

# The impact of localised council tax support schemes

Stuart Adam, Robert Joyce and Thomas Pope

Institute for Fiscal Studies

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# 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?**

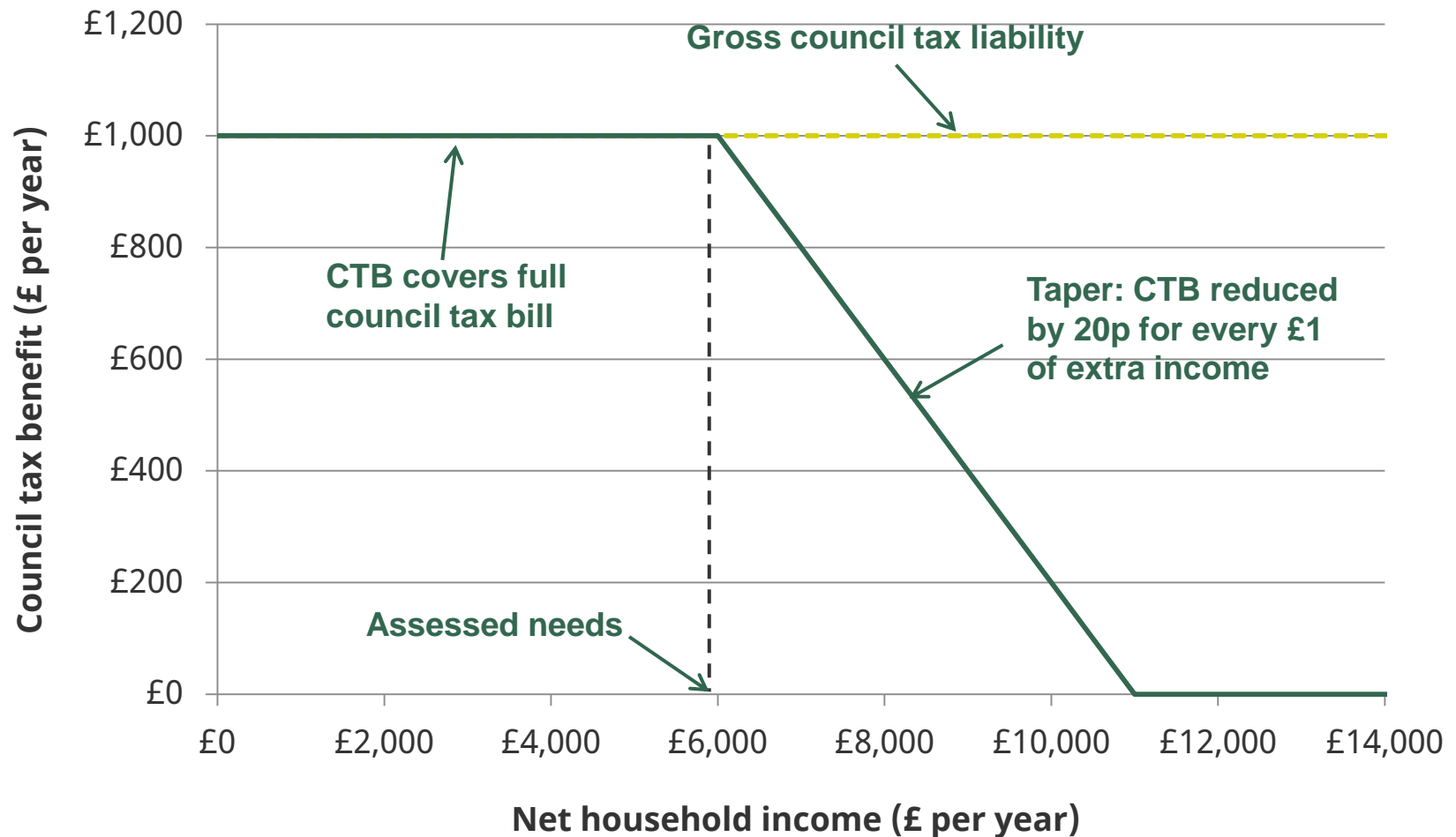
**What kinds of LA chose what kinds of scheme?**

