

Council Tax Benefit: Forecasts and Assumptions

December 2012

Executive summary

The Department for Work and Pensions (DWP) currently subsidise Local Authority spend on Council Tax Benefit (CTB) and provide forecasts of future expenditure to the Office for Budgetary Responsibility (OBR) on a biannual basis. These estimates inform the Budget and Autumn Statements.

In April 2013, Council Tax Benefit will be abolished and help for individuals to pay their Council Tax will be localised. This was announced as part of the 2010 Spending Review, which also committed to reduce UK government expenditure on the benefit by ten percent. From this point, the DWP will no longer be responsible for forecasting expenditure on the replacement schemes individual Local Authorities choose to operate, and this has prompted a number of queries on forecasting methodology from Communities and Local Government (CLG), the devolved administrations, and individual Local Authorities, amongst others. In agreement with the OBR, a decision was taken to make detailed information on the forecasts, trends and assumptions available publicly, in the interests of transparency.

This publication provides a background to Council Tax Benefit in its current form, how it is currently forecast within the DWP, and details the underlying assumptions reviewed when the forecasts are updated. It also provides a commentary on past and future expenditure trends which underpin the forecasts, including by country.

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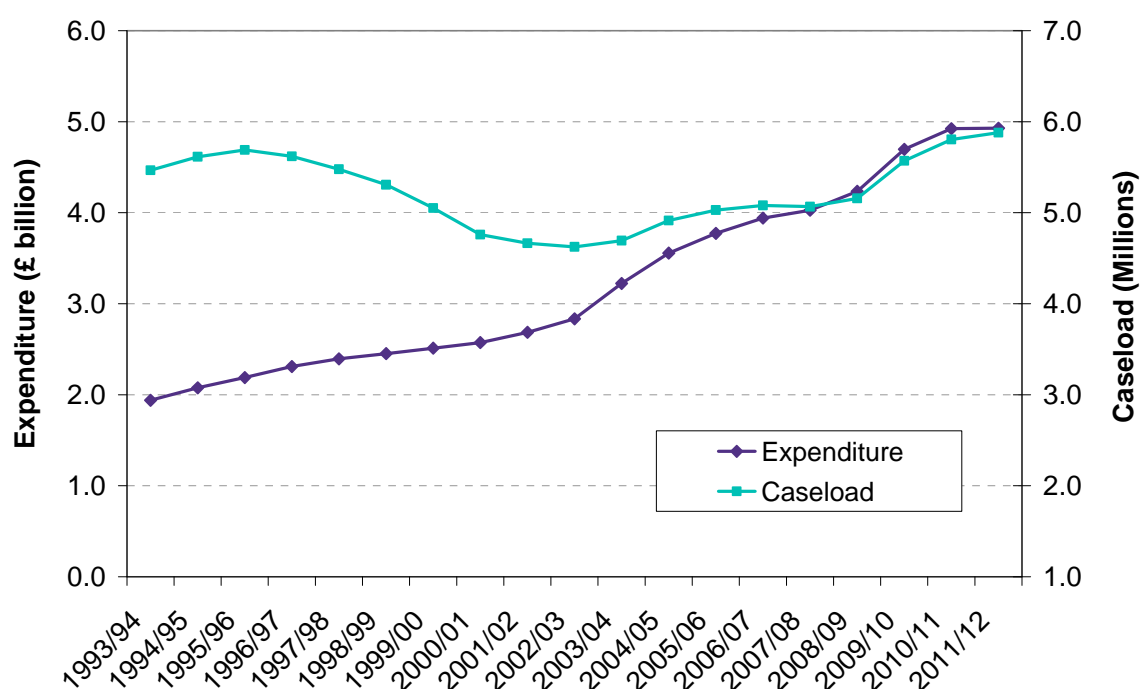
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1 Introduction

1.1 What is Council Tax Benefit (CTB)?¹

Council Tax Benefit is an income-related benefit payable to families with low incomes that are liable to pay Council Tax on a property in which they are resident. In 2011/12, £4.9 billion was spent on CTB, and at August 2012, 5.9 million households received the benefit.

Figure 1: Total CTB caseload and expenditure, 1993/94 to 2011/12



Source: Expenditure data is from Local Authority expenditure returns² and caseloads are annual averages using National Statistics³

The maximum level of CTB payable is equal to the “eligible Council Tax”. This is essentially the benefit unit’s Council Tax liability (after any discounts, e.g. for single occupancy, have been applied). People receiving “passporting benefits” (Income Support, income-based Jobseeker’s Allowance, income-based Employment and Support Allowance, or the Guarantee Credit element of Pension Credit) are automatically entitled to the full level of CTB. For other claimants, the amount of CTB payable depends upon income. There is a taper of 20% for any income above an “applicable amount”. Income rules are aligned with, or marginally more generous

¹ This description is an edited and updated version of that published in the Institute for Fiscal Studies’ “A Survey of the UK Benefit System”, available at <http://www.ifs.org.uk/bns/bn13.pdf>

² <http://research.dwp.gov.uk/asd/asd4/index.php?page=expenditure>

³ http://research.dwp.gov.uk/asd/asd1/hb_ctb/index.php?page=hbctb_arc

than, those in the “passporting benefits”, and the structure of personal allowances and premiums making up the “applicable amount” is also aligned with these benefits.

Deductions may also be made for any non-dependants because they are expected to contribute towards the Council Tax bill. An amount is deducted for each non-dependant aged at least 18 based on their gross weekly income, though there are some exceptions to this.

2 The Council Tax Benefit forecasts: methodology

2.1 How are the caseload and expenditure forecasts of Council Tax Benefit produced?

The forecasts of Council Tax Benefit expenditure and caseload are developed within the Department for Work and Pensions, and are updated biannually to inform the Budget and Autumn statements. The forecast methodology and proposed changes to the forecasts are discussed and agreed with the Office for Budget Responsibility.

The forecast of future CTB caseloads adopts a “stock-driver” approach, whereby the caseload is divided into a number of different groups, usually based on other benefits received, and the trends and growth in each of these groups is linked to the trend in the other benefits. The stock-driver model is appropriate because a large proportion of Council Tax Benefit claimants are also in receipt of another benefit and there is currently not enough historical data on flows to adopt a longitudinal approach, which is the main approach used for other DWP benefits. A forecast of the future average CTB award is then developed for each of the groups.

The latest (Autumn 2012) expenditure forecast is available as an annex here: http://research.dwp.gov.uk/asd/asd4/ctb_country_statgroup_autumn12.xls. The latest outturn data is available by Local Authority and is published under benefit expenditure outturn here: <http://research.dwp.gov.uk/asd/asd4/index.php?page=expenditure>. This includes a breakdown of both total and DWP-subsidised CTB spend by Local Authority for 2010/11 and 2011/12.

The following points about the forecasts in the annex should be noted:

- The forecasts make the implicit assumption that the current CTB system will be retained, with a simple 10% reduction in CTB subsidised spend due to localisation being applied from 2013/14 onwards (as announced in the 2010 Spending Review)⁴. The forecasts do not make any assumptions regarding replacing the system and if or how the 10% cut in spend will be funded. Autumn 2012 forecasts do not assume any reduction in total expenditure, only subsidised expenditure, to reflect this.
- The forecasts do not take into account how the introduction of Universal Credit may affect the figures. No analysis has been completed on this since it is dependent on the future design of the replacement reduction schemes, and given that Universal Credit will subsume support currently provided by

⁴ In the Autumn 2012 forecasts, the 10% reduction in subsidised spend is only taken off subsidised expenditure (currently DWP funded) and is NOT taken off total expenditure.

Housing Benefit, it is not possible to forecast a hypothetical scheme which assumes alignment of CTB rules with those in Housing Benefit (which is the current approach).

- The forecasts are primarily developed at a national (GB) level and a split of expenditure by country is derived at the end of the process. **There are no forecasts available at a Local Authority or sub-national level.**
- These forecasts are consistent with the published tables showing medium term forecasts for all DWP benefits at the link below. However, these tables set Council Tax Benefit to zero from 2013/14 onwards to reflect the fact that it will cease to exist in its current form:

<http://research.dwp.gov.uk/asd/asd4/index.php?page=expenditure>

2.1.1 Data Sources

The forecasting model is based on a 100% feed of cases from Local Authorities' benefit systems, which is received on a monthly basis. Monthly National Statistics covering CTB caseloads and amounts received are also published here: http://statistics.dwp.gov.uk/asd/asd1/hb_ctb/index.php?page=hbctb_arc. The current data feed is relatively new (it has been running continuously since November 2008) and therefore has a limited time series. However, the forecast model uses data, knowledge and expertise extending over a much longer time period. The longer picture of trends can be obtained by looking at aggregate information supplied on quarterly Local Authority returns until August 2007 and on a 1% sample of cases supplied by Local Authorities on an annual basis until 2005. This historic data is also available at the link above. There is a gap in the data from late 2007 to late 2008, coinciding with the onset of the recession. This is due to a temporary embargo on data transfers between Local Authorities and DWP during this period.

The expenditure forecasts are also based on the Local Authority subsidy returns received after the end of each financial year. Autumn 2012 forecasts are based on 2011/12 subsidy returns.

The older data sources suffered from incomplete coverage, including serious under-estimates of the caseload due to cases being processed not being picked up, and non-response by some Local Authorities which could seriously distort the results if they were significant. Trends in the data could have simply arisen from improvements or deterioration in administration (reducing or extending processing times), or changes in non-response, rather than reflecting what was happening in reality.

