there were no minimum Council Tax payments for people on low incomes.⁹ Most local authorities also

1 C&AG's Report, *Council Tax support*, Session 2013-14, HC 882, 13 December 2013.

2 C&AG's Report, paras. 1.1- 1.2.

3 Qq 13-14

4 Q 1; C&AG's Report, para 3.

5 C&AG's Report, para 2.

6 Q 6; C&AG's Report paras 1.19, 2.

7 C&AG's Report, para 1.9.

8 C&AG's Report, para 2.4.

9 HC Deb, 30 June 1992, col 779.

made use of new powers the Department gave them to increase their Council Tax income, partly to compensate for their reduction in Council Tax support funding. From 1 April 2013, local authorities have had greater discretion over the Council Tax discounts and exemptions they give to owners of certain types of properties, such as second homes and vacant dwellings.¹⁰

5. While local authorities have successfully introduced Council Tax support schemes, the Department has not fully met all its policy objectives.¹¹ We are concerned that a large number of local authorities have opted not to protect vulnerable groups from making minimum payments of Council Tax, other than the mandated protections for pensioners and war pensioners.¹² The Department chose to protect pensioners by legislating that local authorities continue to provide pensioners with the same entitlements as they would have received under Council Tax Benefit. In addition, the protection of war pensioners was strongly encouraged under the Armed Forces Covenant, which sets out the relationship between the nation, the state, and the armed forces.¹³

6. Another of the Department's objectives for this policy was that Council Tax support schemes strengthen work incentives.¹⁴ One way of doing this is through 'income taper rates', which is the rate at which Council Tax support is withdrawn as an individual earns more. The Department told us that 94% of local authorities have either kept the income taper rate at its Council Tax Benefit level of 20% or reduced it.¹⁵ After the hearing the Department sent us a note clarifying that 93% per cent of local authorities had retained the taper rate at the Council Tax Benefit level and 1% (only three local authorities) had reduced the taper rate, potentially benefiting 21,000 working age claimants.¹⁶ In addition, 14% of councils have amended other features of the Council Tax Benefit system that would improve work incentives. The Department told us that this provides "compelling evidence that local authorities understood the importance of work incentives" when designing their schemes.¹⁷

7. There is evidence, however, that some local authorities' schemes may weaken work incentives for some people. Nineteen local authorities have increased the income taper rate from its 20% level under Council Tax Benefit, potentially affecting 225,000 working age claimants.¹⁸ Of these 19 local authorities, 14 have increased the rate to 25%, and four to 30%. The effects on work incentives of such an increase can be significant: when the withdrawal of Council Tax support is combined with the withdrawal of Housing Benefit, Income Tax and National Insurance a person will lose 93 pence of every additional pound

10 C&AG's Report, paras. 2.13-2.14.

11 C&AG's Report, para 17.

12 Qq 23, 62-63

13 C&AG's Report, paras. 2.20, 3.11

14 Q 1; C&AG's Report, para 3.6.

15 Q 17.

16 Ev 13

17 Q 23; Ev 13

18 Ev 13

he or she earns under a taper rate of 25%, which increases to 97 pence for each additional pound if the taper rate increases to 30%.¹⁹

8. The Department told us that it wanted to delegate to local authorities the freedom to design their own schemes.²⁰ However, it did intervene in the first year of the policy by introducing a Transitional Grant. The Department told us it introduced the Grant after it realised that local authorities were “potentially introducing changes that were more harsh than they needed to be”. It interpreted this as resulting from local authorities being cautious about their capacity to absorb the reduction in Council Tax support funding during a period in which they had to implement other significant financial changes.²¹ One of the conditions of the Grant was that schemes had to limit minimum Council Tax payments to at most 8.5% of an individual’s Council Tax bill. Some 43% of local authorities (out of a sample of 145) changed their scheme to qualify for the Transitional Grant.²² The Department told us it was unclear, however, whether local authorities will introduce schemes that pass more of the funding cut on to claimants once transitional funding is no longer provided.²³

9. The Department has been less ready to intervene in other cases where local authority scheme choices appear to conflict with the Government’s intentions. Twenty-two local authorities have, for example, chosen to add child maintenance payments to their calculation of income when determining Council Tax support entitlements. The Department told us that it was not “entirely happy” with these local authority choices, but had not taken direct action against them, since “Councils have a choice about how they set up the scheme”. However, the Department wrote to us after the hearing to explain that they intend to issue guidance shortly and that local authorities will be notified of that guidance. The Department said that it relies in general on local authorities to implement government policy in accordance with their statutory duties. But by delegating decision-making on certain policies to local authorities, some local authorities will go “in a different direction on specific issues”. The Department told us that for each government policy they need to come to a “judgement about the pros and cons of whether you want to delegate the choice at a local level and whether some might therefore take a choice you don’t like”.²⁴

10. Council Tax support is one of the major funding and welfare changes the Government has introduced in recent years. Welfare recipients may be affected by more than one welfare change, for example, a reduction in Housing Benefit, changes to their Jobseeker’s Allowance and reductions in their Council Tax support entitlements. These combined effects may lead to increased demand for, and therefore raised costs of, local services, such as pressures on temporary accommodation or council housing when individuals can no longer afford to rent in the private sector. The Department recognised that the effect of changes to the welfare system needed to be considered in the round.²⁵ Where local

19 Q. 17; C&AG’s Report, para 3.7.

20 Qq 67-68.

21 Q 7.

22 C&AG’s Report, paras. 2.8, 2.10.

23 Qq 9-10.

24 Qq. 64-68; Ev 13

25 Qq 42-43.

authorities experience increased service costs this will add to the financial risks they experience from other funding changes. For example, local authorities that experience economic decline may see a simultaneous rise in Council Tax support claimants and fall in business rate income.²⁶ These combined financial impacts will further reduce the flexibility local authorities have in dealing with increased demand for their services.

11. The impact on local authorities of the welfare changes will vary across the sector. For Council Tax support, local authorities had to retain the same level of entitlements for pensioners as they would have received under Council Tax Benefit, as the Government decided to protect pensioners through legislation. The impact of this varies across local authorities, depending on the number of pensioners that claim Council Tax support.²⁷ Under the previous scheme, the amount of pensioners claiming Council Tax Benefit as a proportion of total claimants ranged from 25% to 74% across local authorities.²⁸ If all local authorities decided to pass on their 10% funding cut, then this would translate into cuts to entitlement for working-age claimants of between 14% (where the ratio of pensioners was lowest) and 33% (where it was highest).²⁹

12. In our report *Financial sustainability of local authorities*, we concluded that the Department had not yet assessed the cumulative impact of funding cuts and reforms on the financial sustainability of local government.³⁰ The Department has since developed its understanding of the combined effects of funding changes, so as to protect the financial future income of every local authority. The Department told us that it has a dedicated team that works exclusively on welfare issues and is keeping in close contact with local authorities, to learn about the cumulative impacts of welfare changes. The Department said it is also working closely with the Department for Work & Pensions to understand more about the effects of welfare changes. The Department admitted, however, it does not have the systems to calculate all the financial impacts from the welfare changes on local authorities.³¹

13. Local authorities have incurred new costs by taking on the responsibility to provide Council Tax support. These include the cost of designing and modelling schemes, communicating changes to entitlements, consulting with local residents, paying IT suppliers for new benefit processing software, and setting up a system of appeals against Council Tax support decisions. In line with its 'new burdens' doctrine, which requires the Department to fund local authorities fully for any new costs arising from Government policy, the Department provided £98.3 million to local authorities over two years to 2014-15 to cover these new costs.³²

26 C&AG's Report, para 3.26.

27 Q46.

28 C&AG's Report, Figure 5.

29 Q 37, C&AG's Report, para 2.20.

30 Committee of Public Accounts, Third Report of Session 2013-14, *Department for Communities and Local Government: Financial sustainability of local authorities*, HC 134, May 2013, conclusion 1, p 5.

31 Q 42; C&AG's Report, para. 3.29.

32 Q 70; C&AG's Report, paras. 1.15-1.16.

14. The Department told us that the new burdens funding was an estimate based on the best information available to it in spring 2012, but that this was before local authorities had a full understanding of their full implementation and recurring costs.³³ However, the new burdens funding did not cover all the costs local authorities have incurred. Some local authorities have had to increase their Council Tax collection efforts, after designing schemes which charged claimants a minimum Council Tax contribution for the first time. Birmingham City Council and Epping Forest District Council, for example, employed additional members of staff to deal with the increased burden of Council Tax collection.³⁴

15. The Department told us that it intends to review its new burdens assessment with the Department for Work & Pensions. The Department explained that it does not compensate local authorities for any additional Council Tax collection costs they incur because “it is down to each authority how they organise the collection of their council tax and the extent to which they need to use additional measures to collect council tax”.³⁵ The Department expects, however, that Council Tax collection costs will decline over time as local authorities will find it easier to collect money from people who are now paying Council Tax for the first time.³⁶

33 Qq 71-72; C&AG’s Report, para 1.17.

34 Q 76; C&AG’s Report, para 2.5-2.6.

35 Qq 74, 76; C&AG’s Report, para 11.

36 Q 78.

2 Understanding how Council Tax support will work in the future

16. We were concerned that some vulnerable groups were being particularly affected by this reform, for example single parent families.³⁷ The Department told us that it relied on local authorities to implement delegated powers in accordance with their existing statutory duties, including the Child Poverty Act 2010, to ensure that vulnerable groups, such as the disabled, carers, and single parents with children under five, would be protected. The Department told us that “the vast bulk of authorities recognise those duties” and that so far “they have done the job it was intended they should do”.³⁸ However, 133 local authorities have already made cuts to their Council Tax support for working-age claimants in 2013-14 without including protections for any vulnerable groups. We were concerned that local authorities in poorer areas might find it harder to absorb their funding cut, and thus be more likely to pass it on in the form of reduced support for their claimants; although the Department said it had not found such a link so far.³⁹

