

The impacts of localised council tax support schemes: Executive summary

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Preface

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The views expressed and any remaining errors are the authors' alone.

Executive summary

In April 2013, council tax benefit (CTB), which provided help for low-income households with their council tax, was abolished. In its place, local authorities (LAs) in England were charged with designing their own council tax support (CTS) schemes for those of working age – though they were obliged to provide a centrally determined (and largely protected) level of support for pensioners. With reduced funding made available to them by central government, most LAs chose CTS schemes that were less generous than the CTB system they were replacing, with some low-income households having to pay council tax for the first time and others seeing their tax liabilities increase.

CTS remains a significant part of our system of means-tested support. Across Great Britain, it was paid to 4.9 million households in 2017–18 – more than any other means-tested payment. It cost LAs £4.1 billion, which represents an aggregate reduction of about 11% of gross council tax bills (leaving them with £33 billion of net council tax revenue). Spending on the 2.4 million working-age claimants in England – the focus of this report, since it is their entitlements that now vary between LAs – came to £1.8 billion, implying an average award for those claimants of £770 per year.

Five years on from the localisation and funding cut for CTS, this report looks at how LAs' CTS schemes have evolved since they were first introduced, and at the changing effects of these scheme choices on claimants and on LAs.

Using information on CTS schemes kindly provided to us by entitledto and the New Policy Institute, we first describe the evolution of schemes since they were first introduced and examine how different kinds of LA have chosen different kinds of CTS scheme. We then use the IFS tax and benefit microsimulation model to estimate the effects of these reforms on household incomes and work incentives. Using this information on scheme choices and the effects on households, we assess how households have responded to the changes. We use regression techniques to compare how outcomes have changed differentially in otherwise-similar LAs that chose different CTS schemes, allowing us to robustly identify the causal effects of scheme choices. Finally, we use similar techniques to evaluate the effect of losing CTS entitlement on outcomes *at the household level* by comparing the trends in outcomes of otherwise-similar households whose CTS entitlement differs because of the LA in which they live.

This should be useful to English LAs – and the Scottish and Welsh governments – which continue to be tasked with setting CTS schemes, providing them with evidence on the likely impact of different choices. It should be useful to those interested in the effects of the welfare reforms of recent years, of which the cuts to CTS form a part. And it should be useful to central government and others seeking to understand how local councils make decisions, the consequences of localisation and funding cuts, and how households respond to being given a new or bigger bill to pay.

Going forward, the roll-out of universal credit (UC) – a major and troubled reform to the benefit system, integrating six working-age benefits and tax credits into one – has significant consequences for CTS, and LAs will need to consider it in the design of their schemes (as some are already). This report, however, analyses CTS scheme choices and their consequences in a period before UC is mostly rolled out. We therefore do not address this crucial issue directly in any depth – but we will do so in future work, and in

the meantime we hope that our findings here will help LAs considering changes to their scheme in response to UC to understand better what the impacts might be.

Local authorities' choices of council tax support scheme

- 90% of English councils had made some changes to their CTS scheme for working-age households (other than mirroring changes made to the wider benefits system) by 2018–19, almost all of them cuts. This figure is up from 82% in 2013–14.
- Furthermore, central government cuts to national benefits – such as the freeze to most working-age benefit rates that has been in place since April 2015, and the abolition of extra support for third and subsequent children – have often been mirrored in councils' CTS schemes, reducing the income that claimants can earn before their CTS is withdrawn. This means that even the 'default' option involves a reduction in CTS relative to maintaining the generosity of the pre-2013 national council tax benefit system.
- The most widespread and important change to CTS schemes has been the introduction of minimum council tax payments, requiring all households (except any 'vulnerable groups' the council decides to protect) to pay at least a certain proportion of their gross council tax bill. This is the first time since the poll tax that many of the lowest-income households have been required to pay local tax.
- Councils' schemes differ substantially, which means that similar families can have very different council tax bills depending on where they live. The most common level of minimum payment is 20% – adopted by 78 councils (almost a quarter) in 2018–19. But a fifth of councils have no minimum payment, and another fifth have minimum payments of over 20%, with the highest being 50% in North Lincolnshire. LAs with higher minimum payments are more likely to have cut CTS in other ways as well.
- More deprived councils, and Labour councils, have been more likely to introduce minimum payments than other councils – but only because they received larger cuts to CTS funding from central government. After adjusting for other differences between councils – including differences in funding cuts – Labour councils were 15 percentage points *less* likely to introduce minimum payments than Conservative councils.
- Although LAs that saw bigger cuts to their funding for CTS have been more likely to introduce minimum payments, broader cuts to funding from central government have had no such effect – even though councils are free to allocate spending as they wish between CTS and other priorities. This suggests that the labelling of money from central government has real effects on how it is spent.
- LAs were given temporary additional funding if they set a minimum payment no higher than 8.5% in 2013–14. But 38 LAs still had a minimum payment of exactly 8.5% in 2018–19, five years after the incentive expired. This bunching around 8.5% is found in clusters of neighbouring LAs, and a few LAs whose neighbours had them even introduced an 8.5% minimum payment after the incentive had been removed. This suggests that a temporary distortion of councils' incentives can have lasting impacts on their chosen policies, and hence on the households subject to them.

