

The impact of localised council tax support schemes

Stuart Adam, Robert Joyce and Thomas Pope

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Institute for Fiscal Studies

Council tax support

Means-tested reduction in council tax bill

Claimed by 4.9m households across Britain in 2017-18

- More than any other means-tested payment

Cost local authorities (LAs) £4.1bn

- Reducing council tax revenue by 11% to £33bn

£1.8bn went to the 2.4m working-age claimants in England

- Implying average award of £770 per year

Local council tax support (CTS) replaced national council tax benefit (CTB) in 2013–14

- 326 LAs in England, and the Scottish and Welsh governments, became responsible for designing CTS for working-age claimants
- Pensioner entitlement set nationally (and largely protected)
- Given grants equal to 90% of what CTB would have cost
 - Equivalent to more than 10% of cost of working-age CTB

Focus today on working-age households in England

- Scottish and Welsh govts kept centralised schemes, largely unchanged

Today's report

How have schemes changed, and with what effects on entitlements?

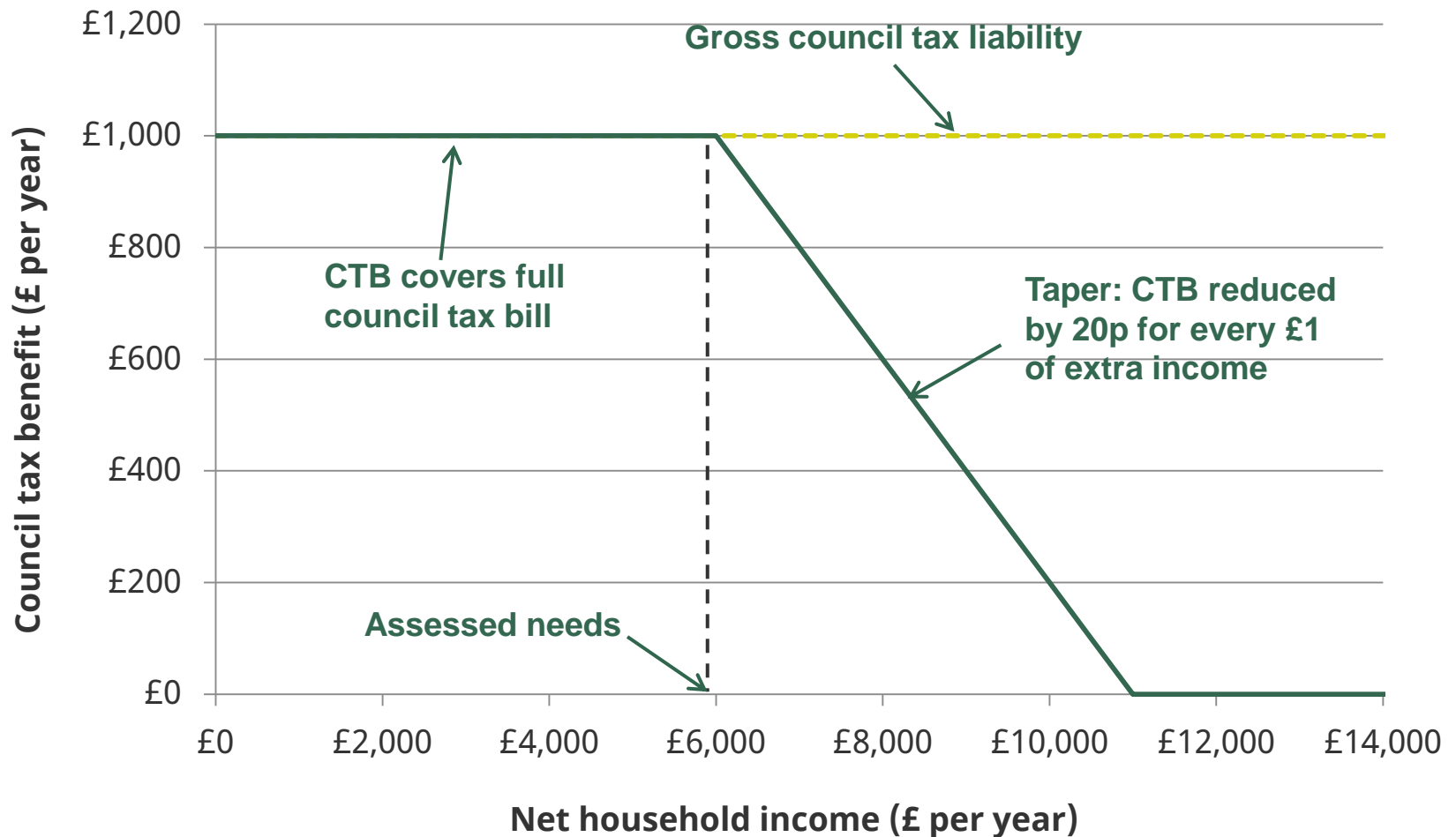
What kinds of LA chose what kinds of scheme?

How have households reacted to the changes?

Universal credit has important implications, but not addressed in this report

- *Less important during the period we study*
- *Will look at this in future research*

Council tax benefit: an example



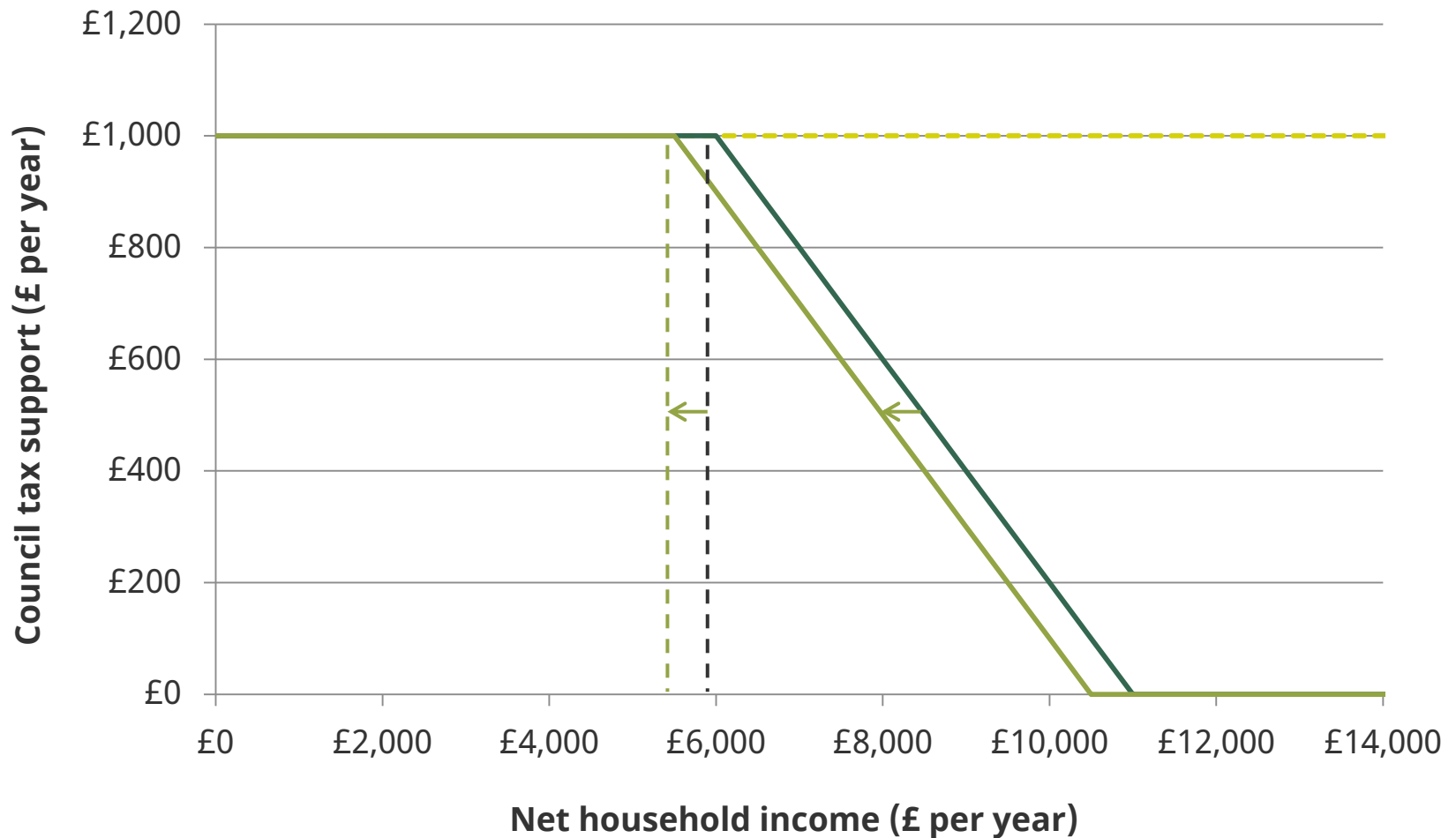
What schemes have councils chosen?

Changes to CTS schemes

Many LAs have mirrored cuts to national benefits in their CTS schemes

- Benefit freeze, 2-child limit, abolition of family premium,...