17. The Department had sought to encourage local authorities through its Transitional Grant to limit minimum Council Tax payments to 8.5%.⁴⁰ However, 114 local authorities implemented Council Tax support schemes with minimum payments greater than 12% and up to 33%.⁴¹ Local authorities may opt to increase the minimum payments of Council Tax from working-age claimants from 2014-15, after the one-year Transitional Grant has expired, but the Department told us that at the time of the hearing it was uncertain how many might do so.⁴²

18. The Department has reviewed local authorities’ Council Tax support schemes, to obtain information about the protection local authorities offer vulnerable groups. It is aware that some local authorities have not protected any vulnerable groups within the rules of their schemes in the first year, other than pensioners and war pensioners.⁴³ However, it does not collect more detailed information on local schemes, and so is not well placed to understand their full impacts on claimants in the future.⁴⁴ The Department told us it was in the nature of giving control to local authorities that some would go “in a different direction”, but that they were all accountable to their local electorates for the performance of their statutory duties.⁴⁵

37 Qq 62-63.

38 Qq 66-67; C&AG’s Report, para 3.11

39 Qq 25-27; C&AG’s Report, para 3.11.

40 C&AG’s Report, para 2.9.

41 C&AG’s Report, Figure 3.

42 Qq 8-12.

43 Q 62; C&AG’s Report, para 3.14.

44 C&AG’s Report, para 3.31.

45 Q 67.

19. Council Tax support has connections with Universal Credit, a programme led by the Department for Work & Pensions, about which we reported recently.⁴⁶ Universal Credit is a single benefit payment that will replace six working age benefits, including Housing Benefit, which is currently administered by local authorities.⁴⁷ The Department told us there were three reasons why the Government had decided to replace Council Tax Benefit with Council Tax support schemes under local authorities' control, rather than include it within Universal Credit. These were: it enabled the Government to realise financial savings more quickly; the localisation of Council Tax support was in accordance with the Department's localism agenda; and including Council Tax Benefit in Universal Credit could have made it more complicated for local authorities to collect Council Tax from those on low incomes.⁴⁸

20. The Department for Work & Pensions has forecast savings of up to £565 million per year from local authorities' costs, as a result of removing their responsibility to administer Housing Benefit once this has been included in Universal Credit. However, even after Housing Benefit is transferred into Universal Credit, much of these administrative costs may remain. In 2012-13, nearly 90% of Housing Benefit claimants also claimed Council Tax Benefit, and local authorities administer Housing Benefit and Council Tax support together, using the same people and IT systems.⁴⁹

21. We heard from the Department that the key to realising savings from rolling Housing Benefit into Universal Credit was the establishment of effective data sharing systems between local authorities and the Department for Work & Pensions. Such systems would enable local authorities to process Council Tax support claims automatically from people who had already claimed Universal Credit.⁵⁰ The Department for Communities and Local Government acknowledged that this project would be challenging, but maintained it was possible for Council Tax support and Universal Credit to operate efficiently alongside each other. The Department told us it was already working with the Department for Work & Pensions on this, although this was only at "the very early stages". The Department for Communities and Local Government reassured us that the revised schedule for Universal Credit implementation means that there is sufficient time to work out a solution together.⁵¹

22. The Department is required under legislation to hold a review of all local Council Tax support schemes. The Local Government Finance Act 2012, which received Royal Assent on 31 October 2012, states this must take place within three years of the Act taking effect. The Department said that the review would look at the effectiveness and efficiency of the scheme, its impact in terms of localism, and the relationship with Universal Credit. The Department was unclear, however, about its preparations for this review, and about when exactly it would begin. We asked whether the Department would use this review to look again at the principle of keeping Council Tax support separate from Universal Credit, but

46 Committee of Public Accounts, Thirtieth Report of Session 2013-14, *Universal Credit: early progress*, HC 619.

47 C&AG's Report, para 5.

48 Qq 28-29, 34.

49 C&AG's Report, paras 3.15-18.

50 Qq 32-33, 37; C&AG's Report, para 3.19.

51 Qq 33-34, 36, 39.

the Department said that this would not be necessary.⁵² However, the note provided to us by the Department after the hearing includes the relevant wording of the Local Government Finance Act 2012, which confirms that the review is required “to make recommendations as to whether such schemes should be brought within Universal Credit.”⁵³

23. The Department is discussing with the local government sector what data will be required to support the review, but has not yet established what this will be. As the Department does not collect detailed information about local schemes, it is not well placed to understand the impacts of this reform on claimants.⁵⁴ It is possible that these impacts may have grown by the time of this review. The Department did not agree with our concern that, if overall funding reductions continued, local authorities would have less room to protect claimants in the future.⁵⁵ However, it conceded that “probably a third” of local authorities were already looking at making changes to their schemes in 2014-15, only the second year of the reform.⁵⁶

52 Qq 32, 44-45.

53 Ev 13

54 C&AG’s Report, paras. 3.30- 3.31.

55 Q 31.

56 Q 9.

Formal Minutes

Wednesday 5 March 2014

Members present:

Mrs Margaret Hodge, in the Chair

Richard Bacon
Stephen Barclay
Chris Heaton-Harris
Meg Hillier

Stewart Jackson
Fiona Mactaggard
Austin Mitchell
Justin Tomlinson

Draft Report (Council Tax Support), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 23 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Resolved, That the Report be the Forty-eighth Report of the Committee to the House.

Ordered, That the Chair 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.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Monday 10 March at 3.00 pm]

Witnesses

Monday 20 January 2014

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Sir Bob Kerslake, Permanent Secretary and **Simon Ridley**, Director for Local Government Finance, Department for Communities and Local Government.

Ev 1

List of printed written evidence

1 Department for Communities and Local Government

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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.

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Forty-fourth Report	Student loan repayments	HC 886
Forty-fifth Report	Excess votes 2012-13	HC 1068
Forty-sixth Report	Emergency admissions to hospital	HC 885

Oral evidence

Taken before the Committee of Public Accounts on Monday 20 January 2014

Members present:

Margaret Hodge (Chair)

Mr Richard Bacon
Jackie Doyle-Price
Meg Hillier
Mr Stewart Jackson
Fiona Mactaggart

Austin Mitchell
Nicky Morgan
(Economic Secretary, HM Treasury)
Justin Tomlinson

Gabrielle Cohen, Assistant Auditor General, National Audit Office, **Mike Suffield**, Director, National Audit Office, and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Council Tax support (HC 882)

Examination of Witnesses

Witnesses: **Sir Bob Kerslake**, Permanent Secretary, Department for Communities and Local Government, and Head of the Civil Service, and **Simon Ridley**, Director for Local Government Finance, Department for Communities and Local Government, gave evidence.

Q1 Chair: Happy new year, and welcome to Nicky Morgan, who is attending on behalf of Treasury Ministers to make sure that we are behaving ourselves. Sir Bob, having wished you happy new year, tell me, what are the Department's objectives for the scheme?

Sir Bob Kerslake: The objectives, clearly, are to give local authorities the ability to implement and operate the council tax support scheme. As part of that transfer, you will know that there was a saving of 10% on the overall cost of the scheme, so there was a desire to achieve a saving on behalf of Government. In the transfer process, we were seeking, so far as was practicable, both to protect vulnerable people and to ensure that we could retain work incentives. Those were the key objectives.

Q2 Chair: Okay, so it was localism, save money, protect vulnerable people and maintain work incentives.

Sir Bob Kerslake: Yes.

Q3 Chair: Let's just take some of those. Let's disentangle that. The first thing to say to you is that I think the evidence in the Report—we will go through it one by one—suggests that perhaps three of those four objectives have not been met.

Sir Bob Kerslake: I would disagree with that, but we will come back to it.

Q4 Chair: We will go through them one by one. I was left wondering when I looked at the Report. I particularly looked at figure 1 on page 13. There has been an explosion in expenditure on council tax benefit, and yet council tax has hardly shifted, partly because of Government policies—across both Governments. We are left wondering. You were

probably a chief executive through quite a lot of this period. DCLG could not manage the money. It could not manage the explosion in figures—perhaps Mr Ridley can answer on this point—and therefore the only thing you do, unable to control the growth, is hand the problem over to local authorities, and then you can criticise them for any failures. It is a bit of passing the buck over to local government, rather than accepting that you have a problem with an explosion in the growth and trying to tackle it centrally.

Sir Bob Kerslake: I do not think that that would be a fair description of what happened here, Chair.

Chair: I thought you might say that.

Sir Bob Kerslake: If you look at that graph, you will see there are two things driving the increase in council tax support. The biggest part by far is the rise in the council tax itself. There is a direct link—

Q5 Chair: That is not true. Sorry to say that, but that is not true.

Sir Bob Kerslake: What you look at there—

Chair: If you look at the council tax growth, which is the yellow line, you will see that it has hardly gone up.

Mr Bacon: No, the orange one is the council tax.

Sir Bob Kerslake: As I was saying, Chair, the bottom line is actually the case load—

Chair: Oh, I see.

Sir Bob Kerslake: You will see on case load that, yes, it is higher at the end of the period than at the beginning, but not by much. It dips and then rises again. Yes, case load is one factor in recent years, but it was not the factor previously. The principal driver, as the NAO report indicates, has been the rise in council tax itself.

Chair: Okay.

Sir Bob Kerslake: What I would say here is that, yes, one of the purposes was to give responsibility to local

authorities. In the process of transfer, we have, to use the jargon, moved from an AME to a DEL control—and that is a general direction of Government policy, to reduce the amount that is in the AME part of the accounting. Overall, I don't think this was simply a question of transferring the problem to local authorities. We put a great deal of care into the process of transfer. One of the objectives that I should have mentioned, of course, which we did deliver, was a smooth and effective delivery of the change.

