
Three Years On:
An Independent Review of Local
Council Tax Support Schemes

Eric Ollerenshaw OBE

March 2016

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PREFACE

March 30th 2016

Dear Secretary of State,

In December 2015, you asked me to lead an independent review of local council tax support schemes, in order to fulfil the legislative commitment outlined in Schedule 9 of the *Local Government Finance Act 2012*.

I am pleased to enclose my findings in this report. The report and its conclusions are based firmly on the evidence I gathered and received. This included over 100 written submissions, interviews with 15 councils and with Welsh Government officials, nine regional workshops and many other meetings with key stakeholders. I am enormously grateful to all of the contributors.

You will see that my report states that local government has effectively implemented the council tax support schemes, despite difficult circumstances. However, there remain some barriers which prevent schemes from fully meeting Government policy objectives. Many of these are within the control of Government, and I recommend that you correct them.

Government should also consider providing councils with a much wider range of freedoms, so that LCTS schemes can be truly local. Devolving at least part of the prescribed scheme for pensioners, and the single person discount, could significantly improve a council's ability to both manage financial risk and provide targeted support to local residents in need.

More broadly, my research revealed a very limited body of evidence on the impact of LCTS on recipients and, crucially, the collective impact when considered alongside other welfare reforms. The point has been made by many. There is clearly a need for some in-depth and academic research in this area.

Finally, I conclude that LCTS should not be moved into Universal Credit at this time. No-one has prepared for such a move, which would be complex and disruptive to both central and local government at this critical phase in the Universal Credit timetable. I also believe it would cause unnecessary financial risk to councils and bring confusion and disruption to LCTS recipients.

I hope the findings of my review are useful to you in informing future policy on local council tax support.

Yours

A handwritten signature in black ink, reading "Eric Ollerenshaw". The signature is written in a cursive style with a large initial 'E' and a long, sweeping underline.

Eric Ollerenshaw OBE

LIST OF ACRONYMS

BC	Borough Council
CC	City Council
CPAG	Child Poverty Action Group
CTB	Council tax benefit
CTR	Council tax reduction (the equivalent of LCTS in Wales)
DC	District Council
DCLG	Department for Communities and Local Government
DLA	Disability Living Allowance
DWP	Department for Work and Pensions
ESA	Employment and Support Allowance
FOI	Freedom of Information
IRRV	Institute of Revenues Rating and Valuation
LBC	London Borough Council
LCTS	Local council tax support
LGA	Local Government Association
LGO	Local Government Ombudsman
MBC	Metropolitan Borough Council
NAO	National Audit Office
NPI	New Policy Institute
PIP	Personal Independence Payment
RSG	Revenue Support Grant
SPD	Single person discount
UC	Universal Credit
VTE	Valuation Tribunal for England
VTS	Valuation Tribunal Service
Z2K	Zacchaeus 2000 Trust

NOTES ON THE TEXT

The language of local government and welfare provision is notoriously complex. I have tried to write my report as simply as I can, based on the assumption that a reader might not have specialist knowledge of the welfare or council tax systems. Where possible, I have explained key concepts and terms as I go along, and avoided unnecessary use of jargon.

Local council tax support is referred to by councils and commentators by more than one name. Councils tend to refer to it simply as “council tax support”, often shortened to “CTS”. Some councils still refer to LCTS as “council tax benefit”. The Welsh equivalent is “council tax reduction”, shortened to “CTR”, although some English councils also refer to it by this term. Published Government documents use both “council tax support” and “council tax reduction”. For consistency, I have used “LCTS” throughout, apart from where I write about Wales.

Throughout the report, “Government”, capitalised, refers to central government. Where I mean *local* government, I will always refer to it as such. I have preferred to use the term “council” over “local authority”.

In using evidence from councils and organisations, I have referred to them specifically, apart from in cases where a council preferred not to be named. Where I have used other sources to make a point, I have provided footnotes as a reference.

Hyperlinks to other parts of the report, or to websites, appear in [blue](#).

In order to make the body of the report less cluttered, I have put important, but supplementary, information in a series of appendices at the end.

ACKNOWLEDGEMENTS

I could not have conducted this review without the input of the many contributors. Councils wrote in detailed submissions, agreed to meet with me for interviews, and provided further clarification or help when requested by the review team. I am extremely grateful for their honesty, time, and kindness. Charities, sector bodies, and individuals also wrote in or met with me to provide their input, which proved invaluable. I remain thankful to all those from whom I received submissions and with whom I met.

I am also grateful to David Airey and Janet Alexander of the Institute of Revenues Rating and Valuation (IRRV), who were enormously helpful and accommodating in helping the review team make the most of the IRRV forums. These forums became an essential part of the evidence. Particular thanks go to David Airey, who afterwards took the time to explain technical aspects of LCTS to the review team.

I must give my thanks to the New Policy Institute (NPI), whose work on LCTS schemes included the only published list of components of all schemes in England. Their data was absolutely fundamental to this review. I am also hugely grateful for the time they took to meet me and the review team, in order to expand on their methodology and conclusions.

Finally, the review team from DCLG have supported me throughout the four months of this review, as did the analysts who gave their time to help them. I am grateful for their consistent hard work in helping me to complete my review of local council tax support schemes, with particular thanks to Ben Stoneman and Rita Haddad.

EXECUTIVE SUMMARY & RECOMMENDATIONS

Executive summary

This review is the result of an amendment put forward by Baroness Hollis of Heigham during the third reading of the *Local Government Finance Bill* in the House of Lords, which requested an independent review of the proposed local council tax support schemes. The Government accepted the amendment unchanged. The review was launched on December 2nd 2015, and I was appointed by the Secretary of State for Communities and Local Government to chair it. This review's scope was bound in legislation, which the [terms of reference](#) reflect:

The review will focus on the effectiveness, efficiency, fairness and transparency of the different LCTS schemes. It will also consider their impact on the localism agenda, and will make recommendations as to whether or not the schemes should be brought within Universal Credit.

I have gathered and assessed a wide range of evidence for this review, including:

- Desk research of relevant publications
- Workshops at all of the nine regional forums for the Institute of Revenues Rating and Valuation, held in December 2015
- An open and public call for evidence, which ran from December 2nd 2015 to January 12th 2016
- In-depth interviews I carried out with a sample of 15 councils and the Welsh Government
- Meetings with local government organisations, Government bodies, charities, and research institutes
- Statistics collected and published by the NPI, containing scheme data for all 326 schemes in England since 2013
- Other follow-up statistics requested from some councils and Government bodies.

I have reviewed this evidence and my conclusions and recommendations are summarised below. As the Executive Summary highlights only the key points, and deliberately does not include much context, **I do recommend that the report is read in full.** This will ensure

that crucial nuances, analytical context, and points that could not be included in the Executive Summary are not missed.

Efficiency

1. First and foremost, councils have implemented the Government's localisation of council tax support effectively and professionally. All councils had LCTS schemes in place and running by April 2013, and have delivered them since. This is all the more impressive considering the initial tight deadlines and the ongoing problem of late announcements from Government.
2. Collection rates of council tax declined with the introduction of LCTS. They are improving, albeit slowly, for many councils. Looking just at LCTS working-age recipients, collection rates were not as bad as councils and commentators first feared, but are lower than non-LCTS collection rates.
3. Collecting council tax from LCTS working-age recipients is reported by councils as being far more time-consuming and costly when compared with usual collection. Where there is a minimum payment required by the council, it means that the council must collect small amounts of council tax from these residents. The general message was that the staff time and administrative costs sometimes required seemed disproportionate to the amount being chased.
4. There also seems to be a not insignificant proportion of recipients with arrears *from previous years* – in other words, the arrears cannot be paid off before a new council tax bill is issued. With only two full years' worth of arrears and collection data, it is too early to judge if this trend will continue. Based on what I have seen to date, though, it does appear that at least some councils are facing the problem of an accumulation of arrears that are unlikely to be paid off.
5. One way that arrears can be paid off – although very slowly – is through an attachment to benefits. Currently, this cannot be done without first getting a liability order from the magistrates' court. This process adds time, during which arrears continue to build up. It also adds costs to the council, the person in debt, and to the court system in general.
6. Efficient administration of LCTS is currently hampered by the fact that councils have to administer both the Government-set pensioner LCTS scheme and housing benefit. Both are resource-intensive to administer. This reduces a council's capacity and willingness to design schemes that would be simpler and cheaper to administer. Indeed, all councils, excluding South Gloucestershire, are still running LCTS schemes that are modelled on the old council tax benefit (CTB).

7. This will likely change as housing benefit moves into Universal Credit. Councils will lose the funding they receive from Government for administering housing benefit, which partly funds the same teams who administer LCTS. Councils will thus be keen to find a cost-effective solution to this problem, such as designing a simpler LCTS scheme that uses income bands for assessments. Some councils I heard from are already considering this option.
8. There was broad consensus on other issues that are hindering greater efficiency. The January 31st deadline for setting schemes is seen as both arbitrarily early and out of sync with financial cycles. It is simply inefficient to have to get two related documents – the LCTS scheme and the council’s budget – approved by Full Council at often different times.
9. While many councils pointed out the benefits that public consultation has brought, such as greater local accountability and engagement, some issues are evident. The legislative requirement to review schemes each year is seen as onerous, rigid, and costly. Councils find the legislative framework for consultations too vague, and the perceived lack of clarity has introduced unnecessary legal risks into the consultation process. The resultant consultation documents can therefore be dense, technical, and long, making them less comprehensible and engaging to residents.
10. Taken as a whole, the above issues currently undermine the cost-saving objective of the policy. This may change once some of the barriers I have outlined are removed or rectified, and once councils can design LCTS schemes that are more efficient to run.

Fairness

1. The design of schemes is driven primarily by a council’s budget and affordability. Over time, most councils have introduced higher minimum payments for LCTS recipients. Early data for 2016-17 schemes suggests this trend is continuing.
2. As a local discount for a local tax, the amount of support available varies from place to place. Local variation is an inevitable result of localisation, and it can have many positive outcomes. However, the current restrictions of LCTS – such as the Government-set pensioner scheme – exacerbate the effects that different starting points, such as demographics, may have on the support that is ultimately provided.
3. It is clear from the evidence I have seen that the national scheme for pensioners has led to an additional cost burden on low-income working-age residents.

Councils have less money to provide support to working-age residents, and less money to design work incentives into the scheme.

4. The impact of LCTS on low-income residents cannot be properly and confidently arrived at by looking at it in isolation. While the interaction between LCTS, other welfare changes, and socioeconomic shifts is beyond the scope of this review, there remains no national and comprehensive picture of the cumulative and collective impact of various welfare changes on individuals.
5. Councils, on the whole, welcome greater local autonomy and the freedom to design local support schemes. Many, however, are frustrated and disappointed with the restrictions placed on them. Funding was often raised as an unfair impediment on a council's ability to design truly local schemes. The Government-set pensioner scheme was also criticised as the biggest restriction on a council's ability to design local schemes, both on paper and, because of how it indirectly impacts what a council can do with its working-age scheme, in practice. There is a sense that LCTS has handed the costs and risks to local government, but only part of the funding and freedoms.

Transparency

1. Generally speaking, councils have taken varied approaches and invested great effort into making their schemes transparent and comprehensible. I saw excellent examples of this across the country. However, engagement with residents on LCTS was often difficult. This may partly be due to the technical language and rules of LCTS, which consultation documents sometimes reflect.
2. Localisation has meant that there is no standard, nation-wide response for council tax support queries, as there was under council tax benefit. This makes the work of advice agencies and council staff more difficult, and it can be confusing for recipients. While this is a by-product of localisation, it is not helped by the lack of national oversight.
3. There is little data on LCTS schemes and their impact available. Government holds very little data on LCTS schemes, and councils are not obliged to report on LCTS data beyond the limited statistics provided in DCLG Revenue Outturns. This lack of national data is in contrast to the approach taken by the Welsh Government, which collects sophisticated data relating to LCTS and reports on it annually.
4. Since 2014-15, it has not been possible for councils to identify how much funding Government is providing for LCTS schemes. Because of this, councils cannot accurately identify how much additional funding they are spending on their LCTS

schemes. Aside from the challenges this brings to budgeting, it is also frustrating for councils not to be clearly told how much funding they are receiving.

5. Partly because of this, not all councils are passing on LCTS funds to parishes. This results in uncertainty and added budget pressures for parish councils. It has also led in some cases to parishes significantly increasing their precept.

Effectiveness

1. The introduction of LCTS had three main policy aims: to bring deficit-reduction savings, to increase local powers over local areas, and to support work incentives. The effectiveness of LCTS schemes is assessed against these initial objectives.
2. Savings were made to the national budget: an estimated £490 million in the first year alone. However, beyond these savings to the Treasury budget, some councils and observers have said that LCTS introduced many hidden costs.
3. Caseloads have been decreasing. While this is likely to be a reflection of national economic improvements rather than because of LCTS schemes, the trend has helped councils manage the cost of their schemes so far.
4. In terms of the impact of LCTS schemes on localism, local schemes remain “quasi-local”. Councils have had to work within the parameters of budgets, decision-making deadlines, and the Government-set scheme for pensioners, which have constrained full council control of LCTS schemes. The potential of LCTS to have a positive impact on localism has not yet been fully realised.
5. Councils do have the freedom to change the work incentives of their schemes, which many have done. Work incentives in LCTS schemes do not, by themselves, appear to have an impact on local employment levels, and there is no evidence that LCTS schemes function as a work incentive. Indirectly, giving councils responsibility over council tax support has encouraged some councils to be more proactive in helping residents into work, or into better paid work. Examples of this include joining up council services and working with partner organisations.

Universal Credit

1. A strong argument for putting the successor of CTB into Universal Credit could have been made in 2012-13. A national benefit would have moved into a system which aimed to simplify the welfare system for claimants and administrators alike.

2. However, there are now far too many issues and concerns for this to be a viable option. LCTS is a locally-set discount of council tax, and not a state benefit: it is fundamentally outside of Universal Credit. Despite the challenges, LCTS has been a key step for localism. Reversing this would be particularly unpalatable given the huge time, money, and effort invested in developing LCTS schemes three years in. On a practical level, it would be extremely complex for Government to integrate 326 different schemes into Universal Credit. It could also have dire consequences on council collection rates, impacting council finances.

Recommendations to Government

1. Government should remove the January 31st deadline for schemes to be agreed on, and replace it with a condition that councils have an LCTS scheme agreed and in place by the end of March each year.
2. Multi-year or rolling schemes should be allowed. Councils should be required to review their schemes at Full Council only when changes are being proposed.
3. The statutory consultation requirements should be clarified by Government, so that councils can take a less risk-averse approach. This should make consultations less burdensome on councils, and more engaging to residents.
4. DCLG should issue updates to the prescribed regulations sooner in the year, so as to inform local consultation. This could be a two-stage process, with policy intent provided in summer, and details and updates to regulations confirmed after the Autumn Statement.
5. Government should enable LCTS recipients to pay off arrears through a voluntary attachment to benefits agreed with the council, without the requirement to obtain a liability order. Safeguards should be put in place to ensure that individuals have had the time, information and capacity to consider the option and make an informed decision.
6. Government should work closely with councils to rectify data-sharing issues between council systems and Universal Credit systems, and to address concerns about how critical Government-held data will be shared with councils as Universal Credit is rolled out to LCTS recipients.
7. Government should consider localising at least part of the LCTS scheme for pensioners, allowing councils to decide how much support they wish to provide for all low-income residents.
8. Government should consider granting more local flexibility over other nationally-set council tax discounts, such as the single person discount.

9. Government should take steps to better understand the impact of LCTS on individuals and councils, widening the data it holds on LCTS. This will enable future policy evaluation.
10. Government should commission in-depth academic research on the impact of LCTS within the wider context of other welfare and socioeconomic changes.
11. Government should be transparent about how much funding for LCTS is paid through Revenue Support Grant, and it should be explicit about the future funding of LCTS schemes, including any expectations on how LCTS should be locally funded.
12. Government should require councils to clearly state how much funding they intend to pass on to parishes as part of their consultation on LCTS schemes.
13. Government should improve its engagement and ongoing dialogue with local government on LCTS. This could be done via an updated and more transparent Council Tax Partnership Forum, or by setting up another forum for this purpose.
14. Government should confirm that LCTS will remain a local discount scheme for a local tax, and that it will not be rolled into Universal Credit.

Recommendations to councils

1. Where possible, councils should work in partnership in designing future schemes. Councils should consider options around joint procurement of software providers, and joint schemes with neighbouring councils, where appropriate.
2. Councils should ensure their debt collection practices remain in line with latest Government guidance, and that their processes are proportionate to the debt involved. Councils should consider signing up to the Citizens Advice “[Council Tax Arrears: Good Practice Protocol](#)”, developed in partnership with the Local Government Association.
3. Departments and teams within councils should work closely with each other and with partner organisations to develop a holistic approach to LCTS council tax collection, identifying and supporting people who are struggling to pay.

INTRODUCTION

Why this review has taken place

This review is the result of an amendment put forward by Baroness Hollis of Heigham during the [third reading](#) of the *Local Government Finance Bill* in the House of Lords. On October 22nd 2012, Baroness Hollis proposed that:

(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, to consider their effectiveness, efficiency, fairness and transparency and their impact on the localism agenda; and 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.

The amendment passed unchanged: the Government accepted the legislative commitment to ensure an independent review would be completed.

The review was launched on December 2nd 2015. I was appointed by the Secretary of State for Communities and Local Government to chair it. I was also provided with a small team of DCLG officials, who had already been conducting some desk research, to support me. I agreed to report on my findings by the end of March 2016, in line with the deadline set out in legislation.

Scope and definitions

This review's scope was bound in legislation, which the terms of reference reflect:

As set out in the legislation, the review will focus on the effectiveness, efficiency, fairness and transparency of the different LCTS schemes. It will also consider their impact on the localism agenda, and will make recommendations as to whether or not the schemes should be brought within Universal Credit.

In examining local schemes, the review will consider the scope for promoting examples of best practice, including how councils have been able to reduce or manage administrative costs, promote simplified schemes, and communicate the changes to residents.

Defining and interpreting the four key terms – effectiveness, efficiency, fairness, and transparency – was the first step of the review’s work. For this, I referred to the debate in the House of Lords that followed Baroness Hollis’s amendment. This helped me understand in more depth what Baroness Hollis had asked for and envisioned.

“Efficiency” is the most straightforward to define: how smoothly the schemes are working. Under this theme, I have looked at issues such as administrative costs, the original implementation timetable, and the impact on the collection of council tax. “Transparency”, too, is self-explanatory. It will be taken to mean the accessibility and understanding of how the schemes work, for both councils and LCTS recipients. Based on the evidence I have seen, Transparency will also look at Government funding for LCTS.

The remaining two themes are less clear cut. Under “Fairness”, I have looked at questions such as the components of LCTS schemes, the impact of schemes on both recipients and councils, how arrears are recovered, and other concerns raised by the people I spoke with and the organisations that wrote in. “Effectiveness” will be taken to mean the extent to which the policy objectives of achieving savings, giving councils greater autonomy, and supporting work incentives have been met through LCTS: put simply, how effective LCTS schemes have been in delivering policy objectives.

From the terms of reference, that leaves us to consider “impact on localism agenda” and the question of Universal Credit. The former will be a common thread that runs through all of the four themes, but will be explicitly looked at under the Fairness and Effectiveness chapters. The latter needs and deserves a section all to itself.

A note on Wales

The review’s terms of reference state that:

*The review will cover England, and **will also consider views of the Welsh Government and evidence submitted by Welsh authorities on local council tax reduction in Wales.***

The reason for this cautious wording is that the review must fulfil the legislation, but should also reflect the reality of how the legislation has been applied. The legislation states that the review must look at “all council tax reduction schemes made under the provisions of this Act”, which means it must include Wales. In practice, though, there is much less need for the review to look at Wales in the same level of detail as the schemes in England.

This is for two reasons. The first is that council tax reduction (CTR), as LCTS is known in Wales, is funded and prescribed by Welsh Government. It operates as a single, national scheme, providing the same level of support to recipients that they would have received under CTB. The second reason is that Welsh Government undertakes its own comprehensive review of CTR each year: there is not a great deal that this review could add to the information that Welsh Government already has on CTR in Wales.

LCTS schemes in England are more numerous and more varied, and there has been no comprehensive research by Government on the schemes in England. The situation in England therefore requires more investigation, and has thus been the main focus of my review. I have, however, pointed to CTR in Wales where appropriate, and have a summary section regarding Wales.

Structure

Following a brief summary of what LCTS is and how it works, this report will look at each of the themes of the review in turn, before turning to the question of Universal Credit. For ease of reading, my [conclusions and recommendations](#) for both councils and Government are found at the start of this report.

The most logical starting point is Efficiency, as it outlines how schemes are run. I will then move on to Fairness, to investigate the impact of LCTS on both recipients and councils. Transparency will follow, consisting of how accessible and comprehensible schemes are. I will then look at how effective LCTS schemes have been in meeting policy objectives of creating deficit-reduction savings, supporting localism, and improving work incentives. In order to do this, I will refer back to the previous three themes as necessary, but I will also introduce important new points not yet covered (such as work incentives). Given the main focus throughout on English schemes, I will then comment on the specific nature of the position in Wales.

After reporting on the current state of LCTS, I will look to its potential future. I will present the different arguments put forward regarding whether or not LCTS should be absorbed into Universal Credit, which formed the basis of my recommendation on the matter.

Sources

I have considered and gathered a wide range of evidence for this review, from national statistics to in-depth interviews with a sample of councils. I have maintained an open mind to the evidence I received, basing my report firmly on the sources.

My main sources of information have been:

- Intensive desk research, which included:
 - Government publications
 - Research and reports published by other organisations and bodies, such as the New Policy Institute, the National Audit Office, the Local Government Association and the joint work by the Child Poverty Action Group and Zacchaeus 2000 Trust
 - Looking into individual LCTS schemes online
 - Local and national press articles regarding LCTS schemes

A selection of reports and published research consulted for this review is provided in [Appendix 8: Published reports and research consulted](#).

- Hour-long workshops at all of the nine regional forums for the Institute of Revenues Rating and Valuation, held in December 2015. These were attended by staff from Revenues and Benefits teams of local councils. A full list of forums, as well as the instructions given to attendees, can be found in [Appendix 4: List of IRRV forums attended](#) and in [Appendix 5: Questions used for IRRV forum workshops](#).
- An open and public call for evidence, which ran from December 2nd 2015 to January 12th 2016. Late submissions were accepted until the start of February. We received 105 responses, some of which were joint responses representing several councils. Responses came from councils, organisations related to council tax and local governance, advice agencies, charities, research institutes, and individuals. They will be referred to in this report as “submissions”. A breakdown of respondents can be found in [Appendix 6: Responses to the public call for evidence](#).
- In-depth interviews I carried out with a sample of 15 councils. The sample was selected to represent a broad range of schemes, political control, size, local demographics, and regions. Interviewees were typically heads of Finance and Benefits departments, and sometimes included councillors. A list of interviews can be found in [Appendix 2: List of interviews completed](#).

- Meetings I had with local government organisations, Government bodies, charities, and research institutes. A list is provided in [Appendix 7: Meetings held with stakeholders](#).
- Statistics held by DWP regarding the cost of CTB (including forecasts for future years), and statistics held by DCLG regarding LCTS caseloads per council.
- Statistics collected and published by the NPI, containing scheme data for all 326 schemes since 2013.¹
- The Welsh Government's annual reports and review of LCTS schemes, as well as a meeting with officials from the Welsh Government.
- Other follow-up statistics requested from some councils and Government bodies.

Limitations

As with any piece of research, there are limitations to this review. I highlight these from the outset. The first is the timing. A comprehensive review of 326 different schemes – tackling large and complex issues, such as how efficiently they are running and whether or not they are fair – as well as considering the situation in Wales, is bound to take a long time. In this case, the deadline had been firmly set by the legislation itself.

This has meant I could not examine all issues in as much detail as I would have liked. For example, I did not have the time to go out and speak to a representative sample of residents who receive LCTS. To make such a sample reliable, I would have had to select residents who live in councils across the country, which have different demographics, local economies, and politics. I would also have had to consider differences in the residents themselves, such as their age and employment status. In a four-month review, this is not possible.