This seriously limited the scope of the analysis that could be undertaken, and the models and techniques that have been applied to other benefits since the mid-1990s could not be extended to CTB. As a consequence, the evidence base on CTB is relatively limited, particularly in relation to the impact of major economic changes, as we have experienced over the past five years.

2.1.2 Caseloads

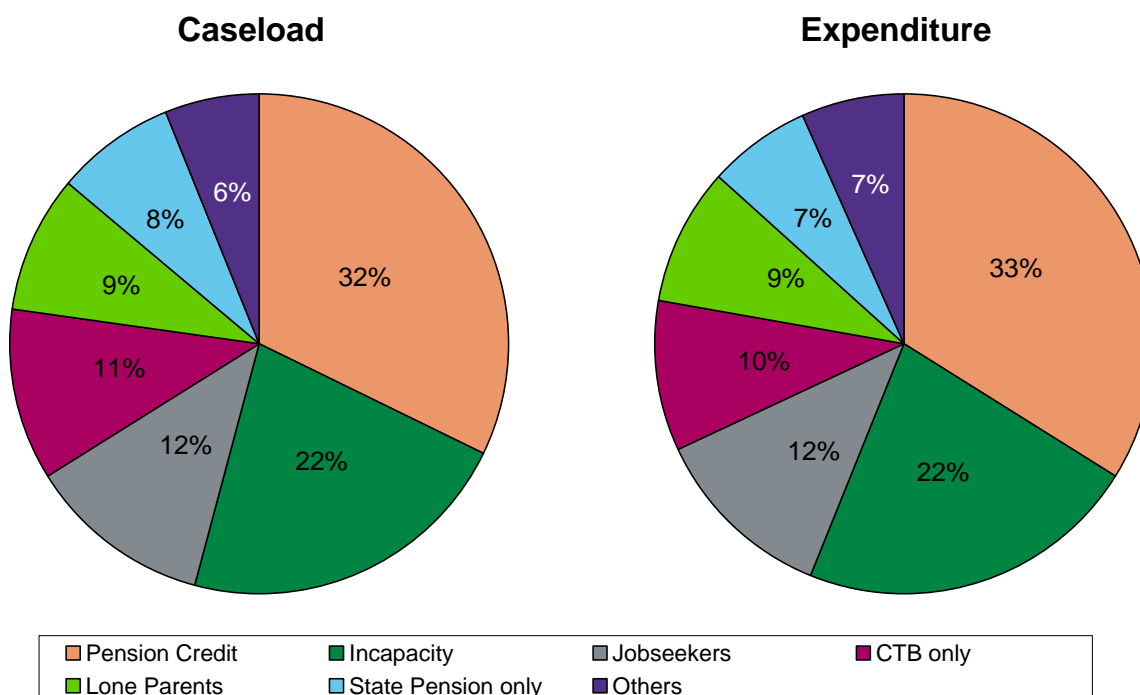
The current forecasting model divides the caseload into the following (hierarchical) groups:

- Jobseeker (in receipt of Jobseeker's Allowance);
- Recipients of incapacity benefits (Incapacity Benefit, Employment and Support Allowance and Severe Disablement Allowance);
- Lone parents on Income Support;
- Carers with Carer's Allowance;
- Other working age people with an income-related benefit (Income Support);
- Other pensioners with an income-related benefit (Pension Credit);
- Working age with Disability Living Allowance;
- Bereavement benefit recipients;
- In receipt of State Pension only;
- Not in receipt of any other DWP benefit.

These groups match the standard groups available from DWP's "Work and Pensions Longitudinal Study" dataset which combines nearly all of DWP's benefits, and includes 100% of cases, and are used in summary National Statistics information on benefit claimants. Claimants who could fit into more than one group are included in the first relevant group on the list. Projections of future numbers in receipt of each of the welfare benefits are developed by other forecasting teams within DWP and are discussed and agreed with the OBR. These are used as inputs into the CTB modelling, which is also agreed with the OBR, prior to being published. The unemployment (claimant count) assumption is received directly from the OBR. The projections used in the current modelling are based on the existing system continuing, without Universal Credit.

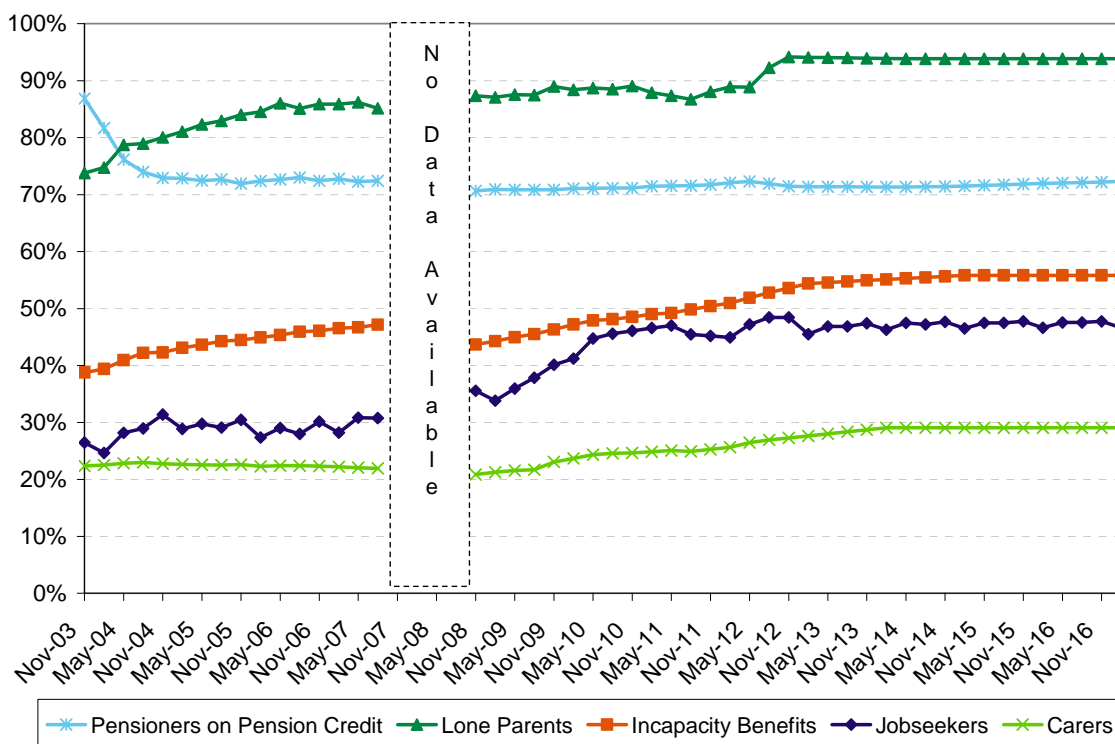
Some groups make up a much larger proportion of the CTB caseload than others, meaning forecasts are particularly sensitive to these groups. Figure 2 below shows that Pensioners and Incapacity Benefits are the largest groups followed by Jobseeker's, CTB only and Lone Parent groups.

Figure 2: CTB caseload and expenditure by Statistical group, 2011/12



The model calculates the proportion of people in receipt of each benefit who also receive CTB, and then projects the proportions forward. Setting these proportions are key assumptions which are subject to agreement. In a relatively stable environment the proportions can be fairly constant, although when things change rapidly (such as in an economic downturn) this proportion can also change, as the relationship between CTB and the other DWP benefits is non-linear. Large increases to benefit populations may not always map through proportionately to CTB as new benefit stock is usually less likely to receive CTB. It can also take some time for falls in the other benefits to impact on CTB volumes – particularly due to the inertia of benefit take-up, where once taken up CTB is likely to continue to be received, even if its value falls to levels where the incentive to claim afresh is very low. Changes in the proportions receiving CTB over time are detailed in figure 3⁵, which also demonstrates how the change in data source in 2008 produced a discontinuity in the proportions which added an additional layer of complexity.

Figure 3: Proportion of the benefit drivers in receipt of CTB: November 2003 to February 2017



The last of the groups primarily comprises people who are in work so cannot be handled by linking to a benefit driver. Assumptions are made about future numbers in this group by using employment projections from the OBR as well as analysing past trends and changes in the tenure mix of the population.

⁵ The proportion of those receiving Disability Living Allowance, State Pension only or Bereavement Benefit also receiving CTB are omitted from the chart for presentational reasons (proportions are much lower than for the main out of work benefit groups)

2.1.3 Average amounts

The main determinant of average amounts of CTB received is the level of Council Tax. Global assumptions on annual Council Tax increases, by country, are provided by HM Treasury and agreed with OBR, and these assumptions are applied to each of the caseload sub-groups.

OBR publishes the forecast of Council Tax receipts in Table 2.12 of the December 2012 Economic and Fiscal Outlook (EFO) supplementary fiscal tables:

<http://budgetresponsibility.independent.gov.uk/wordpress/docs/December-2012-EFO-fiscal-supplementary-tables4.xls>

The forecast is based on CPI forecasts except for years where there is a known freeze. For Scotland, the freeze on Council Tax is assumed to last until the end of the current Scottish Parliament and for England there is an announced freeze in 2013/14 which is included in the forecasts⁶.

Forecasts also take into account of how a household's income may change relative to increases in Council Tax, since this affects the amount of benefit received by those on the taper, who are not automatically passported from another benefit. This involves uprating the components of the applicable amount and income brought to account in line with economic assumptions provided and owned by the OBR.