**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



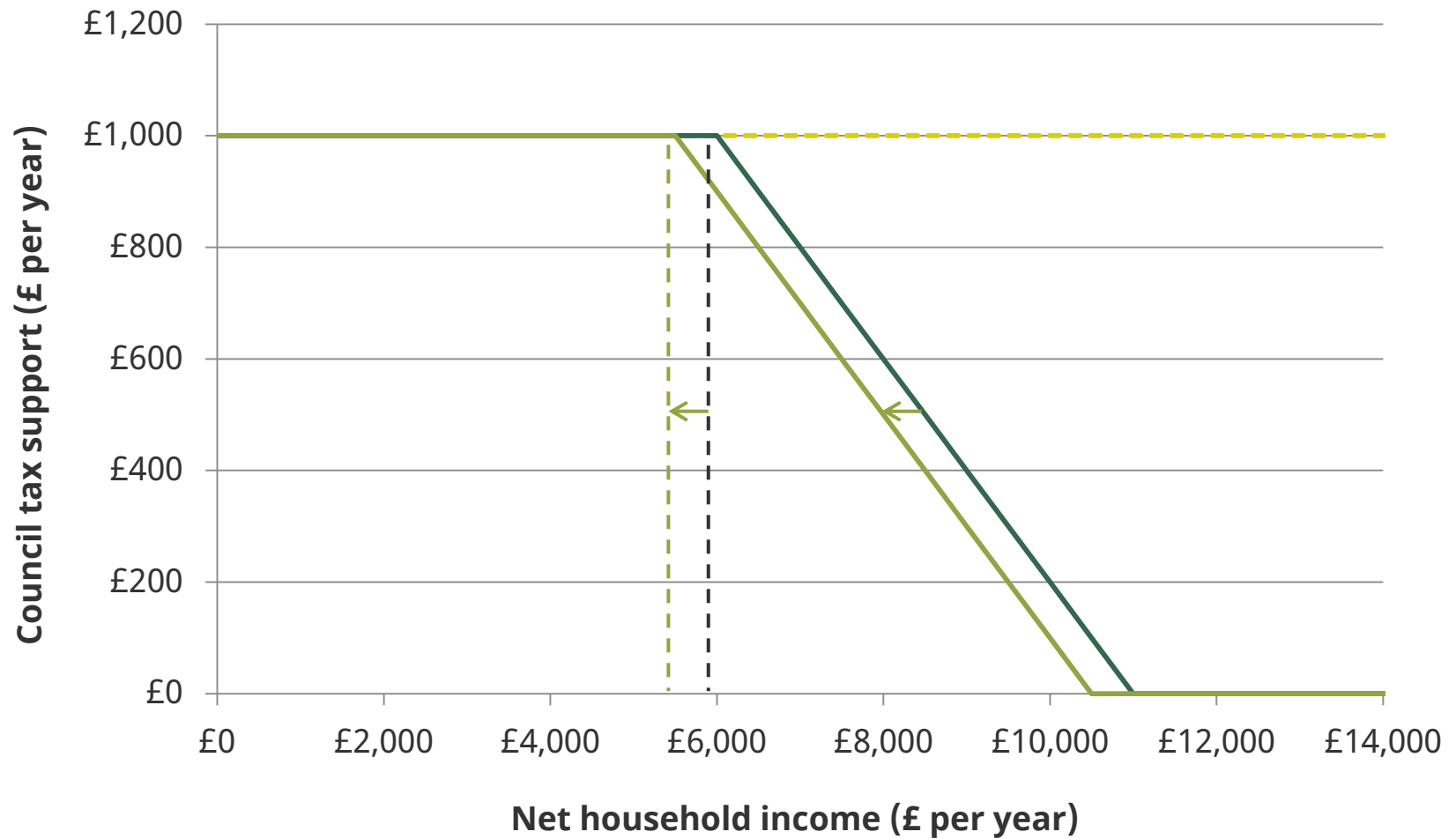
# What schemes have councils chosen?