Benefit freeze: an example



Changes to CTS schemes

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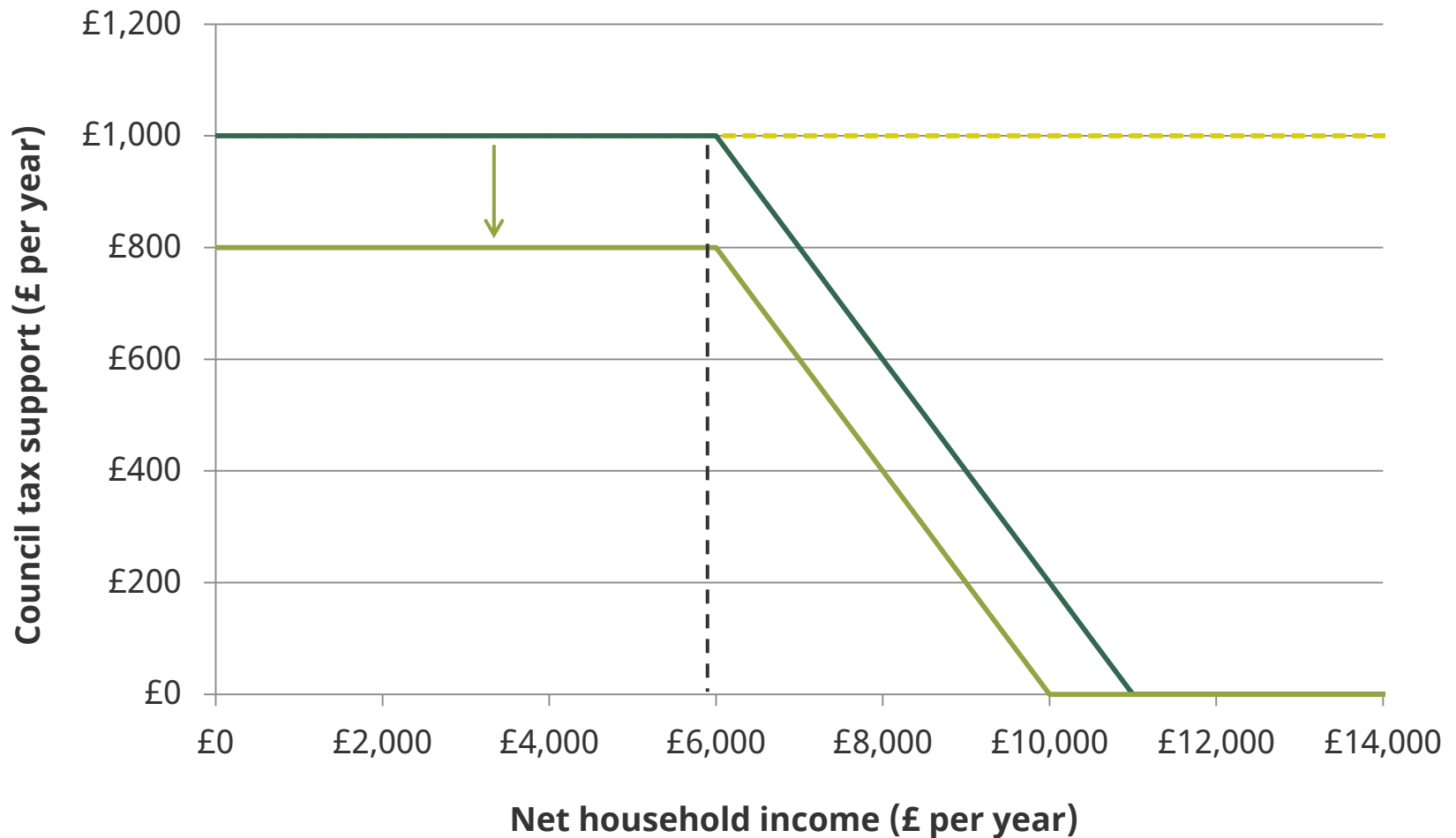
- Benefit freeze; 2-child limit, abolition of family premium,...

90% have made other changes as well

Most important: introducing minimum council tax payment

- 258 LAs (79%) have a minimum payment in 2018–19

Minimum council tax payment: an example



Changes to CTS schemes

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Most important: introducing minimum council tax payment

- 258 LAs (79%) have a minimum payment in 2018–19

Various smaller changes too

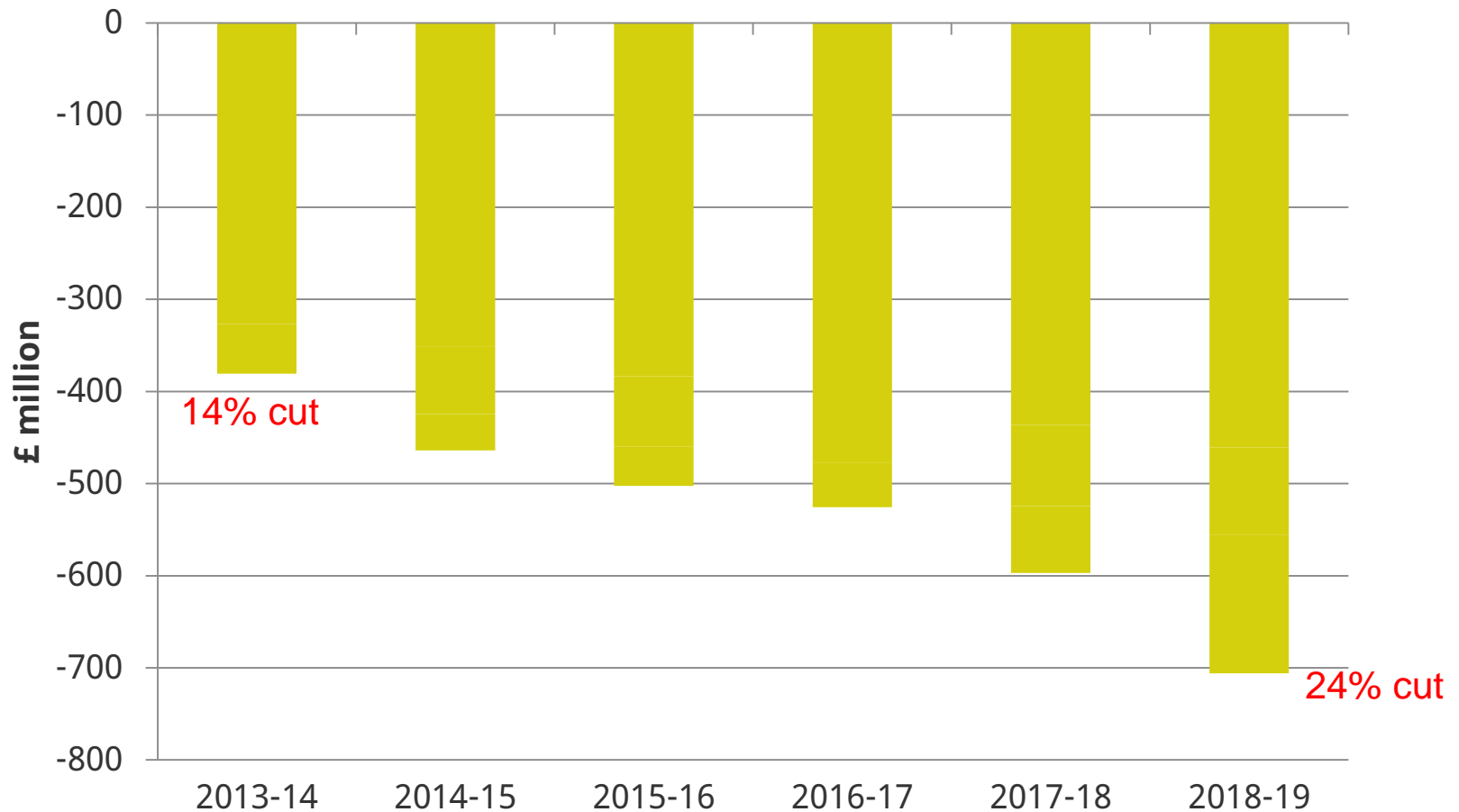
- e.g. increasing taper rate, reducing asset limit, capping entitlement at particular council tax band,...

LAs making one of these changes more likely to make others as well

113 LAs protect one or more 'vulnerable' groups from (some) cuts

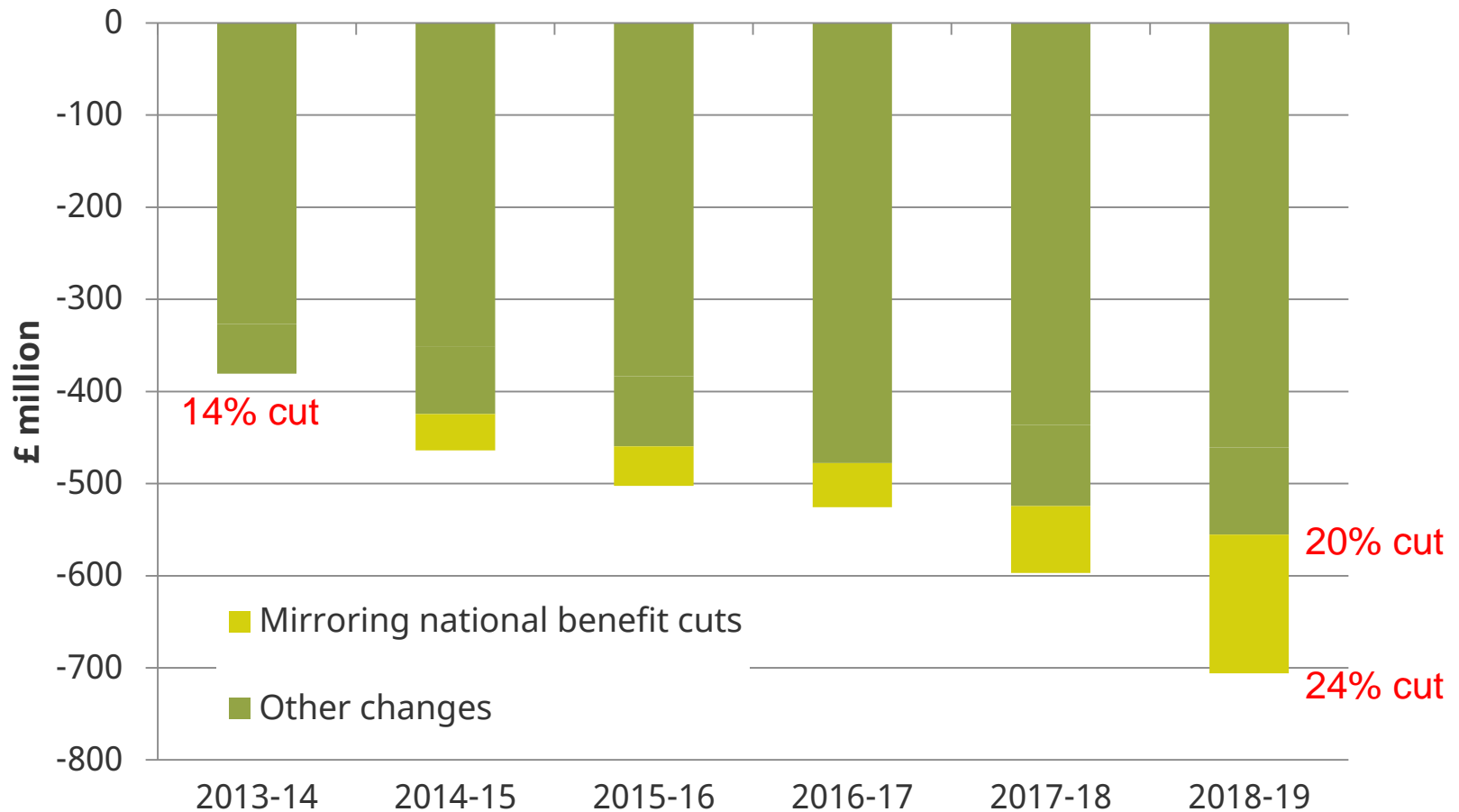
- And 162 have discretionary hardship funds, which we ignore here

