



House of Commons
Communities and Local
Government Committee

**Local Government
Finance: Council Tax
Benefit: Government
Response to the
Committee's Eighth
Report of Session
2006–07**

**First Special Report of Session 2006–
07**

*Ordered by The House of Commons
to be printed 9 October 2007*

HC 1037
Published on 15 October 2007
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

Communities and Local Government Committee

The Communities and Local Government Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Communities and Local Government and associated bodies.

Current membership

Dr Phyllis Starkey MP (*Labour, Milton Keynes South West*) (*Chair*)

Sir Paul Beresford MP (*Conservative, Mole Valley*)

Mr Clive Betts MP (*Labour, Sheffield Attercliffe*)

John Cummings MP (*Labour, Easington*)

Mr Greg Hands MP (*Conservative, Hammersmith and Fulham*)

Martin Horwood MP (*Liberal Democrat, Cheltenham*)

Anne Main MP (*Conservative, St Albans*)

Mr Bill Oler MP (*Labour, Nuneaton*)

Dr John Pugh MP (*Liberal Democrat, Southport*)

Emily Thornberry MP (*Labour, Islington South and Finsbury*)

David Wright MP (*Labour, Telford*)

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/clgcom.

Committee staff

The current staff of the Committee are Jessica Mulley (Clerk of the Committee), David Weir (Second Clerk), James Cutting (Committee Specialist), Sara Turnbull (Committee Specialist), Clare Genis (Committee Assistant), Ian Blair (Chief Office Clerk), Kerrie Hanley (Secretary) and Laura Kibby (Select Committee Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Communities and Local Government Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 1353; the Committee's email address is clgcom@parliament.uk

Contents

Report	<i>Page</i>
First Special Report	1
Appendix: Government response	1
Conclusions and recommendations	1

First Special Report

1. On 7 August 2007, the Committee published its Eighth Report of the Session 2006-07 as HC 718-I, on Local Government Finance: Council Tax Benefit. The Government's response, in the form of a memorandum to the Committee, was received on 2 October 2007.
2. The Government's response is published as an Appendix to this Report.

Appendix: Government response

The Government welcomes the Eighth Report of the Communities and Local Government Committee Session 2006-07 on Local Government Finance: Council Tax Benefit and the Committee's valuable contribution to this area of policy.

Council Tax Benefit (CTB) makes an important contribution to the financial security of over five million households on low incomes. The recent Lyons Inquiry into Local Government¹ acknowledged that CTB is key to ensuring council tax is fair for low-income households.

The Government is looking to deliver CTB as accessibly, simply and securely as possible. The Lyons Inquiry did not recommend structural change to CTB but, as with all benefits, CTB will be kept under review to ensure that it is meeting its objectives.

Conclusions and recommendations

Recommendation 1: Public perceptions of the legitimacy of the council tax are likely to be further undermined if the mechanism designed to alleviate the financial burden it places on low-income households is not effective. Council tax benefit eligibility, entitlement and take-up must be improved.

The Government is concerned that around four out of ten pensioners may be entitled to but not claiming CTB and wants to ensure as far as possible that these low-income households get the support they are entitled to. Pensioners are therefore the Department for Work and Pensions' (DWP's) priority for raising CTB take-up and it has put in place measures to ensure improvements are made. It is encouraging to note that CTB take-up by pensioners increased in 2005-06² for the first time since 1997.

DWP has also invested substantial amounts of money to improve CTB administration by local authorities (LAs) to help customers receive an efficient and effective service.

Longer-term, DWP's aim is to deliver CTB as accessibly, simply and securely as possible and it continues to do research to look at how this might be achieved.

¹ *Lyons Inquiry into Local Government Final Report*, published March 2007

² *Income Related Benefits Estimates of Take-up in 2005/2006*, DWP, September 2007.

Recommendation 2: Given the Government's commitment to eradicating child poverty it is difficult to see how it can justify the maintenance of council tax benefit rules that even on its own estimates leave some 600,000 children living in poverty whose families are still liable to pay full council tax.

Recommendation 3: The council tax benefit taper, and its interaction with other parts of the tax and benefit system, can act as a disincentive to work. We recommend that the Government address this issue with some urgency and recognise the detrimental effects of the council tax benefit taper in its work on welfare reform.