The modelling also estimates the incidence and value of any Non-Dependant Deductions which may be subtracted from the Council Tax Benefit award. The proportion of each statistical group who are expected to receive non-dependent deductions is projected forward based on the latest outturn data. No behavioural changes or changes to the distribution of rates are assumed but these will be included in the forecasts implicitly as any changes show in outturn. Also, there is little evidence to suggest behavioural changes would be significant, and outturn data shows that the number of deductions has increased, rather than reduced, since the new uprating policy was introduced in April 2011.

2.1.4 Expenditure and subsidy

The final aspect of the models is to bring together the caseload and average amount forecasts to produce an expenditure forecast. Alignment with actual expenditure information reported by Local Authorities usually means a significant adjustment to modelled spend. The level of this adjustment can be variable year to year, although this has improved significantly with the advent of the new data source and issues of non-response no longer being a major factor.

When re-calibrating the expenditure to outturn, differences are investigated and an assumption is made about how we expect any level of under/over modelling to continue in the future based on past data.

⁶ The assumptions are discussed in the December 2012 EFO, Page 150, paragraph 4.150: <http://cdn.budgetresponsibility.independent.gov.uk/December-2012-Economic-and-fiscal-outlook23423423.pdf>

One complication is that the outturn expenditure data is only available a few months after the end of the financial year; there is no on-going reporting of monthly expenditure by Local Authorities. So although the administrative data can act as a good indicator of expenditure and trends relative to forecast, it is not the authoritative source of information on how much has actually been spent on the benefit.

As DWP does not reimburse Local Authorities fully for their expenditure on CTB, we have to forecast the proportion of total expenditure which will be subsidised by DWP, with the remainder being funded by Local Authorities themselves, although much of this is met by recovery of previously overpaid benefit. The Autumn 2012 forecasts assume 98% is subsidised based on 2011/12 outturn data, before the 10% reduction in funding is applied.

2.1.5 Policy changes

Council Tax Benefit is usually affected directly or indirectly by virtually every change to policy on benefits and tax credits, so the forecasts have to cope with a much larger number of policy changes than on other benefits - adding additional uncertainty to the estimates. A particularly tricky issue is whether policies targeting a particular group have a pro-rata effect on the subset of that group that receives CTB, or whether there is a differential effect. In most cases a differential effect is not assumed.

Before policies are implemented, adjustments to reflect them are made to the CTB forecasts at the end of the process, rather than being embedded and modelled as part of updating the assumptions above. However, once they begin to impact on the data then the forecast needs to distinguish between what is already allowed for in the methodology, and what other impacts need to be added in.

Any policies announced at Autumn Statement that impact CTB have been included in the forecasts; these impacts are relatively small.

2.1.6 Breakdowns by country

Once the Great Britain forecast of CTB spend has been established, it is then split to give a country-level view. Thus, this part of the forecast is top-down, with England, Wales and Scotland totals being constrained to the national total. No differential impacts arising from any policy changes would be assumed unless the policy differs between countries.

The forecast is divided into country using the most recent share of expenditure outturn, adjusted for differential Council Tax growth assumptions and any trends in caseload growth which we may expect given previous outturn. By this we mean that for each subgroup a judgement is made about the likely share of the national total which will fall within each country going forwards. Since there are no projections by country of the other benefits claimants receive, we cannot use separate projections of benefit receipt for each country, so we implicitly make the assumption that driver benefit projections for each country move in the same direction as for Great Britain overall. However, we do allow for differing socio-economic pictures between

countries by projecting differing mixes of CTB claimant types for each country according to the trends seen in outturn.

3 Trends in Council Tax Benefit receipt and expenditure

3.1 What are the drivers of Council Tax Benefit expenditure?

Annual growth in Council Tax Benefit expenditure is heavily driven by growth in Council Tax, and will vary depending on what happens to caseloads year to year and also how incomes grow relative to growth in Council Tax.

Figures 4a to 4c compare annual growth in total Council Tax Benefit expenditure from 2000/01 to 2016/17 against growth in average Band D Council Tax in England, Wales and Scotland across the same period⁷. Figures beyond 2012/13 are received from HM Treasury and are agreed with OBR. Note that the figures do not include the 10% reduction in CTB subsidised expenditure announced at the 2010 spending review. This is essential in order to obtain a better comparison of the underlying trends in the forecasts.

⁷ Department for Communities and Local Government, Band D council tax figures, 1993-94 to 2012-13 <http://webarchive.nationalarchives.gov.uk/20120919132719/http://www.communities.gov.uk/documents/statistics/xls/2146539.xls>

Figure 4a: Annual growth in CTB expenditure and average Band D Council Tax in England

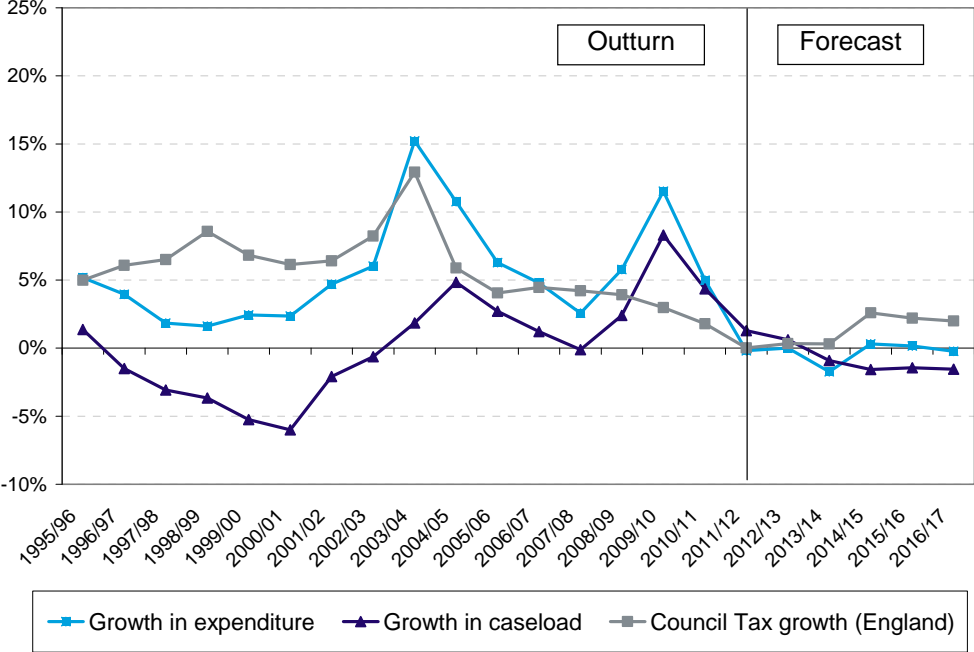


Figure 4b: Annual growth in CTB expenditure and average Band D Council Tax in Wales

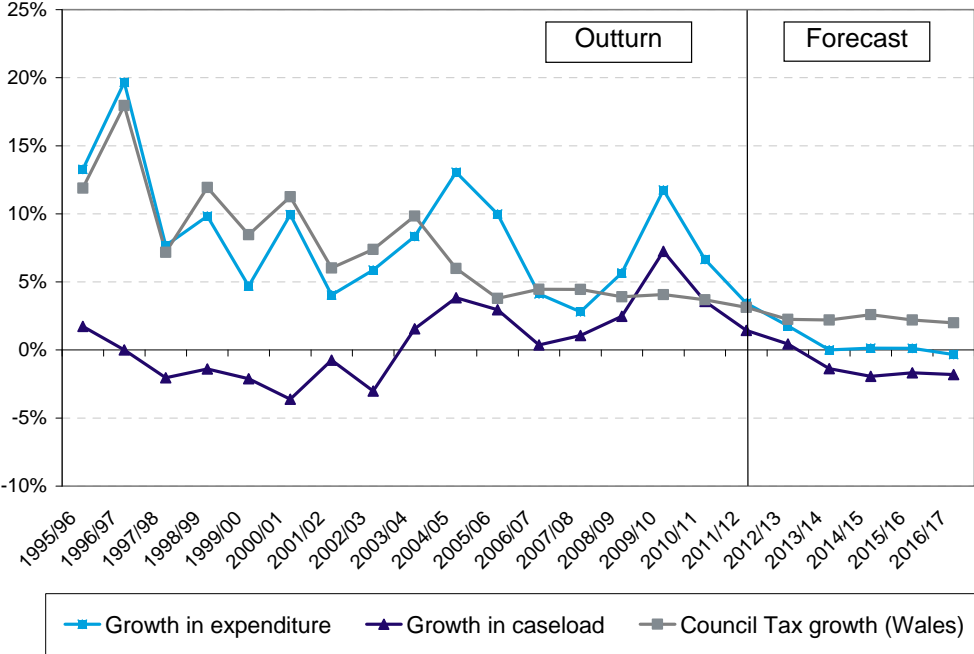
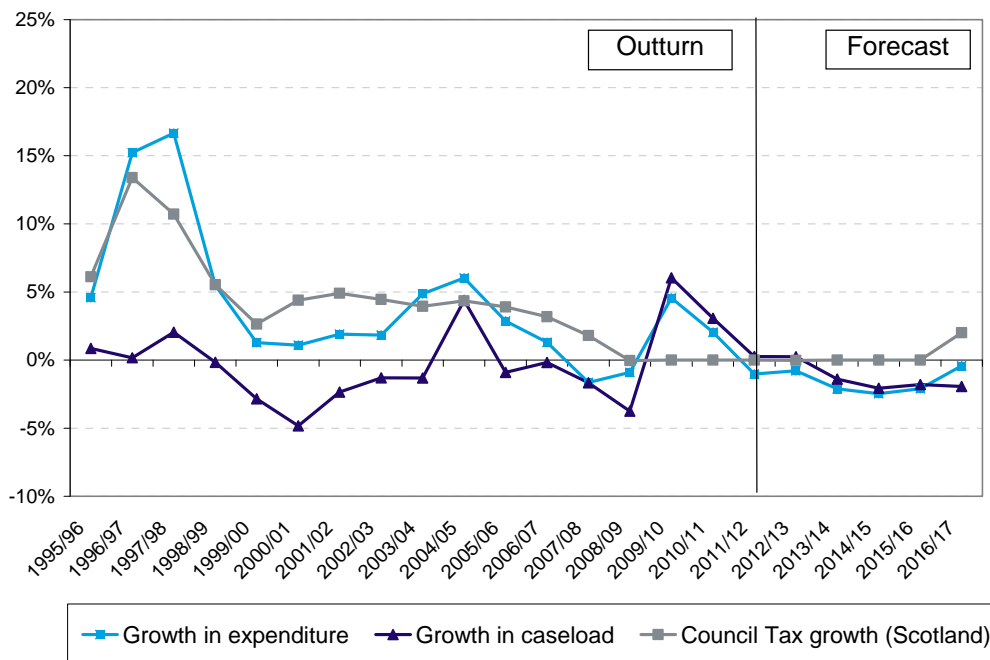


