

# Improving Council Tax Benefit

## Lyons Enquiry into Local Government

July 2006

Help the Aged wants a world where older people are free from the disadvantages of poverty, neglect and isolation, so they can live with dignity as valued, respected and involved members of society

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**Fighting to free disadvantaged older people in the UK and overseas from poverty, isolation and neglect**

## **HELP THE AGED SUBMISSION TO LYONS ENQUIRY – IMPROVING COUNCIL TAX BENEFIT**

Following our submission to the enquiry in March this year council tax has remained a live issue both in the media and on the ground amongst pensioners. The 2006 budget brought particular disappointment with the withdrawal of £200 payment that had been made to pensioners in 2005. The original rationale behind the payment had been to help with the costs of council tax and rising living costs. In a sense this was a tacit admission by the government that council tax was indeed too great a burden on many pensioners. We believe that the removal of this payment before reform of the system has taken place is likely to lead to another year of protest from pensioners. The Department for Communities and Local Government (DCLG) has already received several thousand council tax bills from pensioners this year and older campaigners are preparing to take action in the autumn and spring. Thus, the reports from the enquiry are likely to come at a time when council tax is in the news and will no doubt be subject to intense anticipation and scrutiny.

The enquiry has indicated that it considers Council Tax Benefit (CTB) a key tool in alleviating some of the current inequities of the local taxation system. However, with £1.14 billion CTB going unclaimed each year by pensioners it is clear that radical reform is needed with regard to how CTB is claimed and paid out. Help the Aged believes that the enquiry must lay out solutions to the problem of take-up, particularly amongst pensioners, or the system it recommends would only be able to achieve theoretical fairness. In our submission in March this year we explored some principles and ideas around how CTB could be paid to people in order to get around the problem of low take-up. You have requested a fuller and more detailed exploration of the options for paying CTB which we hope this further submission will provide. We will propose some initial quick wins for improving the system along with options which would take longer to put in place but which would offer greater potential improvements to the system. However, we do also believe that there are flaws in the calculation and formula of Council Tax Benefit, in particular the treatment of savings, which creates extremely anomalous situations for some pensioners. The second part of this submission will outline some of our suggested solutions to this issue.

## Interim / Immediate Actions

### Extending Pension Service Capacity

In November 2005 the Pension Credit Application Line (PCAL) increased the functions it could perform from just helping people claim Pension Credit, to helping them access Council Tax Benefit (CTB) and Housing Benefit (HB). It was recognised by policy makers that up to this point pensioners who needed to claim a full range of means tested benefits were being asked to give detailed personal information to multiple agencies on multiple occasions. The process was complicated and was preventing people from getting all the income assistance to which they might be entitled. PCAL staff were already taking nearly all of the relevant information needed for someone to claim CTB and HB but the information was not being used to make these claims. It was agreed between the Pension Service and Local Authorities that data collected by the former could be used towards people's CTB and HB claims. Applicants would simply be issued with a pre-populated 3 page form to sign and send to their local authorities.

However, at the moment these arrangements are only in place for older people who are identified during the call as entitled to Pension Credit. Those who give all their information to call centre staff but who are not eligible for the credit are simply sent a blank 28 page form. This is a huge missed opportunity to use the information they have taken the time to give over the phone. A very small step towards improving the systems for claiming Council Tax Benefit (CTB) would be to allow all pensioners to claim both CTB and Housing Benefit (HB) over the phone if they choose to. The advertising produced by the Pension Service which uses the strap line 'one number, three benefits' already implies that this is the case. Help the Aged believes the current two-tier service between those who get Pension Credit and those who don't should not continue. The Pension Service also run a home visits service and we are pleased that the establishment of joint local authority and pension service teams have allowed people to truly get all their benefits at once, whether or not they are eligible for Pension Credit.

### Steps required

- Removal of legislative barriers preventing Pension Service from providing a pre-populated 3 page form to all pensioners if they wish to claim CTB or HB using the Pension Credit Application Line (PCAL) route.
- Investment to allow PCAL to increase its call centre capacity in order to deal with an associated increase in call volume.
- Arrangements to be made with local authorities to accept 3 page forms from those not in receipt of Pension Credit. It may be that those not on Pension Credit would need to provide additional evidence of savings held if the Pension Service was not able to verify these.

An additional step which could also be taken to further improve the Pension Service systems would be to do away with the 3 page form altogether. This could be done by changing the telephone script so that all necessary information for CTB and HB claims would be taken over the phone. In order for this to work the Pension Service would need to agree with Local Authorities that both would be happy to accept and process claims which had been received this way and possibly not signed for. They would also need to agree exactly what verification of savings information was required. Getting agreement to this from the many local authorities across the country would be very challenging but would be an essential step towards a better system for the customer.