Cut to working-age entitlements in England



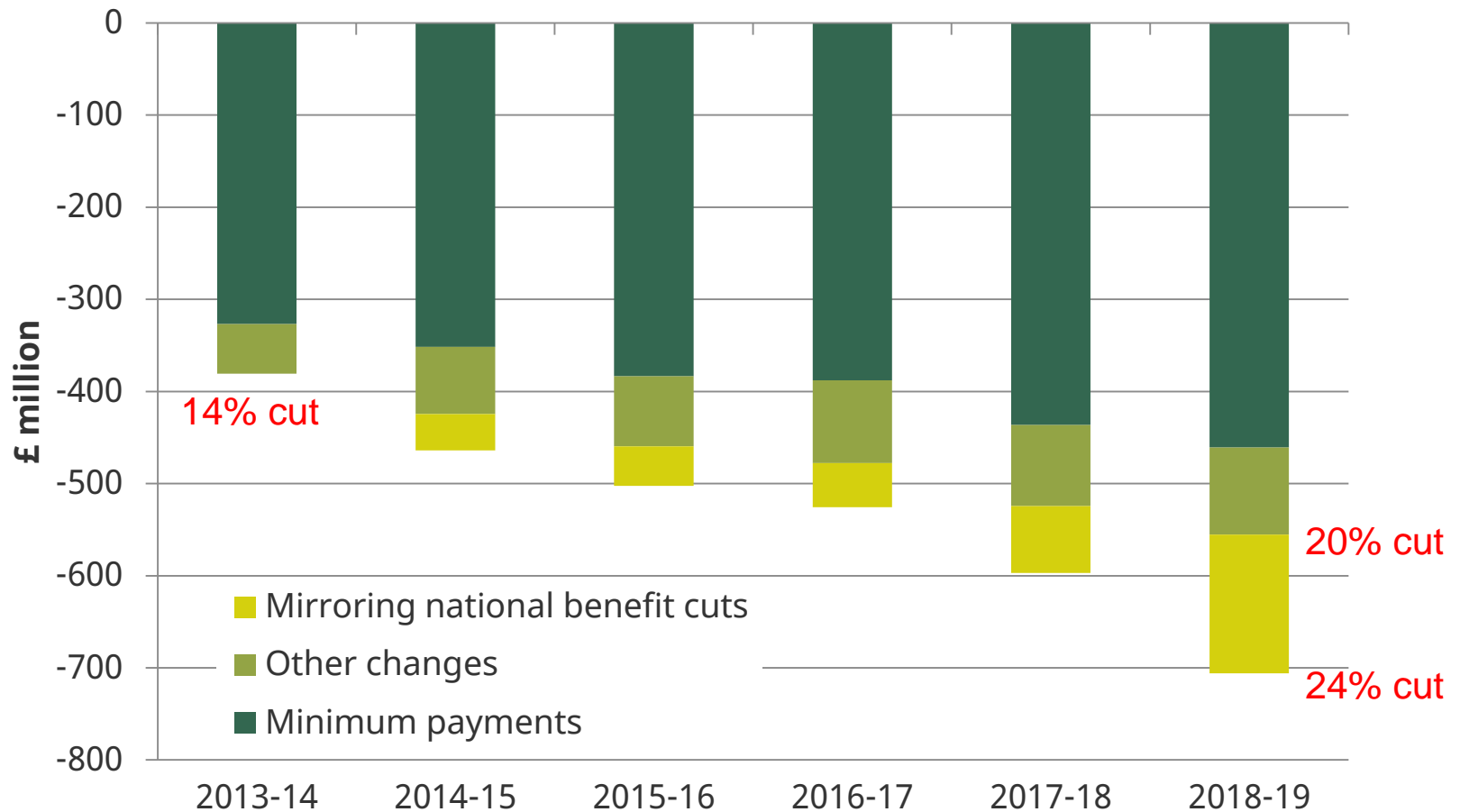
Notes and sources: See Figure 3.3 of *The impact of localised council tax support schemes*

Cut to working-age entitlements in England



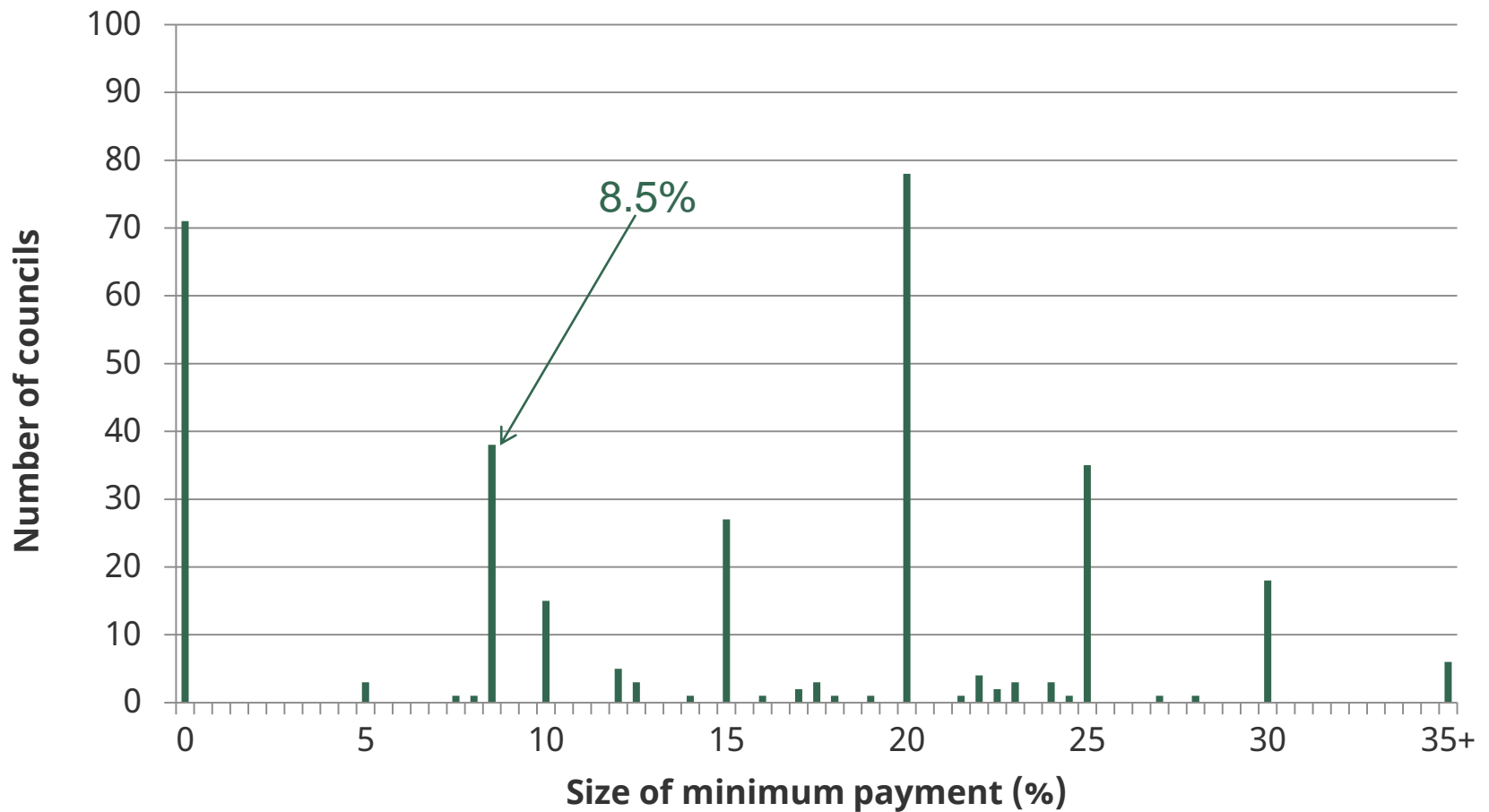
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Cut to working-age entitlements in England



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Distribution of minimum payments, 2018-19



Notes and sources: See Figure 2.5 of *The impact of localised council tax support schemes*

LAs with 8.5% minimum payments in 2018-19

In 2013–14, central govt gave one-off grant if minimum payment $\leq 8.5\%$

- 100 LAs chose minimum payment of exactly 8.5%

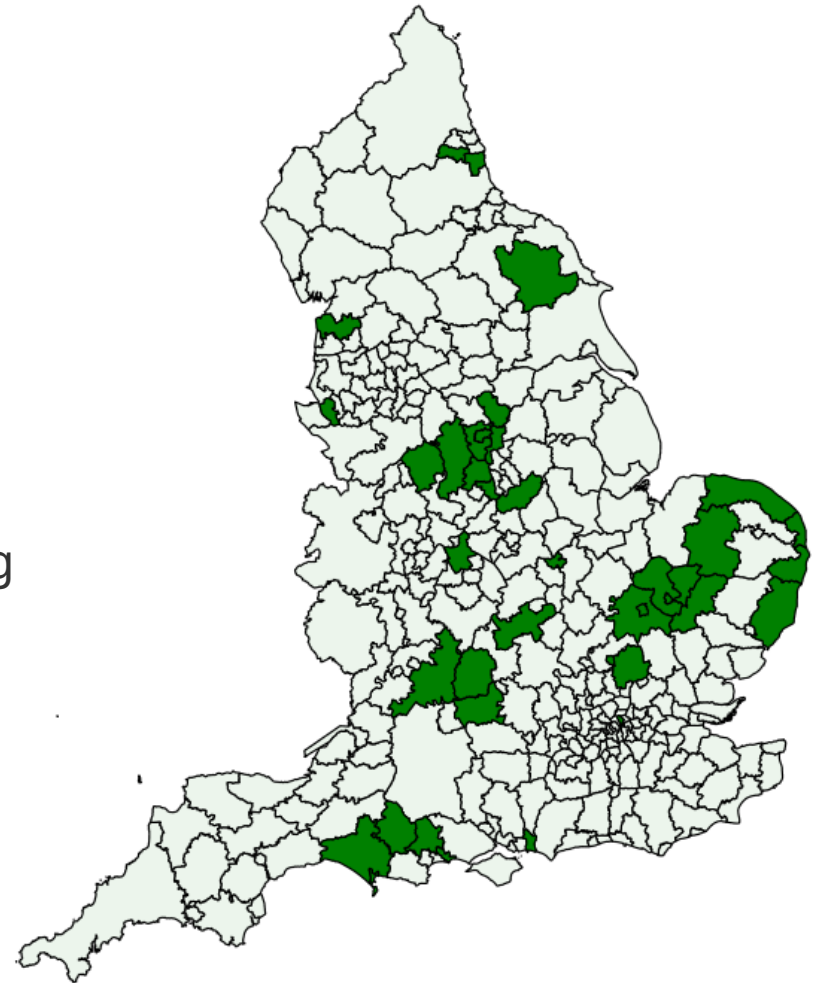
In 2018–19, 38 LAs still had a minimum payment of 8.5%

- 5 years after incentive expired
- Suggests inertia in LA decision making

A few LAs adopted a minimum payment of 8.5% *after* 2013–14

- So not *just* inertia...