# 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

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

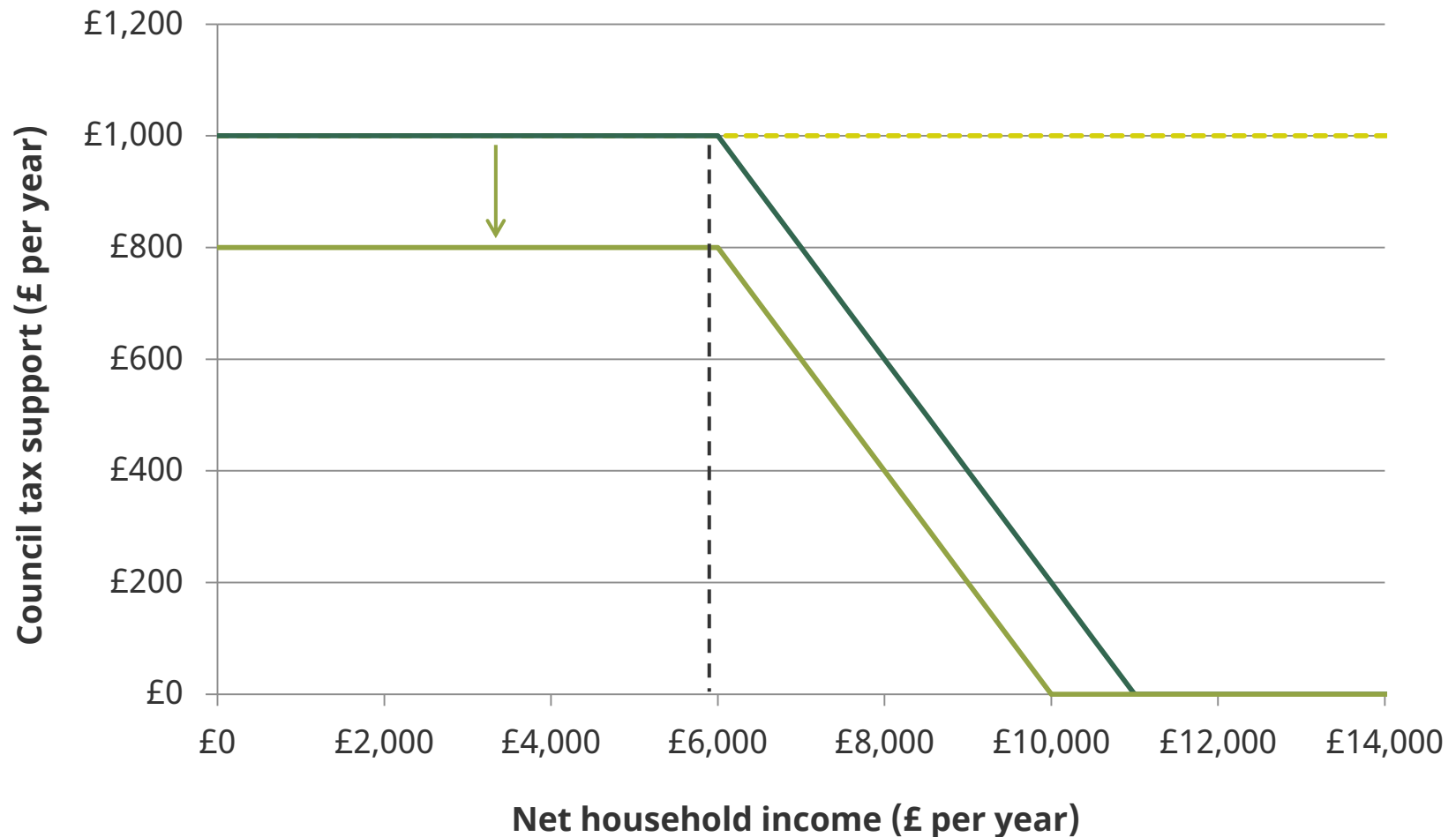
- Benefit freeze; 2-child limit, abolition of family premium,...