Q6 Chair: Yes, okay, which I think you did deliver on, in a way.

Before I come to Stewart, who is waiting, you wanted to save £414 million in 2013–14. You actually have implementation costs, according to the report, of £152 million, so you have not saved your £414 million. Part of that is the new burdens—£100 million—and part the transition grant of about £50 million. Is that right?

Sir Bob Kerlake: It is absolutely right to say that we had funding in here for new burdens—that is par for the course—and we also had a one-off grant to help manage the transition.

Chair: So you have not saved £414 million—

Sir Bob Kerlake: It is important to say that the cost of those two things was found through savings elsewhere in the Department's budget, so the net return to central Government from the Department was indeed the £414 million. It is also worth saying that over time we would not expect to put in the same amounts for the transition, because it was a transition sum, and other changes will hopefully reduce the cost of the burden itself. But in terms of the net saving delivered back to Government, we did indeed deliver the £414 million; we found the rest of the funding through greater efficiency within the Department.

Q7 Chair: Good. Okay. On the transition funding, it was to protect more vulnerable people, wasn't it—to prevent the cut being passed on by local authorities?

Sir Bob Kerlake: Yes, you are right to say that. As the schemes came forward—it was difficult to make this judgment until they did come forward—it became obvious to us that there was a risk that local authorities in this first year were potentially introducing changes that were more harsh than they needed to be. Therefore, we put in the transition funding to assist them in this process of transition. The evidence suggests that it was pretty effective in that. The reason why I say all that is because the context of the change is important. There were huge changes going on in the financial system at the time, of course—the changes around business rates and so on—and it was understandable that a local authority might be taking quite a cautious view in the first year. The transition money enabled authorities to form, if you like, a better judgment of what they could do.

Q8 Chair: Will there be transition funding before 2014–15?

Sir Bob Kerlake: We have made no commitment to further transition funding. We do not expect that to apply.

Q9 Chair: Are you not just delaying the cut?

Sir Bob Kerlake: No, I don't think so, and the evidence we have so far—although we are at a slightly awkward time now, because the councils are producing their schemes for the end of January—suggests that probably a third of them will be reviewing their schemes. We do not yet know how that will play out in terms of their implementation, but at least from what we know now—we do not know for certain—there is reasonable evidence that quite a lot of authorities, having introduced the scheme, have been or will be able to sustain some of the key components of the scheme.

Q10 Chair: You put the transition funding in late, so obviously not all authorities could take the benefit of it, but it was quite a high percentage that did and changed their scheme. What I read from that is that if the transition funding is taken away, they will then pass the cut on to working-age claimants.

Sir Bob Kerlake: Truthfully, we don't know for certain yet, because we are not through this year's process.

Q11 Chair: Yes, but what gives you any confidence that it will be anything other than that?

Sir Bob Kerlake: A number of reasons, really. Most local authorities want to do what they can to protect the most vulnerable in their authority, but they have to balance that against a whole set of other competing objectives. What the transition fund did was enable them to form a judgment about the risk in the new introduction of the scheme. Having run it for a year—or they will have run it for a year—they have a better understanding of risk and can make a better judgment, for example, about what they might do in relation to exemptions and discounts on council tax, which, of course, raise additional income for them. I genuinely do not know for certain yet, as they have not done all the work, but I do not think we should assume—I think the evidence does not entirely support this at the moment, Simon—that they will simply, when the scheme goes, just pass it on and revert to where they might have been otherwise.

Simon Ridley: On the point about the number of councils, about two thirds of local authorities took the transition grant, and the evidence we have at the moment is that only about one third of authorities—that is not necessarily out of the two thirds—are looking to change their scheme in the second year. An LGA survey suggests that about 40% of local authorities are looking to change their scheme.

Q12 Chair: You mean change it to take advantage of the transition grant.

Simon Ridley: No, just change it at all.

Sir Bob Kerlake: Either to change it to make it more or less—in other words, to change it in any way.

Simon Ridley: So there are certainly a good number of local authorities who took the transition grant who, on the information we have at present—as Bob says, that is not finalised yet—are not seeking to change their scheme.

Chair: Not seeking to change their scheme.

Simon Ridley: Not seeking to change their scheme, but we do not have a precise number for that, because

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councils do not have to finalise their schemes until 31 January.

Q13 Mr Jackson: Peterborough city council discussed it this morning at their cabinet meeting and they are not changing their scheme. I have to make my customary declaration, as a vice-president of the LGA.

In general, it is a very positive Report, compared with some that we see, but I would like to press you on two areas, Sir Bob, as you are talking about strategic policy objectives. First, I wonder whether you have learnt any lessons from, as some might say, the inordinate delay in setting out the methodology for the change in the scheme. It took you 19 months, I think, from the comprehensive spending review in 2010, to detail guidelines to local authorities. To their credit, they did turn that round well within the nine-month deadline, which was on 31 January 2013. Have you learnt any lessons from that? That is a minor point.

The only thing that causes me a bit of concern is on page 29, paragraph 3.10. We are talking about the taper effect and the disincentive on finding work. It worries me, given that you are charged with meeting Government strategic objectives, that the NAO Report says that the Department “has no plans to intervene to ensure that schemes support work incentives ahead of the review it is required to undertake within three years of policy implementation.” That seems a big omission to me. I wonder whether you would like to reflect on that, because surely you should use sanctions to encourage local authorities to incentivise work among this group of individuals.

Sir Bob Kerslake: I will deal with the two questions in order. On the 19 months, yes, it seems like a long time, but it is worth having in mind that when the announcement was made on the change, it was a headline announcement in the comprehensive spending review in 2010. So a lot of work had to be done to work through the options and implications for Government, and in particular, to work through the implications in the context of the other very big changes that were going on, such as welfare reform and the localisation of business rates. It was quite a complex issue. We also had to do a huge amount of consultation. We did over 90 individual consultations throughout the period of the implementation. We had two very significant groups meeting regularly, and we also did quite a lot of consultation with people such as the computer firms to ensure that they could implement it in time and that we did not do things that got in their way.

Q14 Chair: Before you move on to the work incentive, another part of the Report states that it took you 11 months after the announcement to set up the first working group with local government. You were slow, and they weren’t moved fast.

Sir Bob Kerslake: Let me just finish the answer to the question. We did take time to set up the working group, but we did a lot of individual consultations prior to setting it up. A lot of work was done testing out the feasibility of the time scale, the way we implemented it and the choices for Government. It is important to have that in mind; we were not simply

twiddling our thumbs. We were implementing it at a time when other big changes were happening. Alongside that, we also had to take forward two lots of legislation, as you know, so there was a huge undertaking involved from pretty much a standing start.

To deal with your question about lessons, for us in CLG there was quite a steep learning curve. This was not our territory, because of course it is being run largely through DWP, and there was a steep learning curve—I think it’s fair to say that, Simon—in terms of understanding the detail of this. So a lot of that early period was us learning about how this worked. Maybe, with hindsight, we could have speeded that up, perhaps by bringing people into the Department from DWP or something of that sort. I genuinely do not think there was a quick answer to the time scale. Frankly, I would rather we got it right and took longer than rushed into it and fixed it and then have local authorities say, “You got it all wrong.”

Q15 Mr Jackson: On the issue of collaborative working, given the important political, administrative focus on universal credit, are you comfortable with the collaborative working now—data sharing with DWP, for instance?

Sir Bob Kerslake: I think we are. I did not want to suggest that DWP were not collaborative at all. We work very closely. We have a dedicated team that works on both issues. We meet monthly at director level. We talk daily, almost, on issues, so there is very close collaboration with DWP on all this. What I am really saying is that there might have been ways we could have accelerated our learning of the detail to make sure we had got it absolutely right.

Simon Ridley: I would just add that the collaboration with DWP continues. There are still a series of issues around data sharing that we need to get right when universal credit comes on stream. We are doing a lot of work around the administration grant, which covers council tax benefit and housing benefit, and we continue to do that with DWP. As Bob said, there were two elements of the legislation. We needed to get the Welfare Reform Act right in terms of ending council tax benefit at the same time as we had to design clauses for the Local Government Finance Act to bring the support scheme in place, and we did that very much between us and DWP, because they had the expertise on how the council tax benefit scheme runs.

Sir Bob Kerslake: I hope that that is an honest answer to your first question. The second question was about the taper and how we approached it. We have looked carefully at how local authorities have implemented or altered the taper, and I am pleased to say that over 90% of local authorities have either kept the taper at 20% or improved it—reduced it below 20%. Only a relatively small minority have gone above 20% in the taper. On that particular point, local authorities have definitely recognised the policy objective, which is why I would challenge whether they have delivered it.

Q16 Chair: Hang on. At 20%, for every extra £1 you earn—correct me if I am wrong—you lose 93p.

Mike Suffield: That is 20% combined with various other tapers at the same time.

Sir Bob Kerslake: It is not just the council tax; it is other things. The point about the 20% is that that was the figure that existed previously, so they have not made the taper worse; in some instances, they have made it better.

Q17 Mr Bacon: I think a lot of us worry about this work incentive sort of thing. The Report states that five million people were in receipt of council tax benefit. From my own area of South Norfolk, I know that more than half of the people in receipt of council tax benefit are pensioners, so they will not be affected by a taper or by an increase or a withdrawal of work incentives. When you add it up—19 local authorities have increased the income taper rate above 20%; 14 of those have increased it to 25%; and four have increased it to 30%—this handful of local authorities represents less than 10% of all local authorities. How many people in total are we talking about who are more adversely affected—if one wants to put it that way—by the negative change in work incentives?