I have, though, sought and listened to the experiences of LCTS recipients. In my interviews with councils, I heard from staff how residents have been impacted by the change. I met with organisations that could give an on-the-ground picture of how LCTS is experienced by recipients, such as Citizens Advice and the Child Poverty Action Group. The review team also received numerous submissions from organisations and individuals who work directly with LCTS recipients, or who have researched the policy's

¹ The NPI research project is funded by the Joseph Rowntree Foundation.

impact on recipients. These supplemented the numerous published reports that the team and I read on the matter. The views and experiences represented in these sources were essential to the review.

The second limitation was an issue raised again and again by councils and organisations I met with: the review's scope. They made the point that LCTS cannot be fully understood in isolation to the wider context, be it other welfare changes or financial pressures facing councils. As the review progressed, this became increasingly apparent. However, the legislation governing the review is clear that the review will be concerned with LCTS only. Reflecting this, the terms of reference state that:

The scope of the review will focus specifically on local council tax support schemes. It will not include any broader aspects of government policy on local government finance, council tax, or the welfare system.

A review looking at a complex system of welfare changes and local government finance is a separate thing altogether, and would take a great deal longer than the four months I had. That is not to say that I have not, in writing this report, considered comments on the wider context. Based on the evidence I gathered, I recognise that an on-the-ground and in-depth study of the collective impact of welfare reforms is now needed; I have included this in my final recommendations to Government.

The final limitation, which has also led to one of my recommendations, was the struggle to pin down numbers. I quickly found that data collection concerning LCTS is patchy at best, and completely lacking at worst. Apart from basic figures provided in the Revenue Outturns published by DCLG, Government does not collect data on LCTS schemes. At the local level, different councils collect different types of data. The existing work done by the New Policy Institute, which collected, analysed, and published LCTS scheme data for all 326 schemes since April 2013, has been invaluable. I can only thank NPI for allowing me to use their data, and for outlining their methodology to the review team.

WHAT IS LOCAL COUNCIL TAX SUPPORT?

1. The policy background

Local council tax support (LCTS) came into effect in April 2013 as a replacement for council tax benefit (CTB). CTB had been set up in 1993 as a national benefit, funded by the Department for Work and Pensions, to help low-income residents who could not pay their council tax bill. In February 2013, the final month for which CTB caseload data is available, 5.9 million people in Great Britain received the benefit.² It provided up to 100% financial support, meaning that many people entitled to it did not have to pay anything towards their council tax.

The change from a national benefit to a collection of localised discounts was first announced in the 2010 Spending Review of the Coalition Government. The Department for Communities and Local Government (DCLG) would be responsible for the policy, in line with other council tax discounts. DCLG ran a consultation in 2011 and published its response that December. At around the same time, the *Local Government Finance Bill*, containing provisions for the localisation of council tax support, had its first reading in the House of Commons. The Bill received Royal Assent on October 31st 2012, becoming the *Local Government Finance Act 2012*.

Government announcements gave three main aims of the policy. The first was to contribute to the Government's deficit-reduction programme. Funding for LCTS was calculated as Government's forecast spend on CTB had it remained in 2013-14, but reduced by 10%. At the time, it was estimated that this would save the Treasury around £490 million in the first year. The second aim given was to support the Government's localism agenda, granting local areas more powers and responsibility over their own affairs. The third aim was to support work incentives and rising employment by giving

² Figures taken from the final DWP statistical release on CTB caseload numbers: DWP, *Housing Benefit and Council Tax Benefit Caseload Summary Statistics, February 2013*. The statistics provide caseload data from November 2008 to February 2013, and are broken down by various factors.

Available at: <https://www.gov.uk/government/statistics/housing-benefit-and-council-tax-benefit-caseload-statistics-published-from-november-2008-to-present>

councils more of a stake in their local economy, and, at the same time, granting them the flexibility to design work incentives into their LCTS schemes.

2. How LCTS works

Under the system of LCTS, all billing authorities responsible for collecting council tax (unitary and district councils) are under a statutory duty to design and agree an LCTS scheme. Schemes for an upcoming financial year must be agreed upon by January 31st each year. If any changes are suggested, councils must run a consultation with stakeholders, including residents. Any changes to schemes come into effect on the first day of April.

In theory, councils can design schemes and provide the level of financial support available to residents as they see fit. Primarily, this means adjusting the minimum percentage that recipients must pay of their council tax bill. It is sometimes instead explained as the maximum percentage that a council will cover. To put it simply, Council X has designed a scheme with a minimum payment level of 20%. For a council tax bill of £1,000, this means an LCTS recipient will pay at least £200, depending on their circumstances. Council X will therefore pay a maximum of 80% of someone's council tax bill.

There are several ways a council can adjust the level of support, and tailor it to different groups of residents. A council may wish to “protect”, for example, disabled recipients, or carers, by exempting them from having to pay towards their council tax bill, or by stipulating a lower minimum payment for them (a disabled resident or carer in the aforementioned Council X may only have to pay 10%, for example). A council can also change other aspects, such as how long claims for LCTS can be backdated, whether or not child maintenance is included as income for claim calculations, and if someone's support should be limited to the level of support that someone who lives in a lower property band would be entitled to (known as the “band cap”).

Councils must run LCTS schemes within certain parameters, as set by Government. The main parameter is that all councils must provide support for all eligible pensioners at the same level of support they would have received under CTB. This means all councils must cover up to 100% of a council tax bill that is issued to all pensioners receiving LCTS.

Each year, DCLG updates the secondary legislation (the “prescribed requirements regulations”), setting out how much councils must provide to eligible pensioners, and any other nationally-set conditions around LCTS. DCLG updates these prescribed

requirements towards the end of each calendar year, after the Government's Autumn Statement. The prescribed regulations for pensioners are often referred to more simply in local government as the "pensioner scheme".

How LCTS is funded

When LCTS was introduced, Government funding for it switched from Annually Managed Expenditure (AME), which is demand-led and therefore dependent on fluctuations in caseloads, to Departmental Expenditure Limits (DEL), which is controlled by Government departments (DCLG for England, and Welsh Government for Wales).

Government funding for the schemes is allocated to each billing authority as part of the local government funding settlement. For the first year of the scheme, the amount that Government gave to councils was 90% of what CTB was forecast to cost in 2013-14, had it remained. This sum was then allocated to councils, with some councils receiving slightly more than a 10% cut and others receiving slightly less, depending on their CTB caseload numbers. For 2013-14, the first year of the scheme, a total of £3.7 billion was paid to councils in England; £222 million was paid to Welsh Government.

Funding for LCTS was delineated as a separate line in the local government funding settlements in the first year of the scheme. It has since been included within the Revenue Support Grant (RSG), which has continued to reduce year on year. Government has maintained that LCTS funding has remained the same, although it is impossible to calculate if it really has. While Government grants to councils are being phased out, local government will move to 100% business rates retention by 2020. It has not been confirmed, but this may well be how councils will be expected to fund LCTS schemes in future.

As LCTS is a discount on the total council tax bill, the discount represents a reduction of income for all precepting authorities. Parishes are not funded through RSG, so billing authorities are expected to compensate parish councils for this loss of income. There is, however, no legislative duty to do so.

In Wales, the Welsh Government decided in 2013 to provide funding to meet the 10% cut made by the Treasury. It also put in place a prescribed scheme for working-age CTR (as LCTS is known in Wales) recipients, so that Welsh authorities would continue to provide support at the same levels of CTB. The Welsh Government has continued this system since 2013.

Outside of scheme costs, Government provides councils with funding to help towards the administration, IT, and design costs of LCTS schemes. New Burdens funding was given to help councils with the move to localised schemes, recognising that councils had taken on a “new burden” from Government. Since the introduction of LCTS, Government has provided a total of £110.8 million in New Burdens funding to councils in England; £12.5 million of this was provided in 2015-16.

There is also the ongoing grant to help with administrative costs, known as the Admin Subsidy. Previously, this was funded by DWP and covered administrative costs for both CTB and housing benefit, as the same teams in councils usually administered both. Since LCTS was introduced, this funding has been split in two, with the Admin Subsidy for LCTS coming from DCLG, and the Admin Subsidy for housing benefit remaining with DWP. The LCTS Admin Subsidy is based on a formula linked to caseload. In 2015-16, Government provided £67.7 million to councils.

From 2016-17 onwards, there will be a single grant provided to councils to help with the administrative costs that councils incur while operating their LCTS schemes, rather than both New Burdens funding and an Admin Subsidy. In 2016-17, £77 million will be provided.

In October 2012, Government also made an offer to councils of ‘transitional funding’, a one-off, non-ring-fenced grant that would be given to councils whose schemes met certain criteria, such as having a minimum payment level of no more than 8.5%. It was designed to encourage councils to introduce schemes that limited the financial impact on claimants. The total amount that Government put aside for this purpose was £100 million, although it spent just over half of this: not all councils took the transitional grant, for reasons highlighted later.

Applying for LCTS

From a resident’s point of view, all council tax payers will receive their bills – usually in March – based on their property band. Residents can then apply to their local council for LCTS in accordance with the local scheme adopted by that council for that year. The schemes set out the means-testing for eligibility, the amount of discount available, and any protected groups. The schemes and process for applying for LCTS vary from council to council. Successful applicants will have their bill reduced by their council in line with the local scheme. Unsuccessful applicants can appeal to the Valuation Tribunal if they think the decision is incorrect.

EFFICIENCY

The fundamental question that Efficiency is concerned with is whether or not, overall, LCTS is an economic and effective use of public money. Understanding this depends on many interlinked factors, from the specifics of how LCTS schemes are administered and operated, to the impact on council tax collection.

The most logical place for me to begin is the starting point for LCTS: the months leading up to April 2013. These early months set the tone for the policy, and some of the ongoing problems around efficiency can be traced to this period. How did councils experience the change from council tax benefit to council tax support? What challenges impacted on efficiency, and how did councils respond? What issues continue to act as barriers to efficiency, and how might these be rectified?

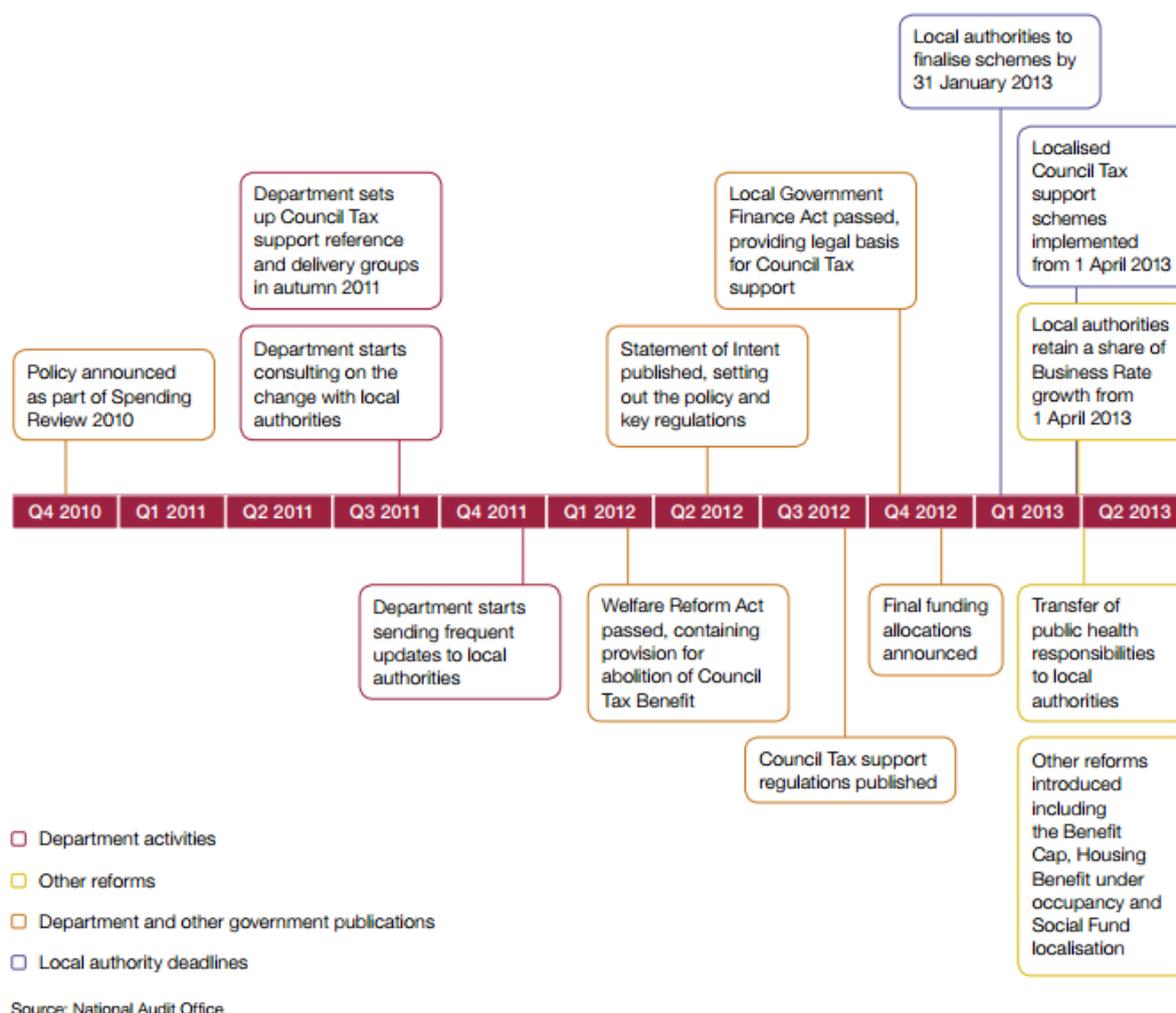
1. Initial implementation of LCTS

As the **National Audit Office** pointed out in their December 2013 report,³ all 326 billing authorities had designed their schemes, publicly consulted on them, and were running them by April 2013. In this sense, the shift from CTB to LCTS was a success. Yet, as the NAO also highlighted, the punctual implementation was not without its problems.

Nearly all councils raised the issue of the rushed timing and unclear announcements from Government regarding the introduction of local council tax support. DCLG released its *Statement of Intent*, which explained what councils were required to do, in May 2012. Councils had to have their LCTS schemes agreed by January 31st 2013, for implementation starting on April 1st. This left just nine months for councils to do extensive planning, options modelling, and consultations.

³ National Audit Office, *Council Tax Support* (December 2013)

Available at: <https://www.nao.org.uk/wp-content/uploads/2013/12/10316-001-Council-Tax-Book.pdf>

Figure 1: Timetable of LCTS implementation, published by NAO⁴

As further guidance and legislation came in the intervening months, councils also had to respond and adapt to Government announcements. The months preceding April 2013 were described by some council staff as “chaotic”, the announcements by Government as “erratic”, and the demands put on them as “unreasonable”. **Central Bedfordshire Council** summarised the gist of most submissions when they wrote:

Streamlined is not a word I [council employee] would use to describe the design of the scheme. We all had very little time to implement a complex change that had significant financial implications for claimants and council tax payers alike.

⁴ National Audit Office, *Council Tax Support* (December 2013), p. 12

Available at: <https://www.nao.org.uk/wp-content/uploads/2013/12/10316-001-Council-Tax-Book.pdf>

The announcement in October 2012 of ‘transitional funding’ (see above: [How LCTS is funded](#)) was welcomed by some but criticised by others. The extra funding did help many councils fund a lower minimum payment for the first year, meaning any impact on LCTS recipients, and on collection rates, would be more gradual. Again, it was the timing, rather than the idea, that was the issue. Some councils described it as “disruptive” and “unhelpful”, as they had already closed their consultation by that point and could not consider a new option. Others had to suddenly change course, model a new option, and put it to councillors for approval.

Despite these challenges, all councils did meet the deadlines. I did, however, hear from some councils a concerning unintended consequence of the pressing deadlines: the insufficient time available to fully consider options and design schemes that would reflect local needs. Many councils who submitted evidence to the review said that, largely because of the way the policy was announced and introduced by central government, their schemes ended up being, to paraphrase, “CTB with a minimum payment”. The implementation of LCTS was thus a missed opportunity to develop more innovative schemes.

Preparing for administrative pressures was not just for councils, though. As part of the new system, the Valuation Tribunal was given jurisdiction to hear future appeals against decisions made by councils regarding a resident’s entitlement to LCTS. Some 14,000 additional cases were predicted by the Tribunal, new first-tier judges enlisted, nine extra staff employed and a new computer system put in place – all at rapid speed because of the Government’s timetable. (In the event, appeals were nowhere near the levels feared: 1,234 appeals were received during the first two years of LCTS.)

Economies of scale

At our regional workshops at the [IRRV forums](#) across the country, we heard directly from the people responsible for administering LCTS on a day-to-day basis. Many of the written submissions and the interviews with councils echoed the points made at the forums.

In relation to the efficiency of LCTS schemes, some of the points were about localising CTB in the first place. Some councils, along with some other types of organisations, raised the issue that England now has hundreds of councils separately designing and administering schemes, which tend to just be based on the previous CTB scheme. Not only does this result in a lot of duplicated effort and wasted resource, it also means that you lose economies of scale and the opportunity to share resources across wider areas. In

this sense, local variation can make it more difficult to work collaboratively, to share services, and to come together to make savings.

There was not always agreement on these points. Some councils, while recognising the issue, held that this is a by-product of localisation: for greater local freedom, it is a price worth paying. Some spoke of the opportunities to work across council boundaries: they rightly pointed out that there is nothing in the legislation to stop councils from working with each other if it suits them.

I heard how some councils had joined up with their neighbours to share resources, experience, and knowledge. Some, such as councils in **East Sussex** and **Essex**, formed regional groups, managed by a consultant who advised on legal issues, the potential impact of different scheme options, and the technicalities of implementation. These councils spoke positively of their experiences of working together and of sharing the burden of change.

Of course, the scope for joint working may depend on demographics and finances. In my interview with **Eastbourne Borough Council**, for example, I heard how neighbouring councils had originally come together to design and administer similar schemes. Now, though, differences in local demographics mean that their schemes are “diverging”. That said, some councils, such as **Birmingham City Council** and **Walsall Metropolitan Borough Council**, see opportunity in closer working in the future; this could be across the new Combined Authority area.

The cost of administering LCTS

On specific administrative costs, it was difficult to pin down numbers. Anecdotally, almost all councils estimated that their administrative costs for LCTS had not gone down when compared with those for CTB. Some said, rather, that administrative costs are almost certainly higher since the introduction of LCTS. For the initial implementation, **Aylesbury District Council** explains some of the costs involved:

The new computer system needed to be specified, implemented and tested before annual billing, new application forms and leaflets designed, training of staff undertaken and a marketing and communications campaign launched for existing and potential new applicants.

Beyond the initial stages of LCTS, there are new costs that are ongoing. Councils mentioned costs associated with sending out more reminder letters and having to deal with increased customer contact by phone, email, or in person. There is also the issue of

administering the hardship fund, if councils have one. This is an intensive process, due to the fact that it has to be assessed manually, case-by-case. While councils have been given funding from Government to help cover some of these administrative costs – such as the New Burdens funding and the Admin Subsidy – many maintained that the amount fell far short of what was required. There was a sense of frustration from councils that Government did not fully grasp what administering LCTS consists of.

Councils also complained that they are, in effect, running an LCTS scheme for pensioners, and another LCTS scheme for working-age recipients – as well as housing benefit. The pensioner LCTS scheme is modelled closely on CTB, meaning that it is time-consuming and cumbersome to administer. It also means that a council has to maintain several software systems, which is an added cost to councils.

With limited Admin Subsidy, *and* a prescribed pensioner scheme, councils want to keep their LCTS schemes based as much as possible on CTB and housing benefit rules and definitions. This means that the same members of staff who administered CTB can administer LCTS, without having to learn an entirely new system of calculations and definitions. While this results in a working-age LCTS scheme that is more complex when considered by itself, it means that, on the whole, a council's administration of LCTS and housing benefit can be streamlined.

The question of housing benefit

This leads on to a concern that I heard from countless councils and organisations. Currently, housing benefit and LCTS are administered by the same members of staff, helping to keep costs down. The Admin Subsidy for housing benefit is given to councils by DWP, while that for LCTS is given by DCLG. As Universal Credit gradually rolls out, housing benefit for working-age residents will move out of the control of councils, subsumed into the DWP-administered system of Universal Credit. Councils will no longer have to administer housing benefit (for working-age recipients), and the subsidy they receive from DWP for the administration of it will eventually go.

Councils will, however, have to continue to administer LCTS schemes. They will still need the staff for this. There is real, justifiable concern that any efficiency savings once gained from administering both systems by the same teams will soon be gone: LCTS administrative costs were often “piggy-backed”, to use a term I heard from councils, on the administrative costs of housing benefit. With housing benefit gone, the cost of administering LCTS could then rise substantially.

There could be a positive in this conundrum. The administration of housing benefit was one of the reasons that councils have been reluctant to design simpler LCTS schemes. As explained, it makes sense for LCTS rules to be based on housing benefit ones, as the same people usually administer both. Once housing benefit becomes part of Universal Credit, though, councils will be more likely to design simpler LCTS schemes, such as one where someone's entitlement is tied solely to their income.

Some councils I heard from are already considering these options. They hope this will simplify LCTS for both the council and recipients, and, at the same time, save on administrative costs once housing benefit goes. In this sense, the move of housing benefit into Universal Credit may present the first real opportunity for administrative efficiency savings. The case study of **South Gloucestershire Council** describes the experience of the only council thus far which has moved entirely away from an LCTS scheme based on CTB-style means-testing, and to a simpler system of using income bands to determine the level of LCTS support.

Case study: South Gloucestershire Council

Although the scheme is unique, it is simple to understand and clear to both the customer and to staff. The scheme originally included eight income bands in 2014. This has been reduced to five since April 2015, which are as follows:

Income band	Weekly income (£)		Council tax support entitled to (%)
	Min	Max	
1	0.00	120.00	80
2	120.01	150.00	50
3	150.01	200.00	30
4	200.01	250.00	20
5	250.01	300.00	10

Developing the scheme required a significant amount of resource and expertise. In order to get a robust system in place, critical elements included:

- Significant investment of staff time in building council member awareness of the benefits system and alternative approaches;
- Buying in expert IT and modelling skills to use caseload data to model options;
- Investment by the software provider to provide software solutions to deliver the new scheme;

- Thorough and comprehensive consultation process, engaging members, public and partner organisations.

Following this upfront investment in the core design of the scheme, the scheme can be easily adapted to adjustments the council decides to make in the future, such as, for example, protections for specific groups or band adjustments.

The scheme is more cost-efficient to administer locally, and once housing benefit is fully transferred to Universal Credit, the council estimates it could achieve up to 50% savings on administration. South Gloucestershire Council remains happy to share their experience with other councils who are considering a simplified system of delivering LCTS.

2. Collection rates and costs

From looking at the numbers alone, LCTS does not seem to have had a great impact on the collection of council tax. In the financial year of 2014-15, English councils collected 97.0% of all the council tax that was due for that year (the “in-year” collection rate). In 2013-14, the first year of LCTS, the in-year collection rate was also 97.0%. This was 0.4% lower than in 2012-13.⁵ Councils told me that LCTS has not impacted their collection rates as badly as they thought it might, and the numbers seem to confirm this.

However, headline figures can only reveal so much, especially when the proportion of LCTS recipients out of all council tax payers is relatively small. The decrease of 0.4 percentage points in the first year of LCTS must be seen in several contexts. Firstly, council tax collection rates had been increasing steadily in the four years before LCTS was introduced.⁶ Secondly, 2013-14 was only the second time since council tax was introduced in 1993 that national collection rates had *fallen* compared to the previous

⁵ DCLG, *Statistical Release: Collection Rates and Receipts of Council Tax and Non-Domestic Rates in England 2013-14* (July 2014), p. 1

Available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/327179/Council_tax_collection_rate_Statistics_Release_July_2014.pdf

⁶ DCLG, *Collection Rates, 2013-14*. See Chart A, “Council tax collection rates: 2004-05 to 2013-14”, p. 5

Available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/327179/Council_tax_collection_rate_Statistics_Release_July_2014.pdf

year.⁷ Thirdly, the amount of council tax arrears, write-offs of debt, and court costs all increased by more than 10%, and by increases that were notably higher than changes in previous years.