### Steps required

- Agreement between Pension Service / Central Government and local authorities over processes for accepting claims generated from the PCAL line.
- Likely to be IT issues for some authorities around how they receive the information on individuals from the Pension Service. Investment in a sophisticated tool to allow interfaces between central and local systems would be needed.

## Long Term Reform

### Automatic payment of Council Tax Benefit

The improvements suggested so far are all ones which could be carried out quickly. However, they leave intact a system which forces individuals to make proactive claims to the benefits system. In this scenario take-up might improve but is unlikely to leap up to 90% or above. In order to achieve truly high levels of take-up the system needs to be designed in order to get around all the known reasons for non take-up.

There are three broad reasons that individuals do not claim. First is the individual simply not knowing about the benefit or assuming they are not entitled. Second is inertia, the individual knows they ought to find out whether they could get council tax benefit but does not get round to actually claiming. This group may include people who have been sent the forms to fill in but who have left these languishing amongst other paperwork. This inertia is very similar to that of the working age population in relation to joining pension schemes for which the proposed solution is automatic enrolment. Third and finally there are some individuals who do not want to claim benefits which they perceive to be akin to handouts for the poor. Help the Aged believes that many of this group could be reached if the systems of benefit were designed differently although of course some may still resist.

A mixed team of government officials and representatives from local authorities spent several weeks at the Pension Service Solution Centre in Glasgow. They have proposed a system of automatic payment of Council Tax Benefit which is now being scoped as a solution within government. Help the Aged believes this work needs to be given high level backing and needs to be driven forward urgently. If successful the methods of paying CTB could then be applied to other benefits. The work also fits well with the government's agenda of transforming services using technology, to make them better for the user. The system would take the onus off the individual to behave as an active citizen when claiming benefits. Instead people would be proactively informed of their entitlements without having to lift a finger. For people who are very hard to reach because they are particularly isolated or perhaps face language barriers in accessing benefits this service could have a huge impact.

## Automatic Payment – the process

Central to the solution of paying people CTB automatically is a huge data sharing and matching exercise which would need to be carried out within central government. To begin with, data on individuals incomes would need to be compiled. As pensioners incomes are relatively stable this ought not to be too difficult. Then, for those who fell into the bracket of being potentially eligible for benefits, data would need to be compiled on their savings. HMRC and the Treasury receive year end returns from banks and building societies on the amounts of interest paid on individual's accounts. It would be necessary to use these returns in order to generate a savings figure for each person based on a standard rate of interest. The savings figure could then be matched to the income allowing an assessment to be made of whether the person would be eligible for CTB. This profile could then be passed to local authorities to process. As with the interim actions proposed, these procedures would need to be agreed with local authorities.

## Options for payment

There are several different ways in which the completed data profiles could be treated by local authorities when they are being processed and in particular what action they require from individuals to allow them to put CTB into payment

A) The local authority would send the yearly council tax bill to the individual but enclose a form telling the person how much CTB they are entitled to and on what basis this assessment has been made. The individual would be asked to contact the local authority if any of the information was incorrect otherwise CTB would be paid automatically. This puts the onus on the individual to come clean if they have more savings than stated or indeed, if they have less.

B) As in option (A) except that the individual is asked to sign the form which tells them how much CTB they will get and how this has been calculated. So individuals are being asked to actively confirm that government has got their savings data right.

C) As in option (B) but this time the individual is not only expected to sign but also to provide evidence of their savings and/or income.

Government and local authorities could choose to apply the option A or B for individuals where it appeared they had less than £6000 savings. At the moment the Pension Service will already accept verbal declarations from people who say they have less than £6000 savings so this would not be outside the realm of current practice. They could then apply option C to those with between £6,000 and £16,000 in savings. Help the Aged's preference would be to use either Option A or B for all if it is made clear to individuals that they have a legal obligation to declare any income which is not on their profile and that they would have to repay the benefit if it was discovered that they failed to disclose information. It is most important that the system is easy for the average honest person. Too often the benefits system has put in place multiple hurdles to keep people out and this has been at the expense of the most needy who then fail to jump the hurdles to make a claim.

Help the Aged also believe that CTB ought to be renamed as Council Tax Rebate when the new system is launched or even before. This is effectively what CTB is anyway and the title of benefit is confusing and off-putting. However, we do not think that this name change on its own would have any great discernable effect on take-up.