DWP does keep eligibility thresholds for CTB under review, but there are other issues to take into account including affordability and what is being done more widely to help low income households. Increased financial support, particularly through the Child Tax Credit and Child Benefit, has played an important role in lifting children out of poverty and will continue to do so. However, the Government believes that helping parents return to the labour market is the best route out of poverty for themselves and their children.

DWP research³ published in 2006 on awareness and understanding of Housing Benefit (HB) and CTB as in-work benefits highlighted areas where there is a need to improve the basic awareness and understanding of these benefits amongst Jobcentre Plus staff and customers. This is because the research found that, in general, customers do not take account of HB and CTB in their 'better-off' calculations and this distorts their decision whether to move into work.

The CTB (and HB) taper is generally regarded as primarily an issue for people in work whose benefit may reduce as their earnings increase, rather than as a disincentive to take up work. The combined effects of benefits withdrawal and taxation as income increases are known as Marginal Deduction Rates (MDRs). The lack of awareness of in-work HB/CTB implies that MDRs in this sense are not at the forefront of people's minds when considering a move into work.

In addition, HM Treasury published some analysis on MDRs in Budget 2007 in which they did not find any evidence of their adverse affects.⁴ However DWP is aware that taper rates are a concern and it will continue to keep them under review as part of the wider reforms of the benefit system.

Recommendation 4: We recommend that the Government includes examination of the consequences of aligning council tax benefit eligibility thresholds with thresholds used in other parts of the tax and benefit system in its research programme.

The Government is prepared to consider the viability of this recommendation, but this is for the longer-term.

Recommendation 5: We urge the Government to consider sympathetically proposals to raise, and ultimately abolish the use of, an upper savings limit in determining eligibility for council tax benefit, not just for pensioners, but for all.

³ DWP Research Report No. 383 *Housing Benefit and Council Tax Benefit as in-work benefits; customers' and advisors' knowledge, attitudes and experiences, 2006* <http://www.dwp.gov.uk/asd/asd5/rrs2006.asp#hbctbinwork>

⁴ See Box 4.4 on page 103 of Chapter 4, Budget 2007 http://www.hm-treasury.gov.uk/media/A/2/bud07_chapter4_267.pdf

The Government keeps the capital limits in CTB under review. As with other income-related benefits, the capital limits aim to strike a balance between encouraging people to save and the proper use of public money.

The upper capital limit of £16,000 in CTB serves a real purpose by targeting the resources available to provide financial support for those most in need. The Government believes that it is reasonable to expect that people with savings contribute towards their local services through Council Tax.

Recommendation 6: The Government should review age-related anomalies in council tax benefit with a view to removing them as part of its work to simplify the benefits system for claimants.

When Pension Credit was introduced in October 2003, the Government increased the applicable amounts in HB and CTB for people over 65 by an amount equivalent to the maximum savings credit element of Pension Credit. This measure prevented CTB entitlement being reduced by awards of savings credit and ensured that pensioners getting both Pension Credit and CTB did not lose what they had gained. Around two million pensioner households became either entitled to CTB for the first time or qualified for more help.

Rather than creating anomalies, the amendments made to CTB to reflect the introduction of Pension Credit maintained the simplification already in place across income-related benefits for pension age customers. Applicable amounts and capital rules in CTB had previously matched those in Minimum Income Guarantee, the precursor to Pension Credit. In addition to increasing applicable amounts, the treatment of capital in the CTB calculation was changed for pensioners in 2003 to align it with Pension Credit.

Recommendation 7: We recommend an immediate change to describe all reductions in council tax liability as the rebates that they actually are.

The Government acknowledges that renaming CTB to reflect its true nature as a tax rebate may encourage more people to claim their entitlement. It does not however think that purely rebranding CTB without making any other changes to the way the benefit is delivered would remove public perception barriers to CTB take-up. The Government will keep this suggestion in mind in any future changes to the way CTB is delivered.

Recommendation 8: We recommend that the Pension Service acts as a portal to council tax benefit for all telephone customers calling to claim pension credit.

The Government wants to ensure as far as possible that pensioners who are entitled to CTB receive that entitlement. The Pension Service is already working constructively to ensure that people applying for Pension Credit have access to CTB (and HB), and it is considering how the current arrangements might be further improved. Any proposed changes in this area will of course have to be weighed alongside other priorities for the tax and benefits system as a whole.