Figure 4c: Annual growth in CTB expenditure and average Band D Council Tax in Scotland



Looking at the outturn period, it can be seen that prior to 2008/09 the main determinant of growth was increases in Council Tax rates, with falling caseloads in the late 1990's offsetting above-inflation increases in rates. Annual expenditure growth in Scotland has been traditionally lower due to lower increases in rates across the period.

Since 2008/09, growth in Council Tax rates has been historically low for all countries, but increases in caseloads due to the economic downturn has meant that expenditure growth remained high even given previous levels, exceeding 10% in England and Wales and around 5% in Scotland in 2009/10. In 2011/12, low growth in both caseloads and Council Tax (with freezes in England and Scotland) interacted to keep total expenditure roughly at 2010/11 levels⁸.

Although there have not been any specific reforms of Council Tax Benefit in recent years, there have been a number of policies which have had an effect on expenditure, either through impacting on caseloads or average awards payable to recipients. For example, the growth in caseload seen during the early 2000's can be partly attributed to entitlement among pensioners being increased by the knock-on effect of increasing generosity of the Minimum Income Guarantee and then the introduction of Pension Credit. This highlights the importance of maintaining awareness of policies which are primarily aimed at other welfare benefits, but which have knock-on impacts for Council Tax Benefit.

⁸ A freeze or low increase in council tax rates will mean a cut in average award for households who are on the CTB taper because in most cases their income would be rising at a faster rate than their council tax liability. In 2011/12 this effect was partially offset by the small increase in annual average caseload.

More recently, increases to non-dependant deduction rates in 2011/12 will have resulted in reductions to CTB awards for those who have a working adult non-dependant living in their household. Outturn data shows that the total number of Non-dependant deductions for Council Tax Benefit has been increasing since the uprating policy came in.

3.2 Why does the forecast of Council Tax Benefit expenditure decline over the medium term?

Turning to the period beyond 2011/12, and excluding the 10% reduction in subsidised expenditure, we estimate that CTB expenditure will be roughly stable in Wales across the medium term and will decline in Scotland. For England we estimate that CTB expenditure will decline in 2013/14, increase in 2014/15 and then remain roughly stable. Overall, the Great Britain forecast declines in 2013/14 and 2014/15 and then remains fairly stable. Whilst this pattern may look slightly odd relative to historical growth, it can be easily explained by looking at what we are assuming will happen to caseloads and Council Tax liability over the period. This is detailed for each country in figures 4a to 4c above.

Across Great Britain as a whole, caseloads are expected to decline by around 1.5% per year. The latest caseload (August 2012 National Statistics) is broadly similar to that seen in February, indicating that the rise seen since 2008 has levelled off. We expect many of the existing stock to exit CTB as the economy improves and they move into work and many more to lose entitlement to CTB altogether due to growth in their incomes. This is discussed more below. Although there is a precedent to reductions in caseload during the late 1990s and early 2000s, this was in the context of Council Tax growth consistently exceeding 5%. Between 1996/97 and 2002/03, when caseloads were last falling, the average annual Council Tax growth was 7%. This was enough to offset the decline in caseloads and result in expenditure growth of around 4% per year.

The caseload reductions we are expecting over the next few years are accompanied by expected low annual growth in Council Tax for all countries. Taken together, this will have the effect of reducing spend on many of those on the CTB taper as incomes are expected to grow at a faster rate. The continuation of increases in non-dependant deduction rates also puts downward pressure on awards, as do fraud and error initiatives rolling out within Local Authorities which will mean less overpayment of benefit due to the availability of real-time information on changes to household circumstances⁹.

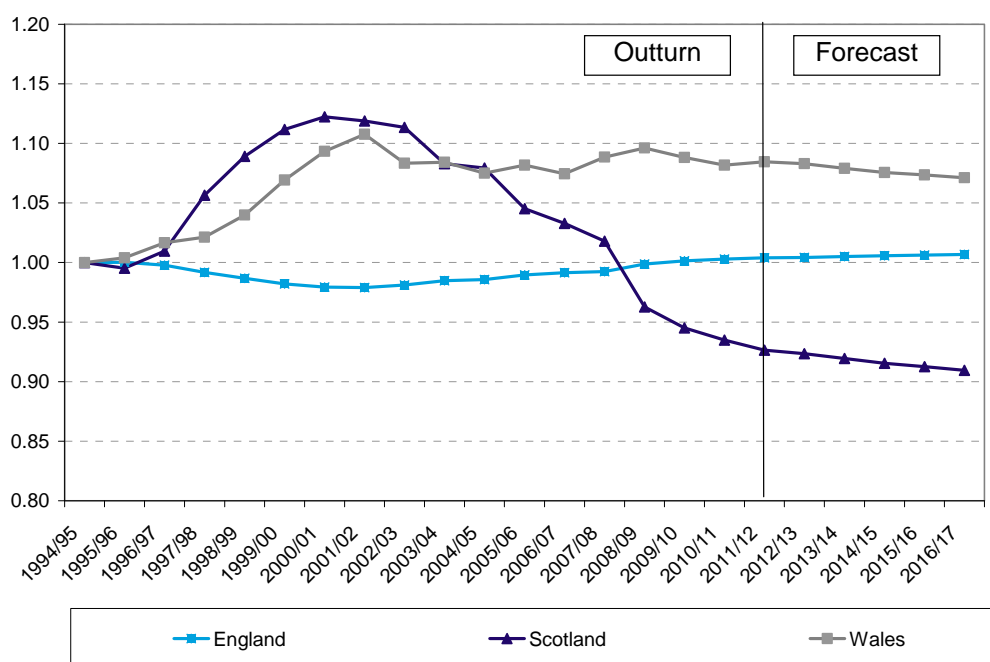
The reductions in caseload we are expecting are similar (in percentage terms) across all three countries. We assume that Scotland will have a slightly steeper decline in caseload than England. This reflects the composition of the Scottish caseload and is

⁹ These consist of the Automated Transfers to Local Authorities (ATLAS) and Credit Reference Agency (CRA) projects. A description can be found at <https://update.cabinetoffice.gov.uk/sites/default/files/resources/HMG-Fraud-and-Error-Report-Feb-2011-v35.pdf>

a continuation of previous trends. Figure 5 details how each country's share of the Great Britain caseload changed since 1993/94. It can be seen that the Scottish share has been declining since 2000/01, partly related to the relatively lower growth in Council Tax rates which means that households will have lost eligibility to Council Tax Benefit at lower incomes, but also as a result of a relative decline in both the population and the number of people receiving other benefits.

Caseload trends by country are discussed in more detail in section 3.4.

Figure 5: Share of Council Tax Benefit caseload by country: indexed to 1993/94



3.3 Why are caseloads expected to decline?

The reasons for the decline across Great Britain are varied, affecting a number of groups, and the amount of decline is often offset by a number of other factors. It is helpful to look at pensioner and working age groups separately. Figure 6 presents the expected growth in the caseload for each of these groups, and Figure 7 presents the expenditure (again excluding the 10% reduction in subsidy). Note that here pensioners are defined as being those aged “above pension credit qualifying age” which is a moving definition as the changes to female state pension age continue to roll out.

We do not have an official source of outturn spend broken down by age group, so this is estimated using outturn caseload and average awards as per the methodology described above.

