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Universal Credit, Council Tax Support and Housing Benefit reforms: an assessment

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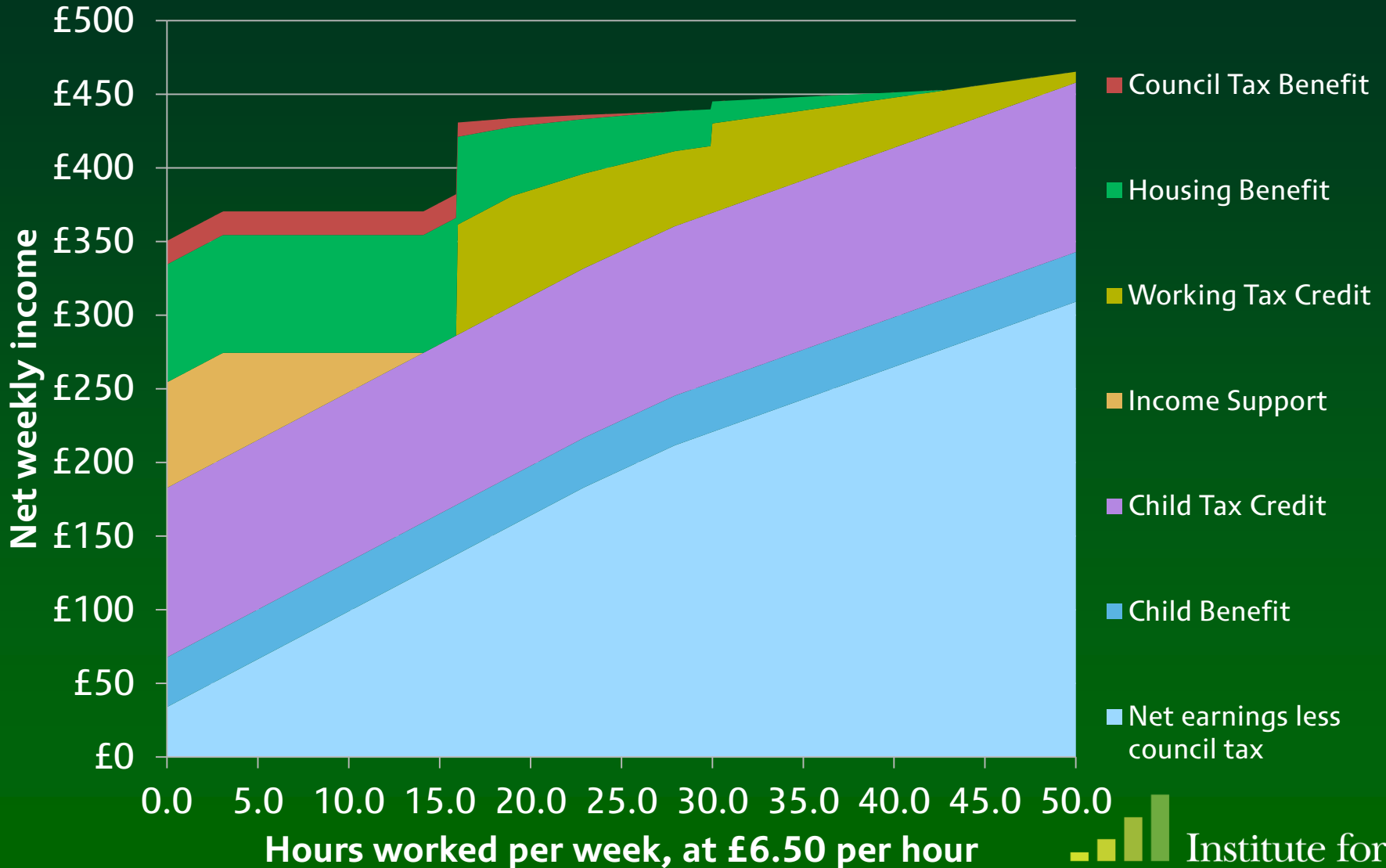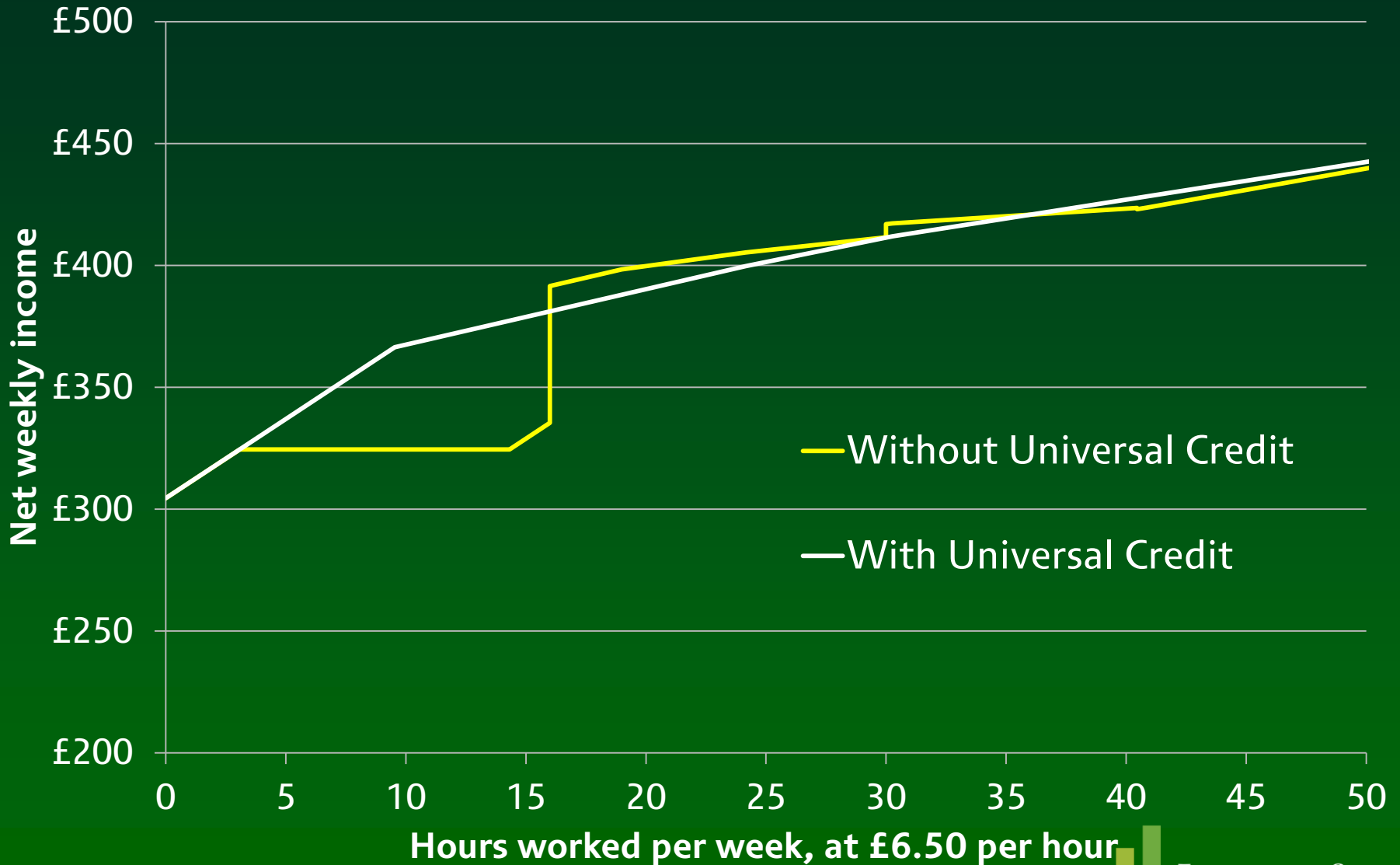Presentation to *Chartered Institute of Public Finance and Accountancy*