### Steps required

- Investment in a large data sharing exercise to identify individuals eligible for council tax benefit. The system should also be capable of identifying those who become eligible at the point of retiring and those whose incomes drop over time and therefore fall into eligibility.  
*NB: HMRC is already in the process of data cleansing, plans are underway to use the data for tackling fraud so it is only right that the data should also be used for positive purposes as well.*
- Potential need for legislation to authorise the use of data in this way.
- Agreement from local authorities that they will accept and process claims generated from central government data.
- Likely to be IT issues for some authorities around how they receive the information on individuals from government. Investment in a sophisticated tool to allow interfaces between central and local systems would be needed.

## Calculation and Formula of Council Tax Benefit

Help the Aged has long called for a fairer system of local taxation which is better linked to people's ability to pay than the current system. If Council Tax Benefit (CTB) is to be the key to ensuring fairness in the system then it needs to act as a true 'mediator' between the amount an individual pays in council tax and the level of their income. CTB does indeed have a long taper; single pensioners can have incomes in excess of £200 and still receive help, pensioner couples can have incomes in excess of £300. However, the treatment of savings and the operation of the £16,000 limit on savings conspire to create real anomalies in outcomes for some households.

In order to illustrate the anomalies that the current system can cause we have compiled two case studies of hypothetical pensioner couples living in average band D properties next door to one another.

### Couple A

Joint income of £285 a week including an assessed income of £8 a week from their savings of £10,000

- = will receive council tax benefit of £16 a week
- = pay £17 a week equal to approx 6% of their income

### Couple B

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

- = no help with council tax
- = pay £33 a week equal to approx 20% of their income

Couple A have an income which is £117 a week greater than their neighbours. This makes them over £6000 better off for the whole year. Yet it is couple A who receive over £800 in state help with their council tax bills. The difference in household fortunes over the year ends up being roughly equal to the difference in the two couples' savings!

Although the example given is extreme it does highlight a real issue. The reason Couple A did not get any help was because they had slightly too much in savings, £500 too much. On first appearances the rational

decision for Couple A to make would be to spend this £500. However, this decision needs to be seen in a wider context.

### Is it rational to spend your savings in order to qualify for CTB?

Government expects older people to cover an increasing array of costs during their retirement, for instance.

- Home adaptations
- Repairs
- Low level care
- Costs of remaining mobile eg electric scooter, adapted cars, taxi fares

In addition, there are many other bulky costs that older people on low incomes find hard to budget for.

- replacing white goods, furniture, carpets
- visiting far flung relatives
- buying Christmas, birthday or wedding presents
- haircuts, footcare, eyecare

When you look at the this array of costs it becomes less clear whether people ought to just spend their savings. There are also a number of other factors at play.

#### 1) Has the household released equity?

If they have then it is likely to take them immediately over the savings limit for CTB given that borrowing small amounts of less than £16,000 is difficult and very costly. However, there may be very valid reasons why an individual needs to release the income from their property. For individuals who lack a private pension it may be the only way to secure a higher quality of life. Equally it may be a way of covering the costs of an expensive disability. Ought the system to create disincentives for people to release equity in their homes?

#### 2) Has the household got savings instead of a private pension?

For many older people private pensions were not an option when they were working, particularly for those in lower paid jobs which often

lacked company schemes. In his first report Lord Turner provided estimates of the amount held in savings products. The estimated figure for amounts held in cash and deposits was £400 billion with a further £350 billion in equities and bonds. Together this equals around half the value of what is held in private pensions £1,300 billion. This does indicate that at least some people have used conventional savings products instead of personal pensions.

### A fairer Council Tax Benefit system

Help the Aged believes that for pensioners the treatment of savings ought to be the same for Council Tax Benefit as it is for Pension Credit. In the case of Pension Credit there are no limits on how much a household can hold in savings, but of course the higher the level of savings the more is assumed as income (£1 per week for every £500 of savings over £6000). It is important to remember that this treatment of savings operates in parallel to the assessment of someone's income. So this policy does not simply hand out benefits to the very rich. What it does do is make sure that for those on low incomes but who happen to have higher levels of savings, that they don't get excluded from financial help they may badly need. Returning to the two couples. Under a reformed system which treated savings in the same way for Council Tax Benefit as is currently the case for Pension Credit, couple B would be entitled to around £27 a week in CTB.

In our view this reform is an essential change which needs to be made to the Council Tax Benefit system for pensioners. As the rules for Housing Benefit are so closely linked to those of Council Tax Benefit the same change would need to be made to that system. Were these changes to take place they would represent a very positive simplification of the benefits system for pensioners. Help the Aged spokespeople are often asked in media appearances what levels of savings a pensioner can have before it becomes pointless for them to try claiming benefits. Until now we have never been able to give a simple, clear and succinct answer to this question. This is something we would love to be able to do and we believe that there would be real benefits both in terms of simplicity and fairness for the system. But most importantly the changes would benefit the lives of a generation of low income savers who currently do badly from the Council Tax Benefit system.