Recommendation 9: We recommend that the Government accelerate efforts to promote inter-agency data-sharing, particularly between the Pension Service, HMRC and local authorities, as a means of increasing council tax benefit take up. Supporting

research should include an examination of the impact of data protection legislation on the potential for greater data-sharing and options for maintaining privacy for individuals who do not agree to their data being shared.

The Government is committed to sharing more data across the public sector to improve opportunities for the most disadvantaged; reduce crime and prevent fraud; reduce burdens on business; and implement better, more effective and targeted policy.

DWP is a market leader in data-sharing activity and is working with other government departments to drive out more and better data-sharing initiatives to improve both the services it offers to customers and its efficiency. Safeguarding data, ensuring transparency and maintaining public confidence in the integrity of publicly held data are an integral part of this work.

DWP takes its responsibilities to protect its customers' privacy very seriously and has safeguards in place to ensure that personal data are only disclosed where it is necessary and lawful to do so. There are a number of statutory gateways in place which enable DWP to share data, but these are only one aspect of the legislation framework. DWP considers all cases of bulk sharing in light of issues such as proportionality and fairness arising from relevant legislation including the Human Rights Act and the Data Protection Act.

DWP will seek to obtain customer consent where the information needed is not covered by statutory gateways. However, information may be disclosed without consent to comply with a court order, or where disclosure is clearly in the public interest, for example for the purpose of preventing or detecting crime.

As part of the active management of data sharing DWP has implemented a Data-Sharing Protocol which requires any data-sharing proposal to be assessed in terms of legality, operational impact and impact on privacy, as well as other costs and benefits. This forms part of an impact assessment expected from anyone wishing to share data with DWP.

There are a number of initiatives between Local Authorities (LAs), DWP and other government departments that use data sharing as an enabler to improving customer service and joint working. Employing greater data-sharing is a key part of efforts to overcome some of the recognised barriers to take-up, improving administrative efficiency and helping to make the CTB claims process simpler and easier for customers.

For example, DWP has been working to integrate IT systems to enable more information to be passed electronically between DWP and LAs. In December 2006 DWP completed its programme to give LA benefit processors web-based access to DWP benefit information through the Customer Information System (CIS) via their own desk-top PCs. This allows LA staff quick access to information about DWP benefits they need to administer HB/CTB and also notifies them when there is a change in entitlement to certain DWP benefits. Access to Tax Credits data from HMRC will also be made available to LA staff via CIS from Spring 2008, to replace the existing clerical processes used to obtain this information.

Legislation was put in place through the Welfare Reform Act 2007 to enable or require information collected by one Government organisation to be accepted by another with an interest. The associated secondary legislation will be introduced in October 2007 and will

facilitate greater use and sharing of benefit information between DWP and LAs, both for the purposes of increasing benefit take-up and improved administration.

A joint-working trial which ran in 2006 between Jobcentre Plus, North Tyneside Local Authority and HMRC is being extended to six further pilot sites from September 2007. One of the main objectives of this work is to smooth the transition for customers moving in and out of work by reducing the number of organisations they need to contact and improving the speed and accuracy of information sharing between the participating organisations. This ensures that the right benefit is paid more quickly and that those customers who are entitled to HB and CTB either in or out of work receive it.

Continuing with its research into the possibilities for making CTB more accessible, and how better use could be made of data held by government departments, DWP plans to carry out a further exercise later this year in conjunction with some LAs to test the feasibility of using data held across government departments in order to identify and build up profiles of people likely to be entitled. The research will evaluate the quality and accuracy of the data used and the usefulness of such an approach in helping to target individuals for take-up purposes.

Recommendation 10: The Government should publish the findings of the Pension Service solution project on the automated payment of council tax benefit. We recommend that the Government investigates further the feasibility of introducing automatic assessment and billing, starting with those groups for which it could most easily be achieved. Its research should extend to an analysis of the risks of fraud.

DWP ran a CTB research project in 2006, based in The Pension Service Solution Centre, to look at ways in which CTB could be made more accessible.

The project was a ‘proof of concept’ research exercise which meant that it put forward proposals and demonstrated that they could work in principle. Formal publication of the project findings would not be appropriate in view of its high level nature and that the findings are untested. This was essentially an internal study that enabled DWP to look at potential options for making CTB more accessible, which could then be used to inform further research and, where appropriate, develop future policy. No detailed analysis has yet been conducted but Ministers and senior officials have determined from the initial findings that it is worthwhile to explore further the possibilities put forward by the project.