Figure 6: Working age and pensioner CTB caseloads, 1995/96 – 2016/17

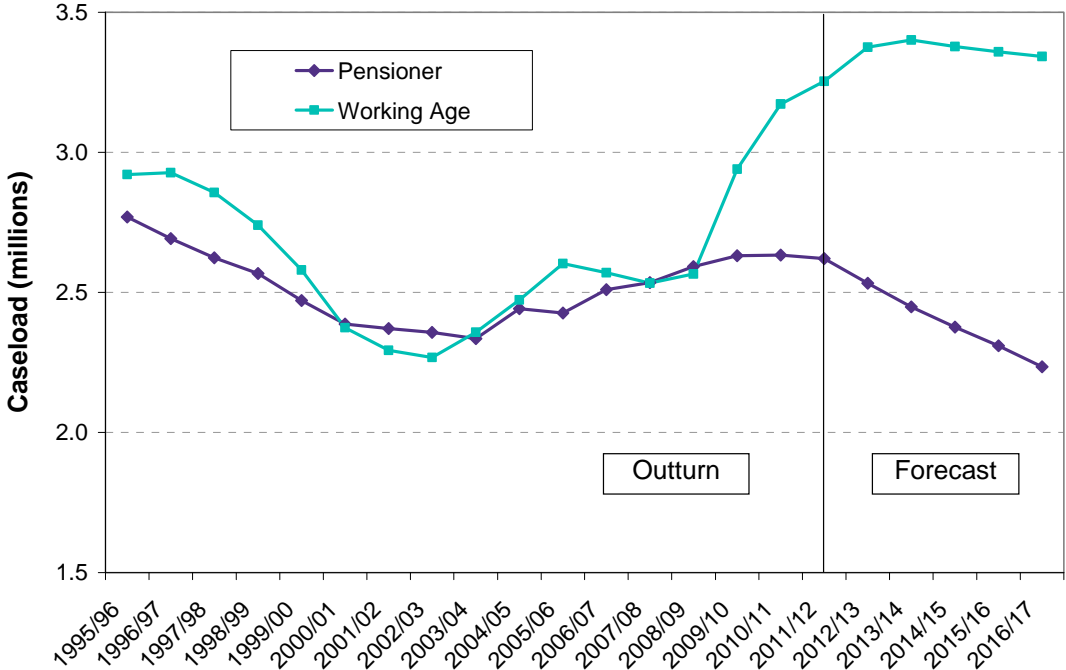
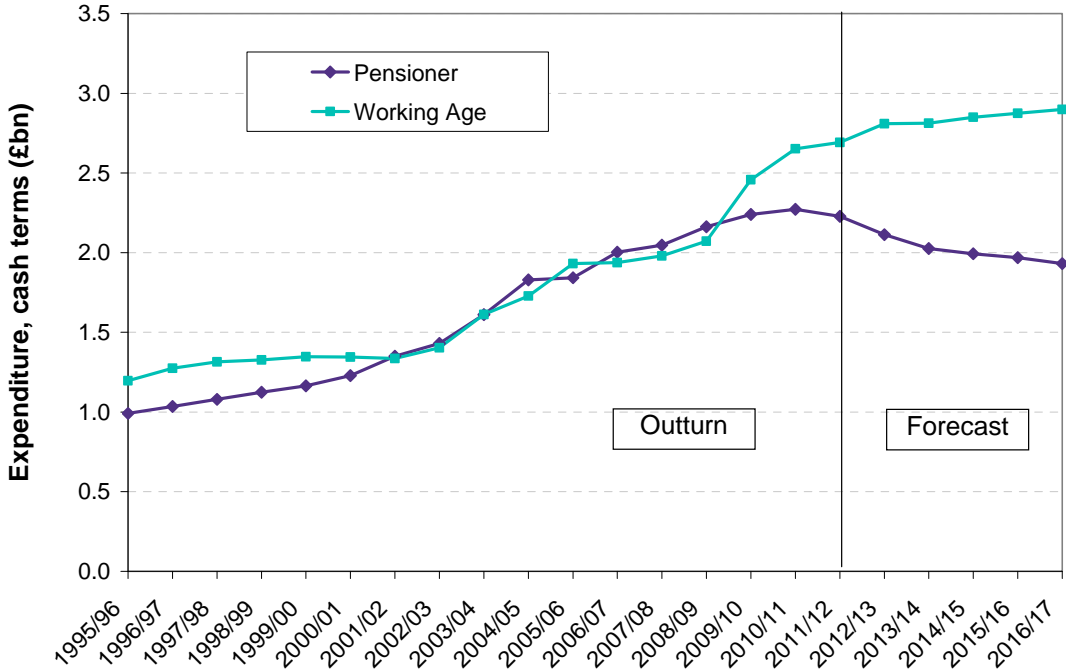


Figure 7: Working age and pensioner CTB expenditure, 1995/96 – 2016/17



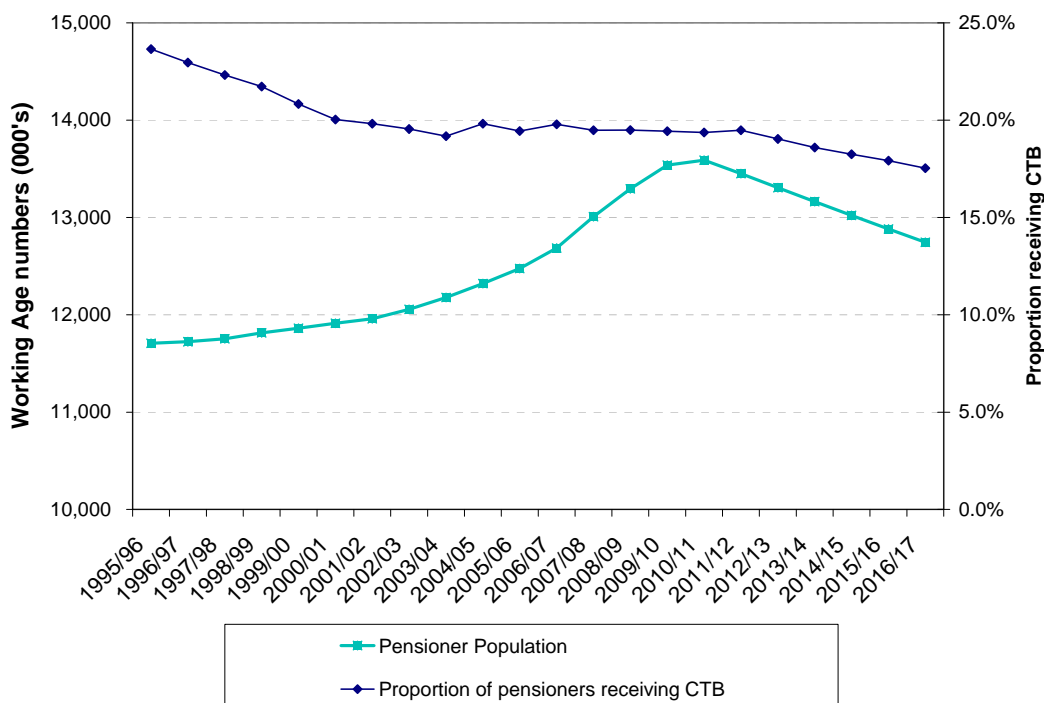
3.3.1 Pensioners

As detailed in figure 7, we estimate that spend on pensioners fell in 2011/12 and that this will continue in 2012/13 and 2013/14 where it will then stabilise but continue to decline slightly. We expect pensioner caseloads to fall more rapidly across the medium term than working age caseloads. All things being equal, pensioner spend would be expected to have declined during 2011/12, 2012/13 and 2013/14 anyway, due to the freeze in Council Tax rates in England and the more generous uprating of pensioner benefits relative to this. Unlike with working age households, there have been no corresponding increases to caseloads to offset this. As seen in figure 6, the decline in pensioner caseloads is part of a long term trend which has been temporarily flattened over recent years following the introduction of Pension Credit and the rapid increase in the pensioner population.

Pension Credit was introduced in October 2003, and saw a simultaneous increase in the Pensioner personal allowances, designed to ensure that no gains from savings credit would be lost via lower Council Tax Benefit awards. These applied whether or not the benefit unit was in receipt of Pension Credit. The result was an elongation of the income taper, which made more pensioners eligible for housing benefits.

Figure 8 presents the total pensioner population between 1995/96 and 2016/17 and the percentage of these who receive CTB, using outturn and latest forecasts

Figure 8: Proportion of the pensioner population receiving CTB over time¹⁰



It can be seen that i) the pensioner population falls from 2010/11 onwards and ii) the proportion of pensioners who go on to receive CTB is in decline, and this is expected to continue for the remainder of the medium term. These two factors result in the

¹⁰ 2010-based population projections (low migration variant), Office for National Statistics (ONS)

caseload estimate of the number of pensioners receiving CTB to fall across the medium term.

The main explanation for the pensioner population declining is due to the start of Equalisation of State Pension Age (ESPA) in April 2010, which is mirrored in the Pension Credit qualifying age. This means that between 2010/11 and 2018/19, the number of males and females aged 60-64 who qualify for pensioner benefits, including CTB Pensioner personal allowances, will decay away (although many of them may instead receive CTB as a working age recipient).

The following are reasons why we have seen a decline in the proportion of pensioners receiving CTB and we expect this to continue across the medium term:

- **Real increases in incomes.** New cohorts of pensioners have higher incomes than older pensioners who die, which reduces the proportion that is within scope of income-related benefits. This additional income is primarily either from occupational pensions or from the State Second Pension (including the State Earnings-Related Pension Scheme – SERPS); additionally all pensioners benefit from more generous uprating of State Pension following the introduction of the triple lock.
- **A change in the tenure characteristics of elderly households.** Each successive cohort of pensioners is more likely to own, or be buying, their own home than the previous cohort, and therefore over time the proportion of elderly people who are renting is declining. This has an indirect impact on CTB, since take up is much lower among owner-occupiers, taking account of differences in income¹¹.