Found in clusters of neighbouring LAs



Notes and sources: 8.5% minimum payments shown in dark green. See Figure 2.8 of *The impact of localised council tax support schemes*

Effects on households' entitlements, bills and incomes

Losses from the cuts in place by 2018-19

The 3.6m households that would have been entitled to CTB lose £196 per year, on average (1.0% of income)

1.4m households have a bill they would not have had under CTB

- 1.3m if exclude changes that mirror cuts to national benefits

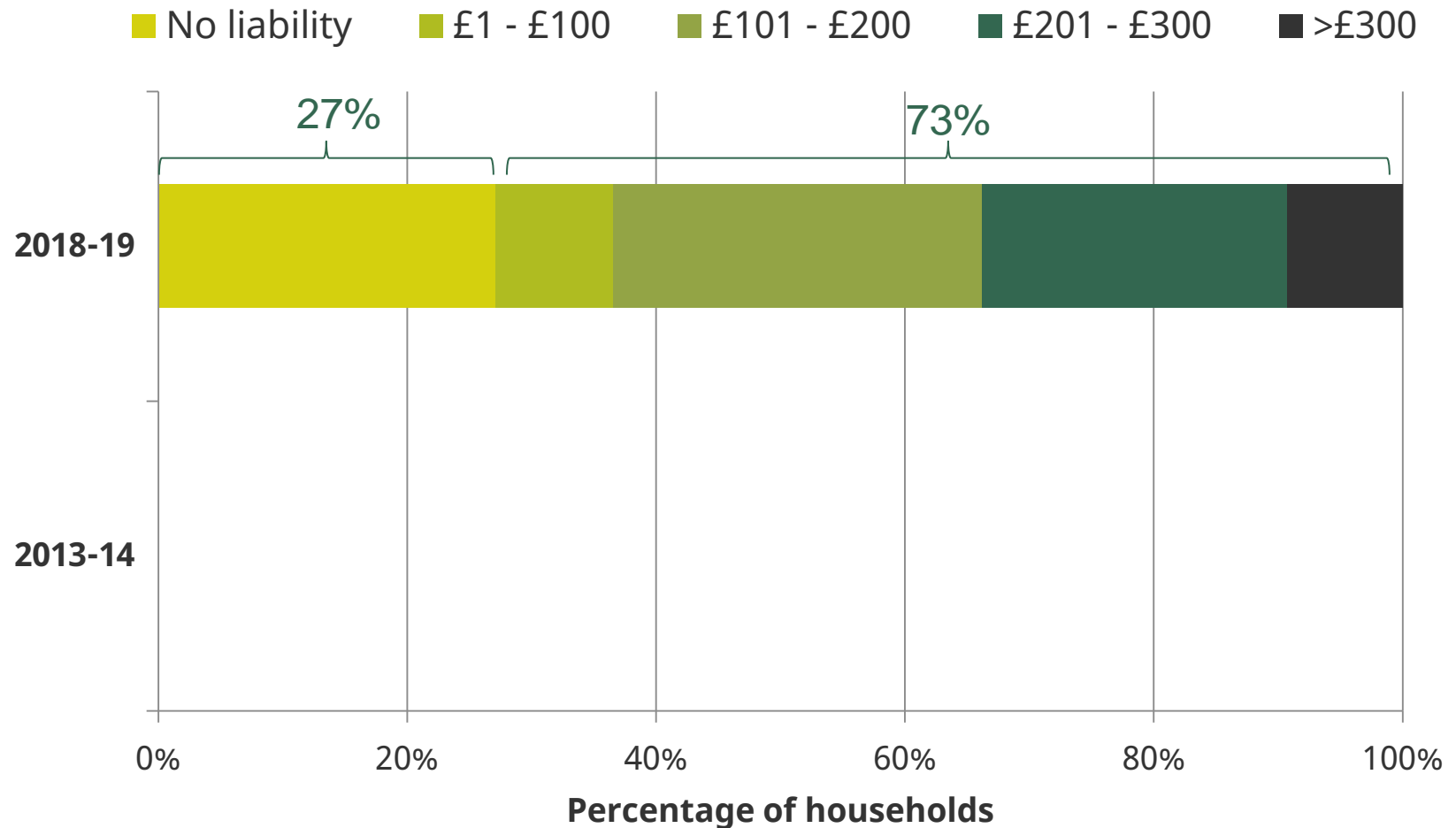
1.6m face a bigger bill than they would have under CTB

- 1.2m if exclude changes that mirror cuts to national benefits

0.5m still have no bill to pay

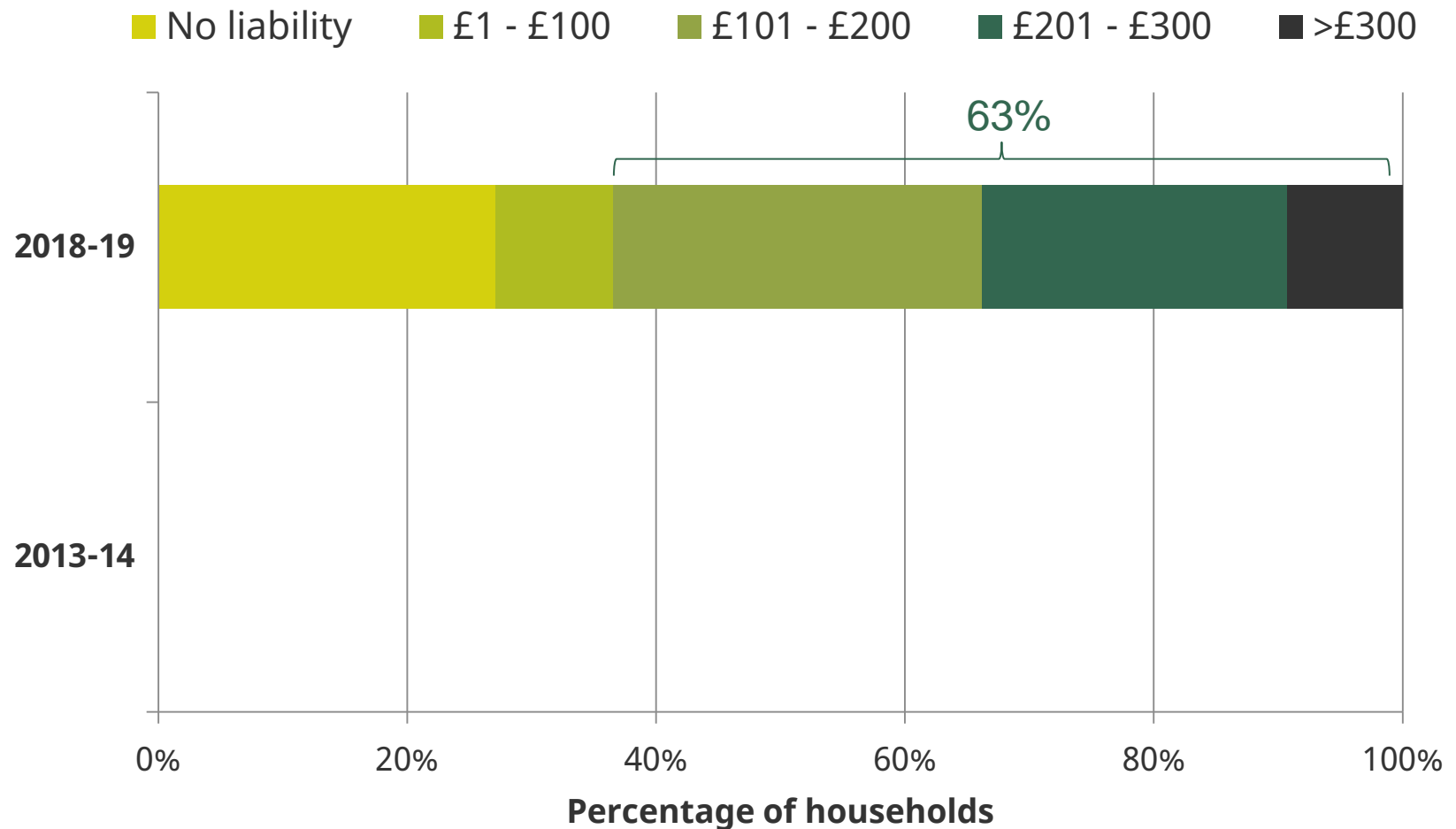
- $\frac{2}{3}$ in LAs with no minimum payment, $\frac{1}{3}$ in group protected by their LA