DWP wants to build on its previous activity and research the feasibility of using data held across government departments in order to build up profiles of people likely to be entitled. DWP is exploring the possibility of further developing this idea and testing it out in conjunction with LAs. It will consider in its research the impact on fraud and error and issues of practicality and affordability, alongside priorities for the tax and benefits system as a whole.

Recommendation 11: We recommend that the Government encompasses in any general PSA target related to benefits and pensioner poverty promotion of council tax benefit take-up.

DWP is currently discussing the Public Service Agreements (PSAs) for the next Comprehensive Spending Review. Its commitment to help the poorest pensioners will

continue to be a key Government priority and will be reflected in the PSA for later life, and the related Departmental Strategic Objectives which support it.

DWP is working closely with the Department of Health and the Department for Communities and Local Government (CLG) to develop this later life Public Service Agreement.

As well as the more traditional Departmental areas such as help for the poorest pensioners, it is expected that the Public Service Agreements will be underpinned by indicators reflecting the wider aspects of independence and well being. CTB plays a key role in providing financial security and can form a significant part of older people's incomes, in particular providing them with vital support to help meet the costs of running their own home.

Recommendation 12: Local authorities are best-placed to lead on local measures to increase council benefit take up.

DWP successfully works in partnership with LAs to increase CTB take-up and greatly values the efforts made by LAs to undertake local take-up activity. It continues to work directly with LAs and their representatives as key stakeholders in its ongoing research into how CTB could be made more accessible.

As part of its Housing Benefit Reform programme, DWP has had significant success in making the administration of benefits by LAs both simpler and more efficient, and work is ongoing to further modernise benefit delivery. Efficient administration is vital in overcoming some of the identified barriers to claiming CTB and helping to ensure that the process of claiming does not deter potential customers.

DWP runs regular campaigns aimed at encouraging people to claim CTB, and funds the production of publicity materials for LAs to use in local activity to raise awareness of CTB. It also carries out a periodic exercise to identify people in each LA area who are getting Pension Credit and could be eligible for CTB but are not claiming it, passing this information to LAs for them to contact the customers concerned.

Recommendation 13: The current performance standards for local authorities should be revised to increase the focus on raising council tax benefit take up not just administrative efficiency.

CLG's Local Government White Paper "Strong & Prosperous Communities"⁵ set out the Government's intention to have a suite of around 200 performance indicators (plus statutory educational indicators) from which all performance improvement targets for local government are drawn up into a Local Area Agreement.

As a consequence of this, DWP has been reviewing its HB/CTB performance framework for LAs, in order to make the system of performance management less burdensome, less prescriptive and simpler while giving a fair and rounded overview of local authority performance for 2008 and beyond.

⁵ Published 26th October 2006

DWP is currently consulting with LAs on the new performance framework⁶ and will be reviewing how the Performance Standards can be amended to support this framework. DWP will continue to discuss with Local Authority Association colleagues the issue of take-up and how it can best be reflected in the Performance Standards.

Recommendation 14: We recommend that the Government gathers the information required to provide estimates of the numbers entitled to but not claiming council tax benefit by local authority area.

The number of pensioners eligible for HB/CTB is not currently measurable at local authority level. This is because estimates of eligibility are based on data taken from The Family Resources Survey (FRS) which is incomplete in some geographical areas, as it is only designed to be representative at a regional and national level. Additionally, it can only give a range (rather than a specific figure) at a national level.

The cost of conducting a survey where all local areas are adequately represented would be both disproportionate and prohibitive. And there would have to be a fundamental change in the method of sampling used for the FRS to guarantee that every local authority or constituency would be represented in the sample, even if sample sizes were not an issue.

It is therefore not possible to measure take-up at a LA level using the current methodology, and at the present time there is no other data source that would allow measurement of eligibility that would enable the current estimates to be replicated at an LA level.

Recommendation 15: We find no justification for financial incentives for local authorities to increase council tax benefit take up.

Local authorities have a statutory duty to promote CTB and the Government does not intend to offer specific national financial incentives for such work.

⁶ See DWP HB/CTB Circular A9/2007 <http://www.dwp.gov.uk/hbctb/circulars/2007/a9-2007.pdf>