Figure 2: Council tax arrears and write-offs, 2010-11 to 2014-15⁸

	2010-11	2011-12	2012-13	2013-14	£ million 2014-15
Arrears for earlier years brought forward on 1 April ^(a)	2,244	2,310	2,344	2,382	2,539
<i>add</i>					
Net adjustments made in year to arrears included in the Net Collectable Debit for earlier years	-31	-9	-22	-6	16
Arrears relating to earlier years before write-offs in current year	2,213	2,301	2,322	2,376	2,555
<i>less</i>					
Amount collected in year relating to arrears for earlier years	472	471	474	489	570
Amounts written-off in year relating to earlier years	140	164	162	160	137
Amounts written-off in year relating to previous year only	...	...	...	35	43
<i>equals</i>					
Arrears in respect of earlier years as at 31 March ^(b)	1,601	1,666	1,685	1,692	1,805
<i>of which</i>					
Arrears in respect of 2012-13 and earlier years	...	...	...	...	1,309
Arrears in respect of 2013-14	...	...	...	...	493
Amounts not collected in current year ^(c)	701	696	698	843	863
Amount written off in year relating to current year	7	7	7	7	10
Total arrears in respect of current year outstanding as at 31 March	694	689	691	836	853
Total Arrears outstanding as at 31 March ^(a)	2,295	2,355	2,376	2,528	2,657
Net change in arrears outstanding as at 31 March	53	60	21	152	129
Court and administration costs included in Total Arrears above	195	199	209	233	272
Total amount written off each year irrespective of the year to which it relates	148	171	170	202	191

(a) The figures for 31 March & 1 April of the same year are not identical as the figures for 31 March are best estimates provided by local authorities in May/June following the year in question and the 1 April figures are provided 14 months afterwards.

(b) Some authorities were unable to provide a breakdown as to which year the arrears relate to so the total shown may not equal the two following lines

(c) Includes court and administration costs

⁷ DCLG, *Collection Rates, 2013-14*, p. 3: "Across the whole of England, local authorities achieved a national average in-year collection rate for council tax of 97.0% in 2013-14, which is a decrease of 0.4 percentage points over 2012-13. This is only the second decrease in the national collection rate for council tax since council tax was introduced in 1993-94." Available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/327179/Council_tax_collecti on_rate_Statistics_Release_July_2014.pdf

⁸ DCLG, *Statistical Release: Collection Rates and Receipts of Council Tax and Non-Domestic Rates in England 2014-15* (July 2015), p.12

Available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/440177/Collection_Rate_Sta tistics_Release_July_2015.pdf

If we compare the situation in England with that in **Wales**, which did not introduce minimum payments for its CTR recipients, the trend becomes clearer. The in-year collection rate for Wales in 2013-14 *rose* by 0.3%, to its *highest* collection rate since the introduction of council tax.⁹

Councils in England had very different experiences, though. **North Norfolk District Council**, for example, saw its collection rate rise, from 97.9% in 2012-13 to 98.1% in the first year of LCTS. Conversely, **Blackpool Council's** collection rate dropped significantly, from 95.5% to 93.1%. Overall, statistics suggest that shire districts, like North Norfolk, saw the least impact on their collection rates, while unitary and metropolitan areas, like Blackpool, saw the biggest drop in collection rates.

Collection rates for many councils are gradually improving. In the second year of LCTS, 2014-15, 60% (194 out of 326) saw their collection rates either improve or remain the same when compared with collection rates for 2013-14. However, the 2014-15 collection rates for three quarters of councils (242 out of 326) remained below their pre-LCTS levels.

There is evidence that collection rates and the minimum payment levels in LCTS schemes are correlated. Comparing the DCLG's data on council tax collection rates with **NPI's data**¹⁰ on council minimum payment levels reveals some important patterns. In the **first year** of LCTS:

- Every one of the 41 councils that set their minimum payment levels to above 20% saw collection rates drop.
- Of the 59 councils that saw their collection rates unaffected or increase in 2013-14, 52 had set their minimum payments to between 0% and 8.5%.

The two charts below show the nature of the correlation between the minimum payment level in both 2013-14 and 2014-15, against the change in overall council tax collection rates since 2012-13. The correlation is slightly stronger when comparing the minimum payment levels to collection rates in the first year of LCTS (**Figure 3**) than for the second year (**Figure 4**), but both are statistically significant and the strength of the correlations

⁹ Welsh Government, *Council Tax Collection Rates in Wales: 2013-14*. Available at: <http://gov.wales/docs/statistics/2014/140611-council-tax-collection-rates-2013-14-en.pdf>

¹⁰ A downloadable spreadsheet of NPI's data on the components of the 326 LCTS schemes can be found at: <http://counciltaxsupport.org/schemes/>

are moderate. This suggests the negative correlation between minimum payment levels and change in collection rates is weakening slightly with time, but, with only two years' worth of data, this is not conclusive.

This is consistent with what councils told me in their interviews, and what **NPI research** has pointed to: it takes councils, and LCTS recipients, some time to adjust to changes in LCTS schemes. Councils gradually learn that new methods are needed, such as offering a 12-month payment plan by default, while LCTS recipients gradually become more aware, and more accustomed to, their new council tax liability. It follows, then, that collection rates should improve as LCTS schemes “bed in”. (This is, of course, a generalisation that obscures important issues, and I will return to it in more depth later.)

Figure 3: Scatter plot showing correlation between LCTS minimum payment level set in 2013-14 and change in 2013-14 collection rates as compared to collection rates in 2012-13

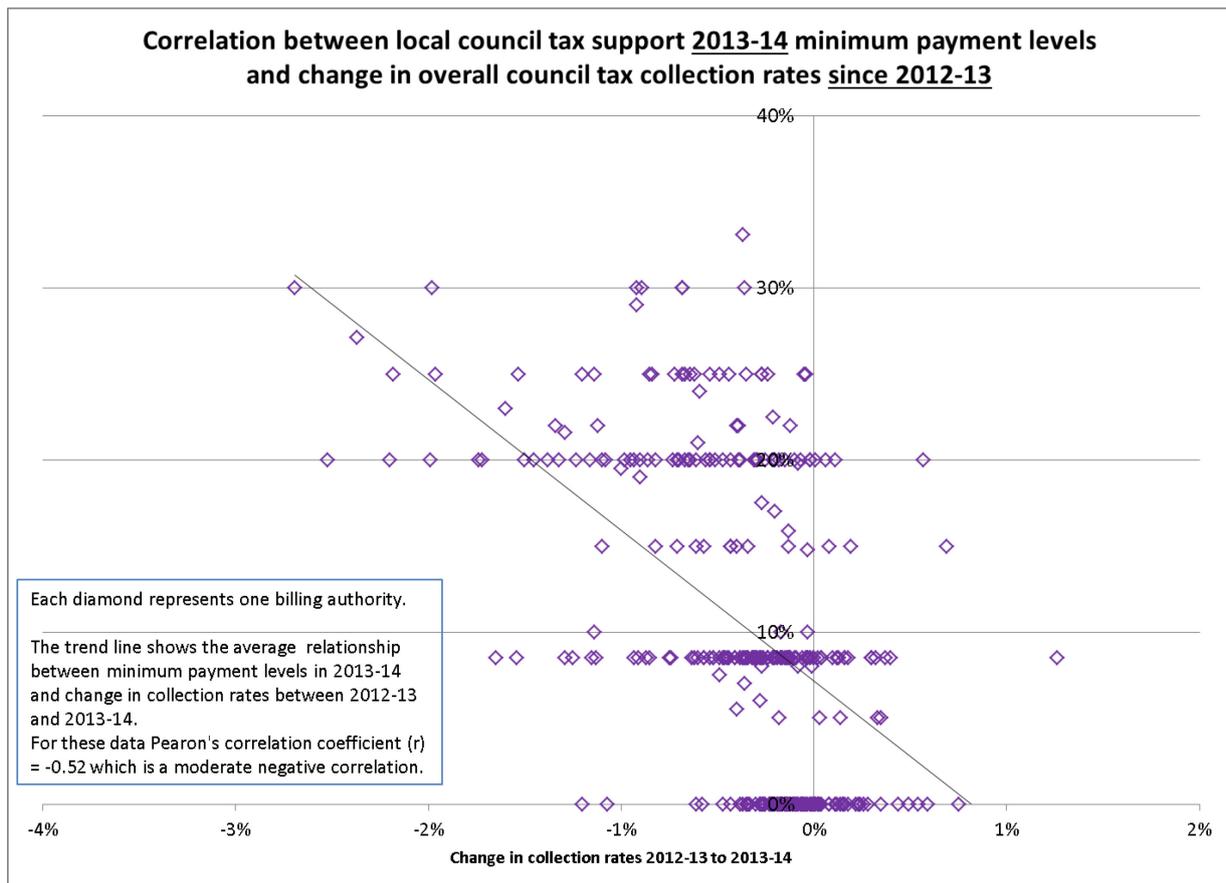
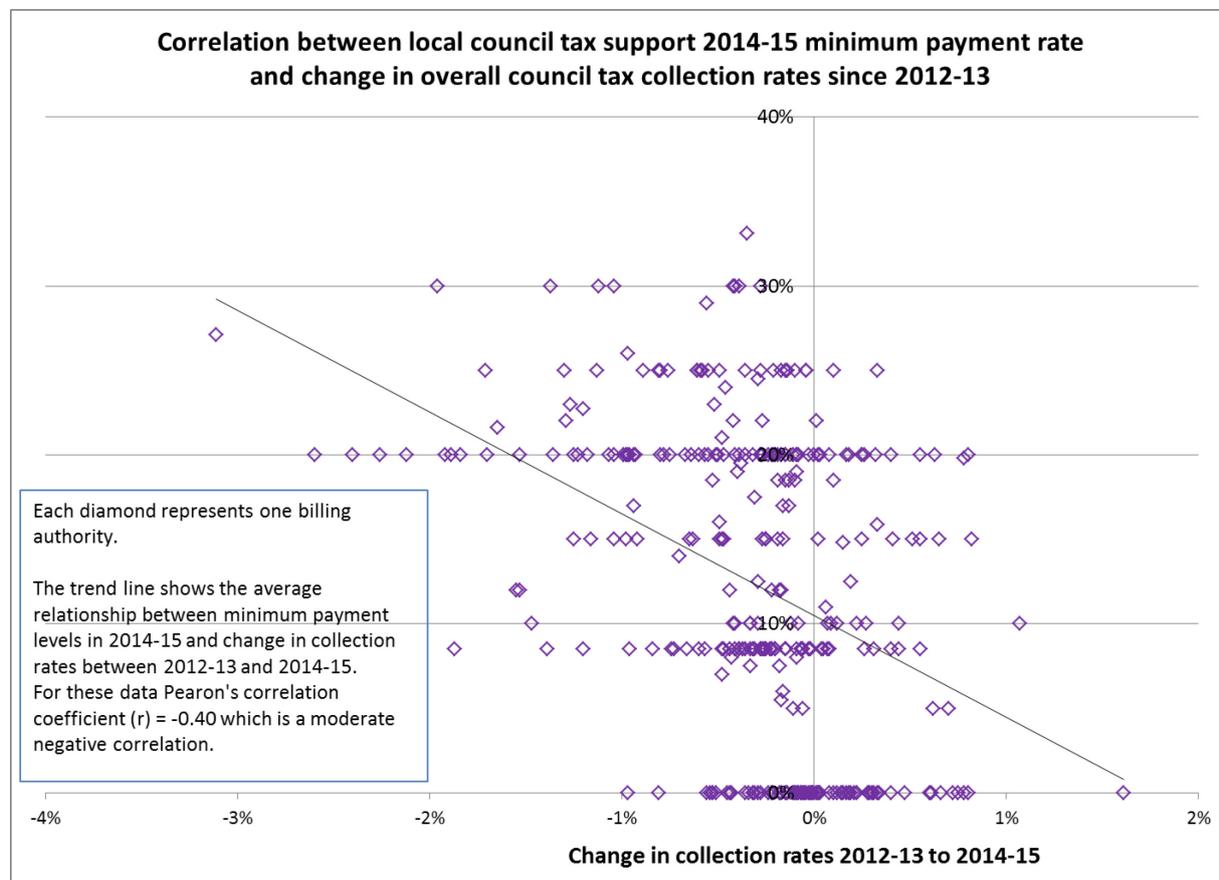


Figure 4: Scatter plot showing correlation between LCTS minimum payment level set in 2014-15 and change in 2014-15 collection rates as compared to collection rates in 2012-13 (i.e change in collection rates over two years)



LCTS does not appear to be the only factor in the decrease in overall collection rates, however. Over two thirds of councils that did not set a minimum payment – and where their residents therefore had to pay no more than they would have done under CTB – still saw (very) slight decreases in collection rates in 2013-14. Other factors, therefore, beyond the scope of this review, may have also influenced the drop from 97.4% in 2012-13 to 97.0% in 2013-14.

Finally, several of the handful of councils who had set their minimum payment levels to above 30% in the first year *and* had maintained it at the same level in the second year of LCTS saw their collection rates either improve or remain the same. Councils, though, who increased their minimum payment in the second year of LCTS tended to see their collection rates drop. Again, this suggests that collection rates depend on other factors. It also suggests that collection rates may depend both on the minimum payment level set *and* on any sudden changes to it, rather than the minimum payment level alone.

Collecting tax from LCTS recipients

When looking just at LCTS recipients, collection rates were again not as bad as many feared. They were, however, significantly lower than the overall collection rate. When I asked several councils to isolate their collection data to show collection rates for LCTS working-age recipients who were not exempted groups, the figures I received back were typically between 65% and 75%, even if overall collection rates were above 97%.

Many councils said the statistics were better than they had hoped for. **Harrow**, for example, introduced a fairly high 22.5% minimum payment in the first year, yet reported a surprisingly good collection rate for its LCTS working-age recipients: 81% for unprotected groups (those liable for a minimum of 22.5% council tax), or 86% including all recipients. Considering that Harrow has one of the highest council tax bills in London, this was much better than the 70% LCTS collection rate the council had originally budgeted for. (When I asked Harrow why they thought their collection rates surpassed expectations, their view was that it was largely due to the extensive work they did – beginning as early as Spring 2012 – to prepare CTB recipients for the change to LCTS.)

What all councils *did* emphasise was how much more time and effort it was taking to collect council tax from the new taxpayers. Conversations and submissions quickly turned to the issue not of collection rates, but of collection *costs*. Attendees to the **IRRV forum workshops**, which included members from Revenues teams, most strongly pressed this point. Revenues teams in councils are having to collect and chase very small sums – sometimes just a few pounds per week – from many people who are on low incomes. This means a lot of resource is spent for little gain.

To quote one example of many, **Southampton City Council** now sends out an average of 3,800 more letters per month since April 2013. Staff who attended the **IRRV forums** gave details along similar lines. The central message was that collecting council tax from LCTS recipients means more staff time, more stationery, and more postage fees. **A council** that has not introduced a minimum payment explained:

It is the Council's opinion that it is simply a false economy to attempt to recover small sums from working-age passported-benefit households.

Some councils said they have employed extra staff to help with LCTS council tax collection and recovery. This has been a particular issue raised by District Councils, who have to collect the council tax but who retain a relatively small percentage of it. I heard, however, that in some two-tier authorities the County is helping to fund extra collection posts in the District Council. For example, **Eastbourne** will introduce a minimum payment for its LCTS recipients for the first time in April 2016. Anticipating a negative

impact on collection rates and costs, **East Sussex County Council** has offered to part-fund an extra collection post in Eastbourne council.

This is a win-win proposition. The County has much at stake in any reduction in collection rates, as most council tax collected goes to it: it makes sense for it to support the districts in collecting as much council tax as they can. The districts have extra collection work to do as a result of LCTS: it makes sense for them to accept funding for extra staff.

While collection rates are on the whole slowly improving, collection itself is becoming more difficult and is taking longer. This is not just anecdotal. I asked a **sample of councils** – the same ones I interviewed, excluding those that had not introduced a minimum payment – for data on LCTS working-age claimants who had council tax arrears *from previous years*. The first observation is that total arrears are increasing for many councils (as echoed in some submissions). The second is that there is evidence to suggest that a significant proportion of LCTS recipients – exactly how many is difficult to measure – cannot clear their debts within a financial year, and their debts therefore roll into the next.

I will look at the impact on recipients in the next chapter; the issue relevant to this chapter is the impact on a council's finances and its efficiency in council tax collection. Generally, councils were unsure how best to deal with LCTS-related debt. I heard how the first few months of LCTS showed councils that the usual council tax recovery approach was counter-productive, and, considering the small sums involved, seemed disproportionate and unfair. Yet *not* collecting the small sums from LCTS recipients is not sustainable, and may undermine the reputation of council tax as a priority debt.

Many councils decided on a more personalised and, for want of a better word, gentler approach to recovering council tax from LCTS recipients. This approach is focused more on understanding the person's individual circumstances and gradually reaching agreement; or offering support in other ways, such as signposting recipients to advice agencies. Some councils have also taken on points raised in the **good practice protocol** developed by **Citizens Advice** and the **LGA**, to which I will return later. Such methods are reported as being effective and as a worthwhile investment in helping residents. These methods are, however, much more resource-intensive than just sending out a reminder letter. In exceptional cases, and when all else fails, some councils are also using their powers to write off debts.

Attachment to benefits

One way that councils *can* effectively recover council tax debt from some LCTS recipients is through an “attachment to benefits”. This means, for example, that if someone is on Job Seekers Allowance, up to £3.70 per week of it can be paid from DWP directly to the council, to gradually pay off that person’s council tax arrears. On paper, this is an easy and straightforward way of reducing council tax arrears; I also saw some evidence that this method tends to be favoured by the individual in debt.

In practice, though, it seems like the process is by no means perfect. Countless councils explained to me the frustrating and ultimately costly process. Councils must get a liability order from a magistrates’ court before DWP will consider making an attachment. The charge for a liability order varies enormously from council to council, but can be over £100 and usually has to be paid by the person already in debt. The individual then has to wait for the liability order, and then for DWP to start making attachments, *if* it agrees to. It can take several months before the payments begin to be made, during which council tax debt continues to pile up. Further, if DWP rejects an application to start an attachment to benefits, the cost of the liability order still has to be paid by the individual.

Aside from adding more debt to the person, it is also a frustrating experience for individuals. Some councils told me they have LCTS recipients proactively approaching them, asking council staff to take the debt from their benefits. Staff then have to explain that it cannot be done for council tax debt without first adding a long and costly step.

Liverpool City Council summarised the process as:

administratively cumbersome and costly for the authority, but more importantly [it] can be regarded as distressing and punitive by the customer.

The message that I kept receiving from councils, and from some advice agencies, was that obtaining a liability order should not be necessary if the individual agrees to an attachment to benefits. Removing this step may introduce the risk that a vulnerable person, sitting in the council’s offices with pressing debts, could feel or be pressured into signing an agreement to the attachment. A change to the system would therefore need some careful and prudent safeguards; making an attachment to benefits a more efficient process should not come at the price of an individual’s ability and capacity to make an informed decision.

Another issue with an attachment to benefits is how slowly the debt is recovered. The attachment of £3.70 is sometimes not enough to clear the debt within the year. **Citizens Advice** described this to me as the “£3.70 trap”, and helpfully sent a table demonstrating this problem:

Council	LCTS min. payment level %	Council tax for Band D (£)	LCTS min. payment for Band D household (£)	Max. attachment to benefits per year (£)	Shortfall per year (£)
Harrow	30	1,529	459	192	-267
York	30	1,443	433	192	-241
Redbridge	5	1,391	70	192	122 (surplus)

The debt then rolls into the next year, while more debt piles up. Councils can only claim for one attachment to benefit per year, so councils are beginning to see attachment to benefit orders ‘stacking up’ – in other words, there is a queue. **Manchester City Council** demonstrated this in their submission:

Second quarter of:	CTB		LCTS	
	2012-13	2013-14	2014-15	2015-16
No. of attachments to benefits	5,818	10,226	12,520	12,220
Debt covered	£1,430,000	£1,970,000	£2,258,000	£1,991,000
Pending attachments to benefits	8,083	9,106	15,284	19,547
Debt covered	£2,598,000	2,690,000	£4,009,000	£4,823,000

Liverpool City Council, too, explained to me that they have 18,500 pending orders, equalling £9.8 million in revenue that the council cannot get until this year’s attachments have finished. Other councils raised the same problem. This does put the sustainability of the LCTS system in question: how long can councils continue to wait on stacked council tax arrears, and how many debts can councils write off?

With only three years in – and only two full years’ worth of data – it is too soon to judge. On the one hand, collection rates, including among LCTS recipients, are generally improving. On the other hand, some councils are reporting more difficulties in collection and recovery (even if they eventually get the council tax in), and their data backs this up. It may be that the system is still “bedding in”, and that the numbers will plateau or start to improve. Both councils and LCTS recipients could be adjusting to the system and learning from previous years. There is a risk, though, that the numbers, especially of stacked arrears, will continue to worsen. This would pose serious questions for some councils in just a few years’ time.

3. Consultations and the problem of January 31st

Very early on in the review, I realised that consultations and the LCTS decision-making deadlines would need a section all to themselves. These points came out most strongly in the **IRRV forums**, but almost every council I spoke with or received submissions from raised them with varying degrees of frustration. There was the sense that the inefficiencies that the original implementation timetable led to, as described above, were not just first-year teething problems.

The deadline

Councils find the legal requirement to have schemes set by January 31st each year arbitrary, illogical, and inefficient. The deadline is out of sync with most councils' budget cycle, meaning that council staff have to model, draft and approve by Full Council two highly technical documents, which are closely interlinked, separately. The deadline also seems unnecessarily early, considering schemes are not implemented until April. Working backwards from the January 31st deadline, councils must begin the preceding stages, such as modelling options for the next year's scheme, much earlier on in the financial year. **Milton Keynes Council**, when I interviewed them in January this year, told me they are already starting to plan their 2017-18 scheme. **One member of staff** at a council wrote that it is "like painting the Forth Bridge – it never ends".

Such an early deadline can also impact how schemes are designed. Councils have to begin consulting by late summer (at the latest) to meet the January 31st deadline. By this time, councils will only have four or five months' worth of data on the present scheme: they are having to model and design new schemes based on data from a *previous* year's LCTS scheme, which might not be strictly relevant by that point.

Key budgetary announcements are also still missing by the time many councils have finished analysing their consultation responses. I was told how councils, such as **Chelmsford City Council**, had already finished their consultation process when the Chancellor's 2015 Autumn Statement was released. Amongst other important points for councils, the Autumn Statement announced the 2% adult social care 'precept', which will give some councils the power to increase their council tax by another 2%. While councils generally said the 2% increase in council tax will not add that much to their LCTS costs, there was frustration that they could not even consider the implications at consultation stage.

Other Government decisions are also announced too close to the January 31st deadline. Councils have to design their schemes and consult on them without knowing what their funding settlement, let alone detailed budget, might look like. In addition, Government regulations for LCTS pensioner-age schemes tend not to be released until December, as they depend on the Autumn Statement. This leaves councils with just over one month to interpret and consider them before setting their working-age schemes.

A few councils did support the early deadline or expressed a neutral position, but they were in the minority. **Colchester Borough Council**, for example, told me that the January 31st deadline suited their council's financial timetable. They also highlighted that it gave councils an important two-month 'buffer' to prepare for any changes ahead of April 1st. These are valid points, which raise the argument that different councils will, understandably, prefer to set their schemes by different deadlines.

During my review, I could find no concrete reason why the deadline should remain as January 31st for all councils, regardless of whether or not it aligns with their financial cycles. From the evidence I have seen and heard, it would be more efficient – and more in line with policy objectives of promoting localism – if Government removed the January 31st deadline. So long as councils have schemes agreed and in place for implementation by the end of March each year, it should be up to councils to decide if they want to set schemes early or not. Councils could then streamline the process by linking it in with the budget cycle. It will also mean that councils can better consider announcements coming from Government.

Along with this, it is important that prescribed regulations for LCTS schemes are released by Government earlier. It would also be helpful for DCLG to provide a Statement of Intent, ahead of detailed changes it makes to the prescribed regulations following the Autumn Statement.

Locked-in schemes

I heard from councils that the lack of flexibility to change schemes within the financial year introduces further financial risk to councils, and, potentially, more inefficiency. At the **IRRV forum held in Birmingham**, for example, the review team heard how the debate over the proposal to cut tax credits created "panic" in councils. In my interview with **Eastbourne**, the same example was also raised. A cut in tax credits would have likely led to higher LCTS caseloads for councils (because some residents would have had less income), meaning the council would be paying out more in council tax support.