## **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

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

- 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

## **Various smaller changes too**

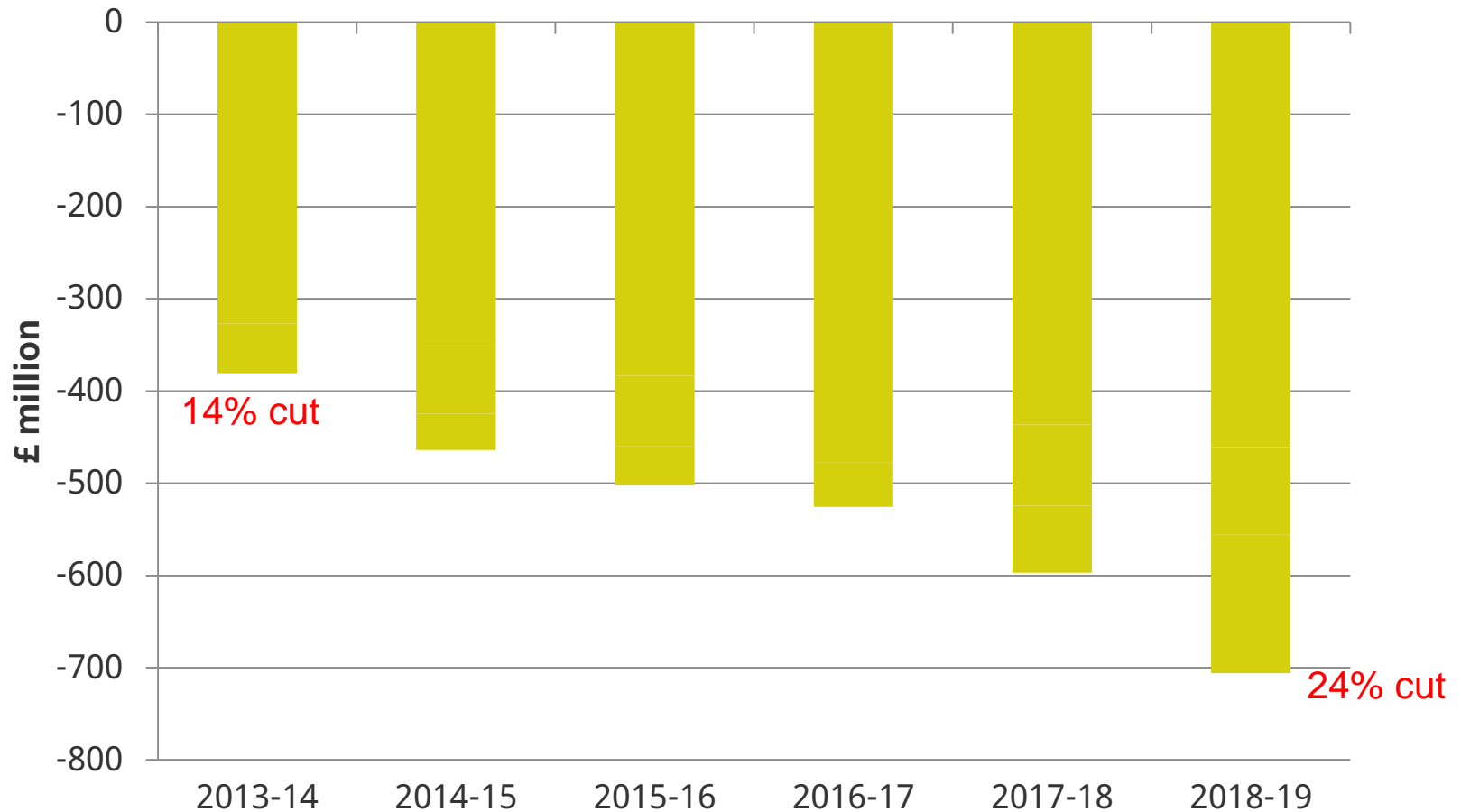
- e.g. increasing taper rate, reducing asset limit, capping entitlement at particular council tax band,...