Net council tax liabilities among those who would have been entitled to full CTB



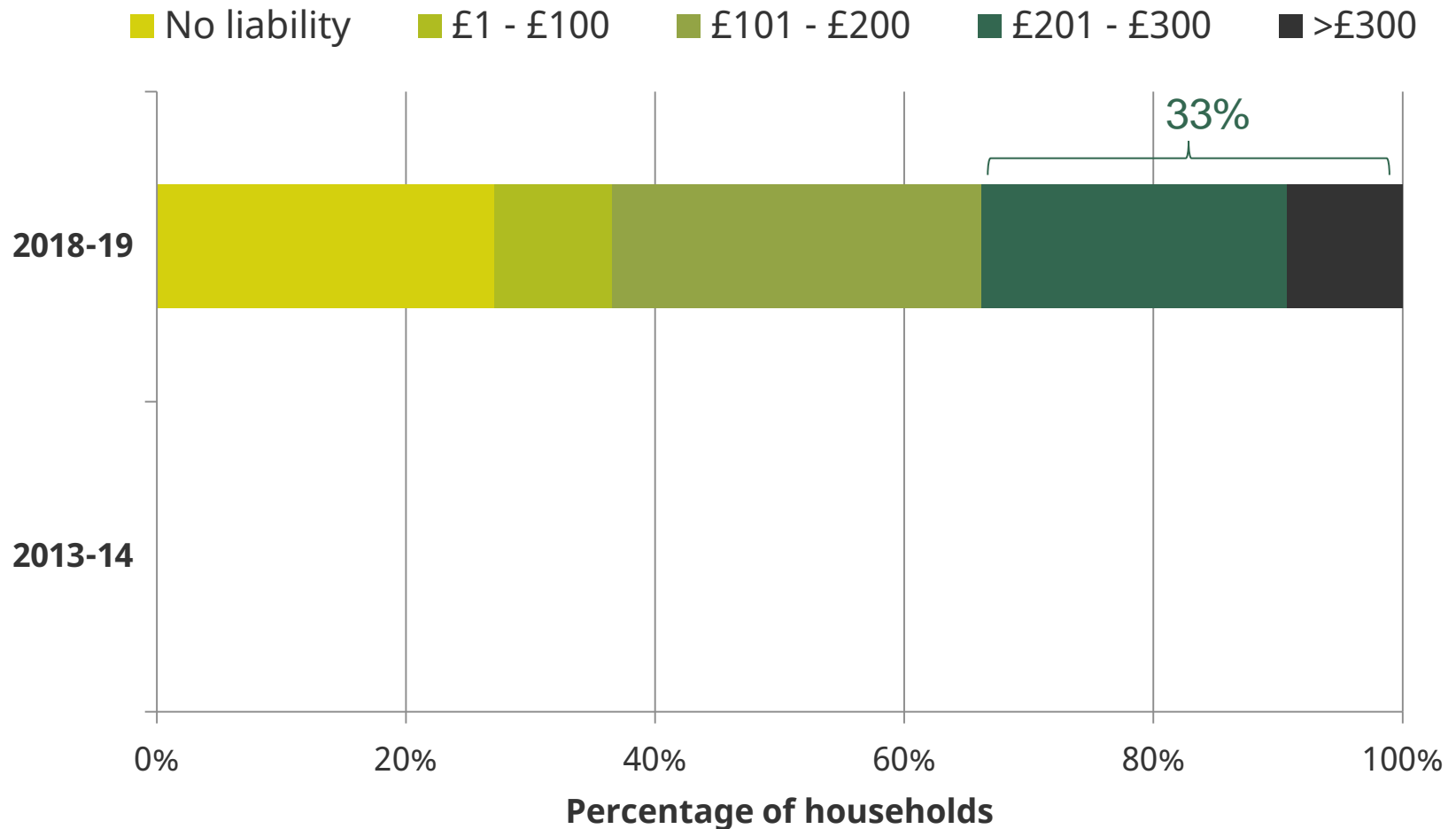
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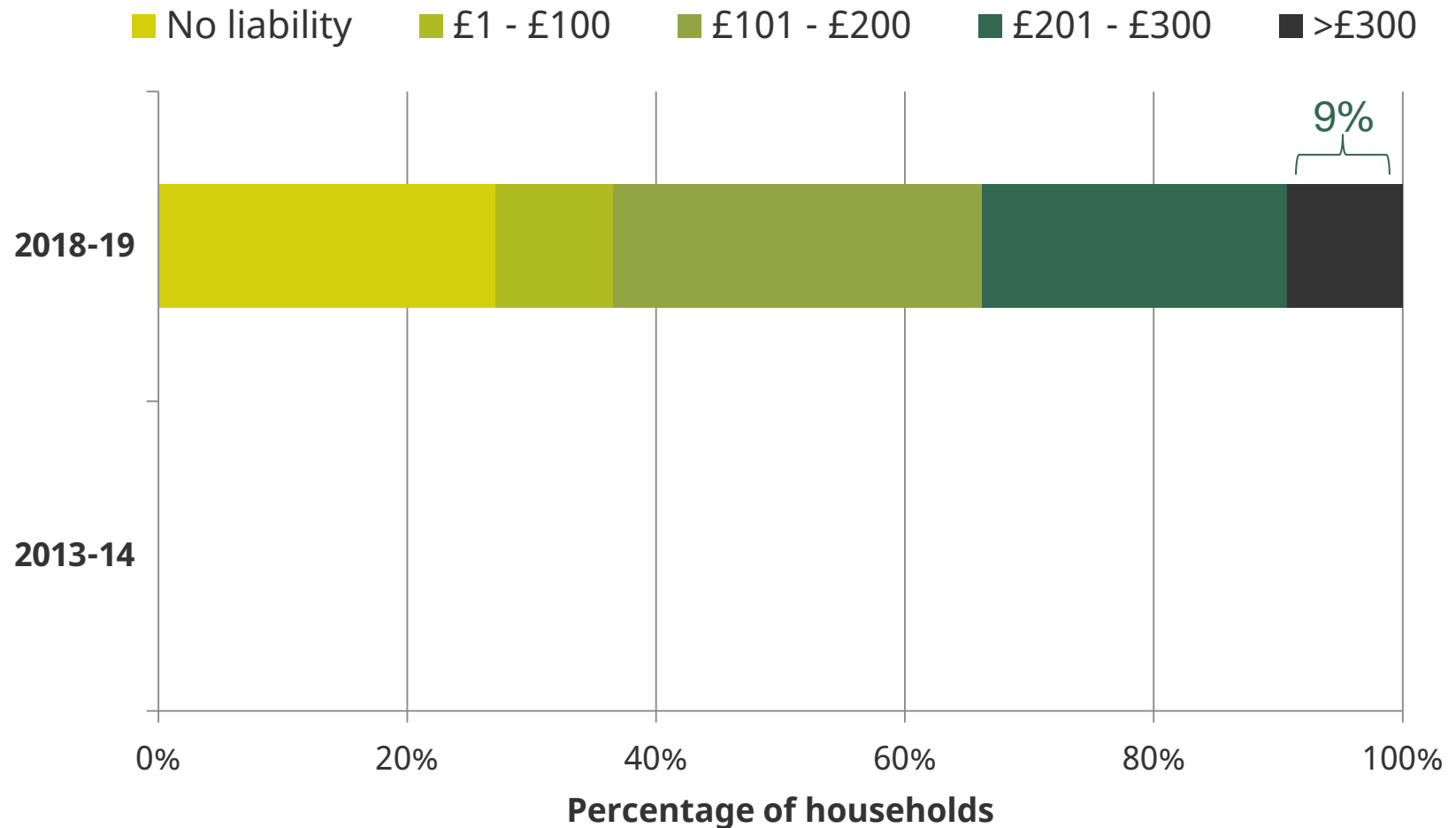
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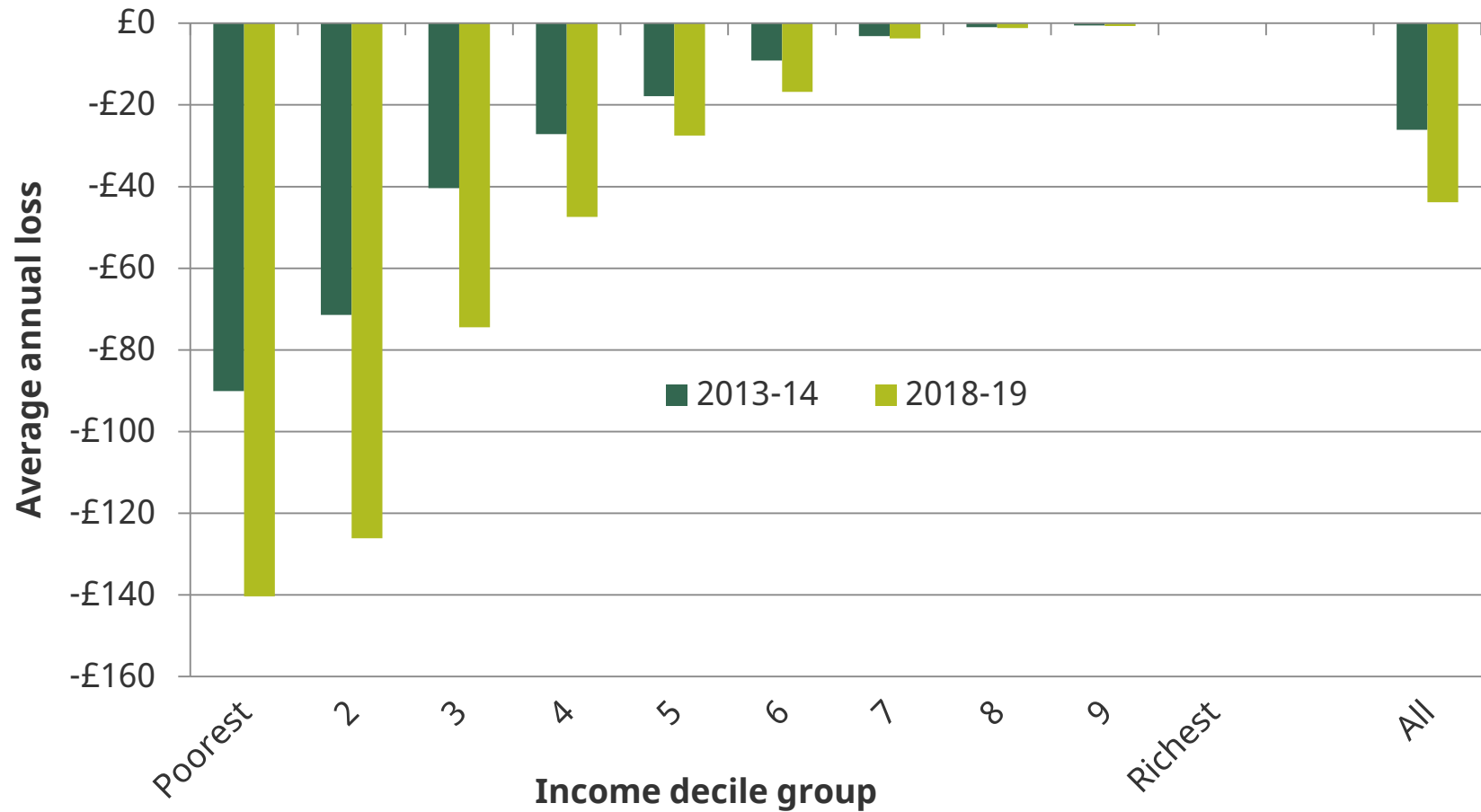
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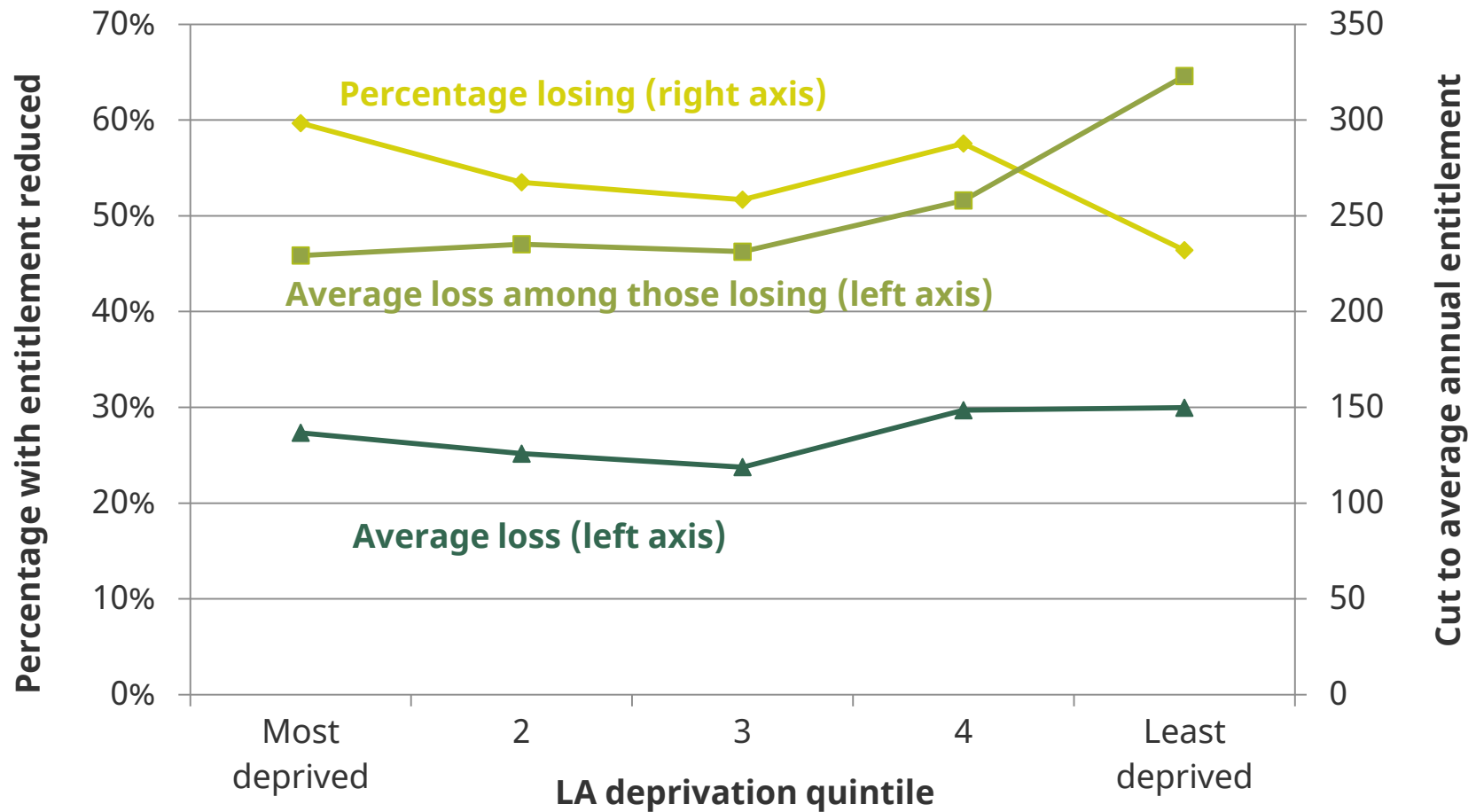
Losses focused on low-income households



Notes and sources: Working-age households in England only. See Figure 3.6 of *The impact of localised council tax support schemes*

What kinds of LA have chosen what kinds of scheme?