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Universal Credit (http://www.ifs.org.uk/publications/6147)

- Integrates 6 of 7 existing means-tested payments into one

- For most people with no private income/capital, entitlements same as under current system
  - e.g. extras for children and rent mirror Child Tax Credit, Housing Benefit

- Key difference is how means-testing will operate
  - E.G. Currently, if you find work, you might lose some tax credits, some Housing Benefit and your Jobseeker's Allowance
  - These means tests are all separate with different rules
  - Under UC you get one payment; as your earnings rise it is withdrawn according to one set of rules

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Current system: an example lone parent with 2 children

Net weekly income (£0 – £500) vs. Hours worked per week, at £6.50 per hour (0.0 – 50.0)

Legend:
- Council Tax Benefit
- Housing Benefit
- Working Tax Credit
- Income Support
- Child Tax Credit
- Child Benefit
- Net earnings less council tax

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The same example lone parent – impact of Universal Credit

Net weekly income

£500
£450
£400
£350
£300
£250
£200

—— Without Universal Credit

—— With Universal Credit

Hours worked per week, at £6.50 per hour

0 5 10 15 20 25 30 35 40 45 50

Note: ignores council tax and associated rebates.

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Universal Credit (2)

- Impacts on financial work incentives mixed (strengthened for some; weakened for others)
    - Getting weaker for 1st earners: several pre-emptive cuts to 'work allowances'

- But clear gains to be had from:
    - More 'rational' system: structure of support will depend on design of one means test, not arbitrary overlaps between different ones
    - Greater clarity/certainty for claimants about their incentives
    - Smoothing transition from out-of-work to in-work benefit receipt

- There is the potential for a major, welcome simplification
    - Why would you want a jumble of overlapping means tests rather than a single integrated one?

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Support for council tax

- Council Tax Benefit was essentially a means-tested council tax rebate

- It was a national benefit – whilst maximum entitlements depended on council tax liability, rules of means test were set centrally

- 5.9 million families received it – more than any other means-tested benefit or tax credit

- Three decisions have been made.

  1. To (effectively) cut central government funding for it by 10%
  2. To keep council tax support separate from UC
  3. To localise it

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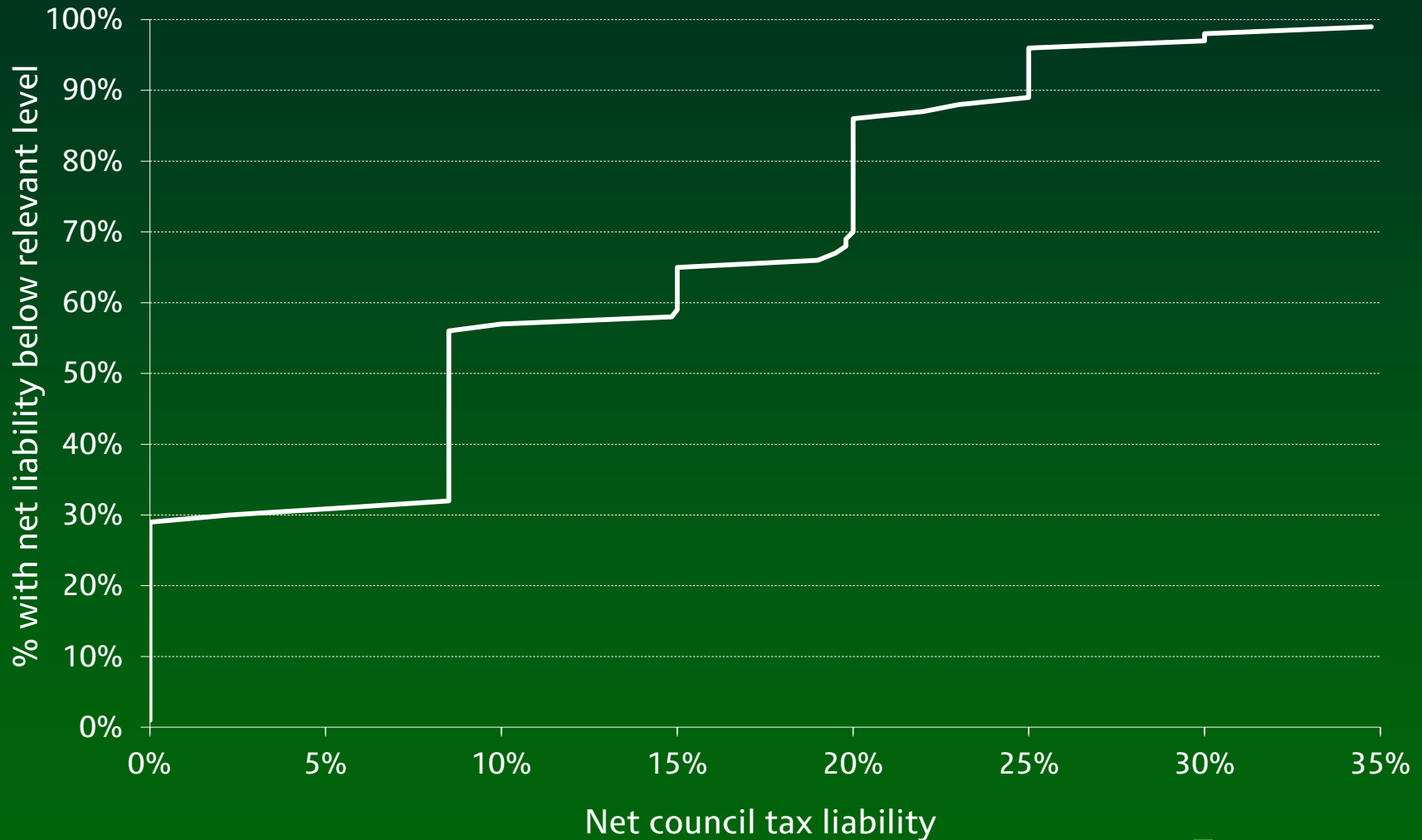# Support for council tax (www.ifs.org.uk/publications/6183)