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

## **113 LAs protect one or more ‘vulnerable’ groups from (some) cuts**

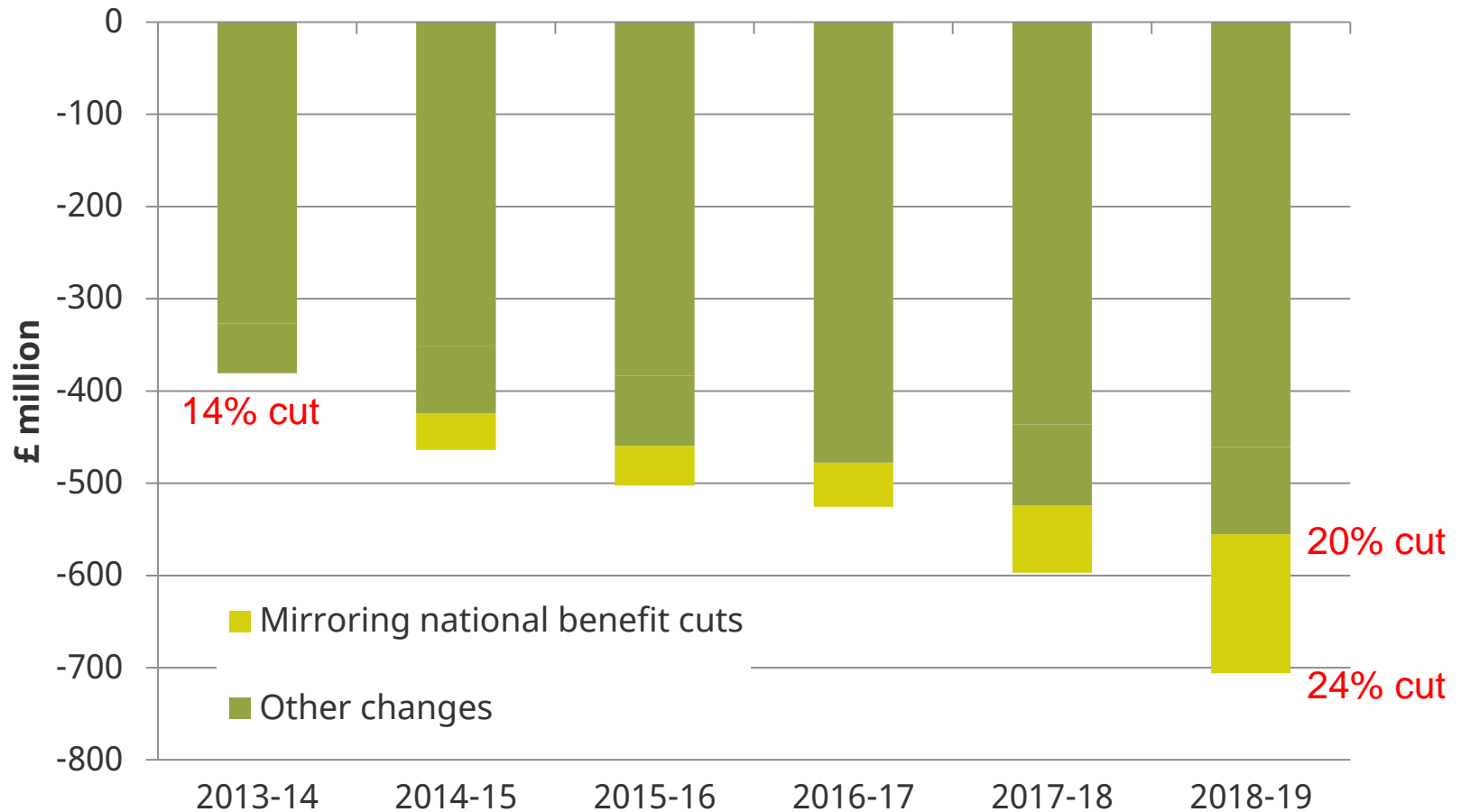
- And 162 have discretionary hardship funds, which we ignore here