Losses among poorest fifth of working-age households in England, by LA deprivation



Notes and sources: See Figure 3.8 of *The impact of localised council tax support schemes*

Disentangling LA characteristics

CTS cut by more in LAs that are more deprived, are Labour-controlled, and saw bigger cuts in funding from central government

- But these are often the same LAs

Estimate effect of each LA characteristic on scheme choice *holding other characteristics constant*

- Regression analysis: see report for details

Disentangling LA characteristics

All else equal:

- LAs seeing bigger reduction in CTS funding in 2013-14 cut CTS more
- Level of deprivation does not have a significant effect
- Labour 15 ppts less likely than Conservatives to introduce min. payments
- Those with No Overall Control less likely to have made any changes
- District councils 17 ppts less likely to have made any change than single-tier authorities
- Inner London LAs less likely to introduce big minimum payments

Effects of funding for LAs: a labelling effect?

LA more likely to make (big) cuts to CTS if saw bigger cut in central government funding for CTS in 2013–14

For a given 2013–14 cut to ‘CTS funding’, the size of subsequent cuts to overall LA funding make little difference

Suggests labelling of funding affects how LAs spend it

Summary so far

Big reductions in CTS since 2012–13

- Entitlement for eligible working-age households in England cut by 24%
 - £196 per year on average, or 1% of income
- 1.4m low-income households liable for council tax who previously would not have been
- Poor households more likely to lose if in poor areas, but lose less

Insights into LA decision making

- Bunching of minimum payments at 8.5% suggests inertia and desire to align with neighbours
- Labelling of grant from central government affects how LAs spend it

Household responses to CTS reforms

How have households responded to CTS reforms?

How have low-income households coped with extra council tax?

- Have they sought help and advice?
- Have they actually paid their additional council tax bills?
- Do households adjust over time?

Which households have had the most problems?

Estimating the impact of scheme choices

Because LAs have chosen different schemes, we can compare outcomes in LAs that made changes and those that did not

Basic approach ('difference-in-differences'):

- compare the trends in LAs that adopt a particular scheme characteristic with those that do not
- controlling for other factors that may lead trends to diverge

Assumption:

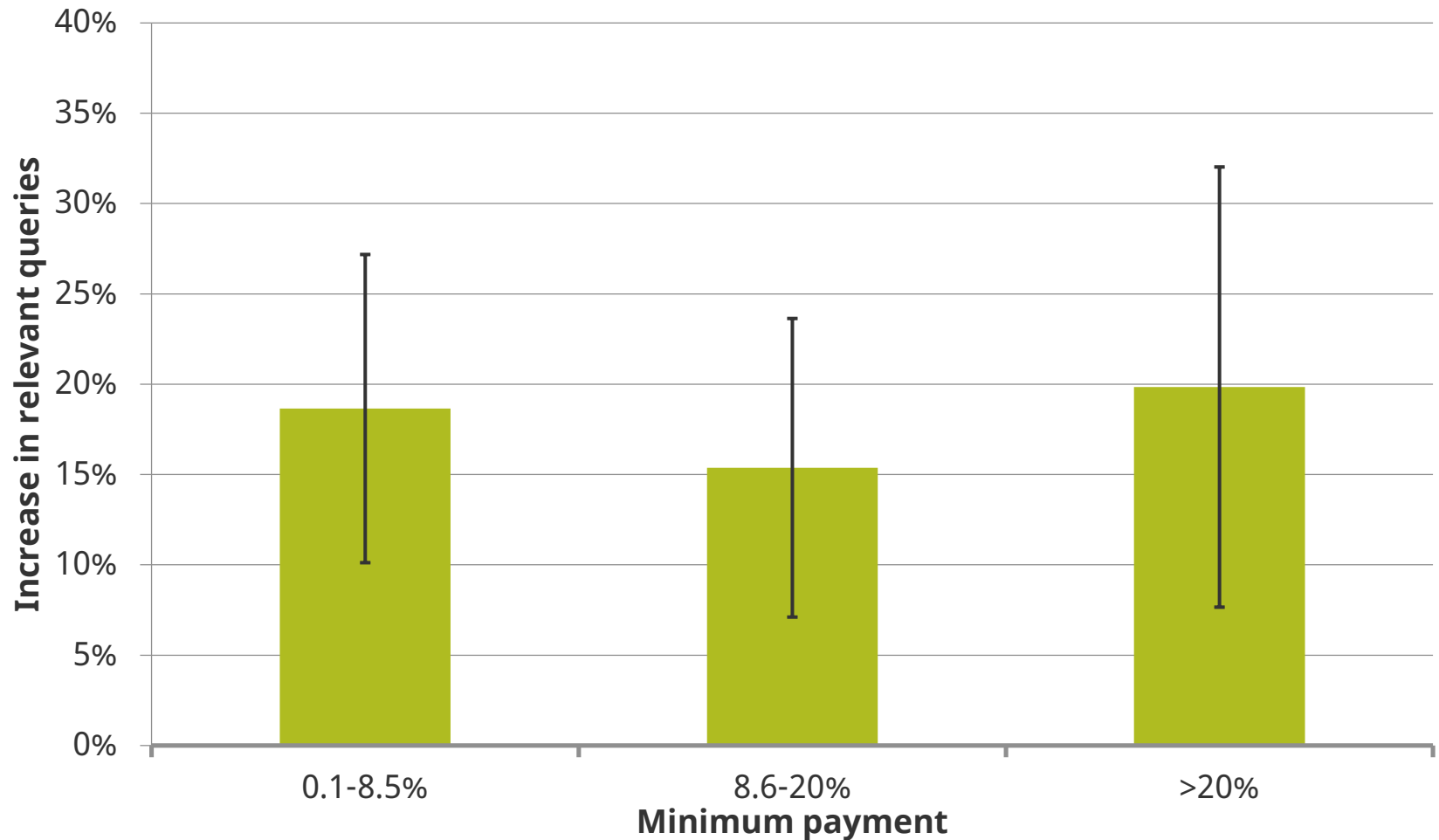
- In the absence of different scheme choices, trends similar in otherwise-similar LAs that made different choices

Substantial increase in queries to Citizens Advice

We use Citizens Advice data on queries

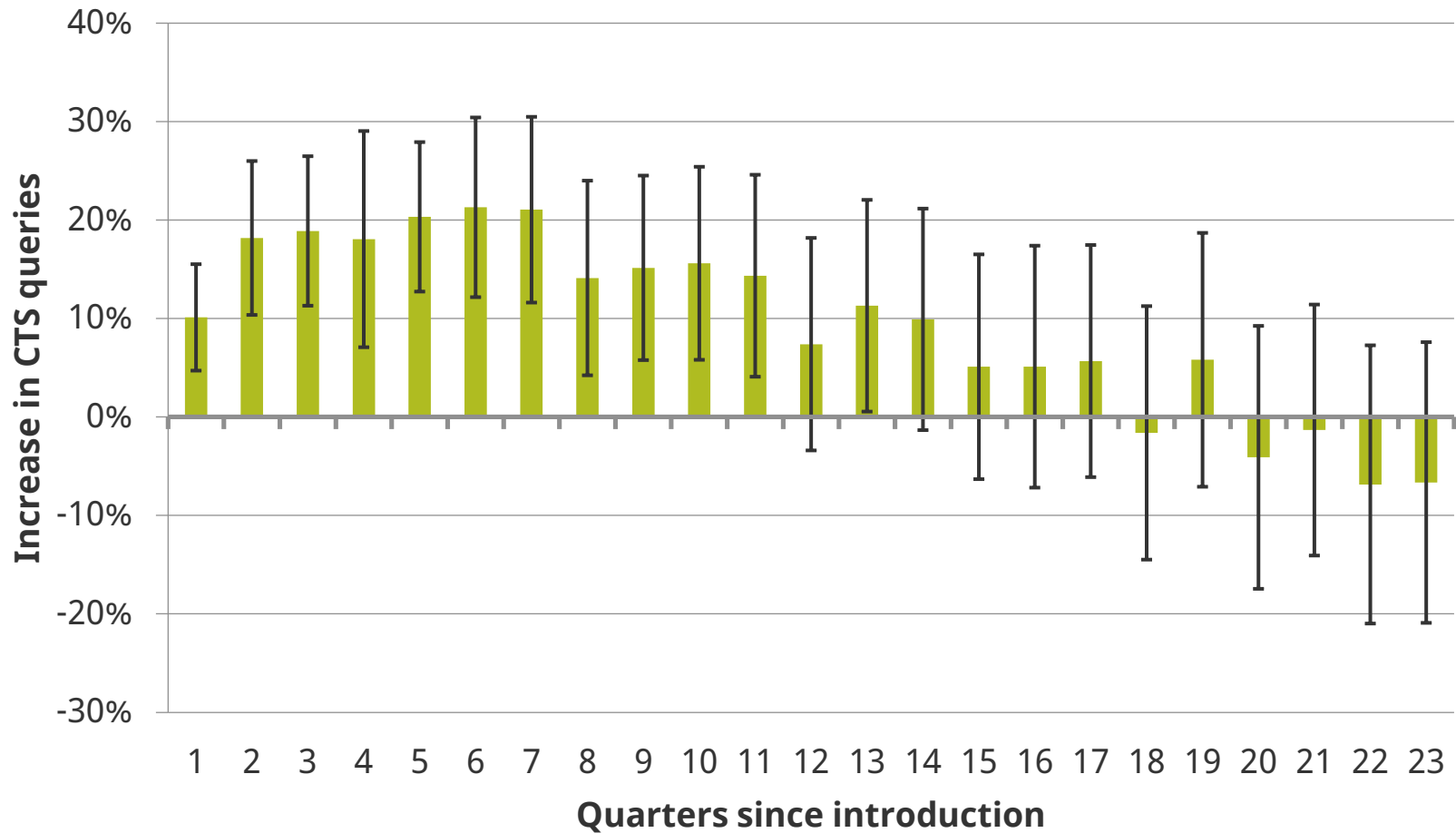
- Queries related to council tax payment, council tax debt and CTS
- Made by working-age households
- Debt accounts for the majority of these issues
- C. 160 queries per LA per quarter: 200,000 queries in England per year