The point made was that, because of the legislation governing LCTS schemes, councils would not have been able to respond to this change: schemes are locked-in for the whole financial year. Some felt that this rigidity brought undue financial risk to them, curtailing their ability to respond to both local and national economic changes. They would prefer to be able to make changes to a scheme, if necessary, at more than one point in the year.

Not all councils raised this. A few pointed out that this could undermine the stability of schemes: for all its weaknesses, having one LCTS scheme per year does bring some longer-term certainty and a sense of routine to councils. If such a change to the legislative framework were made, it would need careful consideration of how to minimise the potential for disruption.

Consultations: too onerous, or a vital part of local engagement?

Most councils agreed that the legal requirement to review schemes every year was far too onerous and restrictive. This legislative duty, coupled with the vague wording of the legislation that governs consultations, has meant that many of the councils I heard from are running full consultations every year, for only minor changes. The **London Borough of Barnet**, for example, explained that they have to review their scheme and conduct a full consultation each year, despite making it clear in their consultations that the scheme will remain the same for a fixed period. Other councils were not sure what they had to consult on. Lacking detailed guidance from Government, their legal teams had deemed it safest to consult on *any* change.

Context is necessary here. Councils have become especially sensitive to the legal issues around the consultation process since the Supreme Court ruled that Haringey's consultation was unlawful in the *R (on the application of Moseley) v London Borough of Haringey* [2014] case.¹¹ I heard how there is now a general sense of unease and uncertainty around consultations and the legal risks they could bring. Following the Haringey ruling, **Walsall**, for example, went back to their consultation to fastidiously check the wording, and decided to carry out more focus groups. **Slough Borough Council** summarised what many councils told me:

¹¹ Supreme Court judgment can be found at: https://www.supremecourt.uk/decided-cases/docs/UKSC_2013_0116_Judgment.pdf

In designing the scheme there is a requirement to consult. There is also case law on the matter and neither we nor external solicitors feel that the requirement is very clear. Do we need to consult on uprating, for example?

Councils would like clarity from Government about when a consultation is necessary, and when councils can make routine or technical changes to schemes, such as uprating amounts, without consulting. I heard some calls for a ‘checklist’, or case studies of best practice, that Government could make available. More clarity would make councils less fearful of legal challenge, and may reduce time and money spent on unnecessary consultations.

Some councils also pointed out that, while consultations are extremely costly and time-consuming, little is gained from them. One council quoted seven responses to its consultation. Others told me that responses were rapidly declining each year: in some cases, response rates fell from over 1,000 responses in the first year, to under 20 in 2015.

Chelmsford City Council summarised that:

Consultations have been reduced to a process that local authorities have to adhere to in order to minimise the potential for legal challenge, rather than anything meaningful.

The review team heard from **IRRV forums** across the country that councils *want* to make their consultations useful and representative, but are not always sure how best to. There is also the more practical issue of budget pressures: widely promoting consultations, explaining difficult concepts, and proactively encouraging a cross-section of residents to respond are resource-intensive processes. I heard from one council that their original consultation – which was undeniably thorough and comprehensive – was estimated to have cost the council a total of £150,000 to £200,000.

Again, case studies of best practice would help. I have quoted some in the [Transparency](#) section, but there was a sense from some councils that it would be helpful to have an informal forum of some sort – online or via more traditional routes – where councils could share consultation experiences and learn how to make consultations more meaningful, with some guidance from Government, too. In the absence of this, councils should work more closely with each other, and through representative bodies like the LGA and regional groupings, to share examples of what has been effective. The consultation is one of the few aspects of LCTS that lends itself well to inter-council learning, and it makes sense for councils to capitalise on this.

While engagement activities will be looked at in the Transparency chapter, it is important to note that many councils found consultations useful and worthwhile. Some councils I heard from spoke positively of both the requirement to consult and the impact

of consulting, and there was overall support for the idea that residents should rightly be given the chance to have their say on LCTS schemes. **Birmingham City Council** told me that their first consultation had led to the inclusion of carers as a group protected from LCTS, adding that it is right that councils should consult on changes. **Cornwall Council** explained that, because of responses to their proposed 30% minimum payment, the council re-modelled the scheme options and decided on a 25% minimum payment level instead.

Some advice agencies and third sector organisations, such as **CPAG** and **Z2K**, also highlighted the consultation as a vital, if costly, investment in accountability and local democracy. **Advice York** pointed out that, following responses to the consultation, York Council decided to change its scheme. During York Council's consultation for the 2015-16 scheme, 70% of respondents said that the council should decrease its existing 30% minimum payment level, and increase the support it provides. Three quarters of these respondents were not LCTS recipients. This suggests it was an issue that residents, even those not directly impacted, felt strongly about. York Council subsequently decided to increase the support it would offer, and set a minimum payment level of 22.5% instead.

The issue is not the requirement to consult *per se*, but rather the legal risks and consequent burdens that a lack of clarity around the regulations brings, especially as many councils assume a full consultation is always necessary. Of particular concern is that the costs and time involved in running a full consultation can be off-putting to councils who wish to change their schemes. I heard from more than one council that the overall burden of the consultation process had made them hesitant to revise their schemes. This not only undermines a council's freedom to design schemes that reflect local realities, but also restricts a council's ability to make administrative efficiencies, by, for example, aligning LCTS schemes with annual technical housing benefit changes. Some councils therefore suggested that relaxing and clarifying the regulations – such as allowing councils to make technical changes without having to run a full consultation, and making this clear – could encourage councils to revisit their schemes more often.

4. Barriers to efficiency

Aside from the consultation process, decision-making deadlines, and the requirement to get a liability order for attachments to benefits, there were some other points that councils and other organisations repeatedly raised as barriers to greater efficiency. Most are small, technical points that will make LCTS run more smoothly. Others will be more difficult to tackle, but must nonetheless be addressed.

Pensioners

The first point to make is the one that was seen by the majority to be having the most impact on efficiency: the Government-set scheme for pensioners. **Chelmsford City Council** described the problem, which I heard many times from other councils: the Government-set regulations for pensioners work out as CTB “in all but name”. It is means-tested, bureaucratic, and complex to administer. It presents an extra administrative burden for councils.

The impact that the prescribed scheme has on the efficiency of the working-age scheme is equally, if not more, important. Having no choice but to administer and run the prescribed scheme means that there is little incentive for councils to design radically different working-age schemes. The sense I got from councils and submissions was that there was simply no *point* in designing a working-age scheme that really deviated from CTB, as, alongside it, they would have to continue to administer a highly time-consuming and complex scheme. To quote **Chelmsford** once again, the prescribed scheme for pensioners is seen by most councils as “a barrier to moving towards a discount scheme as envisaged by the Government”. The **Devon Benefits Officers’ Group** echo many submissions when they summarise that LCTS schemes simply cannot be simplified and made more efficient to administer whilst the pensioner scheme remains prescribed.

Software

Software was also raised by many councils and representative bodies, with the **District Councils’ Network** concluding that the “the complete redesign and simplification of software has not materialised”. There are several issues. At the fundamental level, there seems to be little or no market competition between software providers. For the most part, councils mentioned just one or two software companies. There was a sense from some councils that these companies have benefited greatly from the localisation of council tax support, charging exorbitant amounts for minor changes. I heard how some councils were quoted £30,000 for just one small change in the system.

In a time of pressured council finances, high upfront and maintenance costs for IT can undermine a council’s ability and willingness to make a simpler or more innovative scheme. This is particularly so given that councils have to administer the pensioner scheme. To quote the submission from **Leeds City Council**:

On a very practical level, ICT systems presented a significant barrier to introducing new and radical schemes. [...] Following the abolition of Council Tax Benefit, and with the

requirement that councils continue to administer national schemes for council tax support for pensioners and Housing Benefit for all age groups, it would have been costly to commission new systems for working-age council tax support while maintaining existing systems for pensioner-CTS and Housing Benefit.

From the evidence I have seen, it seems like it is currently simpler for software providers and cheaper for councils to keep LCTS systems as close as possible to other benefits systems. This undermines efficiency and savings, and can also impede the development of radical and innovative schemes.

Data sharing

Data sharing repeatedly came up in conversations and submissions. The first point is that Universal Credit systems are not communicating effectively or consistently with council systems for LCTS. Previously, councils automatically received data from DWP about the circumstances of housing benefit recipients, so that councils could administer housing benefit and assess claims. Councils have so far been using this data for assessing LCTS claims and re-calculating LCTS entitlements. This is reported by councils as an efficient way of assessing LCTS entitlements, and the data received is essential for the accurate and timely assessment of LCTS entitlements.

Councils are now finding that, as the administration of housing benefit gradually moves out of council Benefits teams, this essential source of data is being lost. Universal Credit systems that have been set up to plug the gap are reported by councils as not currently fit for purpose, providing insufficient data, and doing so inconsistently. Often, councils told me, the council has to request further pieces of information from the recipient, resulting in delays and confusion. The UC systems also do not provide automatic updates on a person's circumstances, as DWP data for housing benefit used to. This means that, when the circumstances of an LCTS recipient who is on UC change, the council is not always notified by DWP. This can lead to errors in calculating LCTS entitlements.

Councils urged that something must be done by Government to solve this problem, as it is leading to wasted resource, frustration, and over- or under-payment of LCTS.

Government announcements

Lastly, and as alluded to already, some councils did raise the general tardiness and vagueness of Government announcements and regulations. This came up more in the

IRRV forums, suggesting it is an issue noticed more by staff who have to administer LCTS on a daily basis (as one might expect). There is a sense that instructions or guidelines from Government are either lacking, come too late, or do not fully address the issues. Staff I heard from described an environment of general uncertainty and ambiguity, and suggested that there seems to be no cohesive Government approach or 'vision' for LCTS policy.

Aside from the day-to-day frustrations that this may bring, staff added that this makes it difficult for them to plan for the long term, which is what Government continually encourages them to do in order to improve efficiency. While some councils added that this issue is not having as much an impact on councils now as it did in the first year, it would be helpful if Government worked more closely with councils to find out what information they need, how they need it, and when they need it by. This should minimise the scope for confusion and uncertainty, and could lead to a more coherent and efficient system of LCTS schemes.

FAIRNESS

The question of fairness is intrinsically subjective and complex: what seems fair and right to one person may seem entirely *unfair* to another. I do not want to overstate the matter, though: even if fairness is difficult to define explicitly, and not always straightforward to agree on, there is a generally-shared sense of whether or not something is fair.

In gathering evidence for this chapter, I have kept in mind questions such as fairness to whom, how to measure or gauge fairness, and what factors contribute to something being perceived and recognised as fair or not. I have begun by looking at what LCTS schemes consist of, and how they are designed. These fundamental factors of the content and driving forces behind different LCTS schemes must inform any assessment of fairness. I have then presented arguments regarding what some observers have called the “postcode lottery” of support under LCTS schemes. I then assess the fairness of LCTS to councils, before looking at the impact of LCTS schemes on residents.

1. Scheme design

The design of LCTS schemes is the first thing to consider. I am indebted to NPI’s thorough work on the components of LCTS schemes, the only published repository of all 326 schemes in England.¹²

Minimum payment levels

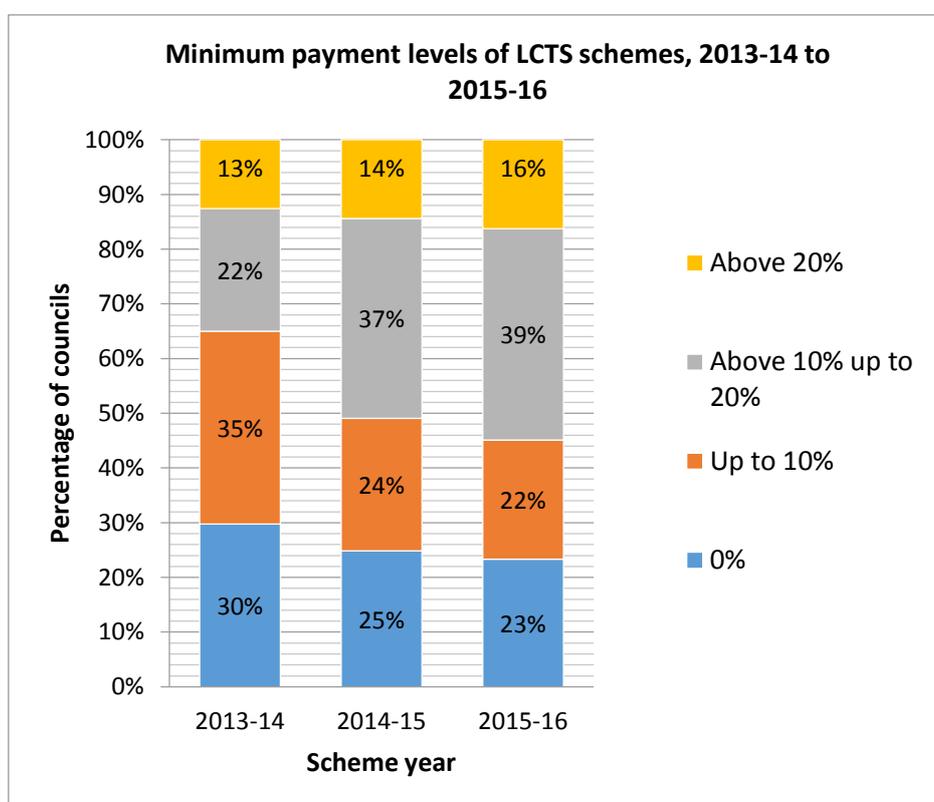
The element of LCTS schemes that is often discussed and focussed on is the minimum payment level set by councils, which dictates how much low-income working-age residents must pay. Looking at **NPI’s data** for the three years that LCTS has been running, the following patterns emerge:

- In the first year of the scheme, 229 out of 326 councils introduced a minimum payment. In the second year, this number rose to 245. In the third year of the scheme, from April 2015, 249 councils had introduced a minimum payment, just over three quarters of all councils.

¹² The data can be downloaded from: <http://counciltaxsupport.org/schemes/>

- Minimum payments required by councils are generally going up each year. In April 2013, 115 councils set their minimum payment level to 10% or less. By April 2015, this number had dropped to 71 councils.
- As can be seen in Figure 5, the number of councils setting a minimum payment of under 10% dropped most sharply in the second year of the scheme. This may be because the Government's transitional funding, which incentivised many councils to keep their minimum payment levels to 8.5% or less, was available only for 2013-14.

Figure 5: Graph showing minimum payment levels set by councils for all three years of LCTS

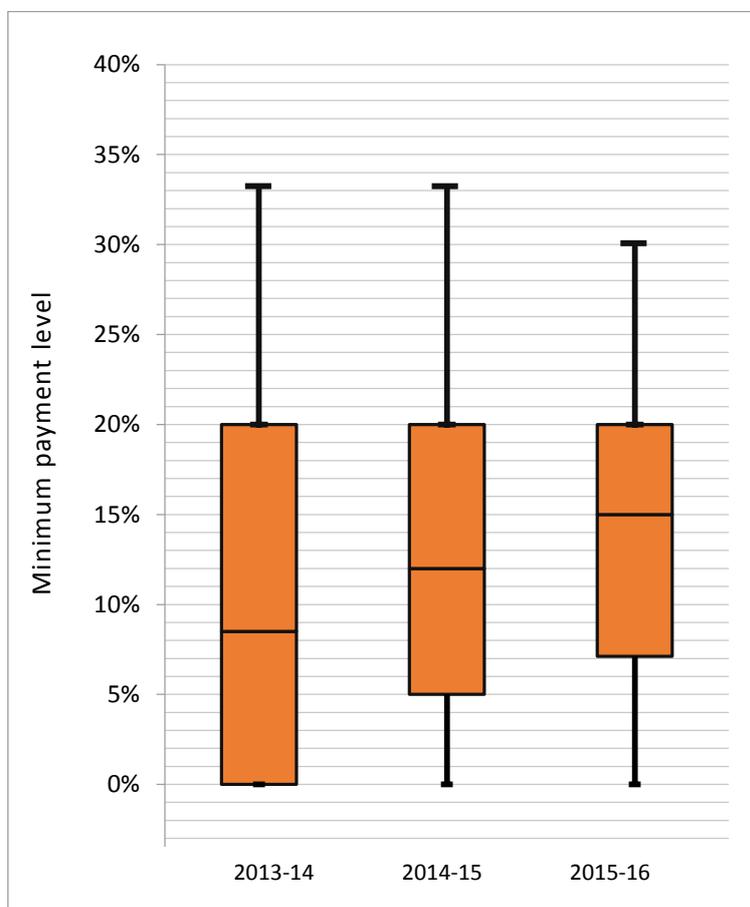


More analysis reveals another interesting trend. While minimum payments are generally going up, the highest minimum payment charged by councils has decreased slightly, from 33.1% in year 1 to 31% in year 3. Further, six councils reduced their minimum payment, two in 2014-15 and five in 2015-16: the resulting minimum payment levels were 20% or 25%.

On the whole, though, both the arithmetic mean and the median values have gone up each year. The distribution of minimum payment level data is demonstrated in the below boxplot (Figure 6), which clearly shows that median payment levels (depicted by the line

in the middle of the orange rectangles) are going up each year, and that the range of minimum payments charged has narrowed slightly.

Figure 6: Box plot showing distribution of minimum payment level data



These two trends suggest that councils are trying to find equilibrium between having a cost-neutral scheme, limiting the impact on low-income working-age residents, and maintaining good collection rates. This was supported by some anecdotal evidence I received from councils, and may partly explain why the highest minimum payment level charged by any council has gone down from 33.1% to 31%.

Minimum payment levels for 2016-17

The NPI were kind enough to share with me some of their early data analysis on 2016-17 LCTS schemes. It appears that the overall trend of minimum payments shifting upwards is set to continue. Their analysis so far (not published at the time of writing) suggests that more councils are increasing their minimum payment, and that more have also

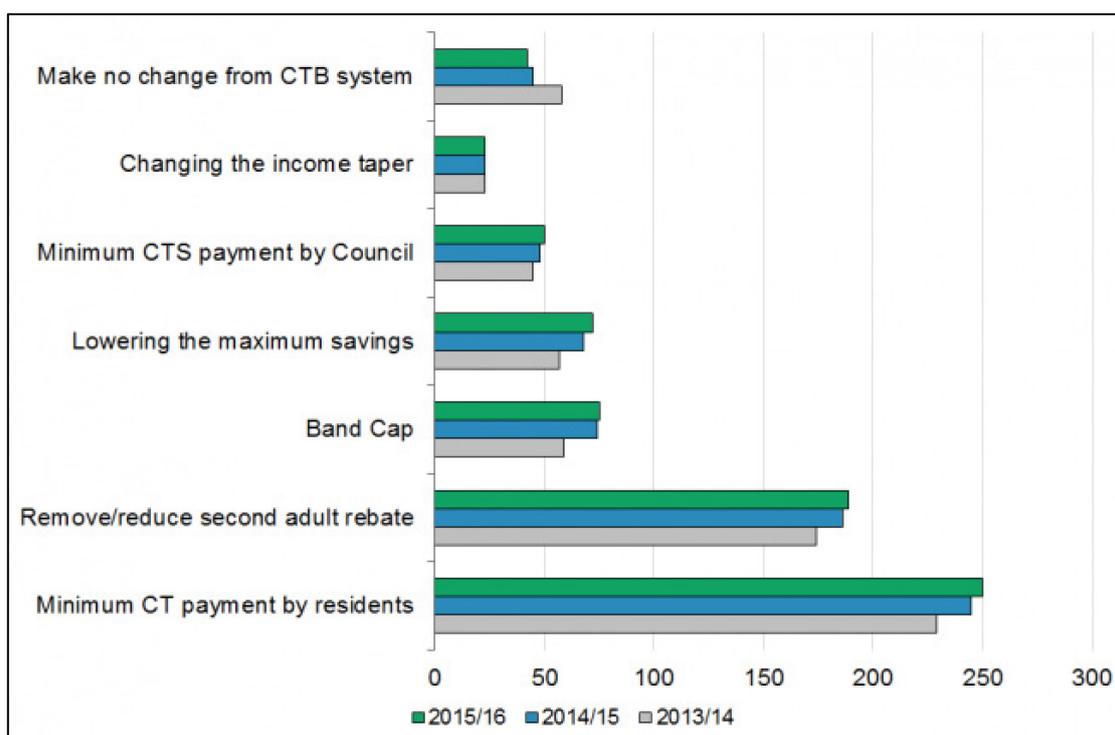
introduced one. It does appear that most councils are keeping their minimum payment levels to below 30%.

One exception to this rule is **Kettering Borough Council**, which has recently announced a minimum payment level of 45% for 2016-17. This is far beyond the 25%-30% that councils have previously hesitated to go over, and is uncharted LCTS territory. It will be interesting for councils and third sector organisations alike to observe how Kettering's scheme works in the coming year.

Other scheme components

Charging working-age residents a minimum payment is just one component of LCTS schemes. The graph below, produced by NPI,¹³ shows how many councils have made various types of changes to their LCTS schemes when compared with CTB:

Figure 7: Table from NPI showing changes that councils have made in their LCTS schemes, when compared to CTB



¹³ Published on the website set up by NPI: <http://counciltaxsupport.org/schemes/>

Councils have the ability to tweak numerous conditions. For example, a council may choose to reduce the ‘savings limit’ (previously £16,000) to, say, £10,000: if a low-income working-age resident makes a claim for LCTS, but they have more than £10,000 in savings, they would not be eligible for any council tax support. As Figure 7 shows, most councils have kept the savings limit at £16,000. In 2015-16, there were 72 councils that had lowered the savings limit. Of these, most (49) had reduced the savings limit to £6,000.

Generally speaking, and viewed as a whole, the changes year-on-year to the components of LCTS schemes suggest that more of a cost burden is falling on working-age LCTS recipients each year.

Factors considered when designing LCTS schemes

In my conversations with councils and the submissions I received, I heard how councils are arriving at their schemes. In a time where council finances are under pressure, cost is the first factor they consider, and the most important one. It is a factor whose primacy crosses political, regional, and demographic differences between councils. Most councils I heard from explained that, considering funding cuts, LCTS schemes needed to be cost-neutral: other considerations, such as the minimum payment level and savings limits, were secondary. To put it simply, and to echo the general message I got from councils, minimum payment levels are increasing because Revenue Support Grant, which LCTS funding is part of, is decreasing year on year.

That is certainly not to say that councils *only* consider their finances when designing schemes. Many councils explained that fairness and affordability for low-income residents were also crucial factors in deciding schemes. For example, when I asked **North Norfolk** why they had decided to stick to the 8.5% minimum payment each year, the councillor told me that it was because increasing the minimum payment would not be fair to LCTS recipients. The District Council’s element of council tax in North Norfolk has not gone up, so to further raise the amount that low-income residents have to pay would be unjust.

I also heard how finance departments have worked closely with other council departments and local third sector organisations to find a compromise between the needs of the council and the needs of its residents. All of the councils I interviewed demonstrated an acute awareness of the impact that their decisions have on their residents, and, as will be seen, have tried to mitigate this in several ways. Many councils have made a conscious decision *not* to have cost-neutral scheme, because doing so would

put an unfair burden on low-income residents. This has often come at great financial cost to councils. **East Riding of Yorkshire Council** explains:

By limiting the contribution required by all working age residents to 25%, the Council had to contribute £0.891 million to the scheme, but this was deemed as an acceptable cost in order to prevent working age customers having to pay up to 50% of their council tax charge.

Councils, do, however, differ in their *capacity* to design schemes that take into account the needs of their residents. **Tower Hamlets London Borough Council**, for example, could fund its decision not to introduce a minimum payment, which costs the council around £7 million per year. **Eastbourne** explained that it can fund its generous scheme – which does not have a minimum payment requirement – partly because of the new powers given to councils to charge more council tax on second and empty homes.

These councils, and others like them, can effectively cover much of the extra costs of their LCTS schemes from other revenue streams, such as increased revenue from new commercial and residential properties, or extra charges on empty homes. They are in a fortunate position where their demographics, geography, or local economy mean they can better respond to the financial challenges of LCTS schemes.