These factors both reduce the number of elderly recipients, but are partially offset by:

- **Increasing incidence of illness and disability.** This manifests itself in the increased entitlement to the Severe Disability Addition across all pensioner age groups. By increasing the applicable amount, this premium results in increased receipt of Pension Credit, and in tapered CTB entitlement stretching further up the income distribution.

These are explanations for why the proportion is decreasing, how much of this decrease is directly due to increases in incomes and how much is indirectly due to increasing owner occupation has no direct impact on our forecasts.

3.3.2 Working Age

Expenditure on working age recipients has grown rapidly in recent years due to large increases to caseloads. We expect this growth to slow from 2013/14, similar to levels seen in 2011/12. This is largely due to estimated declines in working age caseloads as the economy improves and various reforms to existing welfare benefits being rolled out, although the lower Council Tax growth rates and increases to non-

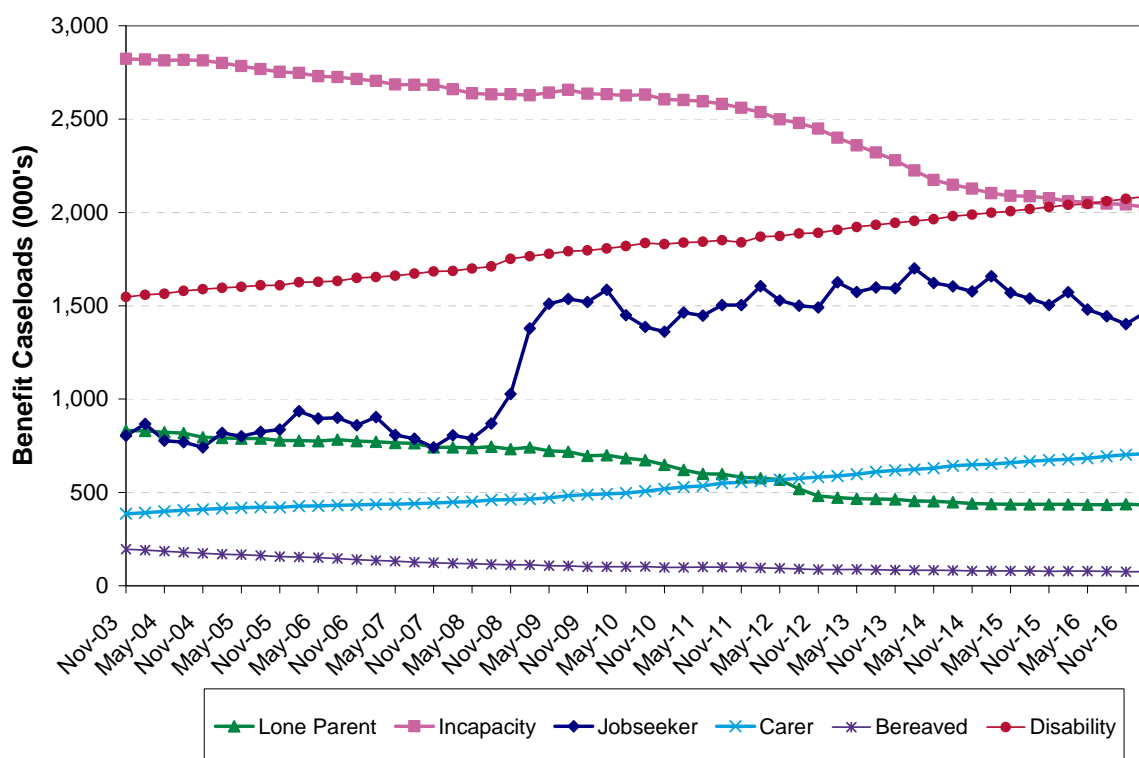
¹¹ http://research.dwp.gov.uk/asd/income_analysis/feb2012/tkup_full_report_0910.pdf
Page 107, Table 5.3.4.

dependent deductions also limit growth in amounts of CTB received, as discussed earlier.

The declines in caseload are small given numbers in receipt of CTB were relatively stable at around 2.5 million prior to 2008/09. This is because although there are a number of factors which exert downward pressure on caseloads for specific benefit subgroups, those receiving Council Tax Benefit may continue to do so either by making a claim for an alternative benefit or after moving into low paid employment. These transfers between caseload categories make forecasting working age caseloads very difficult.

Figures 9a to 9c show the driver populations, the projected proportion of the driver receiving CTB and the resulting CTB caseload for the main groups. The CTB only group cannot be handled by linking to a benefit driver so this group is only included in Figure 9c. Assumptions are made about future numbers in the CTB only group by using employment projections from the OBR which include effects of welfare reforms as well as analysing past trends and changes in the tenure mix of the population.

Figure 9a: Caseload forecasts of the working age benefit driver populations: November 2003 to February 2017¹²



¹² These caseloads differ from the overall benefit caseloads as they are refined to better match the CTB statistical groups. Not all groups shown here are mutually exclusive.

Figure 9b: Proportion of the working age benefit drivers in receipt of CTB: November 2003 to February 2017

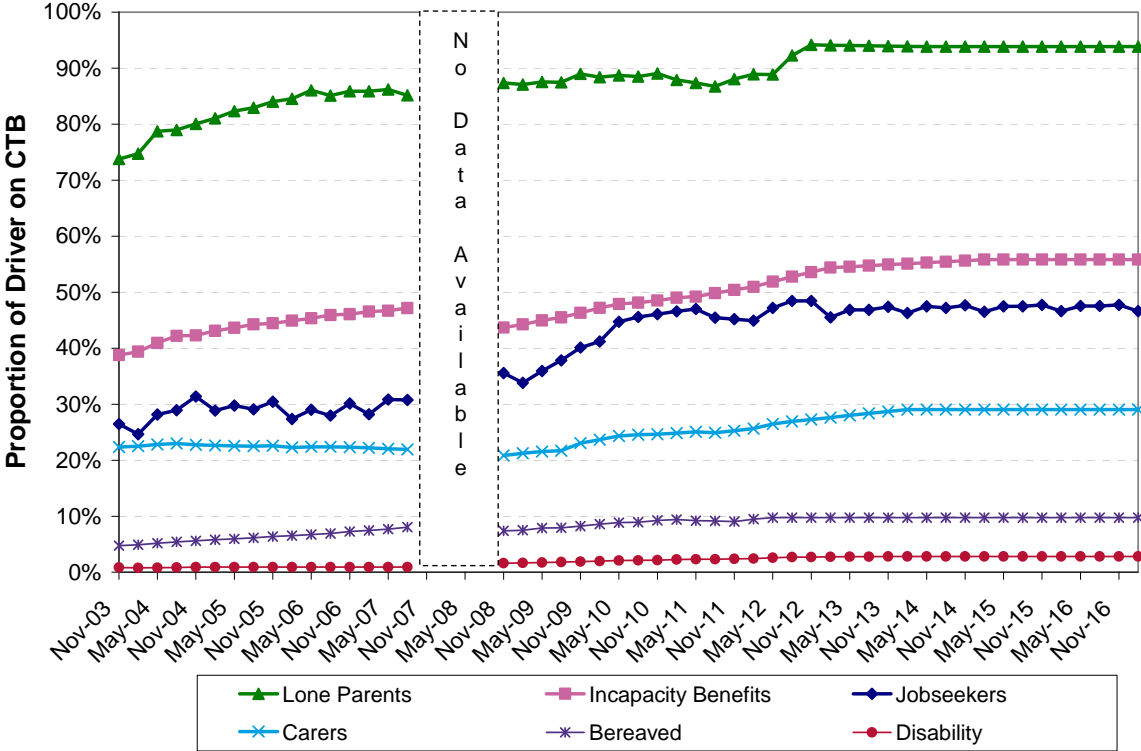
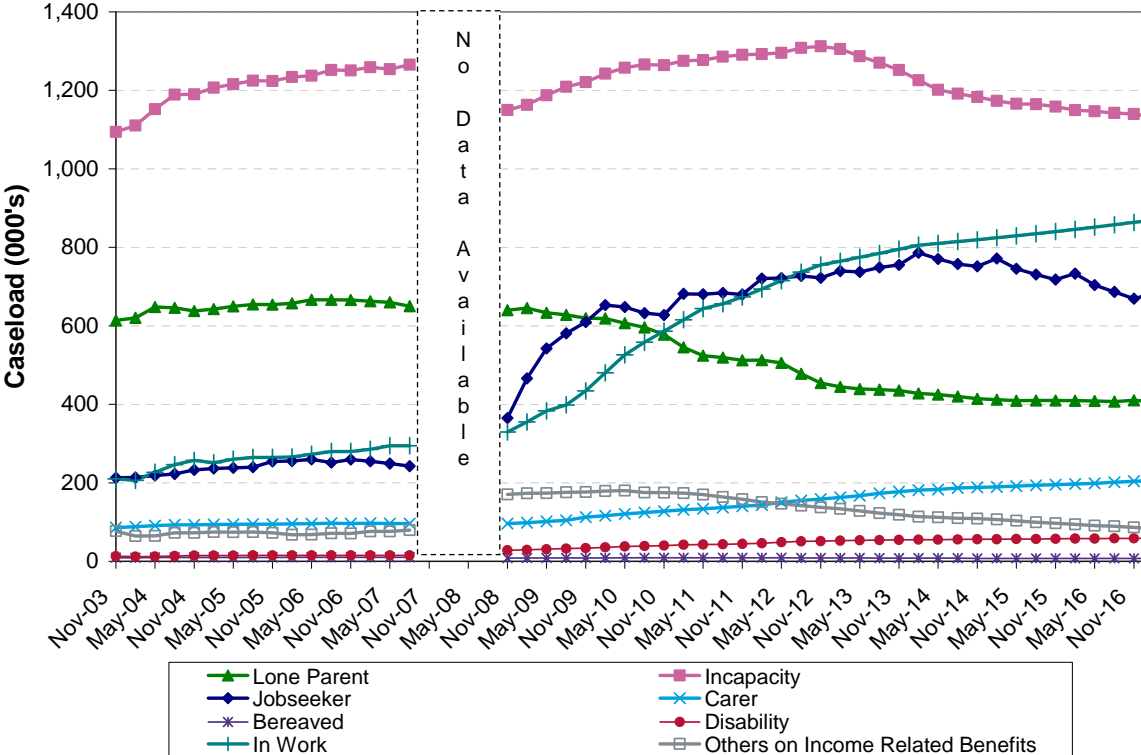