1. **To (effectively) cut central government funding for it by 10%**

- Usual tradeoffs apply: very difficult to save full 10% without either hitting the poorest households or significantly weakening work incentives

2. **To keep council tax support separate from UC**

- Creates tricky issues re how CTS and UC will interact

- Re-introduces potential for overlapping means tests and extremely weak work incentives that UC would otherwise have eliminated

3. **To localise it**

- Passes these problems on to local authorities (who have little to no experience designing benefit systems)

- Allowing each LA to have different CTS system undermines the principle of simplicity behind UC

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Effects in the first year (2013-14, England only)

- Changes cut total entitlements by 8% (14% for working-age households)
- 70% of local authorities introduced minimum council tax payments

- But much variation in scheme choices
- More likely to introduce minimum payments if:
  - Deprived area (because funding cuts were bigger there)
  - Pensioners – who had to be protected - account for larger share of CTB spending
- (Typically less well-resourced) district councils less likely to make any changes to system – and hence need to absorb funding cut elsewhere

- Suggestive evidence that arrears may have risen in areas that made low-income people pay some council tax for first time
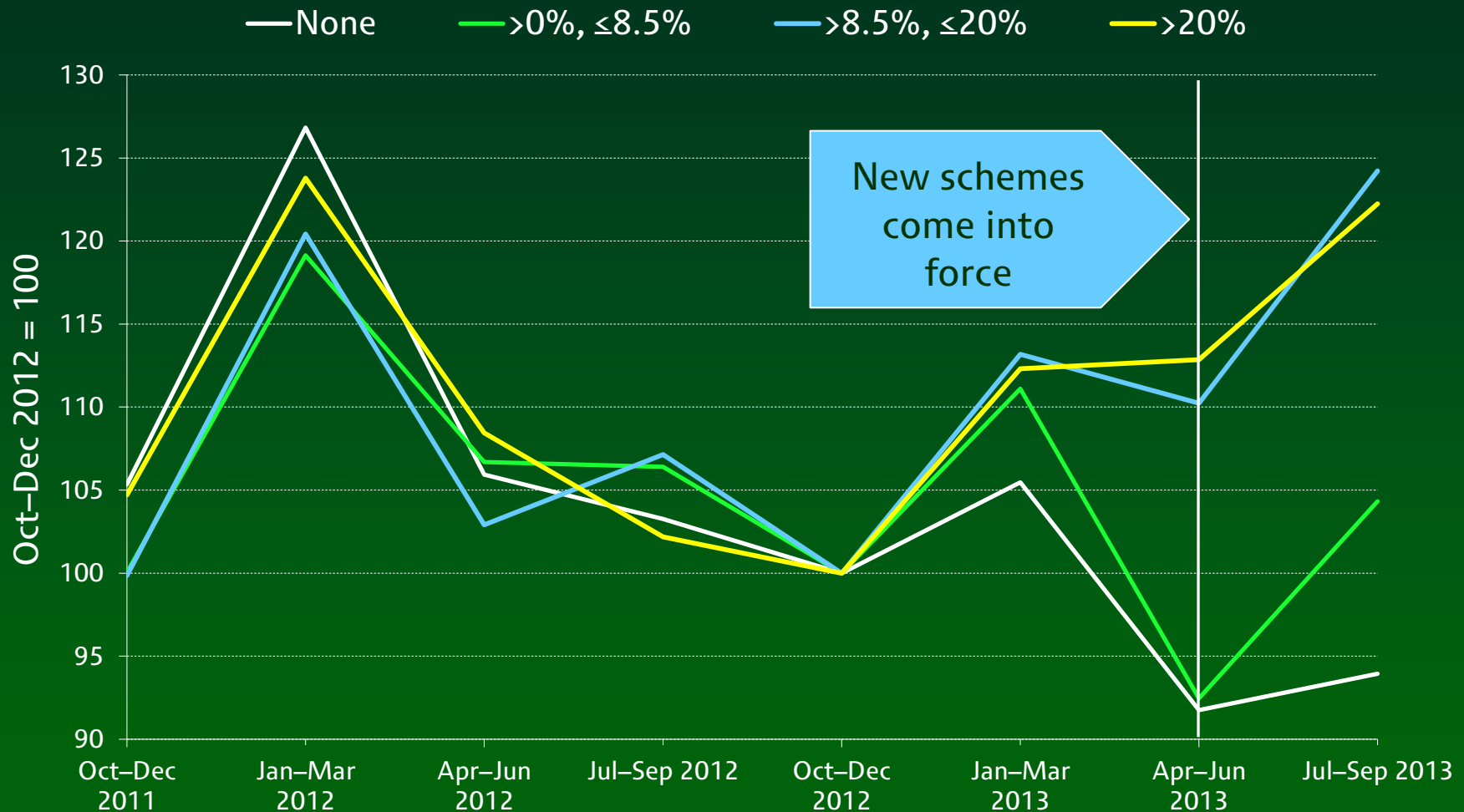 - Will be interesting to see council tax collection rates for 2013-14