2. A “postcode lottery”?

This variation is what has led many councils, and other commentators, to talk of the “postcode lottery” of LCTS for both councils and low-income residents. It is important to highlight from the outset that localism will always result in variation, as it is up to councils to decide how to design schemes. This is, after all, one of the foundations of LCTS policy. However, there are clearly some issues which may be exacerbating this natural effect of localisation and making the impact of localism a negative one.

Different starting points

The point was memorably illustrated early on in the review at the **South-East IRRV forum**. There, the review team put attendees into groups to discuss how schemes were designed in their councils. In one group, two members were from what they called “wealthy” councils, and two were from what they called “poorer” areas. The former said their councils were able to set very low minimum payment levels: because they had less demand and more resources, they could ‘absorb’ the cost of LCTS. The latter said their

councils had no choice but to introduce higher minimum payments, despite their residents needing more support. The group discussed the fairness of this inherent discrepancy, and how it automatically restricts what a council can or cannot do.

Other factors were seen to unfairly put some councils at a disadvantage from the outset. One that came up many times was the proportion of pensioners that a council has. As low-income pensioners must receive the same level of support that they did under CTB, the size of a council's pensioner caseload is a factor that the council can neither change nor work around. As pointed out above, an area's housing stock and geography are also key. Coastal areas, for example, tend to have more second homes. This means they are sometimes in the position to use, if they choose to, some of the extra tax on second homes to fund their LCTS schemes.

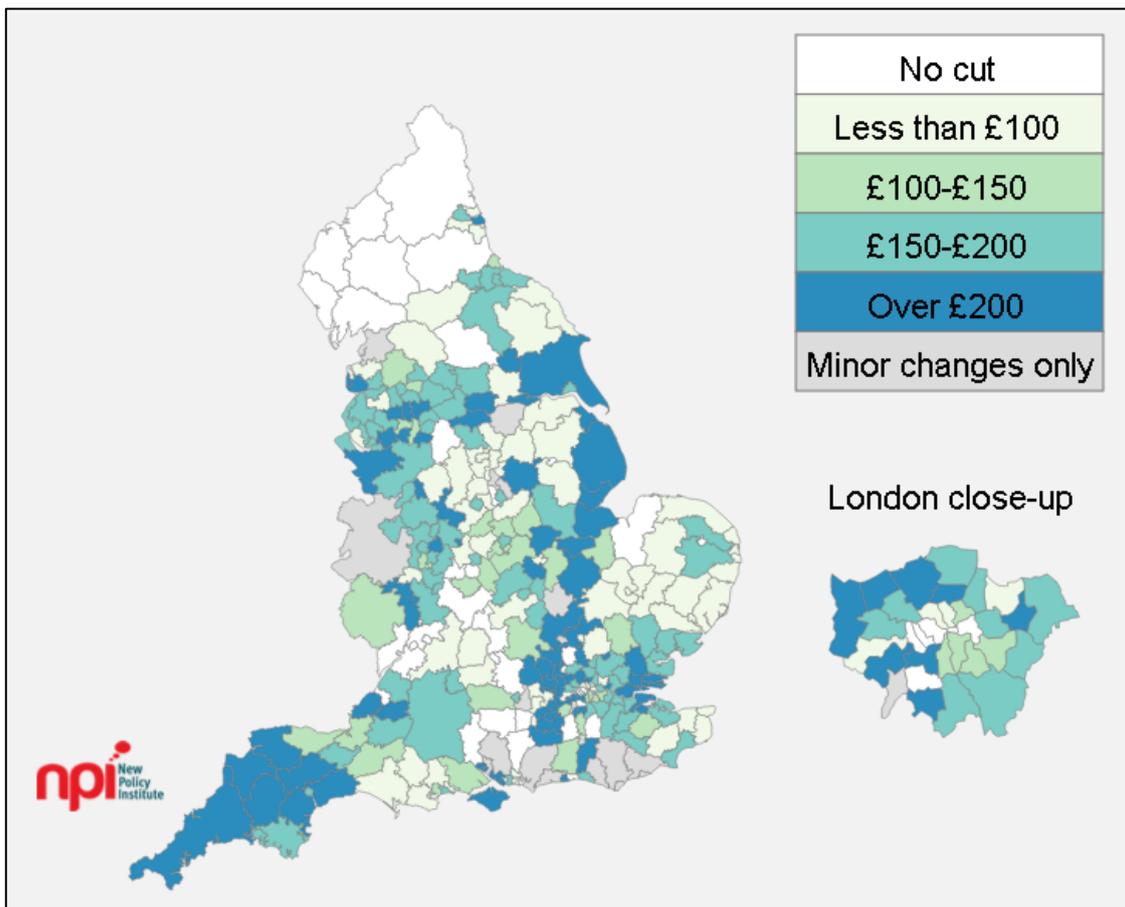
The impact of local variation on residents

Different starting points, along with the choices that councils ultimately make, lead to the sense of a "postcode lottery" for residents, too. While a quick glance at basic scheme data across England shows variation in the minimum payment levels, this warrants closer analysis. A 10% minimum payment level may look like it would have less of an impact on recipients than a 20% charge, but the percentages mask differences in council tax bills themselves. Twenty per cent of a £700 council tax bill is less than 10% of a £1,700 bill. A low-income resident is unlikely to be concerned with the percentage itself: what they *will* notice is how much money they have to pay.

NPI's analysis has looked at the impact on residents by estimating how much money residents lose per year under LCTS as compared to CTB. The map below¹⁴ demonstrates the variance more accurately than looking at minimum payment levels alone would. It also illustrates most clearly the point that many councils raised: low-income residents in neighbouring councils can be expected to pay very different amounts.

¹⁴ Map created and published by NPI. This and similar maps for previous years of LCTS can be found at: <http://counciltaxsupport.org/impacts/>

Figure 8: NPI's map of estimated average annual cut in financial support for LCTS recipients in different councils, as compared with support that was available under CTB. The map is based on 2015-16 LCTS schemes.



Tower Hamlets, which provides up to 100% LCTS for its low-income residents, explained to me how local variation in an area can become a problem for even its otherwise-protected residents. Due to housing shortages, the council often has to place homeless households temporarily in other areas, which do have minimum payment requirements. This means that a resident who did not have to pay anything towards their council tax bill will have to start doing so. Despite efforts by Tower Hamlets to inform any affected residents of their new liability, this can cause confusion and stress for low-income residents, some of whom are very vulnerable. This point on the psychological and destabilising impact of the variations in support on people who move house was a concern echoed by other councils across the country, as well as by charities.

Citizens Advice, and many of the council staff who attended the **IRRV regional forums**, also highlighted major variations in definitions and exemptions. It is clear from the evidence I have looked at that councils define “vulnerable groups” in different ways. Some councils exempt single parents with young children, others exempt war widows,

and some councils have decided against exempting certain groups so as not to increase the amount that non-protected LCTS recipients have to pay.

While making these choices is the reality of localism – and *can* often lead to positive changes – there is a concern that definitions of who is protected and who counts as “vulnerable” vary too much, and with no obvious reason. As **Z2K’s** submission pointed out, even when two councils decide to protect the same type of vulnerable resident, the details, and therefore the impact on these residents, can differ. Writing about London boroughs, where their work is focused, they raise one example:

Within those boroughs exempting disabled claimants there is further variance in which disability benefits qualify claimants for an exemption, with some using only the higher rate of DLA/PIP and others exempting all DLA/PIP and ESA claimants.

Local discretion means that low-income residents across the country will be subject to different procedures and standards underpinning LCTS, too. One issue that was raised by many of the charities and research organisations I spoke to, such as the **Child Poverty Action Group** and **Citizens Advice**, was a resident’s “postcode lottery” of debt recovery processes. Some councils also raised this point. The **London Borough of Barnet**, explaining that their policy is to restrict the use of bailiffs for LCTS cases, added that:

It is, however, a feature of the CTS schemes that the level of support and the processes in place to collect the tax are widely different from authority to authority, and, accordingly, neighbours or neighbouring streets near borough boundaries are treated differently by adjacent boroughs.

The issue of debt recovery procedures will be covered in more detail below; what is important here is that an LCTS recipient in debt can be treated very differently depending, largely, on where they live. Again, this is a feature of localisation. That is not to say, however, that greater consistency cannot be reached: councils should stick to Government guidelines on debt recovery processes, and should also follow up-to-date advice from national and local advice agencies.

Hardship funds

Perhaps the area I found the most variance and least consistency in was the provision of hardship funds for LCTS recipients. Hardship funds are limited pots of money that a council may choose to set up, with the purpose of providing financial help in “exceptional circumstances”. Payments are made at the discretion of the council, and may cover all or just some of an LCTS recipient’s council tax bill. Data collected by the **NPI** on all 326

schemes suggests that, in 2015-16, 38% (123 out of 326) of councils had a hardship fund. This number has risen slightly over the years, from 33% (107 out of 326) in 2013-14, and 35% (115 out of 326) in 2014-15.

The picture is far more complex than a simple yes or no. Firstly, councils that *do* have hardship funds have set aside very different amounts of money: research by the **LGA** suggests that, in 2013-14, amounts set aside by councils ranged from £5,000 to £1 million.¹⁵ The amount of money from hardship funds that was spent also varies across the country: again, **LGA research** showed that three quarters of the 136 councils represented in their survey had spent under half of their hardship fund; ten councils had spent nothing at all. From the research I have seen, it seems as if the phrase “exceptional circumstances” can be defined very differently across the country. Many of the council websites I looked at tied its definition solely to the discretion of council staff.

Freedom of Information requests sent by **CPAG** and **Z2K** to London boroughs provide some more data, showing not only great variance in spend, but also in the proportion of successful applications:

Figure 9: Table showing data on the use of hardship funds in some London boroughs¹⁶

London council tax hardship funds, 2014/15

Local authority	Budget	Spend	Applications	Successful applications
Bexley	£100,000	£42,364	Not available	216
Bromley	£100,000	£7,000	Not known	31
Ealing	£150,000	£224,000	1,658	442
Enfield	£600,000	£165,000	1,000	200
Hackney	Defined budget not set	£4,440	210	143
Islington	£125,000	£4,888	61	41
Redbridge	£75,000	£58,670	Not available	253
Southwark	£200,000	£85,953	523	368
Sutton	£25,000	£12,027	311	234
Waltham Forrest	£150,000	£1,658	30	4

Source: Local authority responses to Freedom of Information requests

¹⁵ LGA, *Council Tax Support: The Story Continues* (January 2015), p. 11

Available at: http://www.local.gov.uk/documents/10180/6869714/L14-635+Council+tax+support+report_v03/ad9031f0-d982-428d-bf98-5418b74a851c

¹⁶ Table taken from CPAG and Z2K, *Too Poor To Pay: The Impact of the Second Year of Localised Council Tax Support In London* (2015), p. 22

It is impossible to make conclusions on all of these figures without context. **Islington**, for example, has maintained an 8.5% minimum payment and has not made any major changes from CTB (such as reducing or removing the second adult rebate). It also has a policy of not sending LCTS cases to enforcement agents, meaning that recipients in arrears do not have large amounts of further debt added. Indeed, while it has spent only 4% of its hardship fund, it has approved over two thirds of applications – certainly one of the higher proportions of approved applications that I came across in published reports and in my interviews with councils. It could thus be that the demand for LCTS hardship payments in Islington is simply lower.

Of more concern is the issue of awareness. In cases where councils do have a hardship fund but receive few applications, one reason could be that LCTS recipients simply do not know about it. **Citizens Advice**, as well as **CPAG** and **Z2K**, explained to me that their research points to poor promotion of hardship funds in some councils. Consequently, there is sometimes little awareness amongst those who may be in need.

I did come across examples of good practice, however. A few of the councils I interviewed explained to me that they allow joint applications to their housing benefit and LCTS hardship funds, meaning that more residents in need are likely to be made aware of the LCTS hardship fund. These councils also told me that their Benefits and customer services teams work closely together to actively identify LCTS recipients in need and signpost them to the hardship fund.

It is evident, though, that localism has meant that the provision and promotion of hardship funds is inconsistent. While this may, in some cases, be a reflection of lower demand and other mitigating factors – as it could be in the Islington – it would be helpful if councils monitored the situation to make sure that extra support is available to those who may need it.

A postcode lottery, or just local variation?

It is clear from the evidence I have seen that people living in the same circumstances but in different councils can have widely different experiences of LCTS, from how much council tax they have to pay, to whether or not they count as a vulnerable person.

I did come across some examples where councils had worked together to try to align some aspects of schemes. **Cornwall**, for example, told me how they had worked with Plymouth and Devon not only to pool together resources, but also to try to minimise the potential negative effects of local variations. Where demographics, finances, and local priorities

allow – and I understand that in many cases these factors do not align – it makes sense for councils to work across boundaries in designing their scheme and in setting related LCTS procedures. This collaborative approach will help to limit the sometimes destabilising impact of localisation and improve equitability.

Where it is not possible to work with other councils, there is no easy *national* solution that can reduce some of the more negative outcomes of localisation. We should remember that the fundamental principle of LCTS was to hand over powers to local councils, on the basis that local councils know best how to design and run schemes. Neither councils nor Government would want this to be reversed. However, it is worth mentioning once again that clearer guidelines from Government – regarding the definition of “vulnerable groups” and the use of bailiffs, for example – may help to encourage some national consistency without undermining localism.

3. Fair for councils?

There were mixed views on the fairness of LCTS to councils. Some attendees to the IRRV forums and a few submissions suggested that localism is in itself ‘fair’; by extension, and despite its challenges, LCTS is a fair deal for councils. The bulk of the evidence I gathered and looked at, however, suggests that councils and their representative bodies generally see LCTS, *in its current state*, as an unfair burden to councils. I emphasise “in its current state”: as will be seen, much of the frustration and disappointment stems not from the idea of localising council tax support, but from the restrictions imposed onto it.

Taking on the risks and costs

The first point to raise is the sense that Government has passed on all the risk to councils, but only nine tenths of the funding. Three types of risk were focused on: legal, reputational, and financial. **Alan Murdie**, a barrister specialising in local taxation, wrote in his submission of the “huge” legal liabilities that now fall on councils. In the **nine IRRV forums** the review team attended, council staff spoke of the burden and risks of having to draft complex regulations, previously the domain of Government lawyers. As explained in the Efficiency chapter, the **legality of consultations** is a constant concern for councils, too. On the whole, though, staff added that managing the legal risks has become easier as they have learned from both previous years and other councils, and some welcomed the new skills it had introduced to council departments.

There is also reputational and political risk to consider. **Central Bedfordshire** explained that:

Residents see LCTS as a local authority decision to cut support for the vulnerable, rather than a national government policy/funding cut.

Attendees to the **IRRV forum in Derby**, representing several councils, all agreed that residents did not always grasp or accept that some aspects of LCTS – such as protections for pensioners – were beyond the council’s control. In written submissions and in my interviews with councillors, I found that councils sometimes felt forced to make difficult and unpopular decisions. This was across political divides. It was most commonly raised by less wealthy councils, which often have a higher LCTS demand but do not have the financial capacity, such as revenue from second homes and commercial rates, to fully meet it.

Financial risk is also a concern. Many councils I spoke with told me that one of the reasons LCTS has not impacted them as hard as they expected was the wider economic uplift of the past few years. This has meant fewer people claiming LCTS, and, therefore, lower scheme costs. If, however, the national or local economy declines, councils face increased LCTS costs. As Government funding for LCTS is not demand-led, but is part of a decreasing Revenue Support Grant, councils are justifiably worried that they could face much higher costs in future.

Greater financial risk is also accompanied by direct financial impact. **Manchester City Council**, in their in-depth submission on financial impacts of LCTS, estimated that cuts in RSG meant that the council itself was bearing an additional cost of £13 million by 2015-16, in order to keep their minimum payment level at 15%. Some other councils spoke of the extra costs of providing a hardship fund, which is sometimes financed by diminishing council reserves. Despite the extra upfront and administrative costs associated with offering a hardship fund, some councils, such as **Cornwall**, said it was an essential safety net for its low-income residents. Indirect costs, like time and money spent on scheme administration, have a further financial impact on councils. Taken as a whole, and to paraphrase the **BenX Group**, a collection of council benefits and revenues teams representing 13 councils, the overall impact of LCTS on council finances can be significant.

Quasi-localism?

There was divided opinion from councils on whether or not the localism provided under LCTS offered a fair deal to them. Some councils, such as **Cheshire East**, were content with LCTS's contribution to greater local autonomy: while LCTS presents some new challenges, councils are accountable to their residents, and freedoms over council tax support allow councils to set schemes according to local priorities. The **District Councils' Network**, representing all 201 district councils in England, similarly wrote in their submission:

The introduction of powers for district councils to decide local council tax support schemes is a significant example of devolution. Because any devolution of responsibility to local government is, in principle, good for local autonomy, the change introduced in 2013 is welcome.

Some councils welcome the *idea* of localising council tax support – it is fairer to councils for them to decide how best to meet the needs of their residents – but maintain that the *reality* of LCTS undermines this. For these councils, LCTS is localism on paper, but, to quote one council, “localism with one hand tied behind our backs” is how it works out in practice.

The first issue to raise is the original cut in LCTS funding, which came alongside overall cuts to council budgets. Attendees to the **IRRV forum in Birmingham**, in particular, highlighted that LCTS is not about what a council wants to do, but what it *has* to do because of its finances. A similar message came across in the other forms of evidence I gathered. **Oxford City Council** summarised the gist of the frustrations:

In an environment of reducing welfare spending, the localisation of CTR [LCTS] theoretically provides local autonomy, in as far as local authorities can determine whether or not they prioritise people on low incomes. Oxford faces profound pressures on housing, and is the most expensive place in the country to rent or buy in relation to average salaries. As such the City Council does not consider it is realistic to make changes to the level of Council Tax Support provided for residents and as such has very little choice within its scheme. [...]

The lack of autonomy delivered by CTR can be seen by the fact that all schemes still rely heavily on the old Council Tax Benefit regulations. Even where local authorities have tried to do something different, such as introducing bands to determine the amount of support provided, this is still the case.

Councils feel that the 10% funding cut has put them in a tight corner: in practice, the only choice available to them is between passing the cut on to their low-income

residents, or using their own funds to absorb the cut. The argument is that it is unfair for councils to face this stark choice. It is not, I was told by some, the localism that councils hoped LCTS would bring.

Closely linked to this issue of funding is the issue of pensioners. **Chelmsford City Council** called the prescribed scheme for pensioners “the biggest barrier to localism”, succinctly describing the frustrations that almost every council and representative organisation I heard from raised. Across different types of councils, different regions, and different politics, there was consensus that Government stipulating that pensioners *must* be fully protected was unfair to both councils and to residents. The **Devon Benefits Officers’ Group** pointed out that these are supposed to be local schemes, yet Government has set a scheme for, in some cases, 50% of a council’s LCTS caseload.

This means that councils have to spend a significant amount of their already-reduced LCTS funding just on pensioners. In 2014-15, there were 1.92 million pensioners in England claiming LCTS, at a total cost (in terms of how much LCTS they received) of £1.64 billion. This is over 45% of the £3.56 billion spent on providing LCTS in England.¹⁷ As Revenue Support Grant, of which LCTS funding is now a part, is *decreasing*, and the pensioner population is *increasing*, this also raises the question of the sustainability of LCTS in its current form.

Aside from the financial impact of having to maintain up to 100% council tax support for pensioners, some councils questioned the reasoning behind it, and the fairness of having to provide differing levels of support based not on need, but on age. **Wyre Forest District Council** wrote about this aspect of the prescribed scheme for pensioners:

There is no logical reason why councils should be required to treat different groups of people differently simply on grounds of age, although they should have the flexibility and discretion to do so as part of designing local schemes. The further devolution we argue for would allow councils to review support for pensioners to suit local circumstances and to address any perceived unfairness in the arrangements that have emerged. For example, in Wyre Forest, from April 2016 working age people with capital of more than £12k will be required to pay their council tax bill in full whereas the figure for pensioners remains at £16k.

¹⁷ Figures taken from DCLG, *Revenue Outturn Supplementary Table on Local Council Tax Support, 2014 to 2015* (2015)

Available to download from <https://www.gov.uk/government/statistical-data-sets/local-authority-revenue-expenditure-and-financing-england-2014-to-2015-individual-local-authority-data-outturn>

Indeed, some councils see the decision from Government to protect pensioners as the root of many of the current problems with LCTS. This came out most strongly in the **IRRV forums**, though many **submissions** and some **interviewees** also raised the point. The argument is that the prescribed scheme for pensioners creates administrative inefficiencies (as explained above) limits local autonomy, and greatly impacts how much a council has to spend on its working-age scheme. This in turn impacts what a council can do to improve work incentives. The pensioner scheme therefore undermines all three of the policy's original objectives. It was the one aspect of LCTS that councils repeatedly said they wished they could change, not just to make schemes fully local, but also to make them fairer and more efficient.

When discussing the pensioner scheme in the context of fairness and localism, another restriction repeatedly came up: single person discount (SPD), the national discount that gives all single occupants 25% off their council tax bill. While SPD is not strictly within the scope of this review or of LCTS schemes, many councils and representative organisations quickly highlighted that SPD undermines a council's financial capacity to design creative schemes that respond to local need. The argument was that, if these are supposed to be local schemes, then Government must give councils more control over reductions for pensioners and for single occupants.

Again, it was not seen as fair for councils to have their LCTS funding reduced, yet limited powers over raising more revenue by changing, if they wish, council tax discounts and exemptions. The **Local Government Association** pointed to their analysis, which suggests that councils are losing more than £200 million a year by providing the compulsory SPD. In my interviews, both **Milton Keynes** and **South Gloucestershire** told me that they were each issuing more than 30,000 SPDs per year. **Walsall** told me that one third of its council tax payers receive the single person discount; **Birmingham** said roughly 20% of their council tax base was made up of SPD recipients.

With such large numbers of households entitled to the discount, the ability to reduce the SPD by just a small percentage – 5-10%, perhaps – could make a significant difference to a council's finances. It would mean that residents who live alone, but who might nonetheless be in a better financial position than low-income residents who do not live alone, would pay a fairer share towards their council tax. In theory, councils would then have more financial flexibility to design LCTS schemes that are better tailored to their local residents.

4. Fair for residents?

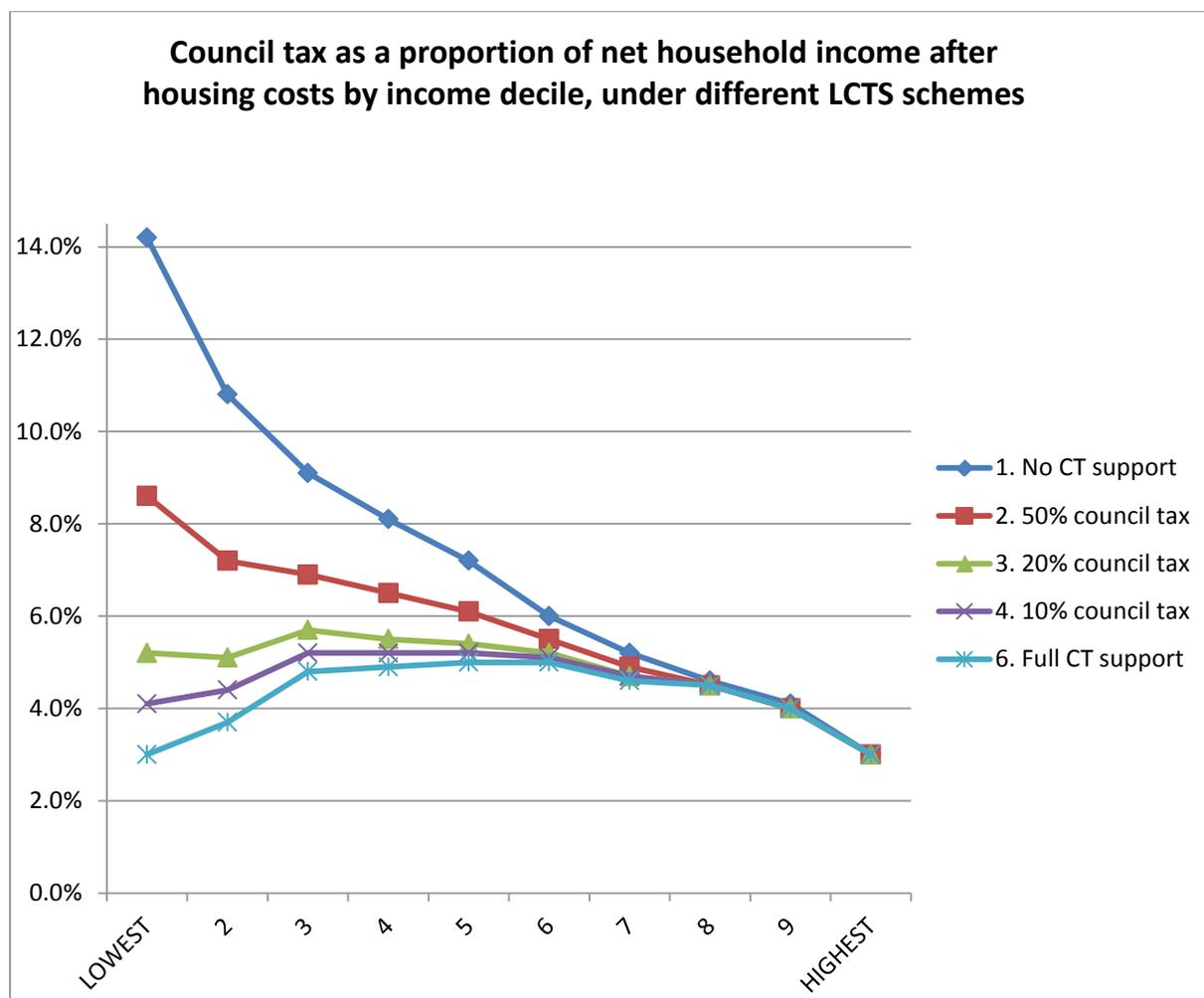
The extent to which LCTS is fair for residents is contentious, and difficult to pin down. At the most fundamental level, there is disagreement on whether or not charging *all* residents at least some council tax is in itself fair. Some councils pointed out that it is fair for everyone to contribute towards their council services: it helps underline the reality that everything has a cost. Other councils, along with several charities and advice agencies, questioned the fairness of making some of the poorest residents pay, regardless of whether or not they can. Some councils I heard from during the review also said that the financial pressures of LCTS council may impact council services in general, raising the question of fairness to other council tax payers.