Sir Bob Kerslake: I cannot give you the numbers, Mr Bacon. I am happy to go back and try and do a calculation. What I can say is that 307 councils—94% of councils—either maintained the taper at 20% or reduced it.

Chair: Yes, but that is a really important question of Richard's. If they are district councils, they cover a very small part. If the bigger, unitary councils are the ones who have broken it, it is a deceptive figure.

Q18 Mr Bacon: I would like to know this, given that these numbers can hide more than they reveal. Out of the 5 million, how many are in the cohort of people who are looking for work—that is to say, they are in receipt of jobseeker's allowance or employment-related benefits like employment and support allowance, and therefore might be considered part of the cohort who would be affected? Of the 5 million, how many are in the cohort who would be affected by a change in the work incentive?

Sir Bob Kerslake: Truthfully, what I have gone for is a percentage of councils, so I would have to go back and see—

Mr Bacon: Yes, okay. Well, if you can find the numbers of the people it would be very helpful, I think.

Sir Bob Kerslake: What I can just say, Mr Bacon, is that on our evidence there is no pattern of those who have adopted the taper or changes.

Q19 Mr Bacon: I am prepared to believe that even though a negative change to work incentives is obviously something nobody wants to see, this is relatively marginal. That is what I am trying to ascertain. The way to ascertain that is to say there are 112,000 people who are now less incentivised to find work than was the case previously, or whatever the number is. That is what I am after.

Sir Bob Kerslake: I will go away and check the number. On the basis of the total number of councils, and what we know about the councils and their pattern, I think it is a relatively small number, but I will confirm it.

Mike Suffield: We do have details of those councils—which ones they are. We don't have the number of claimants, but I can share with the Committee which councils are the ones—

Q20 Mr Bacon: If you could put a note together, with the details, that would be very helpful.

Sir Bob Kerslake: Just to finish with this last point, which is quite important, the NAO in its Report did a lot of its work on sample. We have looked at the total—at all local authorities—which is why we came out with these percentages.

Q21 Chair: Crudely, if you look at the key facts, right at the beginning, there were 5 million council tax benefit claimants in 2011–12. You say at the end that 41% of local authorities have introduced minimum payments, so they have passed on some of the cut. Crudely—I know it is very crude—I thought that that meant 2 million people.

Mike Suffield: It is 71% who have taken a minimum payment, and 41% who are not protecting the vulnerable—

Chair: So 41% are not protecting the vulnerable.

Mike Suffield: Beyond pensioners and war pensioners.

Q22 Chair: So that, crudely, means that 2 million people who were previously protected may not now be protected. I accept all the provisos, but I was trying to look for a figure.

Sir Bob Kerslake: We are in danger of mixing up two different issues here. The question I was asked by Mr Jackson was in relation to the work incentive issue and the taper. What I am saying to you is that the vast bulk of councils either maintained the taper, which is the rate at which benefit is withdrawn related to your income; or alternatively they improved the taper—they made it flatter. So I would deduce from that that taken as a whole, the number affected by a less good work incentive is quite small. I will get you the best number I can.

Q23 Mr Bacon: And perhaps you would add in the numbers of the ones who made it flatter, as well.

Sir Bob Kerslake: I can do that. We have those numbers.

Simon Ridley: I was just going to add, as well, that when looking at work incentives, we focused on the taper, but there are other aspects of schemes that make a difference—for example, extended payments. So councils continue to pay after you have come into employment, for a period, under council tax benefit. That was four weeks. Again, the vast majority have maintained that. Some have extended it, and I think it is only two councils who have shortened that period. So the vast majority of councils have used some of the flexibilities that they have to design their schemes to maintain the same work incentives that existed under council tax benefit.

Sir Bob Kerslake: Just one additional point: again, it is not just the taper. If you take earnings disregards, 44 councils increased the level of earnings disregards—14%; 280 councils, or 86%, kept them at the same; and two councils, which is 1%, reduced the

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level of earnings disregards. So there is pretty compelling evidence that local authorities understood the importance of work incentives and kept that in. In essence it is common sense, because the more people who are in work, the less cost there is for them on council tax support.

Mr Jackson: Could we have the detail on that?

Sir Bob Kerslake: We will happily supply that to you, Mr Jackson.

Q24 Fiona Mactaggart: We are talking as though work incentives are simply to do with the impact on their council tax bill not being a sharp burden for people who move into employment. There is another work disincentive in the system that I have seen among my constituents who previously have not been liable for any council tax and end up with debts that affect, for example, their ability to fund themselves going out to work, or their anxiety about their debt. For councils, it is one of the easiest ways to penalise people who do not pay taxes, because of the way that councils can take cases to court in bulk and the fact that they can charge people for the court fees and so on. When we are talking about work disincentives, I do not feel that we are addressing the disincentive that is created by the indebtedness of people who are out of work that makes them frightened of doing anything that might increase their debt.

Sir Bob Kerslake: I see your point. I was specifically answering Mr Jackson's direct question.

Fiona Mactaggart: I understand that.

Sir Bob Kerslake: What I would say is that we recognise the risks around potential debt for low-income payers. That is one reason why we were very strong on keeping the minimum payment low. As we said earlier, a substantial majority of authorities—two thirds—took up the scheme, which meant that their minimum payment was less than 8.5% of the council tax. One way of trying to mitigate that point was to keep the minimum payment low; it is also fair to say that just under a quarter of authorities established a hardship fund to help people in particular difficulties. I am not denying some of the point you are making, but I am saying that, to their credit, local authorities recognised the issue and took action.

Q25 Fiona Mactaggart: I recognise that, but look at the map in figure 3, on page 21. I am not an expert on what is where, but it looks to me as if some of the authorities in which there are an awful lot of poor and affected people are the ones that have not kept a relatively low minimum payment; some of those where there are quite a lot of such people are the ones that have not. It strikes me that that might reflect the fact that, as suggested elsewhere in the Report, councils with a large number of second homes can cover the additional burden at a level of 143%, whereas inner-urban councils can do so at the level of something like only 70%. We know that more than 100 local authorities have not taken the benefit of your 8.5%. I am anxious that the map suggests that in some of the most hard-pressed communities there are proportions of up to 27% to 33%.

Sir Bob Kerslake: I would make two points on that. First, we have done quite an in-depth analysis of how

the additional flexibilities on empty properties and second homes sit alongside the council tax liability. We have looked at the whole set of authorities, not just a sample, and, in fact, two thirds of authorities, if they were to exercise the full discretion they have—we are not suggesting that they should; it is up to them—would gain more income from the council tax exemptions.

Q26 Fiona Mactaggart: Absolutely, but I am suggesting that that third contains the authorities with the poorest people.

Sir Bob Kerslake: Which is what I am coming on to. I do not think it works in exactly that way, not least because one of the influencing factors is the number of pensioners, which has an impact. When we have looked at whether there is a pattern of poorer authorities having gone for the higher minimum payment, it does not look that way at all. In fact, we cannot find that pattern. It varies. It is down to the individual political choices of local authorities. I don't know whether you would like to come in on that, Simon.

Simon Ridley: I can give a couple of examples of that. If you look at councils that took the default scheme as an example, which is just implementing council tax benefit essentially as it was before, that has been implemented in some better-off authorities, such as Harrogate, but also places such as Barrow-in-Furness and Tower Hamlets. The reason for this is that councils are looking—

Q27 Fiona Mactaggart: I am not saying that this is universal, but that I am concerned that figure 3 implies a trend that makes me anxious.

Simon Ridley: We have not been able to find that trend. There are clearly examples, as you say, but councils have looked at this as part of their broader budget and service provision. One of the reasons why one of our objectives was to localise this was so that councils could choose how much they put towards council tax benefit, how much they spend on other services and the way that they develop their budgets. That has played through in the sense that there are not defined patterns when you look at council tax benefit schemes in different sorts of local authority.

Q28 Chair: Can you explain the logic of not including council tax support in Universal Credit?

Sir Bob Kerslake: I think the Government's view was—this was a policy choice—that this would be better implemented if we could give—

Q29 Chair: Why? What is the logic? We will come to the relationship with Universal Credit, but we are concerned about the work incentives, as are the Government and you. The obvious way of overcoming that is to make it part of UC.

Sir Bob Kerslake: It was a policy choice. Obviously, had you linked it in with Universal Credit, it might have taken longer to secure the savings, because that is a phased implementation. But I think, more importantly, it was—

Chair: So it was to get the saving.

Sir Bob Kerslake: I am saying there are a number of policy goals here. One of them related to timing and security of the saving, but, most importantly, the view of Government—this, in the end, was a policy choice—was that it would be better to give local authorities control over this, given that it links directly to the issue of council tax and council tax collection. I think the evidence suggests that local authorities have exercised that control in different ways.

Q30 Chair: Despite the way it could conflict—admittedly, as you have told us this afternoon, not for too many people—with work incentive objectives too and making work pay.

Sir Bob Kerslake: It could conflict with work incentives, but we do not think that the evidence suggests that it has; it has certainly not made the position worse. We also think that local authorities have exercised a high level of discretion and thought about the way they have implemented this, which I think substantiates the view that local delivery of this was justified.

Q31 Chair: Well, to be honest, local authorities are facing cuts in their grant and, if you cut it here, there is not much choice. If you give them transitional support, obviously a lot will take advantage of that, but, over time, they are cutting everything. They will not be able to make a choice here. It is a false choice—theoretical rather than real.

Sir Bob Kerslake: With respect, I do not think that is the case. As I said earlier, first of all it was introduced alongside extra freedoms and flexibilities in relation to discounts and exemptions on the council tax—all of these things are linked to the council tax—and if you added up the potential income from those discretions, you would exceed the £414 million. So we were giving them an ability to raise income as well as a challenge of securing income through the council tax.