Figure 9c: CTB working age caseload forecast by statistical group: November 2003 to February 2017



Recent trends in the benefit drivers, the CTB caseloads, and the relationship between them all include the effect of policy changes and interactions between benefits. In particular, since autumn 2008 there has been the gradual replacement of Incapacity Benefit by Employment and Support Allowance, supplemented by reassessment of existing Incapacity Benefit claimants since May 2011, and there has also been the progressive roll out of the lone parent obligation. These have increased the numbers in receipt of Jobseeker's Allowance, over and above any increase due to the recession. To the extent that these policy changes had differential impacts on CTB claimants compared to those not claiming CTB, these are reflected in trends in the relationship shown in Figure 9b.

The forecasts of the driver benefits include further changes for both lone parents and incapacity benefits, including the impact on Jobseeker's Allowance. Since the recent trends we are projecting forward include the past policy change impact, the forward assumptions will implicitly include policy change effects too, even if not allowed for explicitly, and therefore the differential impact of future policy changes in these areas will be allowed for in the CTB caseload forecasts. In the case of the lone parent obligation, we have made an explicit assessment of the likely differential impact on CTB claimants of its extension to lone parents with a youngest child aged 5 or 6.

The following are reasons why we expect the working age caseload to decline over the next few years:

- **Reductions in the jobseeker claimant count** as the economy recovers. Figures in the Autumn 2012 forecast are consistent with those published by the OBR¹³ and includes policy change impacts. This shows claimant count volumes declining from 2014/15 onwards, going from 1.69 million in 2014/15 to 1.43 million in 2017/18.
- **Reductions in numbers receiving incapacity benefits.** This subgroup consists of those receiving either Incapacity Benefit (IB) or Employment and Support Allowance (ESA), the latter of which is replacing the former. Since October 2010, claimants of IB have been undergoing reassessment to check whether they are fit for work or eligible for ESA. If eligible for ESA they are placed into either the Work Related Activity Group (WRAG), where they will receive help and support for a future move into work, or the Support Group (SG) where they will receive unconditional financial support and not be expected to work. These reforms are expected to reduce the overall numbers on these benefits, although many may continue to receive CTB as a jobseeker or in-work claimant; these are factored into the forecasts for these groups.
- **Reduction in numbers receiving lone parent benefits.** Since November 2008, there have been phased changes in entitlement for Income Support for lone parents, with the age of the youngest child required to qualify being progressively reduced from 15 to 5 years by April 2012. As the roll out is now nearing completion, most of the effects have already filtered through the data.

¹³ <http://cdn.budgetresponsibility.independent.gov.uk/December-2012-Economic-and-fiscal-outlook23423423.pdf> Table 1.1, page 9 (United Kingdom, seasonally adjusted assumption).

These factors are offset by:

- **Continued growth in the volumes receiving CTB while in low paid employment.** The reasons for this are complex, being partly related to the decline in out of work benefit numbers above. In particular, households may continue to receive CTB after leaving the benefits system and enter work, and in some cases these households may well not have made a claim for the benefit had they not had a spell on out of work benefits – representing an increase in the take-up rate. A number of newly eligible in-work recipients will also have resulted from the economic downturn, such as those who may have experienced a reduction in earnings, reduced working hours, or from one member of a two earner couple losing their job. In addition, at a given level of income those who rent are more likely to claim than owner-occupiers, perhaps related to the joint claiming of Housing Benefit and CTB. Following trends over the last decade, further growth in the proportion of people who are renting is expected.
- **Equalisation of State Pension Age** as discussed above. This means that a proportion of those who would have received CTB and been classified as a pensioner will now be included within one of the working age subgroups, particularly the incapacity benefits group. However, decreases due to the welfare reforms described above have a larger impact causing the overall incapacity caseload to decrease.

3.4 What are the future trends in CTB expenditure by country?

Figures 4a to 4c presented expenditure trends by country – with Scottish expenditure expected to reduce in cash terms over the remainder of the medium term, Welsh expenditure staying broadly flat and English expenditure expected to reduce in 2013/14, increase again in 2014/15 and then remain broadly flat. In section 3.2 it was noted growth in Scottish expenditure has been historically lower than in England and Wales due to lower increases in Council Tax bills, and declines in the Scottish share of the Great Britain caseload. It follows that the future expenditure levels and trends we are expecting for each country relative to the others depends on what is assumed about future Council Tax and caseload growth.

The forecasts assume that Council Tax bills will grow in Wales from 2012/13, and this partially offsets the declines in caseload we are expecting. Expenditure decreases in 2013/14 in England due to an assumed Council Tax freeze in 2013/14 alongside falling caseloads. Scotland has decreases in expenditure due to an assumed five year freeze in Council Tax rates and a slightly sharper expected decline in caseload. It has already been shown that this is part of a longer term trend and can be further explained by looking at trends by caseload sub-group.

Figure 10 shows the composition of the CTB caseload for each country, and Figure 11 details how each of the caseload subgroups are expected to decline in Great Britain over the medium term, relative to 2011/12.

Figure 10: Proportion of CTB caseload in each country by group –2011/12

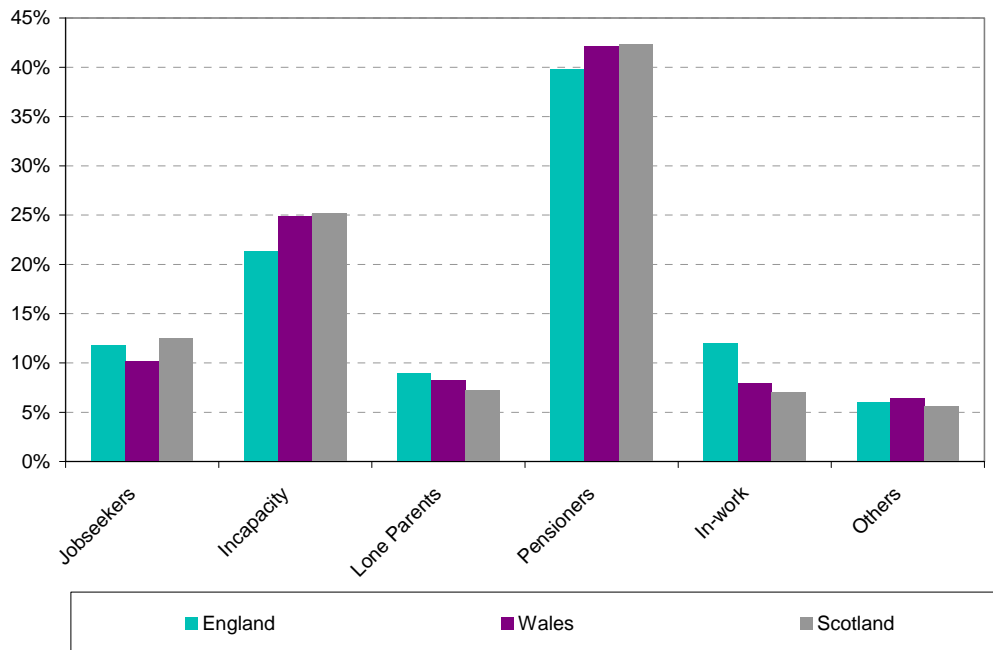
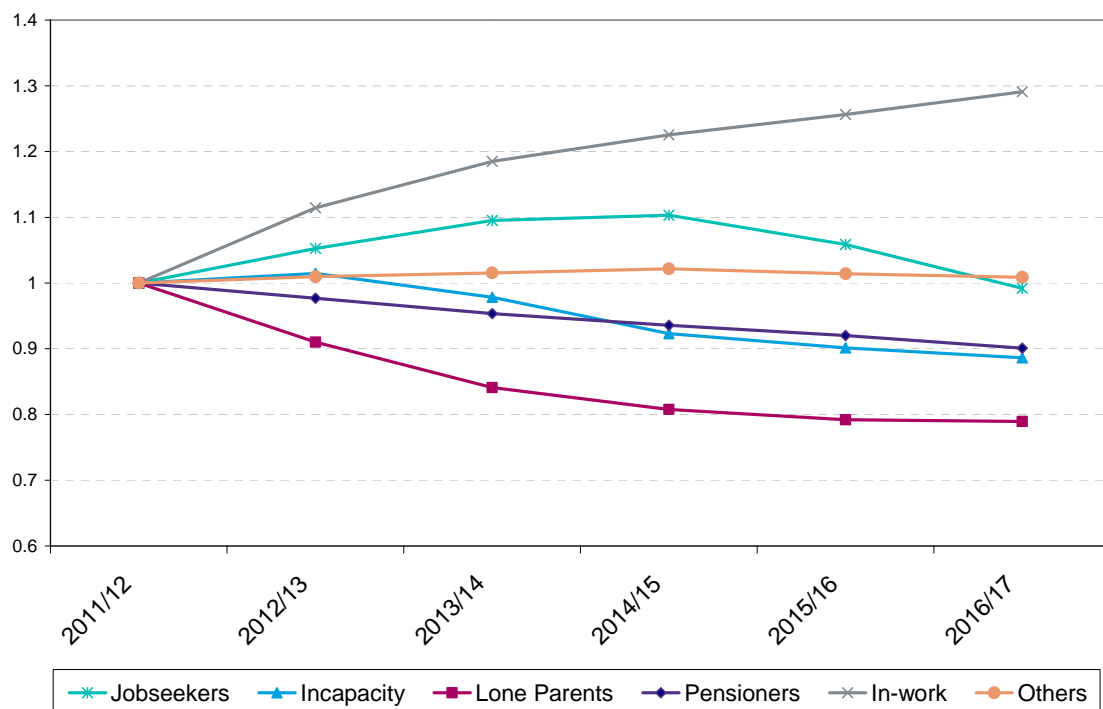