There is some evidence that LCTS has not impacted former recipients of CTB as badly as some people first feared. Anecdotally, a few councils said their LCTS recipients seemed to be able to pay their new liabilities. Statistically, too, there are some signs to support this. Collection rates from LCTS recipients, as shown in the [previous chapter](#), are better than most councils expected (although still much lower than overall collection rates). The **Valuation Tribunal for England**, which deals with appeals regarding a council's decision over an LCTS claim, received in the first year of LCTS just 5% of the number of appeals it had expected to. The **Local Government Ombudsman**, which deals with complaints about how claims are handled, also handled a relatively small number of complaints (408 since April 2013). However, it must be noted that such a small number of cases brought to the VTS and LGO may instead be partly due to issues around transparency and awareness among LCTS recipients, and the fact that neither the VTS nor the LGO deal with complaints regarding the schemes themselves.

Financial impact and rising debt

The first issue to address is the most obvious one: the financial impact on some of the poorest residents. Some have argued that LCTS makes council tax a more regressive taxation system, in that those who have the lowest income will pay a higher proportion of their income, as compared to those on a higher income. This view that was put forward most explicitly by the **LGA**, whose analysis demonstrates the argument:

Figure 10: Graph by the LGA showing council tax as proportion of household income by income decile, under different LCTS schemes¹⁸



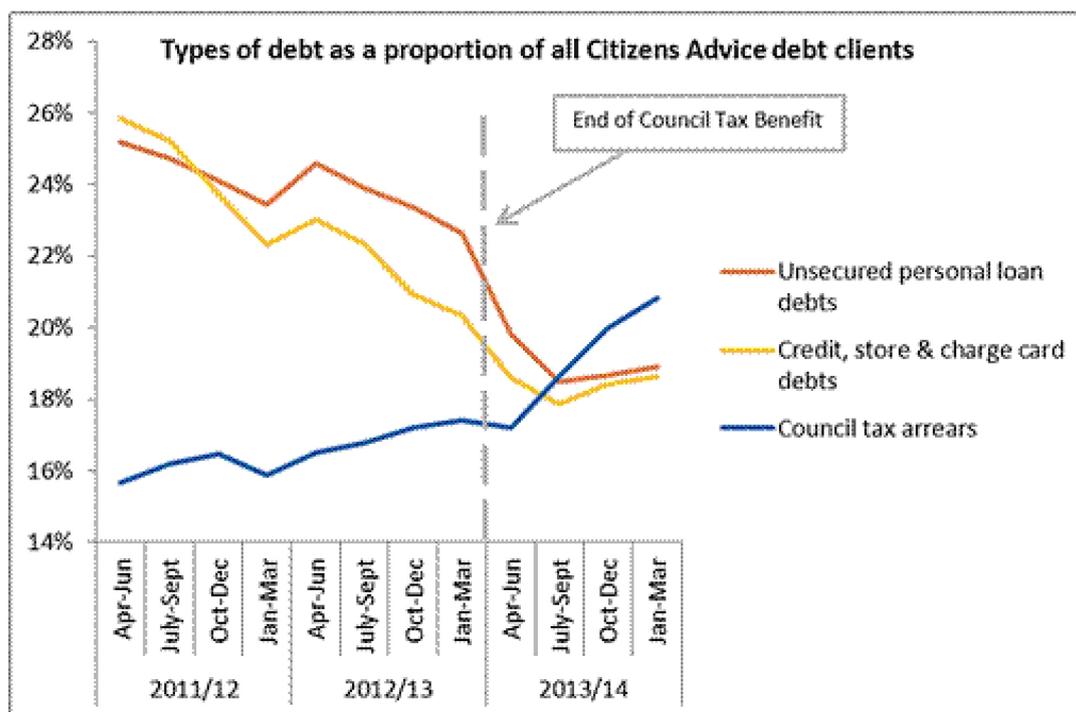
Many councils alluded to this point, though. **Harrow London Borough Council**, for example, said that its 30% minimum payment means that someone living in a Band D property would need to pay £454 per year. They add that, for someone on Jobseekers Allowance, this is the “equivalent of losing six weeks’ income per year, or 12% of income”. **Kettering’s** recently-agreed 45% minimum payment works out as over £680 per year for someone in a Band D property (excluding the parish precept), almost one fifth of someone’s income from Jobseekers Allowance. There are understandable concerns that a

¹⁸ Graph in LGA, *Council Tax Support: The Story So Far* (2014), p. 12
Available at: <http://www.local.gov.uk/documents/10180/11531/The+story+so+far+-+council+tax+support.pdf/a953d38d-2b39-48a9-b701-1b98591c548f>

significant proportion of someone’s income from state benefits – which are supposed to cover essential living costs like food, energy bills, and travel – is effectively ring-fenced for council tax. The **Taxpayers Against Poverty** alliance, led by **Reverend Paul Nicolson**, refer to LCTS as a “tax on benefits”.

One sign that LCTS may be having an adverse impact on low-income residents is the sharp rise in council tax debt, attested to by [national council tax collection and arrears data](#), and by reports from advice agencies. **Citizens Advice** told me that council tax debt has now overtaken credit card debt as the most common debt problem that their clients seek advice on.

Figure 11: Different types of debt as a proportion of debt-related queries received by Citizens Advice¹⁹



¹⁹ Graph taken from Citizens Advice article, “Council tax arrears now biggest debt problem reported to Citizens Advice” (May 26th 2014)

Available at: <https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/council-tax-arrears-now-biggest-debt-problem-reported-to-citizens-advice/>

The **Money Advice Trust** informed me that that council tax debt is one of the fastest growing debt types that the National Debtline receives queries about. In 2007, 14% of all calls were about council tax debt. In 2014, the figure was 24%. The **Bradford Community Advice Network** also explained that council tax debt is now the most common type of debt that people go to the Network about.

Statistically, there appears to be some correlation between council tax debt and the minimum payment level, as one might expect. The **Institute for Fiscal Studies** conducted an analysis on data from the Citizens Advice. It found a close link between minimum payment levels and arrears: in areas where the minimum payment level was more than 8.5%, there were, on average, 30-40% more council tax debt queries recorded by the local Citizens Advice Bureaux.²⁰ The **NPI**, too, have looked at the correlation between minimum payment levels and arrears, and their analysis suggests a similar link.

The better-than-expected and increasing collection rates for LCTS recipients may suggest that there is no real problem, but collection rates tell only part of the story. Here, conversations with and submissions from local advice agencies, the **Child Poverty Action Group** and the **Zacchaeus Trust 2000** were extremely helpful. Two main points were raised. The first is that high collection rates may be due to LCTS recipients cutting back on essentials or accumulating other types of debt: echoing what some councils told me, council tax is seen as a priority debt by LCTS recipients, and they will often prioritise it over other essential costs. The second point is that, concealed amongst the high collection rate, there may be a group who simply cannot pay, regardless of what they or the council may try to do to help the matter.

The first – the knock-on effect on an LCTS recipient’s budgeting – has been investigated on a small scale by surveys and focus groups from third sector organisations. **Advice York**, a partnership of advice agencies in York, conducted a survey of 50 LCTS recipients. They found that, of those surveyed, one third were paying their council tax by taking out loans, nearly half were reducing spending on essentials like food and fuel, and two thirds were struggling to pay for other bills so that they could pay their council tax.²¹ Similarly,

²⁰ Institute for Fiscal Studies, *Council Tax Support Schemes in England: What Did Local Authorities Choose, and with What Effects?* (January 2014), p. 2

Available at: <http://www.ifs.org.uk/comms/r90.pdf>

²¹ Advice York, *Pushed into Poverty: The Real Cost of Council Tax Support* (October 2014), p. 5

Citizens Advice Camden reported that respondents to its small survey of LCTS recipients said that their council tax liability was being met in various ways, such as cutting back on essentials (62%), taking loans from family and friends (46%), and cutting back on non-essentials (46%).²²

More research is needed on the matter, but these surveys, though small, do raise concerns. Some councils echoed these concerns about just *how* LCTS recipients are paying their council tax. If an individual's new council tax liability under LCTS means that they are taking out loans and cutting back on food, then the impact of LCTS on someone's quality of life may be far greater than the £3.50 or so a week in council tax they have to pay. As I have said, current research is not conclusive on the scale or nature of the problem, but, based on what I have heard and seen during this review, it is vital that more light is shed on this.

Based on arrears data, there also seems to be a proportion of LCTS recipients who cannot pay their council tax liability within the year. Getting at the numbers was a challenge, as councils record different types of data, and report on it in different ways. Some councils were able to tell me that roughly 50% of their LCTS working-age recipients had been in arrears at some point in the financial year. Others told me that roughly 30-40% had arrears from the previous financial year. A minority of councils I heard from informed me that they were not aware of any persistent or significant problems, bar, perhaps, a very small proportion of the caseload.

Whether or not it is a very small proportion, the issue is important. When I asked councils who is struggling the most – which groups make up this section of recipients who simply cannot pay – I received various suggestions. **Cornwall**, for example, told me that their analysis shows that it is not one social group that stands out as most vulnerable: within each group of LCTS recipients, such as people with disabilities, families with children under five, and single people, there was a body of people who just could not pay. **Liverpool's** data on its LCTS recipients highlighted those who are employed but on a low

Available at: <http://www.adviceyork.org.uk/Pushed%20in%20to%20Poverty%20-%20The%20Real%20Cost%20of%20Council%20Tax%20Support%20-%20Full%20Report%20October%202014...pdf>

²² Citizens Advice Camden, *Making the Poor Pay: The Real Cost of the Council Tax Reduction Scheme in Camden* (October 2015), p. 15

Available at:

<http://www.camdencabservice.org.uk/wp-content/uploads/2015/11/FINAL-amended.pdf>

income, a group that **Harrow** also pointed out were impacted the most. **Milton Keynes**, meanwhile, found that its single young people (under the age of 25) had the least flexibility to absorb reductions in support, as they have the most limited income.²³

Though beyond the scope of the review, I must point to the wider context. When I raised the issue of arrears in the context of fairness, I was almost always met with remarks that the impact of LCTS cannot be grasped without appreciating the context of welfare changes and issues like rising rents. LCTS debt and the extra pressures of LCTS on household finances are not seen by LCTS recipients in isolation: they are experienced as a whole.

For example, and depending on the demographics and housing stock of a local area, some councils report that a large proportion of LCTS recipients have also had their housing benefit reduced by the removal of Spare Room Subsidy. Some have also been impacted by the Benefit Cap. Their local residents are having to pay more, sometimes with the added pressure of reduced incomes. There are well-justified calls for a comprehensive look at the collective impact of the welfare changes on low-income residents. It is far beyond the scope and means of my review, but I recommend Government to commission some in-depth research on the matter, so that the issue can be properly understood.

Citizens Advice also pointed to another, less obvious possible factor in rising council tax arrears: the complexity of the schemes. Their data shows a link between having a more complex scheme, and having more disputes over a person's council tax liability. This is a point that straddles both fairness and transparency: it is about the impact on an individual of the complex regulations and rules that govern LCTS schemes, and of the lack of clarity and awareness around them.

Citizens Advice North Somerset provided some qualitative research on this topic. They sent in two videos with their submission, which explored the main issues that came out from focus groups they had run with local LCTS recipients. Recipients spoke of poor communication, the “moving goalposts” of the application process, and bureaucratic hurdles. The underlying problem seemed to be a general lack of clarity and understanding, and the confusion and stress that this adds to someone applying for or receiving LCTS. This point is covered in more detail in the Transparency chapter.

²³ Such varied responses are to be expected: different areas have different demographics. The detail in these councils' data also demonstrated to me how well some councils know their residents.

5. Dealing with arrears

One area where good practice is essential for the fairness of LCTS is the debt recovery process. How a council decides to handle an LCTS recipient who has council tax arrears impacts greatly on how someone experiences LCTS. It can add disproportionate sums of money to an already indebted person, exacerbating both the financial and psychological impact of debt. It can also be counter-productive: third sector organisations and some councils highlighted that a hardline approach to council tax debt recovery from LCTS recipients can make it much less likely that a council will recover that debt.

The first point to make is that there has been a jump in the number of court summonses and liability orders issued for unpaid council tax. Some councils sent in data on the number of summonses and liability orders they issued both before and after LCTS was introduced. Typically, there was an increase of 40-50% in 2013-14 when compared with 2012-13, the last year of CTB. Data collected by CPAG and Z2K highlights that, in London alone, over 100,000 court summonses were issued in 2013-14. Receiving a court summons or liability order can be an intimidating experience, especially for those who are vulnerable. It can also add further debt: the amount charged by a council for a court summons varies greatly, from nothing at all to £125.

While there are no national statistics, the number of summonses and liability orders issued for council tax arrears does seem to be gradually decreasing. From my interviews with councils, as well as from what is reported in published reports, it seems like the first year of LCTS was a period of trial and error in council tax debt recovery. I heard how councils at first adopted the usual council tax debt recovery process, normally consisting of reminder letter, a court summons, and, in some cases, referring the case to bailiffs. Councils quickly learned, though, that debt from LCTS recipients is different to debt from other council tax payers. The former, by definition, have a low income or are in receipt of state benefits: adding further charges to their debt is unlikely to be effective. Many attendees to the IRRV forums also raised the ethical question of sending a court summons for LCTS debt. Considering that LCTS recipients pay small amounts of council tax, it seems disproportionate and unfair to add what can be £125 in court costs for what could be just a £50 debt.

The point is highlighted in a recent legal ruling over the costs charged for a liability order. Regulations around court costs state that, when granting a liability order, the charge must reflect costs *reasonably* incurred by the council in obtaining the order. A ruling in the *Nicolson v Tottenham Magistrates and Haringey* [2015] judicial review found that the liability order issued against Rev Paul Nicolson had been unlawful, as the defendant could not be provided with evidence of how the cost of £125 had been arrived

at. No-one could thus determine if the £125 liability order charge constituted a “reasonable” cost. This case has had ramifications on wider debates around the fairness and transparency of court costs charged to individuals.

The use of bailiffs is another concern. **Citizens Advice** told me that 28% of council tax debt queries it has dealt with were about bailiffs and enforcement actions. The **Money Advice Trust** reports that the use of bailiffs by councils across England and Wales increased by 16% over the two years from 2012-13 to 2014-15; council tax arrears debt is the number one reason for councils referring a case to bailiffs.

Fees that bailiffs can charge for handling council tax debt cases have been standardised across the country, as the **Citizens Advice** website outlines:

Figure 12: Standardised fees charged for each stage of the debt recovery process once managed by bailiffs

Stage of process	Action	Fixed fee	Percentage fee (over £1500 only)
Compliance	Writing to inform you of the debt, requesting payment, issuing an enforcement notice	£75	0 per cent
Enforcement	Visiting your home or business premises to take control of goods, including everything involved in identifying, valuing and taking control of your belongings	£235	7.5 per cent
Sale	Removing and selling the belongings that were taken control of in the previous stage	£110	7.5 per cent

While the standardisation does provide consistency, it also means that debts can rapidly increase. Such high fees are supposed to act as deterrent, encouraging people who have missed their council tax payments to take immediate action. Yet a deterrent works on the basis that someone *can* pay the debt. With low-income LCTS recipients, this is not always the case. As a Camden resident said to **Citizens Advice Camden**:

If you are in debt, you are not going to miraculously find more money because you have been threatened. There is no magical pot of money. It doesn't work like that.²⁴

There are examples of good practice that other councils can learn from. Many attendees to the **IRRV forums** described how their councils had re-designed the debt recovery process for recipients of LCTS. Common characteristics included sending out extra reminder letters before issuing a summons, referring those in debt to debt advice clinics, offering a flexible payment plan, waiving court costs if a payment plan is agreed upon, and refraining from the use of bailiffs. There was general agreement in the evidence I gathered from councils that these approaches were effective, and that they demonstrated to LCTS recipients that the council wants to work with them, not against them.

I heard from some councils that have been able to offer a highly personalised approach to dealing with council tax arrears. **East Riding of Yorkshire Council**, for example, explained that customers who contact the council with payment problems may be offered a visit from a benefits and debt advisor, and, if they accept the visit, council tax recovery is put on hold until the customer's situation is investigated. They add:

This example of best practice has helped to keep the number of summonses issued to a minimum, and therefore prevented customers from being charged additional costs.

Many of the councils I interviewed, such as **Cornwall**, **Harrow**, **Colchester**, and **Liverpool**, also described recovery approaches for LCTS cases that are based on understanding the person's circumstances and identifying particularly vulnerable people. These councils, and others like them, have worked closely with local advice agencies and third sector organisations to try to minimise the psychological and financial impact of debt on their LCTS recipients.

Another way that councils can improve how they deal with council tax arrears from vulnerable residents is to sign up to, and follow, the **good practice protocol** developed by **Citizens Advice** in partnership with the **Local Government Association**. The protocol lists steps that councils can take to reduce the likelihood of council tax arrears building up in the first place. It also outlines how councils can make sure that recovery procedures are fair and transparent.

²⁴ Quoted from Citizens Advice Camden, *Making the Poor Pay*, p. 22

Available at: <http://www.camdencabservice.org.uk/wp-content/uploads/2015/11/FINAL-amended.pdf>

TRANSPARENCY

The transparency of LCTS schemes must be understood both in terms of the micro (the individual schemes) and the macro (the system as a whole). It encompasses the availability of information and the accessibility of it, from how information is presented to how well it is publicised. I have also examined the transparency of LCTS from a council's point of view, looking at things that Government could do better in order to make LCTS policy clearer.

1. Transparency of LCTS schemes

There were some concerns when Government announced plans to localise council tax benefit that this would lead to a system that lacks transparency. The debate in the Lords following Baroness Hollis's proposed amendment raised some questions on this matter. In my review of the schemes three years on, I have found that many councils seem to be doing their best to make their schemes as transparent as they can, but that this is limited by the structure of LCTS and the legislation governing the schemes.

I heard of many examples where councils had undertaken large-scale projects, sometimes as part of their consultation process, to try to make sure that their residents understood the changes and knew how to get support. At the [IRRV forums](#), the review team heard from Revenues and Benefits teams up and down the country that their councils had re-designed LCTS-related letters to put them into plain English, hired extra staff to call hundreds of CTB recipients ahead of April 2013, and produced flyers and posters to place them in libraries, schools, and GP surgeries.

Even seemingly small changes can make a big difference. [Liverpool City Council's](#) website is a noteworthy example. Large, clear, straight-to-the-point text addresses the key LCTS-related questions that most residents may have, including the appeals process. There are links to apply for LCTS online, and to an online benefits calculator. There is also a very useful Frequently Asked Questions PDF which explains, in simple language, the fundamental points, along with a more detailed but concise summary of their LCTS scheme. There is also a link to the national prescribed regulations. It is clear that the team has put a lot of thought and time into making sure that the complexities of LCTS can be readily understood by their residents, no matter how much or how little detail they want.

Figure 13: Excerpt of Liverpool City Council's [FAQ document](#), on their website


Council Tax Support Scheme Frequently Asked Questions

1. [What is Council Tax?](#)
2. [Who has to pay Council Tax?](#)
3. [What is Council Tax Benefit?](#)
4. [What is changing?](#)
5. [Who will these changes affect?](#)
6. [Who will be able to get the new Council Tax Reduction Scheme?](#)
7. [How much will I have to pay?](#)
8. [Will I have to reapply?](#)
9. [Will the changes affect my 25% discount given for me being the only adult resident in my home?](#)
10. [Do the changes only apply to Liverpool City Council?](#)

Q1. What is Council Tax?

A. Council Tax is a local tax on domestic properties which helps to pay for local services, such as education, parks, social services and refuse and recycling collection, as well as contributing towards police and fire services. The amount you have to pay depends on the property band your home is in, which is based on the value of your property. The Council is responsible for collection of Council Tax.

Other councils described to me the methods they had used to inform residents about any changes to their support, and initiatives they undertook to ensure that those impacted were aware of and understood the changes.

Case study 1: Central Bedfordshire

- Letters sent to every CTB recipient, including pensioners, inviting them to take part in the 12-week consultation. 18,000 letters were sent, 1,700 responses were received
- 500 telephone interviews with a cross-section of residents
- Letters sent to all major landlords and stakeholders, including preceptors
- Presentations given to landlords, partners (such as the Citizens Advice Bureau), and other stakeholders (such as welfare rights groups, work clubs, and tenants panels)
- A feature was placed in the residents magazine, which goes to every household
- Posters advertising the consultation and how to access documents were displayed in all council offices.

Case study 2: London Borough of Harrow

- Long and extensive first consultation, beginning as early as Spring 2012
- Contacted 15,000 recipients of CTB by mail, held workshops, used website and Facebook
- Hard-copy consultation paper sent to 10,000 people
- Team of interns set up to call CTS customers during the first few months to explain the scheme and help customers set up flexible payment schemes.

Harrow attributes its relatively high collection rate for LCTS recipients partly to its intensive and early engagement efforts in 2012-13, which included engagement with several thousand customers, the voluntary and community sector and with enforcement agencies.

Case study 3: East Riding of Yorkshire

- All council tax bills sent out refer to the availability of LCTS
- The scheme is clearly advertised on the landing page of the website's council tax section
- The council has re-designed all council tax arrears letters, making the language more straightforward and easier to understand
- Council website has an online calculator tool for residents to see how much housing benefit and council tax support they could be entitled to
- The appeals process is detailed in all LCTS notification letters, and is explained on their website.

I could name many other councils that have taken similar steps to help support their residents through the change. The range of methods and forums used, from local schools to social media, show once again how well some councils know their residents, and how effectively they can tailor their messages to them.

Despite these creative and often effective efforts, some issues are apparent. I heard from Citizens Advice bureaux that many LCTS recipients are still unaware of the change from CTB to LCTS; some only realise they are liable for council tax when they receive an arrears notification. **Citizens Advice North Somerset**, for example, surveyed 97 residents from the local area at the end of 2015. Of the 97, 70% of residents and 54% of those receiving LCTS were unaware that CTB had been replaced by LCTS. While the survey was small, the point reflects messages coming from other advice agencies, such as **Advice**

York, and research organisations: councils may be making their best efforts to explain and publicise LCTS schemes, but awareness is still limited in some areas.