Secondly, they had choices about how they implemented it and how they could influence the cost to them by the way in which they promoted employment and economic growth in their areas. So I do not think it is entirely a choice-free issue. In fact, the very fact that they implemented this in different ways—some had higher minimum payments and some had more protections for the vulnerable than others—suggests that they did have a choice and they did exercise it.

Q32 Jackie Doyle-Price: You are making a good stab at that, Sir Bob, because obviously there was a package of wider reforms, such as the New Homes Bonus and non-domestic rates, which was freeing up more independence for local authorities, and you can make a good argument that this is part of that, but can I draw your attention to paragraph 3.19 of the Report, which says that that is okay now, but once Universal Credit comes in, we will be running a very costly system? There will have to be parallel systems, and that will have to be taken with the points that the Chair has made about perverse incentives with regard to work because of the lack of consistency. I can acknowledge that, at the point this was introduced, it

made perfect sense in terms of independence for local authorities, but if we are to get the best success from Universal Credit, are we not going to have to look at this again?

Sir Bob Kerslake: I think we are going to have to look very carefully at the flow of data between Universal Credit and council tax, which is a point well made in the NAO Report. There will have to be very close working in the implementation so that we don't have duplication of information gathering.

Chair: Answer Jackie's question. Are you going to look at it again?

Sir Bob Kerslake: Sorry. The question was about looking at it again, which I took in the widest sense. My view is that it will not be necessary. It is up to the Government whether they look again at the implementation, but I am saying that the most important thing for the implementation of Universal Credit, and for ensuring that we do not get duplication and waste, is ensuring that there is proper information flow between the two; otherwise we will not deliver an important part of Universal Credit's saving. I took "look again" to mean looking again at how it operates.

Simon Ridley: One of the things we agreed in the Local Government Finance Act is that after three years, we will review council tax benefit reform and the changes to local council tax support. The review will look at the effectiveness and efficiency of the scheme, its impact in terms of localism and the relationship with Universal Credit, so we absolutely will be looking at that as part of the review in the next couple of years.

Q33 Jackie Doyle-Price: So it comes back to what is the most important objective. Ultimately, if you are looking at the administration from a purely value-for-money perspective, you would have it all in one place, but it depends on what is your more important objective. Is it work incentives? Is it minimising the cost of administration? Or is it independence for local authorities?

Sir Bob Kerslake: What I am trying to say—I certainly did not mean to evade the question—is that the extent to which you might need to look at it again in order to deliver the savings that we expect from Universal Credit depends hugely on the extent to which we can get the sharing of data and the linking together of the systems. If we can do that, the fact that we have council tax here and Universal Credit there will be much less of an issue. That is the key issue that has to be worked through, but you should not assume that you cannot run the two efficiently alongside each other; a huge amount depends on how they fit together.

Q34 Jackie Doyle-Price: You can do that, but there is a cost, because you have duplicated systems.

Simon Ridley: Can I just add another important consideration? One of the things that we talked about is that local authorities collect council tax, and Universal Credit works through direct payments to individuals. Local authorities would have to go out to collect the full amount of council tax from everybody in receipt of Universal Credit and from everyone else who pays council tax generally, whereas through the

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local schemes councils have 90% of the money directly in their budgets. So there is more certainty for local authorities in the finance system with local council tax support than there would be if they had to collect all the money from individuals as well as giving them the choice of different schemes aligning with the local tax. That is another important thing that we need to think about.

Sir Bob Kerlake: My personal view is that we will do the three-year review. This is not an issue that we have to resolve decisively until we have done that three-year review. We are at the very early stages of a lot of the systems integration that will be needed.

Q35 Chair: I will pursue that point before coming to Meg. You have 326 local authorities, all with different schemes, and DWP is absolutely creaking at the edges when it tries to do anything on Universal Credit. Are you seriously saying to us that you are confident that you can get DWP to deal with 326 very different—or somewhat different—local authority schemes and ensure proper sharing of data? I am asking you with your Cabinet Secretary hat on and with your knowledge of where we are on DWP and Universal Credit.

Mr Bacon: Do you have a promotion that we haven't heard about?

Sir Bob Kerlake: Unless I am doing three jobs now—

Chair: Whatever your overarching cross-Government job is called.

Sir Bob Kerlake: Nobody is going to suggest that the implementation of Universal Credit is easy. We know that it is complex and risky, and it has had its bumps along the way. Similarly, I am not going to suggest that the aligning of council tax support and Universal Credit will be necessarily straightforward; it is going to take a lot of work and effort. What I am saying is that the extent to which you ask questions about it depends on how successfully we can achieve this transfer of data and the working together of the systems. In a way, it is our responsibility—mine, in both my jobs—to ensure that we work as effectively as possible across these two agendas.

Q36 Chair: I accept that, but it seems to me that it is a bridge too far.

The other thing I would say to you is, in the Universal Credit scheme, a lot is being made about the administrative savings to the Government from the merging. It looks to me here that local authorities are going to have to assess eligibility for council tax benefits separately from the assessment of Universal Credit. First, that will impact on the cost. You are hoping to save more than half a billion pounds from local authorities by taking away housing benefit. They are still going to have to do the assessment. Secondly, the basis of that assessment is really difficult. For example, if you are looking at, "Are you entitled to council tax benefit?", will you count Universal Credit income as part of their income for council tax benefit? There are big issues here, which I think are so complex.

Sir Bob Kerlake: What I hope I am saying to you is that, I do not, in any sense, deny that there are some

complex and difficult issues to address here, but it is, in my view, possible—we have not proved it yet—to make it work with the right application of sharing of data and the way in which the systems work together. I do not want to say at this point that we cannot make it work, but I am not suggesting that it will not be a difficult challenge.

Q37 Mr Bacon: May I ask a question directly relating to this? The first sentence of paragraph 3.19 says, "Unless the Department for Work & Pensions can successfully share claimant data from Universal Credit, local authorities will have to duplicate the whole assessment process." It has a sort of apocalyptic tone about it, as if the idea that the DWP might do something successfully, such as sharing data, is beyond the bounds of reasonable possibility. It seems to me that a £200-billion organisation like the DWP successfully sharing some of its data with another Government agency, or indeed a series of Government agencies, ought not to be that difficult, should it? You give 325 people access through a particular portal, presumably. Is that right?

Sir Bob Kerlake: Which is why I am saying that it is a complex issue, but not that it is an impossible issue. I am saying much the same as you are. I entirely agree with that first sentence; it is pretty much exactly what I am saying as well. To get the efficiency out, we have to have the data sharing.

We can, and have done, data sharing before. Notwithstanding the difficulties that DWP has had on Universal Credit, it has implemented some complex programmes successfully.

Q38 Mr Bacon: I just bought a tax disc for my car. They did not even want my insurance certificate. They know, somehow, whether my car is insured. The lady in the post office goes tap, tap, tap, and she can tell whether I am up to date on my insurance, and that is in thousands of post offices up and down the country.

Sir Bob Kerlake: I think what you are saying is exactly the same as what I am saying, which is that this is complex, but achievable.

Q39 Chair: Yes, but remember that DWP also has to share information with Revenue. You are asking one heck of a lot.

Simon Ridley: We are already working with DWP on this. I do not know the detail of what technical solutions we might get to, but we are working with them on the basis that the money needs to be saved, with respect to both the Universal Credit business case and the administration grant that local authorities will have going forward.

Sir Bob Kerlake: You will know from your previous hearings on Universal Credit that the phasing of this gives us time to work through these issues.

Chair: To be honest, I know from our hearings on Universal Credit that the Permanent Secretary had not even thought about this. We questioned him about this. There were two or three interactions between Universal Credit and making work pay—student loans were one and this was another—and he basically said, "I haven't got time to think about it."

Mr Bacon: That is absolutely true. He was too busy worrying about the fire in his house and making sure it didn't spread.

Q40 Meg Hillier: On this point, it seems to me that by localising it in the way you have done while making a reduction, you have made it much more difficult ever to combine the Universal Credit. I wonder whether you are now trying to explain a decision that was probably made for political reasons, because that is what Ministers do. Would it not have been simpler to have set the strategy centrally and implemented it, and then at the point at which you wanted to merge it into Universal Credit, that could have been done without having 326 different schemes?

Sir Bob Kerslake: This, in the end, was a policy choice for Ministers. They were given full information on the options available to them, and they took a judgment that giving local authorities local control of this was the right way forward and the right way to create the best schemes on the ground. This was not done without a knowledge of what was happening on Universal Credit at the time. What people did understand was exactly the point that the NAO has made here, which is that if we went down that route, there would be a premium on getting the data sharing right. We were very aware of the choices, options and implications when the decision was made.

Meg Hillier: So the data sharing option was planned in as an option.

Sir Bob Kerslake: People quite understood that if we went down this route, there was going to be a challenge that we would need to meet on data sharing but, just as Mr Bacon has said, a challenge that has been met by others.

Q41 Meg Hillier: That is very revealing, because it tells us where exactly the decision was made.

I want to move on to my own borough, because of all the members of the Committee, the cut to council tax support in actual cash terms in my borough is the highest, at more than £2.6 million. That is 0.5% of the budget, but it is significant for a borough such as mine with high need. I would be interested to know what thought was given by you or by Ministers when the decision was made to the perverse incentives that can arise. I know that the Secretary of State has got an avowed policy position, and you are not here to talk about policy on reducing council tax or keeping it level. If local authorities put up the council tax, however, a proportion of what comes in has to go to pay the higher council tax benefit. In the case of my borough, which has kept council tax level without an increase for six years—it is doing exactly what the Secretary of State wants, he will be pleased to know—if my mayor decided to raise council tax by 1%, that would generate £800,000 of extra income, but £220,000 of that would be lost to pay for additional council tax support. In the discussion about incentives, was part of the policy to disincentivise increases in council tax benefit?