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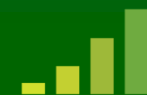Net council tax liabilities in 2013-14 among those with no liability under previous system (England, working-age only)

Source: Calculations using IFS' TAXBEN model and data on LA scheme characteristics.
See Adam et al (2014): www.ifs.org.uk/publications/7057

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Number of queries to Citizens Advice about council tax debt, by size of minimum payment in local authority (England, working-age only)

Legend: None — >0%, ≤8.5% — >8.5%, ≤20% — >20%

y-axis: Oct–Dec 2012 = 100 (90 to 130)

x-axis: Oct–Dec 2011, Jan–Mar 2012, Apr–Jun 2012, Jul–Sep 2012, Oct–Dec 2012, Jan–Mar 2013, Apr–Jun 2013, Jul–Sep 2013

New schemes come into force

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Housing Benefit for private renters: various cuts

www.ifs.org.uk/publications/6697   www.ifs.org.uk/publications/6885

- Background on Housing Benefit for private renters:
    - There are limits on rent amounts that can be covered
    - These vary by area (and family type)
    - They are called Local Housing Allowance (LHA) rates

- During 2011 and 2012, various cuts to LHA rates phased in
    - Including switching to 30th percentile of local rents (from 50th)
    - These affected about 900,000 people
    - Early evidence suggests little effect on rental values; implies tenants (not their landlords) took most of the hit
    - Key issues include longer-term impacts on rental values, and how tenants respond to the cut (moving house, labour supply, etc)

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Breaking the link between LHA rates and rents

– The (latest) reform: from April 2013 index LHA rates to CPI, not local rents

– In long run this way of making cuts will have very odd effects

1. If real rent growth, % of rent costs covered by HB would become negligible
   – Strange, as HB exists explicitly to help with rent costs

2. *Geographic variation* in HB entitlements to be increasingly arbitrary
   – Relativities between LHA rates across the country will for ever be fixed at their 2012 levels
   – Relevant local rent measure should clearly be current, not historic
   – Unwelcome parallels with council tax system?

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Conclusions

- Many important reforms taking place

- Aggregate cuts to welfare should be seen in context of fiscal consolidation – social security is 30% of government spending

- Various changes are also structural in nature – not simply lowering entitlements

- Verdict on these changes is mixed

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