One reason for this could be the nature of LCTS scheme design. Councils and charity organisations alike told me that the transparency of LCTS schemes is constrained – and undermined – by the inherent complexity of the regulations that define schemes. **Chelmsford City Council** described the efforts they make to explain their scheme as clearly and simply as possible, but concluded that the language remains “inevitably complex”:

Notifications sent to applicants are worded as clearly as possible and consultation documentation is simplified as much as possible. Again, there is a limit as to how well this can be achieved when trying to explain a concept such as, for example, the Family Premium and the effect that withdrawing it may have on some households.

This issue is closely tied to the problems around the consultation document itself. Councils, fearing the risk of legal challenge following some high-profile court cases, try to make their consultation documents as comprehensive and detailed as they can. The result is a technical, lengthy, and ultimately exclusive document that many residents cannot engage with. In areas with a large proportion of residents who have a limited grasp of English, this is an even bigger problem.

Dense and inaccessible consultation documents partly explain the very low response rates to consultations that some councils reported, despite directly writing to all recipients and promoting the consultation in local media. **Colchester Borough Council**, with a working-age caseload of over 6,000 people, told me that 150 residents began responding to their consultation; most stopped halfway through. Other councils reported response rates of well below 10%. It was a frustration I came across often: how can councils make their consultations more meaningful, and therefore more useful?

I did come across some examples, as highlighted in the case studies above, where councils had worked effectively with local charities, community groups, and advice agencies to help tailor and deliver messages to different demographic groups. This meant that consultations could reach a more representative audience. The root of the problem, however, is the lack of clarity around what must be included and what can be left out of consultation documents. By including every detail to avoid legal challenge, councils ironically make their schemes *less* transparent. An extremely thorough consultation document may be ‘transparent’ in its publication of all details, but it is not transparent if very few people understand it and even fewer respond.

As I have already said in the Efficiency chapter, councils told me it would be helpful if Government clarified its regulations on precisely what they must, by law, consult on, and

how they should do so. Clearer guidance would not only support a more efficient consultation process. It could also lead to a less risk-averse approach by councils, and to a more engaging consultation document.

Beyond the transparency of individual schemes is the issue of the overall transparency of the LCTS system. This was a point raised most strongly by **advice agencies**, **charities**, and even a **barrister** who responded to my call for evidence. The crux is localisation: instead of one, national scheme, England now has 326 different schemes. The argument is that this in itself cannot be transparent. The point was illustrated during the **IRRV forum workshop in Newport**, Wales, attended by both English and Welsh councils. Representatives from English councils lamented the general confusion around LCTS and the lack of overall transparency in the system. Representatives from Welsh councils, conversely, spoke positively about the transparency and clarity of CTR in Wales.

This, though, is inherent to localisation. If a discount for a local tax is to be localised, the result will be lots of different schemes operating side by side. Based on the evidence I have seen, localisation is not the problem *per se*: the lack of national oversight is. Aside from the data collected by **NPI**, there is no central list of or body of information about LCTS schemes and their key features. This means that advisers, such as those who work for the **National Debtline**, can no longer offer clear and universal advice to customers. Council staff, too, mentioned that they find it difficult to advise customers who come to them asking about what council tax support they could be entitled to if they move. In both cases, advisers would have to search individual schemes online, and, if there is no plain English scheme summary published, read through a long and complex document to distil the points. This is time-consuming and onerous – and, in practice, unlikely.

Improving the overall transparency of LCTS in this way would not only benefit customers and the people who advise them. It could support greater innovation and more collaborative working. If councils can see what other councils are doing or planning on doing, they can identify opportunities to share knowledge and experience, as well as gain ideas about how to improve their own schemes. Precisely how Government could provide better national oversight should be reached at in conversation with councils and benefits or debt advisers.

2. Transparency of funding

While Government funding is not, strictly speaking, what Baroness Hollis's amendment refers to when mentioning "transparency", it came up as a point too often not to include it. Many councils I heard from, including representative bodies such as the **Local**

Government Association, expressed frustration at the lack of transparency around how much funding they get from Government.

Councils told me that, while the initial cut in funding for the first year of LCTS was challenging, they at least knew how much was available. They could then plan and work within those parameters. Since 2014-15, there has been no separately identifiable fund from Government for LCTS schemes. Instead, LCTS funding has been rolled into the general Revenue Support Grant that councils receive annually. Government maintains that the amount of funding for LCTS has remained the same: it has just been subsumed into the general grant. The **Society of County Treasurers** called the arrangement “unacceptable”; **Hereford City Council** said it was “opaque”, adding that Government has not properly responded to repeated calls to make funding transparent again.

The frustration felt by councils is entirely valid. The Revenue Support Grant is quickly and sharply declining. This gives the impression that the LCTS funding part of it must also be reducing. Amongst other councils, **Newcastle City Council** calculated how much LCTS funding they would, in effect, be receiving if it was reducing at the same rate as RSG. To quote from their submission:

Newcastle’s funding [for LCTS] has reduced from £24.6m in 2012/13 to around £16.4m in 2015/16, a reduction of £8.2m, yet the Council’s spend on the scheme remains in the region of £22m.

Looking at the most recent 2016/17 provisional settlement Newcastle’s reduction in revenue support grant is 48.1% across the period 2015/16 to 2019/20, whilst the total settlement funding assessment is currently anticipated to reduce by 40.5%. Applying these percentages to the £16.4m funding that we understand relates to council tax support will result in funding for the scheme by 2019/20 of between £9.8m and £8.5m, leaving the council to find additional funding of between £14.2 and £15.5 to fully finance the scheme in its current form.

This does not only mean that councils will have to bear more and more of the cost burden of LCTS. As explained above, it also means that councils cannot accurately or easily calculate how much they have to spend on their LCTS schemes, let alone if LCTS is bringing savings year on year.

It also has a knock-on effect on accountability and transparency further down the line. As the **BenX Group**, a collection of council benefits and revenues teams representing 13 councils, explains:

The lack of visibility of funding makes it very difficult to justify reductions in the local scheme to residents.

St Helens Council pointed to a similar problem when it wrote that the lack of transparency around funding prevents a “true dialogue” with council tax payers.

Parish and town councils

In areas with parish councils, this problem also extends to them. Indeed, this was the one issue that every parish council, along with the **National Association of Local Councils**, raised. Billing authorities are supposed to pass on some of their LCTS funding to their parish councils. This is to compensate parishes for the reduction in their council tax base, which is a result of LCTS schemes.

The problem is that not all billing authorities are doing this. Some are passing down the full amount, others are reducing how much they pass on each year, and some are not passing down anything at all. Withholding LCTS parish funding has a direct impact on a parish council’s finances. I heard how some parishes are having to choose between raising their council tax precept or cutting services. Both options impact all parish residents and will be unpopular. In some case, I heard parishes had no choice but to raise their precept because of this particular issue. Clearly this runs counter to this Government’s overall aim of keeping council tax bills low.

Again, the problem seems to have its roots in the first step of this funding chain: the lack of transparency of funding from Government to billing authorities. Most parish councils I heard from said, in the first year of the scheme (when Government funding for LCTS was a separate grant), they received the full amount of funding that billing authorities were supposed to pass on. They added that the amount passed down has since dwindled – or disappeared.

National statistics also highlight this trend. In 2013-14, parish councils in England were passed on a total of £39 million from billing authorities, almost all of the £40.5 million that Government said, as a guideline, should be passed on. In the following year, the total passed on to parish councils was just over £31.1 million, 20% less than in the first year of LCTS. Data for 2015-16 was not available at the time of writing, but evidence submitted by parish councils, if representative of the wider trend, suggests the total national amount passed on in 2015-16 could be much lower.

Billing authorities will make the not unjust argument that, because their funding from central government is part of RSG, which is itself declining, it is only fair and logical that the funding they pass to parishes reduces at the same rate. Parishes, too, understand the situation that billing authorities are in.

The issue is rather one of communication, clarity, and transparency. Some parish councils are simply not told how much funding they will get, if any. This makes it difficult to plan their budgets, and undermines inter-council relationships. One parish council illustrated the “considerable uncertainty and inconsistency” that this can lead to. They told us that in 2013-14 a grant was provided, in 2014-15 no grant was provided, in 2015-16 25% of 2013-14 grant levels was provided, and in December 2015 it was told a decision on the grant for 2016-17 had been delayed.

From both billing authorities and parish councils, the message I got was, where the two tiers had communicated plans, needs, and challenges to each other, both seemed happier and more comfortable with the situation. **Trowbridge Town Council** and **Wiltshire Council**, highlighted below, worked closely in deciding the funding arrangements for the next few years. Trowbridge are satisfied with the agreement, even though funding is reducing to zero.

Trowbridge Town Council – an excerpt from their submission

As Trowbridge is the home of Wiltshire Council and was impacted to the greatest extent, I was involved in discussions with the Director of Finance at Wiltshire Council regarding Wiltshire Council’s local council support scheme.

In 2013/2014 Wiltshire Council passed on the full amount, which was £197,843 for Trowbridge alone. Following consultation with other parish and town councils via the Society of Local Council Clerks and the National Association of Local Councils, we discussed the likely reduction in support in subsequent years. [...]

In 2014/2015 Wiltshire Council reduced the support to £128,598 for Trowbridge. In 2015/2016 Wiltshire Council reduced the support to £93,876 for Trowbridge. In 2016/2017, Wiltshire Council have advised us that the support will reduce to £16,898 for Trowbridge.

In 2017/2018, Wiltshire Council have advised us that the support will reduce to £0 for Trowbridge.

*Trowbridge Town Council is **satisfied** with this scenario, it is providing **certainty**, allowing us to **prepare budgets in advance**.*

Something that could improve the situation for parish councils may thus be as simple as involving parish councils more in funding decisions, and communicating with them better. Councils should work with each other, and with relevant representative bodies, to make sure that funding arrangements for parish councils are open, clear, and agreed in a

timely manner. A logical way of doing this would be for Government to require billing authorities to state how much funding they intend to pass on to parishes at their consultation stage. This would allow for a public, transparent discussion on the matter. It would also mean parish councils can plan accordingly. Combined with improved and more timely communication between billing authorities and parishes, this should lead to fewer frustrations, more transparency, and greater efficiency when it comes to planning budgets.

EFFECTIVENESS

1. Savings

There are two ways of seeing how effective LCTS has been in delivering savings. The first is straightforward: did the change from council tax benefit to LCTS save public money for the Treasury? Considering that the Treasury reduced forecast CTB spending by 10% for LCTS funding from the outset, and saved £490 million, the answer has to be yes: Government *is* paying out less for LCTS than it did for CTB. The second is less clear-cut and more contentious: did the change from Council Tax Benefit to LCTS save public money across the public sector? Based on anecdotal evidence from numerous councils, as well as some of the national and local statistics, it is very unlikely that it has.

At a most basic level, many councils reported lower caseloads: less money is therefore being spent directly on paying part or all of a resident's council tax. This, however, cannot be seen as a *result* of LCTS. Councils and research organisations instead pointed out that the national economy as a whole has picked up since 2012-13: employment is going up, and claimant numbers for a range of benefits are going down. It follows that LCTS caseloads, and direct costs, will also decrease.

It is also difficult for councils to ascertain how much money they spend on their LCTS schemes. This is because of the lack of transparency from Government around its funding. It is evident, though, that many councils are 'topping up' their funding from Government with their own extra funds. **Liverpool**, for example, said that it estimates it is spending £3 million a year on its LCTS scheme, on top of what it estimates it receives from Government. This is just money that goes directly on covering the remainder of an LCTS recipient's council tax bill.

On top of the cost of the schemes themselves, there are other costs that the headline 10% saving does not account for. I raised them in the Efficiency chapter, and will only summarise here. As the **BenX Group** pointed out in their submission, the cost of collecting council tax from those with reduced support is high. While collection costs cannot be accurately estimated, most councils I heard from said that it is costly both in terms of staff time, and in terms of costs associated with sending out more reminder letters and making more reminder phone calls. Consultations, which are compulsory, are also expensive to run, and demand specialist skills that councils have had to invest in developing. Software costs, too, were often quoted as an expense that undermined any initial savings that a decreasing caseload might have brought.

These extra costs have to be borne by councils. Despite extra funding from Government to help cover administrative costs and ‘new burdens’ costs, councils often said that running and administering their LCTS schemes left them out of pocket. There were some calls for Government to better understand how much time and work – and therefore cost – goes into planning, agreeing, and administering an LCTS scheme. Overall, the sense I got from some councils was that, rather than *saving* public money, LCTS has just shifted some of the cost from central to local government.

2. Localism

One of the policy’s objectives was to promote localism, giving councils more power over the only tax that is local. Most councils agreed that, at least on paper, localising council tax support does that. Some pointed to the benefits that localisation has already brought, such as wider engagement with residents, a more proactive and holistic approach to helping those in need, and a more detailed understanding of the circumstances of low-income residents.

Major barriers, however, remain. These undermine the ability of councils to design truly local schemes. The two main ones that came up are financial constraints and the restriction over how much support councils can provide to the LCTS pensioner caseload. The latter compounds the former: it means that, in some cases, over half of LCTS funding is ring-fenced for pensioners, leaving a further reduced pot of money to spend on working age recipients. This has meant that, unless a council has sufficient revenue from elsewhere, there is little choice available in practice.

This is unfortunate, undermining both localism and efficiency, and posing questions of fairness, too. Councils feel restricted in what they can do; there is the sense that Government has provided localism only where it suits wider Government policy. True localism would see the removal of the national pensioner scheme, giving councils full control over their LCTS schemes. Similar points were made over other council tax discounts, such as the single person discount.

The potential benefits of more control over council tax discounts, including the protection for pensioners in receipt of LCTS, can be seen by looking at recent changes to other council tax discounts. The ability to charge more council tax on second homes, for example, was often quoted as a key factor in a council’s ability to design an LCTS scheme based on local need. However, a few councils did point out that these new revenue streams had been “maxed out” – so a council cannot further increase its revenue in this way – and that, meanwhile, RSG funding is reducing. They pointed out that flexibility

over the pensioner scheme is essential if councils are to continue to provide schemes designed around local need and priorities.

3. Work incentives

An important part of the thinking behind LCTS was that it should, in line with other welfare reforms, improve work incentives.²⁵ In theory, LCTS schemes should encourage unemployed residents to take up work, and low-income employed residents to increase their wages and hours.

Measuring whether or not schemes have been effective and successful in this sense could be done by simply looking at the number of claimants. As caseload numbers have been decreasing, one could deduce that LCTS schemes have managed to encourage people into work. This, however, puts causality where it might not belong. As with the above figures on caseload numbers and savings, shrinking caseloads are likely to be the result of wider economic recovery, and are not directly attributable to work incentives in LCTS schemes. This also reflects anecdotal evidence from councils. Most councils said that LCTS *in itself* has done little or nothing to help residents into work.

That is not to say that councils have not been able to design work incentives into their schemes. **Central Bedfordshire**, for example, has increased the amount of an LCTS recipient's earnings that they 'disregard' – or ignore for calculations – for working out how much council tax support that person should receive. This reduces the impact on someone's entitlement to LCTS should they take up work. Others have increased the length of time that LCTS continues to be provided after a recipient takes up work, recognising that the time between starting a job and receiving the first set of wages can be up to a month.

The component that is most commonly raised in the context of work incentives, though, is the taper rate. The taper rate is the rate at which a benefit, or, in this case, a discount, is gradually reduced as someone's earnings increase. To put it simply, a taper rate of 20% means that, for every extra £1 earned, someone's LCTS will reduce by 20 pence. The

²⁵ DCLG, *Localising Support for Council Tax: Taking Work Incentives into Account* (December 2012)

Available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/37037/121217_Work_Incentives_Guidance__2_.pdf

‘default’ taper rate for LCTS schemes, 20%, was the same as it was under CTB. While the vast majority of councils have kept the 20% taper rate, there have been some changes:

- In April 2013, 20 councils raised their taper rate to above the recommended 20%. Three councils reduced their taper rate to 15%.
- Since April 2013, four out of the 20 councils that increased their taper rate have since reduced it. Two of the 20 have increased it once more.
- Three councils that maintained the 20% taper rate for the first year of the scheme have since increased it.
- The highest taper rate is 30%, which five councils currently have.

An LCTS taper rate is only part of the story when trying to understand work incentives. As [NPI's explanation](#) highlights, tax credits, National Insurance, and income tax payments have a greater impact on the amount of earnings that someone gets to keep than an LCTS taper might. An LCTS taper rate, even a relatively high one such as, may in reality have less of an impact on employment and earnings levels than the percentage might suggest.

This is borne out in some of the evidence I gathered. When I spoke to [Harrow](#), for example, I asked if their taper rate of 30% (which is, along with four other councils, the highest taper rate currently set in an LCTS scheme) had had an impact on local employment. Did the 30% taper act as a *disincentive* to work? While they could not be certain, they did say that there had been no noticeable impact on local employment levels. Other councils that had reduced their taper rate or increased their earnings disregards – both of which, on paper, should support work incentives – commented that there was no concrete evidence that such changes encouraged people into work. However, they often added that the *principle* of making sure someone is better off in work than out of it was nonetheless an important one.

This lack of certainty around the effectiveness of LCTS work incentives was highlighted, amongst others, by [Eastleigh Borough Council](#). They explained that, while they increased the earnings disregards for the first three years, they plan to revert back to CTB-levels of earnings disregards for 2016-17. They have decided to do so because they have found that changing the earnings disregards does not impact employment levels.

One of the problems in trying to gauge whether or not work incentives in LCTS schemes can positively impact the likelihood that someone will take up work is the lack of ‘follow-up’ data. Councils told me they could not attribute LCTS work incentives to fewer claimant numbers because they do not keep track of what former recipients go on to do. In other words, an individual might stop claiming LCTS for a number of reasons; securing

work is just one of them, and work incentives in LCTS schemes themselves may be just one factor in this. Without long-term, on-the-ground, qualitative research, in order to 'track' a sample of former recipients and judge whether or not LCTS schemes encouraged them to take up work, a proper evaluation of the effectiveness of LCTS schemes as a work incentive will not be possible.

What is possible, though, is to learn from and understand what councils say *is* effective. While initiatives undertaken by councils differ – this is localism, after all – some common traits do come out. Many councils said that working with local advice agencies and employment organisations was proving effective in getting people into work and helping them to stay in work. **Harrow**, when discussing their high taper rate, suggested that their **Xcite** programme could be mitigating any negative impacts of the 30% taper on employment levels. Under Xcite, unemployed residents can get access to one-to-one coaching, CV-writing help, monthly job workshops, interview practice, and events with local employers. Other councils also pointed to employment programmes they had, which linked up Benefits teams with JobCentre staff, advice agencies, local employers, and adult education and skills organisations. However, they often highlighted that these predated the introduction of LCTS.

LCTS can be seen as *indirectly* supporting local employment in one way. In the regional **IRRV forums**, a few councils spoke positively of the new initiatives undertaken to help residents into work since LCTS was introduced. I heard from some councils that, since LCTS, they are working more closely and more strategically with local organisations to support employment levels. Put simply, the financial responsibility and risk that comes with localising council tax support has encouraged some councils to be more active in helping residents into work.

COUNCIL TAX REDUCTION SCHEMES IN WALES

1. Introduction

As I explained earlier, this review covers council tax reduction (CTR) schemes in Wales, given they are made under the provisions set out in the *Local Government Finance Act 2012*. The reality is that Welsh schemes operate under a bespoke framework, created by the Welsh Government, which maintains council tax support at council tax benefit levels. I examined this framework to see whether there are lessons applicable to schemes in England and vice versa.

2. How the Welsh LCTS system works

Following the abolition of CTB, the UK Government transferred £222 million to the Welsh Government for the provision of a replacement scheme. At the same time, as with England, the funding moved from demand-led Annually Managed Expenditure to fixed-budget Departmental Expenditure Limit. This funding was provided directly to councils in 2013-14, as part of the Revenue Support Grant.

Welsh Ministers decided to maintain CTB levels of support, and provided an additional £22 million to councils for 2013-14 to fund this. This additional funding was calculated to meet the full cost of the CTB system at the point of its abolition. This level of support (£244 million) for councils has been maintained since then.

The Welsh system of CTR is based on a set of key principles:

- consistency and equity of treatment across Wales
- affordability
- minimising the risk of not having a replacement scheme in time
- avoiding sudden shifts in the level of support provided
- simplifying and improving the previous CTB system where possible

In order to meet these principles, the Welsh Government decided to create a national framework scheme with minimal discretion. This is delivered through regulations setting

out a scheme for all Welsh authorities, and a default scheme, should the authorities not have a scheme in place.

There are some areas of local discretion, and Welsh councils have some flexibility to tailor their schemes to suit their local needs and priorities. Examples of these include increasing the period that recipients whose circumstances change continue to be entitled to CTR beyond the standard four-week period, disregarding more than the prescribed £10 of War Disablement and War Widows Pensions when calculating income, and backdating applications beyond the standard three-month period.

3. Welsh implementation of LCTS

Whilst the Welsh Government was successful in introducing its national scheme on time, and also took the opportunity to add some simplifications along the way, officials raised the point that the policy development from Whitehall was rushed and, at times, uncertain. It required significant political consideration, and the Welsh Government needed to be reconvened over Christmas period when considering the funding.

I heard at the **IRRV forum in Newport** that the change placed significant demands on both the Welsh Government and councils to put schemes in place by the January 31st deadline. Overall, and in line with what councils in England told me, more timely announcements from the UK Government and longer lead-in times would have made for a smoother implementation.

4. CTR and the review's themes

Latest figures provided by the Welsh Government show that the CTR caseload has reduced by 4.7% since 2013 (to 301,500), with the cost of providing CTR rising by 2.18% to £253.3 million. The increase in costs, despite falling caseloads, is attributed to council tax rises, uprating, and demographic changes.

In terms of **efficiency**, Welsh councils have had much less to do than their English counterparts, and so have not faced the same level of administrative burdens. Transitional funding of £4.6 million was also provided to assist councils in meeting software, training and communications costs. That said, there is some anecdotal reporting of administrative pressures, and there remains uncertainty about the future of the Admin Subsidy with regard to Welsh authorities.

Whilst some Welsh authorities raised the issue of ongoing additional administrative pressures, there has not been any noticeable impact on collection rates (which, in 2013-14, *increased* to the highest collection rate in Wales since the introduction of council tax), and costs associated with collecting council tax and recovering arrears, in contrast to England. This also suggests a minimal impact on issues around **fairness**. For example, only 58 appeals relating to CTR were received by the **Valuation Tribunal for Wales** between 2013 and 2015, compared with 1,234 in England. Even accounting for the fact that England has a much higher caseload, the number of appeals received in Wales is, proportionately, far lower.

In terms of **transparency**, both the funding available for CTR and the details of the schemes are publicly available. Where councils wish to take advantage of flexibilities to provide more generous support, they consult on their schemes. The Welsh Government also produces and publishes an **annual report**, and draws information from councils' software systems through its contract with Datatank, a data solutions company for local government. Through this, Welsh Government can present a detailed and thorough analysis of how CTR is being used across the country. As I was shown by Welsh Government officials when I met them, it is an impressive facility for understanding the impact of its CTR policy.

As to **effectiveness**, it is difficult to say that the new system in Wales has saved money. More accurately, it has changed where that money has come from: the £22 million which was provided by the Welsh Government in the first year could have been used on other areas. Unlike councils in England, though, it does not seem as if councils in Wales are incurring extra costs because of CTR. In terms of localism, whilst Wales has a prescribed scheme, it does allow for local flexibility if councils wish to be more generous in the support available to residents.

In terms of the future, there is scope for innovation in Wales. It already has discretion over powers I argue should be devolved to councils in England, namely on pensioner support and single person discount. However, the specific future of CTR will be a consideration of its future administration, following elections in May 2016.

UNIVERSAL CREDIT

1. Why is the review looking at UC?

As set out in both the *Local Government Finance Act 2012* and the [terms of reference](#), this review was explicitly asked to “make recommendations as to whether or not the schemes should be brought within Universal Credit”.

The task is substantial, and goes to the heart of a debate around what council tax support is and what its purpose should be. To provide a view, I have assessed the evidence and the different issues raised.

I note the separate **DWP Select Committee** recommendation in January this year that:

*The review benefits from DWP’s input to this analysis. The Government must ensure that local decisions do not militate against the policy intentions of the national benefits system.*²⁶

The review has not included a detailed scrutiny of data held by the DWP or an in-depth review of the interplay between LCTS schemes and the welfare system. Such an analysis is beyond the time and expertise available to this review, and moves into the realm of modelling theoretical policy options. Instead, I have set out the cases for and against incorporating LCTS into Universal Credit (UC), reflecting the evidence that I have gathered and seen.