Figure 11: Estimated change in the CTB caseload by sub-group (indexed to 2011/12)



It can be seen that, because Scotland and Wales have a higher proportion of incapacity and pensioners than England, they will be more affected by the reductions expected in these groups – and less sensitive to the increases expected in those receiving the benefit while in employment, unlike England which has a higher proportion of these cases. This means we expect the caseload in Scotland and Wales to decline by proportionately more than in England.

For Wales, the expected growth in Council Tax bills offsets the decrease in caseload causing expenditure to remain relatively stable. For England and Scotland, when the decreases in caseload are combined with the planned freezes to Council Tax, this results in a decreasing expenditure forecast. For England the Council Tax freeze is only expected to be for 2013/14 and expenditure increases slightly after this.

Overall caseload forecasts by country and breakdowns into specific subgroups have been published alongside this document:

http://research.dwp.gov.uk/asd/asd4/ctb_country_statgroup_autumn12.xls

3.5 What has been updated since the Budget 2012 forecasts?

For Autumn 2012, the updated Council Tax growth assumptions from OBR caused expenditure to decrease, particularly for England as it is now assumed there will be a freeze in 2013/14. Wales Council Tax growth assumptions also decreased slightly and Scottish assumptions remained the same as Budget 2012¹⁴.

Including the new Council Tax growth assumptions to account for the freeze reduced England's expenditure forecast by around £100m in 2013/14. Note that the overall decrease in expenditure from Budget 2012 for England is less than this due to the caseload forecast now being higher than at Budget 2012.

Autumn 2012 forecasts have been updated with 2011/12 outturn expenditure based on subsidy claim returns from Local Authorities. These showed that the Budget 2012 subsidised expenditure forecasts were too low for England and Wales, but too high for Scotland.

The caseload forecasts were increased based on outturn caseload data to August 2012. The main changes were:

- Budget 2012 forecasts expected a decline in the group receiving CTB and Income Support as a lone parent due to the age of the youngest child to qualify for IS being reduced to 5. Latest outturn data suggests that Council Tax Benefit recipients are less likely to be affected by this so although the caseloads reduced the decrease wasn't as large as expected which has been taken into account for Autumn 2012 which projects a smaller decrease in CTB lone parents.
- The CTB only caseload was expected to increase at Budget 2012 but the increase seen was larger than expected. This is due to more people moving into this group from other CTB groups than expected (mainly from Jobseekers, Lone Parents and Incapacity). The increased flows from other groups are likely to be due in part to welfare reforms, which may be causing people to

¹⁴ The Council Tax growth assumed is published by the OBR in Table 2.12 of the December 2012 EFO fiscal supplementary tables:
<http://budgetresponsibility.independent.gov.uk/wordpress/docs/December-2012-EFO-fiscal-supplementary-tables4.xls>

move into low paid employment and remain eligible for CTB. For Autumn 2012 we have increased the growth in the CTB only group to account for this.

For pensioner caseloads outturn data to August 2012 showed that they were decreasing as expected; the Budget 2012 forecast was quite accurate. The pensioner forecast mainly changed based on receipt of an updated Pension Credit driver and to take better account of those moving out of the Pension Credit group but staying on CTB in the State Pension only group.

Receipt of a higher unemployment assumption from OBR also caused caseloads to increase across the medium term and the jobseeker caseload now decreases by less than expected at Budget 2012.

3.6 How Accurate are the forecasts?

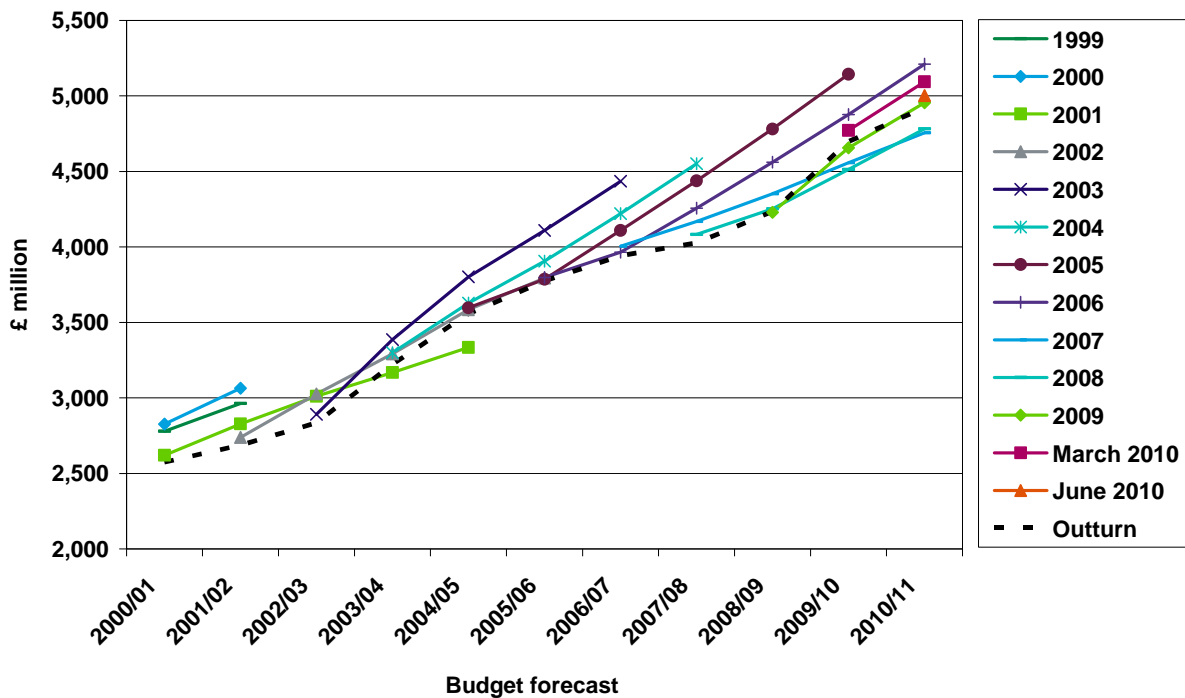
The forecasts produced for any forecasting round will be subject to change as additional outturn data on caseloads and amounts received becomes available alongside revisions to underlying assumptions. The further out a time period is in the forecast horizon, the more uncertain the projections become, and forecasting also becomes more difficult during periods of change, as described earlier.

These forecasts are intended to be a best, central estimate, and therefore have a 50% probability of being too high, and a 50% probability of being too low. These have been agreed by the Office for Budget Responsibility, who have approved the methodology and assumptions and the resulting forecast as being unbiased and central.

Although we don't regularly look at longer term accuracy, each forecast involves re-calibration to outturn data and investigation of any differences, which means the forecasts do account for previous errors. However, it would not be reliable to use the accuracy of forecasts based on previous data sources to inform errors in the current forecasts based on the improved data source.

Figure 12 below shows historic forecast accuracy. The forecasts from 2009 are expected to be more accurate due to the data that informs the forecasts becoming significantly more reliable. Therefore, the levels of variances seen in forecasts prior to this point are not representative of how accurate recent forecasts are. This is particularly true for Scotland, which saw the most significant improvement in accuracy following the introduction of the new data source.

Figure 12: CTB Forecast Accuracy since 2000/01



The chart shows that, if anything, over this period forecasts have tended to be too high rather than too low.

2007 and 2008 forecasts are lower than outturn due to the large impacts of the recession on CTB caseloads during 2008/09 as any steep change in outturn data is hard to accurately predict.

Large growth in Council Tax bills in 2003/04 caused expenditure to increase by more than expected and brought more people into entitlement for CTB. The 2001 forecasts did not predict this large increase and so were lower than outturn. The 2003/04 increase in bills may also have caused the successive over-forecasts from the 2003 Budget to the 2006 Budget, due to the influence this particular increase had on the assumptions for future years (as these were based on averages of recent increases).