Estimated impact of CTS cuts on council tax queries to Citizens advice



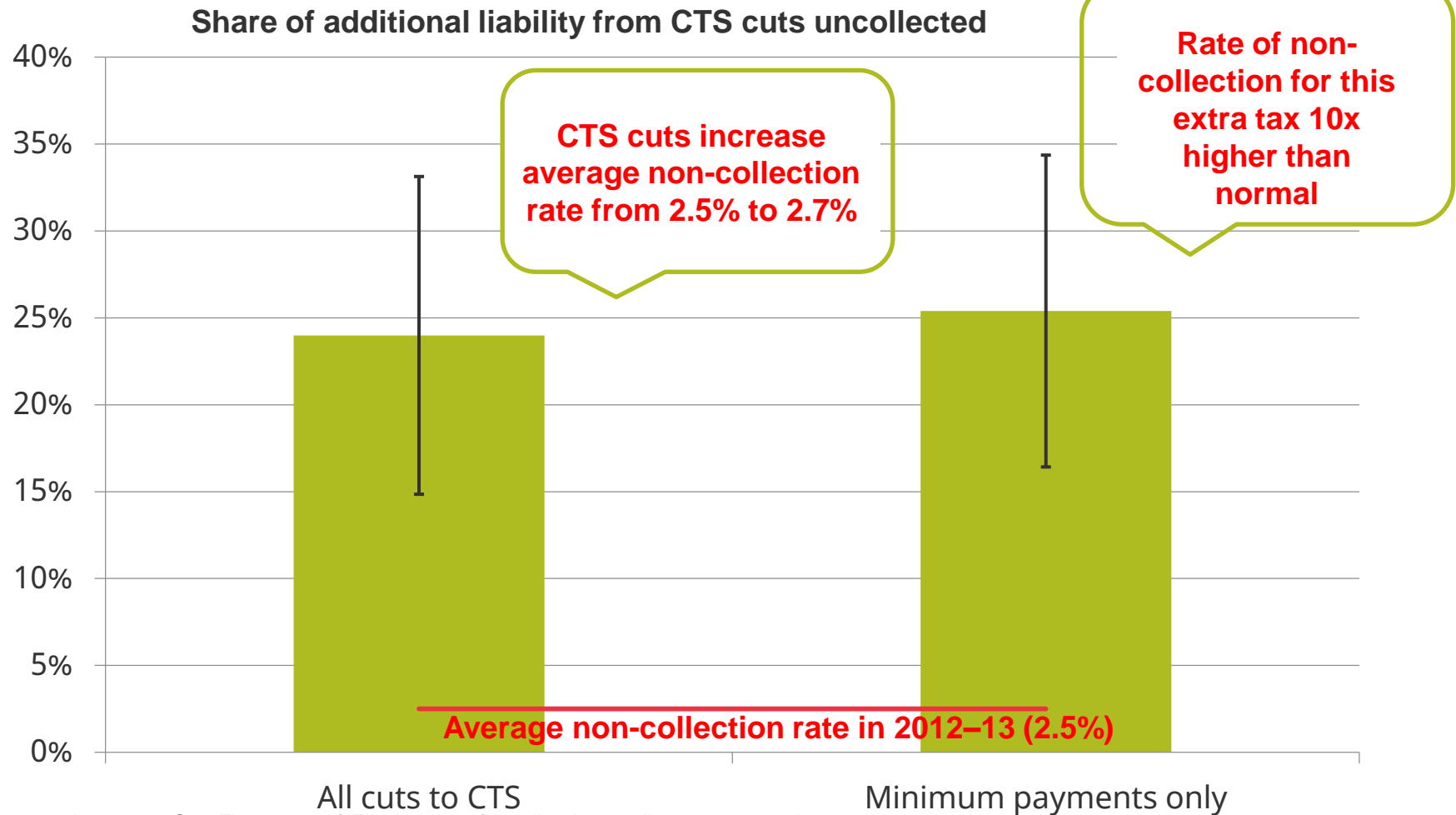
Notes and sources: See Figure 4.4 of *The impact of localised council tax support schemes*

Estimated impact of CTS cuts on council tax queries to Citizens advice



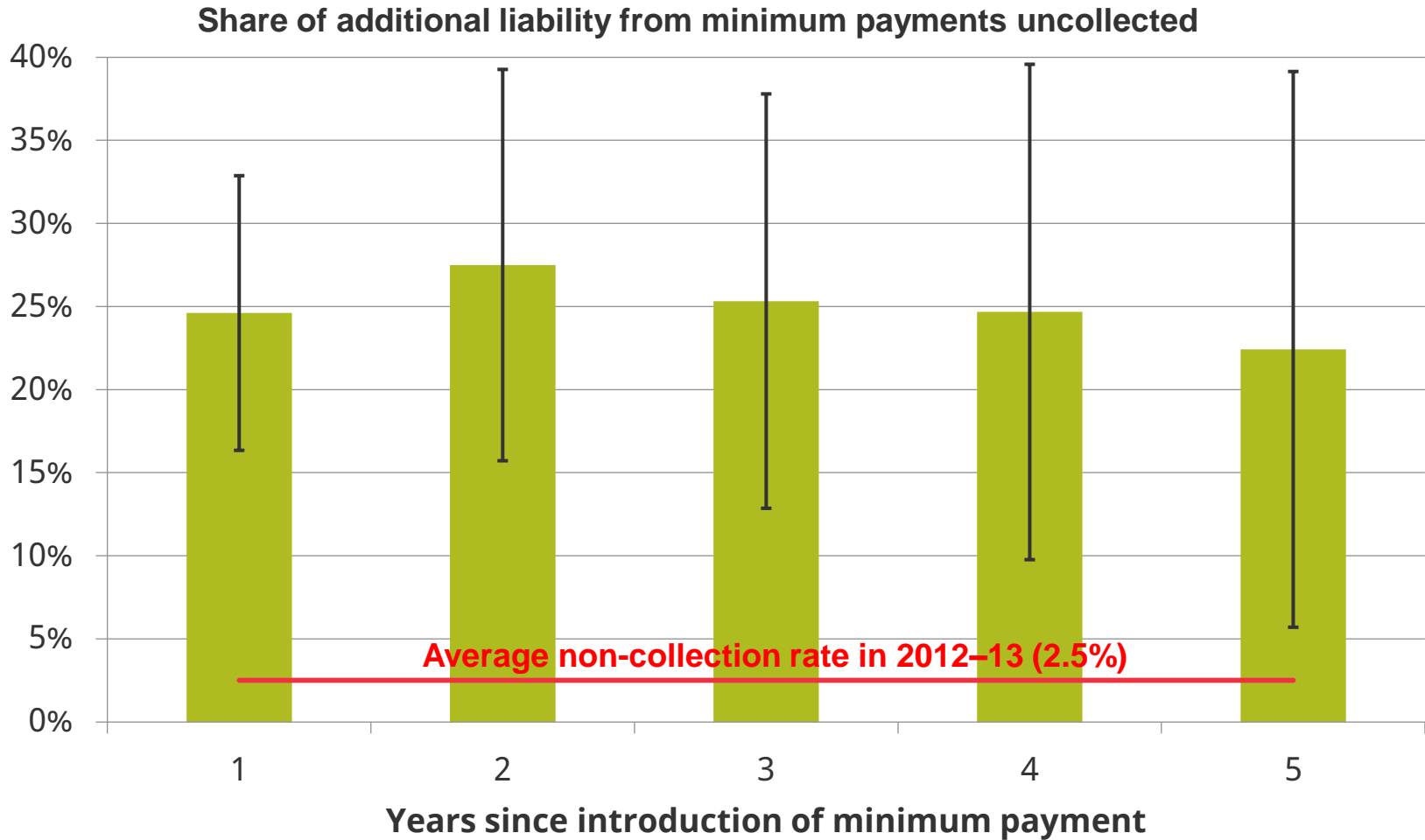
Notes and sources: See Figure 4.5 of *The impact of localised council tax support schemes*

Is the additional council tax successfully collected?



Notes and sources: See Figure 4.2 of *The impact of localised council tax support schemes*

And these effects persist for at least 5 years



Notes and sources: See Figure 4.3 of *The impact of localised council tax support schemes*

Which households are falling into arrears?

Using survey data, we can look at impacts of loss *at household level*

- Which types of households are likely to go into arrears?
- How much does the size of loss matter?

Similar 'difference-in-differences' strategy to before

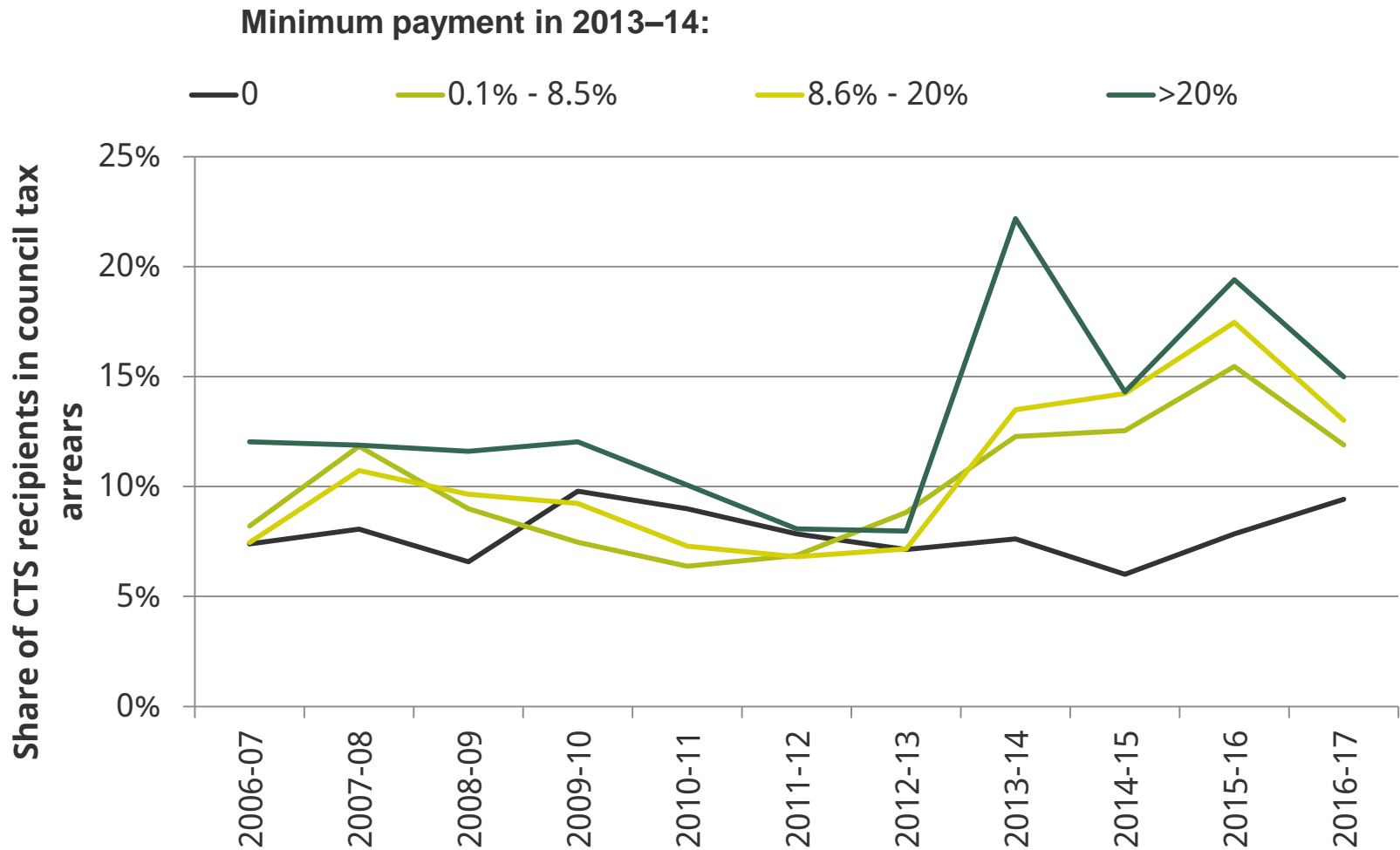
- Compare trends of otherwise-similar households in otherwise-similar LAs that have different income only because of LA scheme choices