Sir Bob Kerslake: I do not think that was a direct intent of the policy. As I have said earlier, the direct intent was to give local authorities control over

something where they could have an influence; but you are right to say that a consequence of the change is that if a local authority increases its council tax, there is an impact on its income through the need for council tax support, so it does create an incentive to keep council tax increases lower.

Meg Hillier: Or, perversely, to increase council tax further to get the cash in.

Sir Bob Kerslake: Or to go very high. What was much more in our minds was incentives to get people into work, and incentives to people who take account of the needs of their particular area and introduce a scheme accordingly. A key part of what we were looking for local authorities to do was actively to look at the issues in the area and ask what scheme was appropriate for them. That was much more in our minds when we thought about incentives. We did recognise that this would put an extra risk or challenge on local authorities and—separately, but nevertheless helpfully, I think—allowed other changes, freedoms and flexibilities around discounts and exemptions.

Q42 Meg Hillier: I think my mayor might wryly smile at the idea that flexibility will reduce the budget pressures that we have got, with the 26% cut in budget. Anyway, that is another matter.

I just want to pull people towards paragraph 3.29 on page 33. This reflects something that we hear on this Committee very often about cost shunting. You say that there is a degree of freedom, which I suppose is true—the boroughs can decide how they want to spread the cuts across council tax support claimants—but some people may be hit by other changes, such as the bedroom tax, a reduction in housing benefit because of the size of their property, sanctions to their jobseeker's allowance or other things. A change to council tax—those who are not exempt, which in my borough only includes pensioners, may be paying 15%, as they do in my borough—will hit another problem. Fiona Mactaggart touched on this earlier. There could then be a knock-on effect and a demand for other council services. Did the Department factor that into its value-for-money discussions about this? As a Committee, we look at that. It would be no good the DCLG meeting its targets if it is just causing increased demand locally, aside from cutting council tax benefit, on other services.

Sir Bob Kerslake: I do see the point you make. It is a point the Committee has made regularly, in my view quite rightly, about the need to see things in the round; it is a perfectly fair challenge.

In relation to spending power, you will know that we introduced that precisely to help us understand the impact in the round of various funding changes in relation to local authorities. Spending power has helped us calculate that, and we have put a cap on the scale of the reduction that local authorities could experience in terms of their spending power. On the issue of the general impact of welfare reform, we have relied heavily on our colleagues in DWP to help us on this, because they are responsible for the overall suite of changes.

That said, we have a dedicated team that works on nothing other than welfare issues. We keep in very close contact with local authorities, through our local

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links and our localities team, to hear from them about the cumulative impact of changes. DWP provides a lot of analytical data about the impacts of their various changes on welfare reform. We have done a lot to talk to local authorities to understand it from their perspective, as well. That is what I would say to you. Yes, we are very alive to the issue. We do not ourselves have the systems to calculate precisely all the impacts—indeed, had we calculated it in 2010 or 2011; it has changed again since then—but we do work very closely with local authorities to get their perspective on the impact.

Q43 Meg Hillier: Although it is early days yet, you have got the review coming up. One of the things that I see at my surgeries, as others have said, is people coming in worried about being in temporary accommodation. They are also asking for temporary accommodation and council housing, because all these cumulative impacts make it very difficult for them to rent in the private sector. Sometimes they do not have access to council housing, because there is not enough of it to meet demand. Will you be talking to the Local Government Association, London Councils and others about that? How will you take that into account? It is cost shunting. It costs a lot of money to the homelessness budget, which is part of your funding package for local authorities, and there is a danger that this will have a big impact on that. It is only part of it, but it is part of a cumulative effect.

Sir Bob Kerslake: Yes, I see that point, but we can and do talk to local authorities about these sorts of issue, and we can and do feed back into DWP, for example, on the implementation of direct payments. You will know there are four pathfinders under way at the moment to look at the precise impact of direct payments. We have looked at a range of issues about how that could be mitigated with DWP. As close as we can be, we are in touch with those issues and talking to them. There is no magic bullet here, and I would not want to suggest that there is, but we are working very closely with them to take action and mitigate the impact.

Simon Ridley: I think that's right. The other thing I would come back to is that a large part of the rationale for enabling councils to design schemes is precisely so that they can adjust where the burden falls, depending on the different populations and issues they have. More broadly than this scheme, we are obviously doing a lot of work on the wider suite of areas around homelessness and social housing with the Local Government Association, so that we can identify where there are other policies that could be changed to help councils manage some of these issues.

Meg Hillier: Chair, I should probably have declared that my husband works for the Local Government Association, although not in this area. I haven't spoken to him about it.

Q44 Chair: Can I just ask whether you are starting your review within three years? Is it to start within three years, or is it to complete?

Simon Ridley: I'm not sure precisely either. It is to do the review.

Q45 Chair: It has a very funny wording, and I thought, "Uh-oh!" The legislation says you have to "provide for" a review within three years. What does that mean?

Mr Bacon: "Provide for" the maximum room for manoeuvre?

Sir Bob Kerslake: Can I read this out? This is actually something that is specified in the Local Government Finance Act: it says an independent review will be carried out "within three years".

Q46 Chair: Okay, thank you.

Can I switch to something else? Figure 5 on page 26 shows the differences in numbers of pensioners between local authorities. There is an obvious impact in that the more pensioners you have, the less flexibility you have to minimise the impact of the cut on working-age claimants. My understanding is that the Joseph Rowntree Foundation has done a lot of work in this area and has suggested that Craven in North Yorkshire is the worst affected, with 67% of the value being eaten up by pensioners—I think that is right. You must have known this when you set up the scheme, and you want some equality in treatment between authorities, so why have you not done anything to try to mitigate the chance that you happen to have more pensioners living in your area? It is nothing to do with how well you operate as a local authority; where pensioners will be, which will impact on the flexibility to protect working-age claimants, is completely random.

Sir Bob Kerslake: Ministers took a decision to protect pensioners on policy grounds because they felt that pensioners had less capacity to change their income. We were of course very much aware that different authorities had different numbers, which is why, as I said earlier, we did not just introduce this change around council tax support in isolation. Changes were also made to the flexibility for local authorities to raise additional income through discounts and exemptions. This has to be seen as not just one change, but two things that were happening alongside each other. It is often the case that while some areas will have a higher proportion of pensioners, they may be—to take a previous question—more able to raise income through discounts and exemptions. There are balancing factors in the round for local authorities. That is what we thought about when we made the change.

Q47 Chair: I just think it is such an arbitrary thing. The difference is between 14% and 33% of the cut. In the areas with the fewest pensioners, the cut would end up being 14%, and the authority with the highest number of pensioners would lose a third of their money. It is a massive difference, based on something about which a local authority can do nothing. That is just the nature of the population.

Sir Bob Kerslake: As I said, we were very aware of that. It was a policy choice by Ministers, and there were ways in which those authorities affected could mitigate the impact through their other freedoms and flexibilities.

Q48 Chair: Okay, well if it is a policy choice, then it is a policy choice, but it will have an unfair impact on some authorities.

Let me raise with you something that has been raised with me. You have talked a lot about the discretion that local authorities have to raise money through how they fund second homes and empty properties and that sort of thing. It has been raised with me that there is a new wheeze around this, in that people who are in fact sitting on an empty home just put a bit of furniture in and it then becomes impossible to charge more—you know that there is this idea that you charge 150% of your home. I can tell you that it has been raised by one of the London boroughs. Islington has met this issue. It is a wheeze that some of the no doubt Russian owners are using for their properties.

Sir Bob Kerlake: It is a wheeze that I have not heard of. We will happily go back and—

Chair: Will you look at it?

Sir Bob Kerlake: Yes.

Q49 Chair: Similarly, the other wheeze that has been suggested to me is that there has been a sudden and miraculous increase in the number of empty properties that are being used for charitable purposes. They then get the charitable exemption on council tax. Attempts to try to get more money that way have suddenly doubled in Islington. That happens to have been raised with me by the leader of Islington council, which has seen a doubling of the number of properties that are defined as being used for charitable purposes.

Sir Bob Kerlake: I will talk directly to Islington and find out the detail.

Q50 Mr Bacon: Is not the whole purpose of property taxes that, although they have some disadvantages, they have the huge advantage that property does not move? If you wanted to, it would be very easy to create a system that was very effective and efficient, in that if you owned a property you paid council tax on it, full stop. That would be possible quite easily, wouldn't it?

Sir Bob Kerlake: That is certainly possible, absolutely, as a way to do it. You are quite right to say that one of the great strengths of property taxes is that they are quite hard to evade.

Q51 Mr Bacon: It makes it sound like there are wheezes going on, particularly in this sphere and space. It would seem fair if it were a wheeze-free zone. I am saying that in the interests of effectiveness and efficiency, it would sound fairly easy, given the nature of property—that it does not move, short of subsidence through fracking or whatever—to have a wheeze-free zone.

Simon Ridley: As Sir Bob said, it would be possible, for example, on second home discounts. At the moment it is set up so that councils have a choice about whether they charge a discount or not, and the extra flexibility was to enable them not to charge a discount. It would be possible to take those out and simply have a sort of absence of discounts, so that the householder simply has to pay the whole bill.

Q52 Mr Bacon: And in charities that own properties as well. You could say that of the various things that you can get if you are a charity, exemptions from the council tax or discounts are not one of them.

Sir Bob Kerlake: Clearly, the more you take away exemptions the less you have the potential to game the system.

Q53 Chair: Our experience, Sir Bob, with all the work we have done on tax, is that every tax relief becomes an opportunity for avoidance.

Sir Bob Kerlake: That must be right in principle. Clearly there have been good policy reasons why we have introduced these at different times. We will go back and see what the trade-off is, the extent to which there is that sort of fiddling going on.