Consequences for household incomes and work incentives

- The 3.6 million working-age households in England who would have been entitled to some support under the old CTB system are now entitled to 24% (£196 a year) less on average – 1.0% of their income – than if the generosity of the system had been maintained at its pre-2013 level. This amounts to a £706 million reduction in entitlements: £286 million – about 70% – more than the cut made by councils in the first year of localisation in 2013–14.
- About half of the additional cut since 2013–14 is the result of councils mirroring cuts that central government has made to the wider benefits system, such as the benefits freeze, in their CTS schemes. Excluding those changes – which might plausibly have occurred as a knock-on effect of those wider benefits changes even if CTS had not been localised – the other changes introduced by LAs amount to a 20% cut to support, up from 14% in 2013–14.
- There are now 1.4 million households who have to pay some council tax who would not have had to pay it if the generosity of the pre-2013 system had been maintained. Of these, the vast majority (1.3 million) have been brought into the council tax net by LAs' decisions to go beyond just mirroring other national benefits cuts in their CTS schemes (most significantly by the introduction of minimum payments).
- A further 1.6 million households are billed for more than they otherwise would have been – around one-quarter (0.4 million) due to the mirroring of national benefits changes in CTS schemes and the remaining three-quarters (1.2 million) due to the additional cuts to CTS schemes that councils have made.
- Overall, only around 500,000 – barely a quarter – of the households that would have had their council tax bills entirely covered by the old CTS system still have it fully covered by CTS. The other three-quarters have to pay at least some council tax in 2018–19; 63% must pay more than £100, a third must pay more than £200 and almost one in ten must pay more than £300.
- Unsurprisingly, the bulk of the savings has come from low-income households, who received most support to start with. But the biggest percentage cuts to support have been felt by working claimants with children.
- Low-income households are more likely to have seen their CTS cut if they live in a more deprived area. This is because councils in poorer areas received bigger funding cuts from central government and, as a result, were more likely to cut CTS. Households among the lowest-income fifth in England had a 60% chance of seeing their entitlement reduced if they also lived in one of the most deprived fifth of LAs, but only a 46% chance if they lived in one of the least deprived fifth of LAs.
- However, because council tax levels tend to be higher in more affluent areas, those poor households in affluent areas who *have* seen a cut to CTS have tended to receive a larger additional council tax bill (losing £323 a year on average) than those in poorer areas (£229).

- Cutting the support that households can get if they have low income has given them slightly stronger incentives to work and to earn more. Because the generosity of CTS has been reduced further since it was localised in 2013, the impact on work incentives has also grown.

Impacts of scheme choices at the local authority level

- Cuts to council tax support have, as some predicted, led to sizeable increases in the amount of council tax going uncollected.
- We estimate that about a quarter of the additional council tax liability arising from cuts to CTS is not collected in the year it is due. This is far higher than the typical rate of non-collection of council tax: around 10 times higher than the 2.5% of council tax that councils failed to collect, on average, in 2012–13, before the cuts to CTS. Of course, cuts to CTS are small relative to total council tax, so the effect on the aggregate rate of non-collection is still relatively modest – increasing it from 2.5% to 2.7% on average.
- These difficulties in collecting the extra tax appear to be long-lasting: we estimate that councils failed to collect a quarter of the additional liabilities created by minimum payments in 2017–18 even when the minimum payment had been in place since 2013–14.
- Introducing a minimum payment in an LA also caused a significant increase in the number of people in that LA contacting Citizens Advice for advice or help relating to council tax or CTS. On average, minimum payments increased these enquiries by around 15–20% in the councils concerned, primarily driven by more enquiries relating to council tax debt. Other changes to CTS schemes have not led to a statistically significant increase in enquiries to Citizens Advice.
- The increase in the volume of enquiries to Citizens Advice is similar for all sizes of minimum payments, suggesting that it might be requiring households to pay some council tax when they would otherwise have had no bill, rather than the size of those bills, that is leading to more queries.

Impacts of scheme choices at the household level

- Reducing a household's CTS entitlement significantly increases the probability that it reports being in arrears on its council tax.
- Among households entitled to less CTS in 2016–17 than they would have got under the default scheme, the median loss was £179 per year. We estimate that a loss of that size increased a household's chances of being in council tax arrears by a half.
- The impact of losing CTS on council tax arrears is entirely driven by households that would, in the absence of cuts, have been entitled to maximum CTS and hence would have had no council tax bill to pay at all. We find no significant effect on the arrears rates of those already paying council tax being required to pay more; and among households that would not previously have had to pay any council tax, the increase in the probability of arrears is almost as big for those given a small bill as for those given a large one.

- These findings suggest that the relatively low collection rate of the additional council tax liabilities, identified in Chapter 4, is driven by the difficulty of collecting tax from those who would not have had to pay it in the absence of cuts to CTS. Councils are likely to receive more revenue if they increase liabilities for those already paying some council tax than if they cut support by the same amount for those who currently have no council tax bill to pay.
- Lone parents, renters, and claimants in councils that already had relatively low council tax collection rates are all more likely than average to fall into council tax arrears as a result of being required to pay a council tax bill that they would not have had in the absence of cuts.
- We find no significant impact of losing CTS on whether a household reports being in arrears on other bills or being unable to afford other items – despite the fact that the relatively tough enforcement and penalties for non-payment of council tax mean that it would usually make more sense for households to pay the council tax and (if necessary) go into arrears on another bill instead. This reinforces the impression that the problem is not simply one of dealing rationally with the loss of £1 or £2 a week within an optimal budgeting process. Rather, faced with a council tax bill they would not otherwise have had to pay, many households simply do not pay it – irrespective of its size.