Self-reported council tax arrears in the data

Around 700,000 households in England report being in council tax arrears each year according to FRS

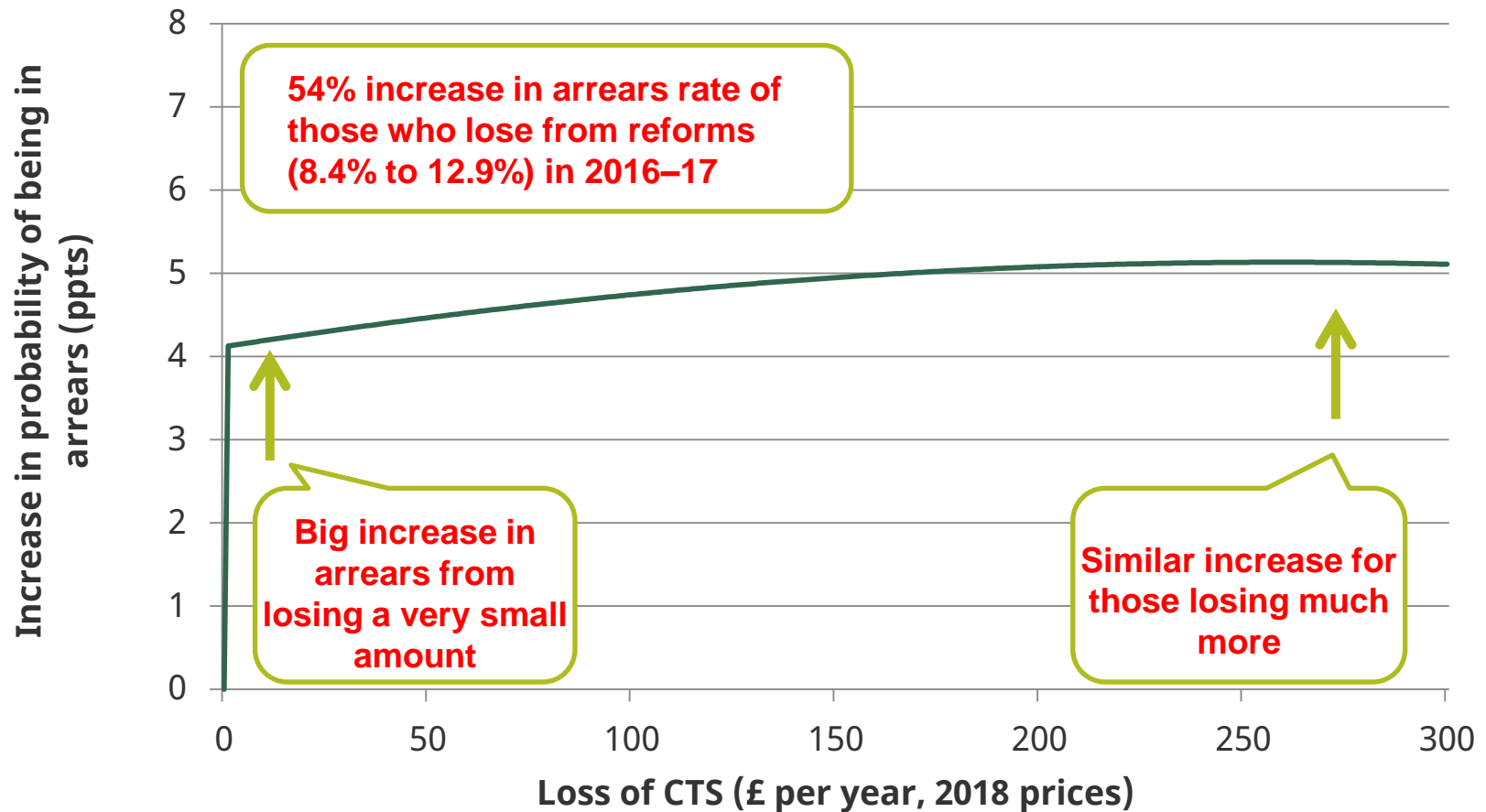
- This is a big underestimate – bailiffs were called on over 1 million households in 2014–15
- Households may be unwilling to divulge this information, or possibly even unaware that they are in arrears
- Informative about patterns and trends, but not precise magnitudes

Minimum payments lead to higher arrears



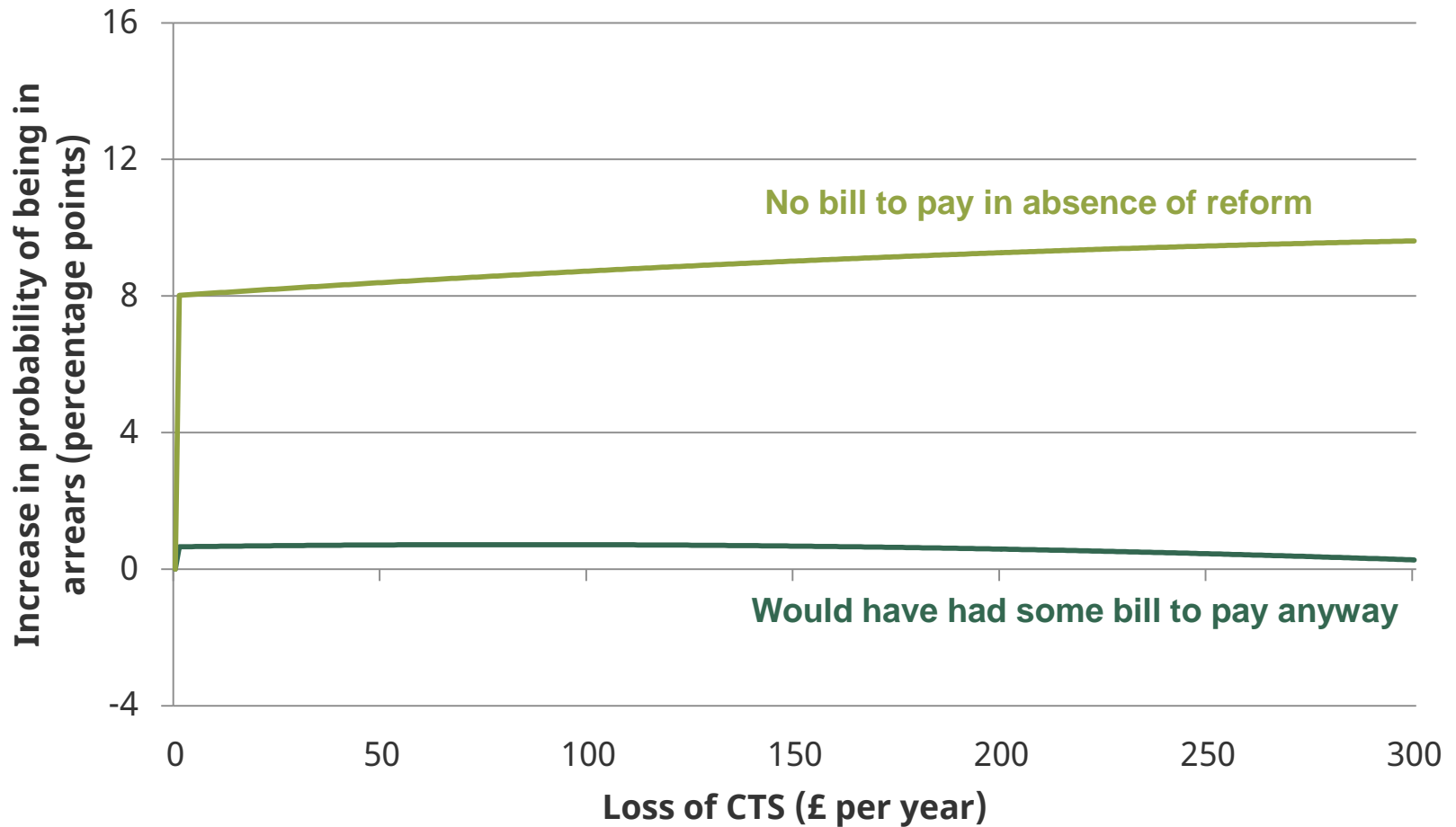
Notes and sources: See Figure 5.1 of *The impact of localised council tax support schemes*

Estimated effect of losing on council tax arrears



Notes and sources: See Figure 5.3 of *The impact of localised council tax support schemes*

Driven by those who would otherwise have had no bill to pay



Notes and sources: See Figure 5.4 of *The impact of localised council tax support schemes*

Which households go into arrears?

Households with 'new' bill more likely to go into arrears if:

- They are lone parents
- They are renting
- They live in LAs with low pre-reform collection rates
 - Suggests a possible role for LA collection efficiency
 - Or a role for 'peer effects'

Summary

Clear evidence of substantial, and long-lasting, payment problems as a result of the reforms

- More queries to Citizens Advice in LAs with minimum payments
- 25% of additional liabilities going uncollected even after 5 years

Effects driven by those with no bill to pay in the absence of reform

- True whether the 'new' bill is big or small
- No increase in arrears detected for households who would have had a bill to pay anyway

For central government when devolving responsibilities and funding

- Temporary incentives can have long-lasting impacts
- The way funding streams are labelled can affect how they are spent

For policymakers – central and local – when designing policy for low-income households

- Generating new bills for households to pay is more likely to lead to non-payment than increasing the size of existing bills
- Difficulties don't disappear after households have had time to adjust
- Important evidence for future CTS scheme design, and maybe other areas (e.g. housing benefit)