Q54 Mr Bacon: It is not so much that it has become an opportunity for avoidance—that is almost a truism—it is that it becomes an opportunity for all kinds of avoidance that were not intended at the time.

Simon Ridley: If you look at some of the discounts, they are there, and you create different problems in a sense. If you take the student discount—exemption—that is there so that students who are not earning do not need to pay council tax. If you pushed an extra cost on to students, that would be difficult. If you tried to push it on to the householder, you would have to work out who that is. There are some of these things that would make some of the collection issues and issues around council tax more rather than less complicated.

Sir Bob Kerlake: The truth is that for any such policy, it is a trade-off for Government between the policy benefit of having the exemption and the risks of people exploiting the exemption. Those are the things you are always balancing exemption by exemption. We will look at the extent of the problem and come back to you.

Simon Ridley: It is worth remembering in all of this that the collection rates, despite all these things, have been very high from councils. They do have a good knowledge of what the eligibility for council tax is.

Q55 Chair: What are you expecting them to come down to now?

Sir Bob Kerlake: The interesting thing is that six months into the year, which is the latest figures we have on council tax yield, it is 4% higher than the year before.

Chair: The yield is higher.

Sir Bob Kerlake: 4% higher.

Q56 Mr Bacon: Yield is defined as what? The proportion of people you might expect to pay?

Chair: People who are paying? We were up at 98% anyway.

Sir Bob Kerlake: It is basically the total income that they were expecting to get.

Q57 Chair: I always thought, going back to Richard's point, that one of the great things about its being a property tax was that it was one of the easiest to collect. Councils had well into the 90 per cents. in terms of collection.

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Sir Bob Kerslake: It is, absolutely.

Chair: Ninety-eight per cent is the average. Have I gone completely mad?

Sir Bob Kerslake: What I am saying is that year on year, at this point compared with the same time last year, the total income collected is 4 % higher.

Q58 Chair: The yield is up. That might be because people are putting up their council tax rate.

Sir Bob Kerslake: The point I am making is that there isn't evidence, if you like, of a major falling-off of income.

Q59 Chair: I don't think that is a helpful stat. What is more helpful is the council tax collection rate, which is 98% on average. What has this done to the council tax collection rate? The yield will change according to council tax levels.

Sir Bob Kerslake: We can't tell you the impact this year, because clearly we haven't got to that point. The best measure we have at the moment is how well local authorities are collecting their income.

Simon Ridley: Council tax levels have gone up a lot less than 4% this year.

Chair: There is somewhere in the Report where you are talking about 81%, isn't there?

Q60 Fiona Mactaggart: They might have gone up by less than 4%, but the Government keep telling us, and I find it hard to believe, that we are building more houses than ever before. That presumably is one of the contributors to the increase in yield.

Simon Ridley: That is a part of it, absolutely. The council tax collection rate we will know after the end of the year.

Sir Bob Kerslake: We can't give you that answer now.

Q61 Chair: Mike may be able to help. I have got a figure of 81% in my brain.

Mike Suffield: We mention that councils were expecting to collect less from the groups that were paying for the first time. It is absolutely right that it is too early now to describe definitively the impact it has had, but it is important that the issue is focused on going forward, because its potential impact is crucial.

Sir Bob Kerslake: That must be right. All I am saying is that the best information we have about progress with local authorities is that the figure at the half year, which is the figure we have, does not at this stage suggest a major problem, but we need to wait until the year end to see the position in full.

Q62 Chair: Okay, but we should keep an eye on it. I have two more issues to raise. One is the people who have been affected by it. I have seen quite a lot of research data which suggest that because the scheme has been designed to protect pensioners—and partly because, given the reduction in resources, local authorities have had to make a choice between maintaining the work incentives or protecting vulnerable people—there has been a particular impact on families, especially lone-parent families at work, because nearly half of lone-parent families at work depend on council tax benefit support. I think that is

correct, isn't it? Is that true? Can you help us with that?

Sir Bob Kerslake: What we do know is where local authorities have maintained protections. As was said earlier by the NAO, the estimate we have is that some 40% or so of local authorities have maintained protections within the system.

Q63 Chair: But has there been a disproportionate impact on particularly vulnerable groups? You could take disabled people, but I am selecting lone parents in part-time work who are therefore dependent on council tax benefit.

Sir Bob Kerslake: I have not personally seen information on that, but I will check with Simon.

Chair: Will you check and do a note on that?

Simon Ridley: Yes.

Q64 Chair: What was of particular concern was that some authorities, again given their discretion in administering the system, have chosen to add child maintenance to their calculation of income, and of course child maintenance is supposed to be there to act as financial support for the children, not as an income stream for the lone parent, unless that has changed over time. It was a deliberate policy.

Sir Bob Kerslake: The short answer to your question is that we have calculated that some 22—about 7%—have included some or all child maintenance as income.

Q65 Chair: Are you happy with that?

Simon Ridley: I think I'm correct in saying we have written to councils to express the fact that we are not entirely happy with that.

Q66 Chair: What action can you take?

Simon Ridley: We haven't taken direct action. Councils have a choice about how they set up the scheme. We put out guidance at the beginning of it about supporting vulnerable people and the duties that councils have.

Sir Bob Kerslake: May I make two points? On your first question, we will give you details of where people have maintained protection so you can see that information.

Chair: Thank you.

Sir Bob Kerslake: On your second question, Simon is absolutely right. It is a small number of authorities, but nevertheless—

Mr Bacon: Did you say 22?

Simon Ridley: Yes.

Sir Bob Kerslake: It was 22, or 7% of the total.

Mr Bacon: Could you send a list of who they are?

Sir Bob Kerslake: We will send you that.

I should also say that those authorities have statutory duties to protect vulnerable people, including of course under the Child Poverty Act 2010.

Q67 Mr Bacon: I am not quite clear about the policy. I know it is not our job to question policy, and I do not intend to, but I would quite like to understand what it is. From what you are saying, it sounds to me like the Government's policy is that you are not entirely happy, to use your words, when local councils

act in this way. I am imagining a single mum at my constituency surgery who wants to know why she is being hammered in this way. Apparently my answer to her should be that the Government's policy is that they are not entirely happy that the council is treating her in this way. That does not seem to me like much of an answer.

Sir Bob Kerslake: There are two points. First, what we were seeking to do was to give local authorities the power to make decisions on this issue in the way we do in many other areas of Government policy, by delegating to local authorities. We rely on those local authorities to implement them in accordance with their statutory duties, of which there are many, both to deliver value for money and to protect the vulnerable. As I said earlier, the vast bulk of authorities recognise those duties and exercise them effectively. We believe that, in the circumstances, they have done the job it was intended they should do. By the very nature of a delegated process, some authorities, as we have indicated, have gone in a different direction on specific issues. That is a matter of accountability for them to their council tax payers for the delivery of their statutory duties, isn't it? You can't have it both ways.

Mr Bacon: Well, and of public accountability generally, which is one of the reasons why I would love you to send us a list of who they are.

Q68 Chair: It is your policy. That's the difficulty. There is always this accountability stuff, but it is your policy, and if local authorities are not implementing your central Government policy, either in regard to how they are administering this or in regard to how they treat child maintenance payments, there is an issue that somebody has to get into. What trumps? Localism trumps, does it?

Sir Bob Kerslake: What I would say is that you make a choice on Government policy and which way you are going to implement it, as you will know, Chair, and you make a judgment about the pros and cons of whether you want to delegate the choice at a local level and whether some might therefore take a choice you don't like. My view is that if you wanted to have absolute control you wouldn't delegate anything to local authorities, but that would make this a very centralised country.

Q69 Austin Mitchell: I can't understand the mess-up that seems to have occurred over the transitional grant. Either the local authorities deceived you and you were over-optimistic about the assumptions that they were making when the system was first introduced, and they said that it could be administered without extra cost, or you should have foreseen that if they were going to have less money, the councils were going to use more minimum charges. That was an entirely foreseeable consequence of the cuts in the grants they got. So what was the mistake there—were you deceived or did you deceive yourselves?

Sir Bob Kerslake: I think neither, if I can say so, Mr Mitchell. There are two points I would make. On the actual administration of the scheme, we recognised that there would be additional costs for local authorities, and we funded that.

Q70 Austin Mitchell: It would cost more, because there are more court cases, or more costs in collection.

Sir Bob Kerslake: No. We put in additional funding for them to manage the scheme, as is set out in the paper, and that amounted to nearly £100 million. The thing that we couldn't have anticipated, and that would only have become clear when the schemes were taken forward, was the extent to which local authorities made a judgment about the risk of different schemes in terms of their income, in the context of introducing a whole range of quite new and risky things such as localisation of business rates. That was the bit we hadn't foreseen. It became evident, as they developed their schemes, that some had taken a very cautious view on that, and therefore we put funding in to manage the transition. As we said earlier, the evidence suggests that, having now implemented it, seen the impact and made other changes, we would expect and hope that quite a lot will recognise and retain those protections.

Q71 Austin Mitchell: But it was introduced in a bit of a rush, wasn't it, for that reason? It was like you had suddenly discovered a puncture. A lot of them had done the budgets and issued the bills.

Sir Bob Kerslake: We couldn't have made a judgment about this point until we saw what schemes were coming forward, so we were limited in the time available to us between them developing their schemes and us seeing that there was an issue that concerned Ministers and then taking action. So yes, of course you would have liked to have done that a bit earlier, but I don't think we would have had the information on which to make a judgment about that.