2. Summary of views

Before considering ‘for’ and ‘against’, it is worth qualifying this: the question itself is too simplistic and open to interpretation. For some, moving LCTS into UC was a *de facto* return to CTB – a return to a nationally-set benefit provided by Government. For others, it was a locally-set discount to council tax bills, integrated and administered by central

²⁶ House of Commons Work and Pensions Committee: *The Local Welfare Safety Net, Fifth Report of Session 2015–16* (January 2016), p. 41
Available at: <http://www.publications.parliament.uk/pa/cm201516/cmselect/cmworpen/373/373.pdf>

government but collected by local government. These two options in themselves have a series of sub-options. For example, the amount of money provided for LCTS, how the funding is routed, and the degree to which local flexibility would remain in the design of schemes. In the absence of a policy proposal, the choices being commented on were not always clear.

This may in part be why some respondents provided mixed views. Some councils qualified their opinion on the matter by saying that they supported an integration into UC with their ‘benefits hat’ on but not with their ‘revenues hat’ on. Others supported integration into UC, but, at the same time, they also supported greater local control in setting council tax discounts. These issues are expanded below.

3. The case for moving LCTS into UC

Many councils, such as **Blackpool** and **Camden**, highlighted that centralising LCTS would redress the administrative burden on them that came with LCTS, and **simplify the system**. The need for simplification has been a long-standing issue. Margaret Hodge MP, speaking as chair of the **Public Accounts Committee** in 2014 as it published its 48th Report said:

DWP on the one hand wants to simplify benefits by merging six benefits into the new Universal Credit. Yet here DWP and DCLG are complicating matters by localising Council Tax support.²⁷

Some councils, such as **Colchester**, also pointed out that combining LCTS with UC as a single and consistent entitlement would end the “postcode lottery” of support provided by LCTS. **CPAG** and **Z2K’s** joint reports also make the point that council tax benefit was simply not suited to localisation: there should be a consistent, means-tested benefit to those in need of support.

Many of these points on administrative efficiencies and fairness assume that such a change would be a return to a nationally-set benefit: it would negate the need for local scheme design, consultations, and higher costs of collection, whilst also providing a

²⁷ Quote from Margaret Hodge MP, “Work Doesn't Pay for Some After Council Tax Policy Change” (March 11th 2014)

Available at: <http://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/news/council-tax-support-report-publication/>

consistent level of support. This might not be the case though, should councils retain the responsibility to design and implement schemes.

Some councils, such as **Tower Hamlets**, understood this dichotomy, and felt that **Government should make a choice** between ‘going national’ and returning to a fully national benefit incorporated into UC; or ‘going local’ and allowing more local control of council tax, and greater discretion on other discounts, including LCTS for pensioners and the single person discount.

Some respondents felt that having a separate system operating outside of UC fundamentally undermines **work incentives**, as it sits out of national control. **Child Poverty Action Group** highlighted that the rate of benefit withdrawal can be determined by the council’s LCTS scheme. **NPI’s** helpful analysis in its 2015 report, *Managing the Challenges of Localised Council Tax Support*, shows that, in some scenarios, the impact of LCTS operating outside of UC can be high marginal tax rates – precisely what the creation of UC had intended to avoid. It is important to consider this in context:

While maximum marginal effective tax rates can be 81% rather than 76% with CTS kept separate, this happens in a relatively narrow band and UC is still for most family types an improvement over the current system.²⁸

That said, given the changes to LCTS year on year, it is not possible to say how significant the impact will be over time.

A final reason for including LCTS in UC would be to ensure that individuals are **receiving what they are entitled to**. Research by the **Citizens Advice** across 16 offices found that individuals were not always aware they can claim LCTS, given there were different claims systems for UC and LCTS. Their report on Universal Credit suggests that, because there is no passporting (where individuals on certain benefits would automatically receive LCTS), many individuals on UC do not know about the availability of LCTS. The report states that:

There was also a lot of confusion about council tax reduction [LCTS] – approximately a third of the sample of those who would be likely to be eligible for

²⁸ NPI, *Managing the Challenges of Localised Council Tax Support* (July 2015), p. 34
Available at: http://npi.org.uk/files/2514/3446/8040/CTS_BP_report.pdf

CTR [LCTS] (about 70% of all respondents) had either applied for it late or were unaware that they were likely to be eligible.²⁹

Finally, some respondents highlighted that integrating LCTS into UC should, in theory, make it easier to share data between central and local government. This could mean that LCTS can be more effectively provided, and that instances of fraud could be reduced.

4. The case against moving LCTS into UC

How and when?

The first point to highlight against moving LCTS into UC is an entirely practical one. Many councils believe that Government is simply not ready for such a policy change. The review team's informal discussions with **DCLG**, **DWP**, and the **Treasury** reinforced this, in that there seemed to be no contingency plans worked up for such a move: this would be an entirely new stream of work for UC to include.

From these and other discussions, it appears that implementation of UC in its current form was a big enough challenge. Requiring Government to track and integrate year on year over 300 different schemes, which have, as many councils say, "bedded in", would be an enormous extra challenge for DWP. In this process of consolidating the schemes into UC, there would also be additional IT costs at local and national levels, and a significant risk of error.

Newcastle City Council, along with other councils and representative bodies, drew attention to problems it had already witnessed since the implementation of UC in its area in April 2015. These respondents expressed a lack of confidence in the ability of UC to work effectively, highlighting issues such as inconsistent paperwork, delays in housing benefit claims, notification letters to landlords not being sent out, confusion for claimants, and errors in rent calculations.

Whether justified or not, councils have no confidence that a transfer into UC would be effectively managed or administered. Many respondents felt that the current priority for

²⁹ Citizens Advice, *Waiting for Credit The Delivery of Universal Credit as Experienced by Citizens Advice Clients in England and Wales*, (2015), p. 10

Available at:

<http://www.northliverpoolcab.org.uk/documents/Waiting%20for%20Credit%20PDF%20final.pdf>

Government should be implementing UC quickly and effectively, rather than risking a major policy change on LCTS. This contrasts with the self-confidence of local government in its administrative ability, evidenced by its improving performance on collection rates. There was also scepticism from some councils as to whether council tax debt would receive the same priority as 'Government debt', should LCTS be incorporated into UC.

In terms of timing, the UC timetable shifted during the course of the review. It is clear that UC will not be fully in place until 2021, and implementation will run to different timetables in different areas. As well as DWP's capacity to administer this added complication of different roll-out timelines across the country, it was considered by some councils as an "administrative nightmare": it could lead to significant confusion, where some places have LCTS, and others do not, throughout the long UC implementation period.

How much?

As referenced above, it is not clear what form a centralisation of LCTS would take, should it go into Universal Credit. That said, I heard at **interviews** and **IRRV forums** a justified fear from local government regarding **how much funding government would seek to claw back**. Given that Government has maintained that the 2013-14 funding for LCTS has been maintained each year amidst budget cuts to councils, there was strong concern that this would be how much would be withdrawn from Revenue Support Grant. Councils felt this would be unfair, and that it would pose more financial risk to them.

In practice, as we have seen, most councils have to model their scheme on affordability, taking into account the overall reduction against RSG. One council, for example, forecasts a 50% reduction in Government funds provided to them for LCTS by 2019-20, reducing their LCTS funding to £1.63 million. **Kettering Borough Council** applies this reduction in funding rigidly; this is the reason why the council is now moving to a 45% minimum payment scheme from 1st April 2016. Regardless of how much funding would be brought back to Government, any shortfall would need to be funded from *somewhere*. This is on top of any other investment councils have put into their schemes, in terms of staffing, scheme design, consultation and administration.

Impact on residents and council tax arrears

I also heard from many a real concern that moving LCTS into UC would be confusing to residents. As the **BenX Group** raises, those entitled to LCTS would receive a full council tax bill from their council, some of which would be offset by a UC payment and the rest expected to come from their income. This would be an additional burden of financial management on recipients, and could be very challenging for some.

Research undertaken during October and November 2015 by the **Association of Retained Council Housing** surveyed some councils and ALMOs (Arms-Length Management Organisations, which provide housing services for councils). There were 36 responses from organisations which, between them, housed around 2,000 households in receipt of Universal Credit. The research found that 89% of these households were in rent arrears and 34% were subject to an alternative payment arrangement, involving payment of rent support direct to the social landlord.³⁰

Based on the evident impact of Universal Credit on rent arrears, the assumption of many councils is that council tax arrears will rise if LCTS is put into Universal Credit. As the **London Borough of Hackney** put it, “There is a significant difference from collecting £5-20 per month to collecting £107 per month”.

Councils painted a gloomy picture of the impact on residents, with more residents in arrears and more court summonses. The **IRRV** forecasts that such a change would mean that “debts could also increase as more cases would need to be referred to Enforcement Agents”. This would mean additional costs of collection and enforcement, at least some of which would be passed on to residents.

This risk of increased arrears could be mitigated by introducing a direct payment to councils to cover LCTS entitlement of their council tax, which some councils like the **London Borough of Ealing** considered vital. However, introducing a separate payment route could undermine the reasoning behind integrating LCTS in the first place, and would add its own set of administrative challenges.

³⁰ Association of Retained Council Housing, *Welfare Reform Survey 2015: Executive Summary*, p. 1
Available at: http://www.arch-housing.org/media/81970/18.12_welfare_reform_survey_results.pdf

Financial risk to councils

The prospect of centralising LCTS and of councils consequently losing control over the collection of council tax drew extremely strong responses. It is believed that this would be “catastrophic” for local government revenue. Councils pointed out that they would carry significant financial risk if additional council tax had to be collected from low-income residents on Universal Credit. It could, as **Liverpool City Council** put it, “destabilise Council finances at a time when councils face further funding cuts”.

Council tax income from LCTS recipients represents a significant amount of local budgets. In **St Helens**, for example, the council told us they have 10,000 working-age claimants who receive a total discount of £6.3 million:

Any move to incorporate council tax reduction into Universal Credit would place significant further financial risks on the council if this additional money was to be collected via council tax.

Most councils who provided evidence felt there was little prospect of successfully collecting council tax debt if LCTS was paid to recipients directly through UC. Some councils already regarded LCTS debtors as the “most difficult” debt to collect. The **Pan Essex Benefits Group** pointed out that the impact on finances and cash flow would run wider and would be felt by all council tax preceptors. Parish councils were worried that this would bring added pressure to bear on billing authorities to withhold funding for parishes.

Localism

The final theme against putting UC into LCTS was that it would run against principle of localism. The **Local Government Association** made this point strongly, as did many councils and partnerships from across the country.

Despite the difficulties of LCTS implementation, many councils were understandably proud of the work they had done in designing and administering *their* schemes. **South Gloucestershire**, whom I interviewed, is at one end of the spectrum with its unique income band scheme designed from scratch. I heard throughout my interviews how other councils had taken steps to tailor their schemes to local circumstances, such as the selection of protected groups in **Milton Keynes Council**. Notwithstanding consultation issues raised in the Transparency chapter, many councils had worked hard to make the most of this to engage local people. **Newcastle City Council**, for example, wrote of the “improved communication to residents”.

On a similar theme, a point I heard repeatedly was that moving into UC would remove the opportunity to innovate. Some councils I interviewed, like **Milton Keynes, Harrow,** and **Walsall**, were considering working up simplified schemes for future consideration, which could move away from the ‘CTB-style’ means-testing approach.

The point was echoed at many **IRRV forums** by practitioners, as councils can start to consider efficiency savings once housing benefit becomes part of UC. **South Gloucestershire** has already implemented a much simpler scheme, but told us that efficiencies were yet to be fully realised whilst the council still administers housing benefit and LCTS pensioner schemes. The **Welfare Reform Club**, the local welfare delivery consultancy, estimated that savings of some 30% could be achieved by moving to a discount scheme by 2019. Removing LCTS at the time when councils are more likely to make use of their freedoms, and create efficiencies, would be a “backward step for localism”, as some councils put it.

Given the balance of evidence, and the risks to councils, individuals, and Government of integrating LCTS into UC at the present time, **I recommend that LCTS is retained as a local discount scheme. However, in order to enable councils to be more effective and more sustainable in delivering LCTS, Government should devolve greater discretion over other discounts, including support for pensioners and single person discount.**

APPENDICES

Appendix 1: Terms of Reference of the review³¹

Context

In April 2013, council tax benefit (CTB) was replaced by local council tax support (LCTS) schemes. Councils were given 90% of their forecast CTB cost and the freedom to design their own support schemes, taking into account local needs and priorities.

The aims of the policy were to:

- help decentralise power and give councils increased financial autonomy;
- support deficit reduction;
- give councils a greater stake in the success of their local economy.

An independent review of the LCTS schemes is required under Section 9 of the *Local Government Finance Act 2012*.

Scope

The review will take into account all LCTS schemes. The review will cover England, and will also consider views of the Welsh Government and evidence submitted by Welsh authorities on local council tax reduction in Wales.

As set out in the legislation, the review will focus on the **effectiveness, efficiency, fairness** and **transparency** of the different LCTS schemes. It will also consider their impact on the localism agenda, and will make recommendations as to whether or not the schemes should be brought within Universal Credit.

³¹ As published on the DCLG website on December 2nd 2015:

<https://www.gov.uk/government/news/launch-of-review-into-council-tax-support>

In examining local schemes, the review will consider the scope for promoting examples of best practice, including how councils have been able to reduce or manage administrative costs, promote simplified schemes, and communicate the changes to residents.

The scope of the review will focus specifically on local council tax support schemes. It will not include any broader aspects of government policy on local government finance, council tax, or the welfare system.

Timing

The review will report to the Secretary of State for Communities and Local Government by the end of March 2016.

Appendix 2: List of interviews completed

Interviews held between December and January 2016

1. Birmingham City Council
2. Camden London Borough Council
3. Central Bedfordshire Council
4. Colchester Borough Council
5. Cornwall Council
6. Eastbourne Borough Council
7. Harrow London Borough Council
8. Liverpool City Council
9. Manchester City Council
10. Milton Keynes Council
11. North Norfolk District Council
12. South Gloucestershire Council
13. Sutton London Borough Council
14. Tower Hamlets London Borough Council
15. Walsall Metropolitan Borough Council

Interviews held in March 2016

- Welsh Government

Appendix 3: Questions for interviews

Note: The below is a copy of the list of questions I used as a rough guide in each of the interviews I had with the 15 councils listed above.

General

1. Any overall impressions about LCTS

Current implementation

2. What has been your local experience of designing/delivering LCTS schemes? Did it feel streamlined and clear? What were the main challenges?
3. How have you funded your LCTS scheme?
4. What changes have you made since 2013? What would you do differently now?

Efficiency

5. Has LCTS affected collection rates?
6. Has LCTS affected arrears or debt recovery?
7. Have admin costs been reduced?
8. If you could, what would you change or do differently to make LCTS run more efficiently?

Effectiveness

9. How have national savings been applied in your local scheme?
10. How has LCTS impacted upon work incentives? What (if anything) have you done to supplement impacts?
11. Do you feel the scheme has allowed your authority more freedom?

Fairness

12. What are your thoughts on the fairness of LCTS on i) councils, ii) claimants, and iii) other council tax payers
13. What drove the decision about the nature of your LCTS scheme?
14. What impact has LCTS had on the number of claimants in arrears?
15. How does your authority support those in difficulty of paying?

16. If you had more flexibility in your scheme, do you think you would make different decisions for reasons of fairness? What would those decisions be?

Transparency

17. Are details of your scheme easily accessible? What efforts has your authority made to support this?
18. How did/do you consult stakeholders when designing your scheme?
19. Are advice clinics or other services available to citizens to help them understand the scheme? How accessible and used are they?

The future of LCTS

20. What are the barriers to delivering LCTS effectively in the future?
21. How do you plan to improve how LCTS is delivered in the future?
22. If you could change three things in order that LCTS might better meet its objectives for your authority, what would they be?

Appendix 4: List of IRRV forums attended

*Note that some councils and organisations that were registered to attend did not necessarily attend the workshop held by the review team. The list is provided here **only as a rough guide** on which councils may have been present.*

Location	Date	Organisations registered to attend
Derby	2 nd December	Boston BC; Ashfield DC; Lincoln CC; Broxtowe DC; Blaby DC; Hinckley & Bosworth BC; North West Leicestershire DC; North East Derbyshire DC; Newlyn; Equita; Bristow & Sutor
Birmingham	3 rd December	Rugby BC; Stratford DC; Tamworth BC; Cannock Chase DC; Lichfield CC; Warwick DC; Solihull MBC; Shropshire Council; Telford & Wrekin Council; South Staffordshire Council; Newlyn; Equita; Datatank
Ipswich	7 th December	Tendring DC; Great Yarmouth BC; West Norfolk DC; Colchester BC; Broadland DC; Braintree DC; Newlyn
Newport	8 th December	Caerphilly; Blaenau Gwent; Swansea; Bridgend; Bath & North East Somerset; Neath Port Talbot; Merthyr Tydfil; Rhondda Cynon Taff; Datatank; Herefordshire; North Somerset
Exeter	9 th December	Torrige DC; North Devon DC; Mid Devon DC; East Devon DC; Teignbridge DC; Plymouth City Council; Exeter CC; Sedgemoor DC; Ross & Roberts
Wigan	10 th December	Pendle BC; Ribble Valley BC; Manchester CC; South Ribble BC; Wyre Council; Burnley BC; Preston CC; Lancaster CC; Sefton Council; Halton BC; Cheshire East Council; South Lakeland DC; Warrington BC; Carlisle Council; Allerdale DC; St Helens MBC; Newlyn; Equita; Bristow & Sutor
London	15 th December	North Herts DC; Newham LBC; Eastbourne BC; East Herts & Stevenage BC; Basildon BC; Tower Hamlets LBC; Huntingdonshire DC; Ashford BC; Lewes BC; Cambridge CC; Tunbridge Wells BC; Swale BC; Gosport BC; Ealing LBC; Dacorum BC; Rushmoor BC; Eastleigh BC; Central Bedfordshire Council; Epping Forest DC; Lewisham LBC; Sevenoaks DC; Redbridge LBC; Tandridge DC; City Of London; Southend BC; Wycombe DC; South Bucks DC; Tonbridge & Malling BC; Winchester CC; Broxbourne BC; Equita
Bradford	16 th December	Hull CC; East Riding; York CC; Sheffield CC; Harrogate BC; Wakefield Council; Newlyn; Bristow & Sutor
Durham	17 th December	Richmondshire DC; Northumberland CC; Newcastle CC; Hambleton DC; Hartlepool BC; Middlesbrough BC; Stockton Council; Bristow & Sutor

Appendix 5: Questions used for IRRV forum workshops

Below are the notes the review team handed out to forum attendees, explaining how the workshop would work. Attendees were split into groups and asked to discuss at least one of the review themes. Attendees were also given the review's terms of reference, and an introduction outlining the aim of the workshop.

IRRV December Forums:

Group discussions to input into the Review of Local Council Tax Support

We would like to use group discussions to explore the review themes against the policy objectives. Each group should look at **one theme**. You have **25 minutes** to discuss your allocated theme with your group. One person from each group will need to summarise key points to the forum.

No comments will be attributed to individuals or organisations. The discussion's key points will be written up by the review team and used to highlight themes in the review. The review report will quote our attendance at these IRRV sessions as part of our evidence gathering.

What are we looking for?

Keen to hear **experience** and views on **improvement**:

1. Local **experience**, particularly responses to challenges, learning from mistakes, barriers, innovation, and best practice. For example:
 - What has been your local experience of designing/delivering LCTS schemes? What were the main challenges? How did you overcome these? How have these changed over time?
 - What changes have you made since 2013? What would you do differently now?

2. Views from local areas/local revenues and benefits practitioners on how LCTS could be **improved** to work better in these areas. For example:
 - What are the barriers to delivering LCTS in the future? How do you plan to improve how LCTS is delivered in the future?
 - If you could change three things about LCTS better meet its policy objectives, what would they be?

Examples of theme subjects you may want to explore

Effectiveness

- Have savings been made?
- How has LCTS impacted work incentives?
- Has LCTS given more freedom to councils? Does it support the localism agenda?
- Were there any unforeseen consequences of the introduction of LCTS?
- What changes have been made and why?

Efficiency

- How did the implementation of LCTS go? Was it a streamlined and clear process?
- Has LCTS affected collection rates?
- Has LCTS affected arrears or debt recovery?
- Are authorities relying on reserves to fund LCTS?
- Have admin costs been reduced?

Fairness

- To what extent are the LCTS schemes based around affordability rather than the needs of the council's population?
- What counts as 'income' for the purposes of means testing?
- What impact does the pensioners-protected policy have on funding for other groups?
- How many claimants are in arrears?
- How do councils support those in difficulty of paying?

Transparency

- Are schemes easily accessible? Are schemes published online in plain English?
- How do local authorities consult stakeholders when designing their schemes?
- Are advice clinics or other services available to end users designed to help them understand the scheme? How accessible and used are they?
- How are arrears and collection letters designed and written? Is the procedure of debt collection understood?
- Is further support (eg hardship fund) / the appeals process clearly laid out to all claimants?

Appendix 6: Responses to the public call for evidence

The number of responses by the type of respondent:

Type of respondent	Number of responses
Local Authority: Collective	7
Local Authority: County	1
Local Authority: District	9
Local Authority: London Borough	13
Local Authority: Metropolitan	13
Local Authority: Parish/Town Council	19
Local Authority: Unitary	14
Sector Body	7
Third Sector/Think Tank	13
Individual	5
Other	4
Total:	105

The total number of organisations represented in responses to the call for evidence, accounting for joint responses representing more than one organisation:

Type of respondent	Number of organisations represented
Local Authority: Collective	7
Local Authority: County	27
Local Authority: District	43
Local Authority: London Borough	13
Local Authority: Metropolitan	33
Local Authority: Parish/Town Council	19
Local Authority: Unitary	34
Sector Body	7
Third Sector/Think Tank	13
Individual	5
Other	8
Total:	209

Appendix 7: Meetings held with stakeholders (excluding councils)

Review team attendance at Council Tax Partnership Forum meetings:

1. 19th October 2015
2. 20th January 2016

Meetings with stakeholders:

1. Child Poverty Action Group
2. Citizens Advice
3. Department for Work and Pensions
4. Local Government Association
5. Local Government Ombudsman
6. National Association of Local Councils
7. New Policy Institute (three meetings)
8. Taxpayers Against Poverty
9. Valuation Tribunal Service
10. Zacchaeus 2000 Trust

Appendix 8: Published reports and research consulted

Advice York. Every Penny Counts: The Real Cost of Council Tax Support (October 2015)

Child Poverty Action Group & Zacchaeus 2000 Trust. A New Poll Tax? The Impact of the Abolition of Council Tax Benefit In London (July 2014)

Child Poverty Action Group & Zacchaeus 2000 Trust. Too Poor to Pay: The Impact of the Second Year of Localised Council Tax Support in London (July 2015)

Department for Work & Pensions. Council Tax Benefit: Forecasts and Assumptions (December 2012)

House of Commons Public Accounts Committee. Council Tax Support: Forty-eighth Report of Session 2013–14 (March 2014)

House of Commons Work and Pensions Committee. Oral Evidence to the Local Welfare Safety Net Inquiry (November-December 2015)

Institute for Fiscal Studies. Council Tax Support Schemes in England: What did local Authorities Choose, and with What Effects? (January 2014)

Joseph Rowntree Foundation. How Have Low-Income Families been Affected by Changes to Council Tax Support? (April 2014)

Local Government Association. Briefing for the Debate on the Localisation of Council Tax Support (May 2014)

Local Government Association. Council Tax Support: The Story So Far (2014)

Local Government Association. Council Tax Support: The Story Continues (January 2015)

Local Government Information Unit (LGIU). Update on Council Tax Support (March 2014)

National Audit Office. Council Tax Support (December 2013)

National Audit Office. Local Welfare Provision (January 2016)

New Policy Institute. Local Welfare Safety Net Inquiry: Submission from the New Policy Institute (November 2015)

New Policy Institute. Managing the Challenges of Localised Council Tax Support: What Are the Options for Councils? (July 2015)

New Policy Institute. The Impacts of Council Tax Support Reduction on Arrears,
Collection Rates and Court and Administration Costs (September 2014)

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