Q72 Chair: There is a difference between the transition grant, which was there to try to mitigate the cuts, and the extra burdens. If we go back to what Austin was saying about the extra burdens, you put in, give or take, £100 million for those. What the Report then goes on to say is that some authorities had to employ more staff than they thought they were going to have to, and they had to do more court cases. Milton Keynes is given as an example, and Epping Forest and Birmingham city; in the Report, they all come out as examples. The question is: how do you know your £98 million, or whatever it was, was enough?

Sir Bob Kerslake: We made an estimate, based on the best information available to us, and we have committed to review that figure on the burdens—

Q73 Chair: And put it up, if needs be?

Sir Bob Kerslake: Well, we'll put it up if needs be, but we'll do the review, as we promised—

Q74 Chair: And when will that be done by?

Sir Bob Kerslake: It will be done for the next—

Simon Ridley: We have agreed the new burdens up to the end of next year. The work we're doing is with DWP on the admin grant more generally, which we talked about earlier today, and as part of that we will be assessing the costs going forward of implementing the council tax—

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Q75 Chair: That is different. That is DWP wanting to grab the £535 million, or whatever it is, to local authorities. But this is a new burden, which needs to be fully funded by DCLG.

Simon Ridley: It is about making sure there is enough money in the system to support council tax support—

Chair: No. It is about the new burden, which needs to be fully funded by DCLG.

Sir Bob Kerslake: And we have committed to funding it. We think we have done that, based on the best estimate available to us.

Q76 Chair: I accept you did it on estimates. I know that we are six months in, but what the Report suggests is that from Epping Forest to Birmingham city to Milton Keynes, they are having to spend more money than they thought they were spending. It is on page 20, paragraph 2.6, and page 22, paragraph 2.7—I wrote those down, and I am sure that those are just examples. So, they are spending—

Sir Bob Kerslake: It is down to each authority how they organise the collection of their council tax and the extent to which they need to use additional measures to collect council tax. What we have done is to make the best calculation we can of the burden of introducing these changes, and we have said that, as part of the wider review of costs on council tax support, we will look at it again. That is what we are saying.

Q77 Chair: Okay, but it is a very different thing from the savings that the Government are hoping to get from Universal Credit being done by DWP, via the centralisation.

Sir Bob Kerslake: It is clearly a linked issue, because you have to look in the round at the amounts they

might save through Universal Credit and the amounts they incur through introducing the council tax support scheme.

Q78 Austin Mitchell: The other question is, how “transitional” is “transitional” going to be? Is the assumption that these increasing costs will fall away as people get used to paying council tax now that they are assessed for it, or will you have the same problem? There will certainly be the same drop in support for council tax benefit, unless the transitional grant is continued.

Sir Bob Kerslake: There are two points there. First, will our new burdens funding continue? The answer is yes, that is part of the package. Secondly, will local authorities find it more straightforward over time to collect money from people who are paying for the first time? I think the answer to that question is almost certainly yes too, but we have not made any assumptions about that. Clearly we are at the early stages, and we will need to see how things look at the end of the year.

Q79 Austin Mitchell: It looks like improvisation, doesn't it? Here is a bright idea, implement it, oh, it's causing problems—my gosh. People are getting the support they are entitled to, and it's costing a lot more to administer it. Slap some money in to get us through the gap. Is that how Government works?

Sir Bob Kerslake: I think it looks like we have kept closely on top of how the scheme has gone, and helped accordingly.

Chair: Okay. Anybody else? Anything else?

Thank you very much indeed. Thank you for answering the questions very directly.

Written evidence from the Department for Communities and Local Government

Thank you for the opportunity to discuss the recent NAO report on Council Tax Support with the Committee. The Committee asked for some further information on a small number of points, and this is attached as an annex to this letter. It may be useful if I additionally clarify two points.

Mr Ridley stated in response to Q65 that he thought the Department had written to councils on the subject of including child maintenance as income. In fact, although we had at that point received ministerial clearance for an update to the guidance, it has not yet been published. I can confirm that the revised guidance will be published shortly, and that local authorities will be notified.

There is a minor textual amendment to the transcript, to clarify exactly which parts of my answer to Q45 on the independent review of the policy are a direct quote from the legislation. It may also be useful for me to provide the exact wording which appears in section 9 of the Local Government Finance Act 2012:

9 COUNCIL TAX REDUCTION SCHEMES: REVIEW

(1) The Secretary of State shall make provision for an independent review of all council tax reduction schemes made under the provisions of this Act:

- (a) to consider their effectiveness, efficiency, fairness and transparency and their impact on the localism agenda, and
- (b) to make recommendations as to whether such schemes should be brought within universal credit.

(2) A review under subsection (1) shall take place within three years after this Act comes into effect.

I am happy to help further if the Committee have any further questions.

Sir Bob Kerslake
Permanent Secretary

28 January 2013

Annex

WORK INCENTIVES (QS17–20)

The Department issued guidance on work incentives in May 2012, and subsequently updated it in December 2012. This is available at <https://www.gov.uk/government/collections/localising-council-tax-support>

TAPER RATES

A change in the taper rate would affect people who are of working age and whose income exceeds their ‘applicable amount’. The applicable amount is the amount of income which they can receive and still receive maximum council tax support—it will vary from person to person depending on their individual characteristics and household composition. This income can be made up of benefits, earnings, other income, or a combination. The taper will continue to affect them until their income reaches the point at which council tax support is withdrawn completely. An increase in the taper rate results in council tax support being withdrawn at a faster rate.

The number of people who could be affected by a change in the taper rate is made up of:

- (a) the number of people who are in full or partial receipt of an employment-related benefit (job-seeker’s allowance, income support or employment support allowance), added to; and
- (b) the number of people who are means tested and could be part-way along the taper, ie whose income is above the level where it is topped up by an employment-related benefit, but below the level where council tax support is withdrawn completely.

The total 5 million caseload can be broken down as follows into 2.2 million pensioners, who will not be affected by a change in the taper rate, and 2.8 million working claimants:

- 3 local authorities (1%) have reduced the taper rate to 15%. This potentially affects approximately 21,000 working age claimants.
- 304 local authorities (93%) have retained the council tax benefit taper of 20%. This potentially affects approximately 2.5 million working age claimants.
- 19 local authorities (6%) have increased the taper rate above 20%. This potentially affects 225,000 claimants.

Neither (a) nor (b) includes pensioners, for whom the local council tax support scheme mirrors council tax benefit. These figures are based on council tax benefit claimants published in April 2012. DCLG does not collect this level of detail on current council tax support claimants.

The 19 local authorities who have increased the taper rate are:

- Blaby.
- Bracknell Forest.
- Brent.
- Broxbourne.
- Chesterfield.
- Crawley.
- Doncaster.
- Harrow.
- Lambeth.
- North Kesteven.
- Portsmouth.
- Rochdale.
- Salford.
- Sandwell.
- Southampton.
- Sutton.
- Windsor and Maidenhead.
- Wokingham.
- Trafford.

OTHER WORK INCENTIVES (Q23)

Extended payments

- 14 local authorities (4%) increased the period of extended payments.
- 310 local authorities (95%) kept four weeks of extended payments—the same as under council tax benefit.
- 2 local authorities (1%) removed extended payments. (Dover and Wakefield).

Earning disregards

- 44 local authorities (14%) increased the level of earnings disregards.
- 280 local authorities (86%) kept the council tax benefit levels.
- 2 local authorities (1%) reduced the level of earnings disregards (Shropshire and Rutland).

EMPTY HOMES (Qs 48–49, 53–54)

The empty homes premium can be charged on any home which has been unoccupied and ‘substantially unfurnished’ for a continuous period of at least two years. Any period of six weeks or less where the property is furnished or occupied is disregarded for the purpose of calculating the two year period. The decision on whether to apply the premium is a matter for the local authority, which will take into account any occupation of the property and any furniture and make a decision on whether the premium applies.

The premium is set up in this way because Ministers took a policy decision that they did not wish the premium to catch second homes. We don’t currently have any data which indicates that there is a widespread problem, but will investigate this further through the Council Tax Partnership Forum.

An empty property owned by a charity and whose use is for charitable purposes is exempt from council tax for up to six months (a Class B exemption). There has been a large increase in the number of Class B exemptions in 2013–14 (up by 16,645 or 382%). We queried this with local authorities when the data was compiled, and they have explained to us that it is related to the abolition of Class C exemptions in April 2013.

A Class C exemption was applicable to unoccupied and substantially unfurnished properties for up to 6 months. In April 2013 local authorities were given greater freedom in their treatment of empty properties, and Class C exemptions were abolished.

It seems that some properties which could have received a discount under either Class B or Class C were historically recorded under Class C, but are now being recorded under Class B. There was no benefit to be gained by being in one Class rather than another, as both Classes provide for a maximum exemption of up to six months. The granting of an exemption is a decision for the local authority—if they are not satisfied that a property can properly claim a Class B exemption, they will simply not grant it.

LONE PARENTS IN PART-TIME WORK (Qs62–63)

We do not gather this data; however, it is something which could be examined as part of the three-year review.

CHILD MAINTENANCE (Qs66–67)

The 22 local authorities who included child maintenance in their calculations of income in their Year 1 schemes are:

- Bath & North East Somerset.
- Bolton (but limiting overall impact for those previously on 100% support to 8.5% reduction).
- Brentwood.
- Cannock Chase.
- Chelmsford (disregard £10 per week of maintenance only unless you get income support, income related employment & support allowance or income based jobseekers allowance).
- Colchester.
- Doncaster.
- Epping Forest (disregard first £15 per week per family).
- Huntingdonshire (disregard first £10).
- Maldon.
- Mendip.
- Rochford.
- Rushmoor.
- Sedgemoor (disregard £65.62 per week per child).
- Slough.

- South Somerset.
 - Stafford.
 - Tamworth.
 - Taunton Deane.
 - Tendring.
 - Waverley.
 - West Somerset.
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ISBN 978-0-215-06945-0



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