# Cut to working-age entitlements in England



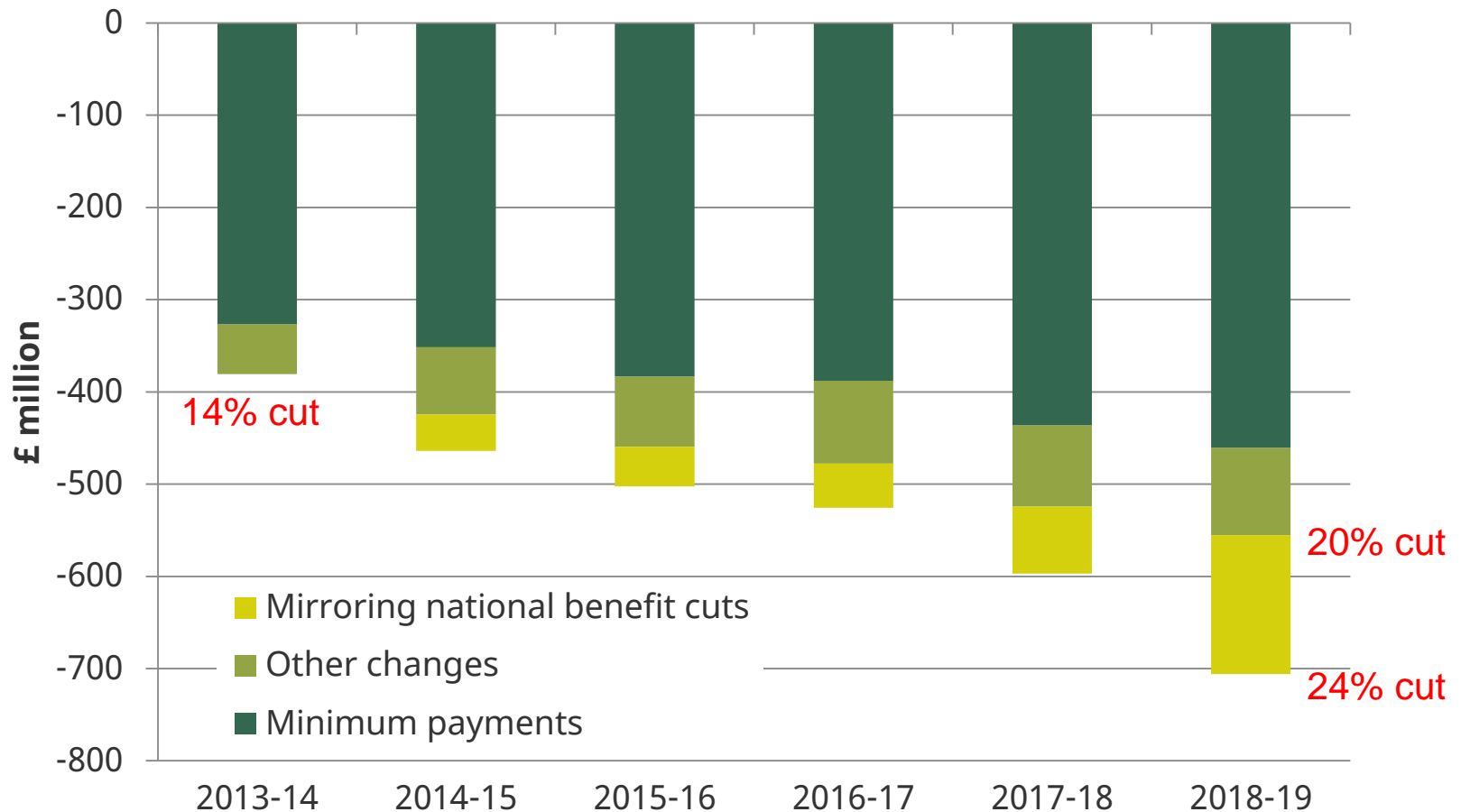
Notes and sources: See Figure 3.3 of *The impact of localised council tax support schemes*

# Cut to working-age entitlements in England



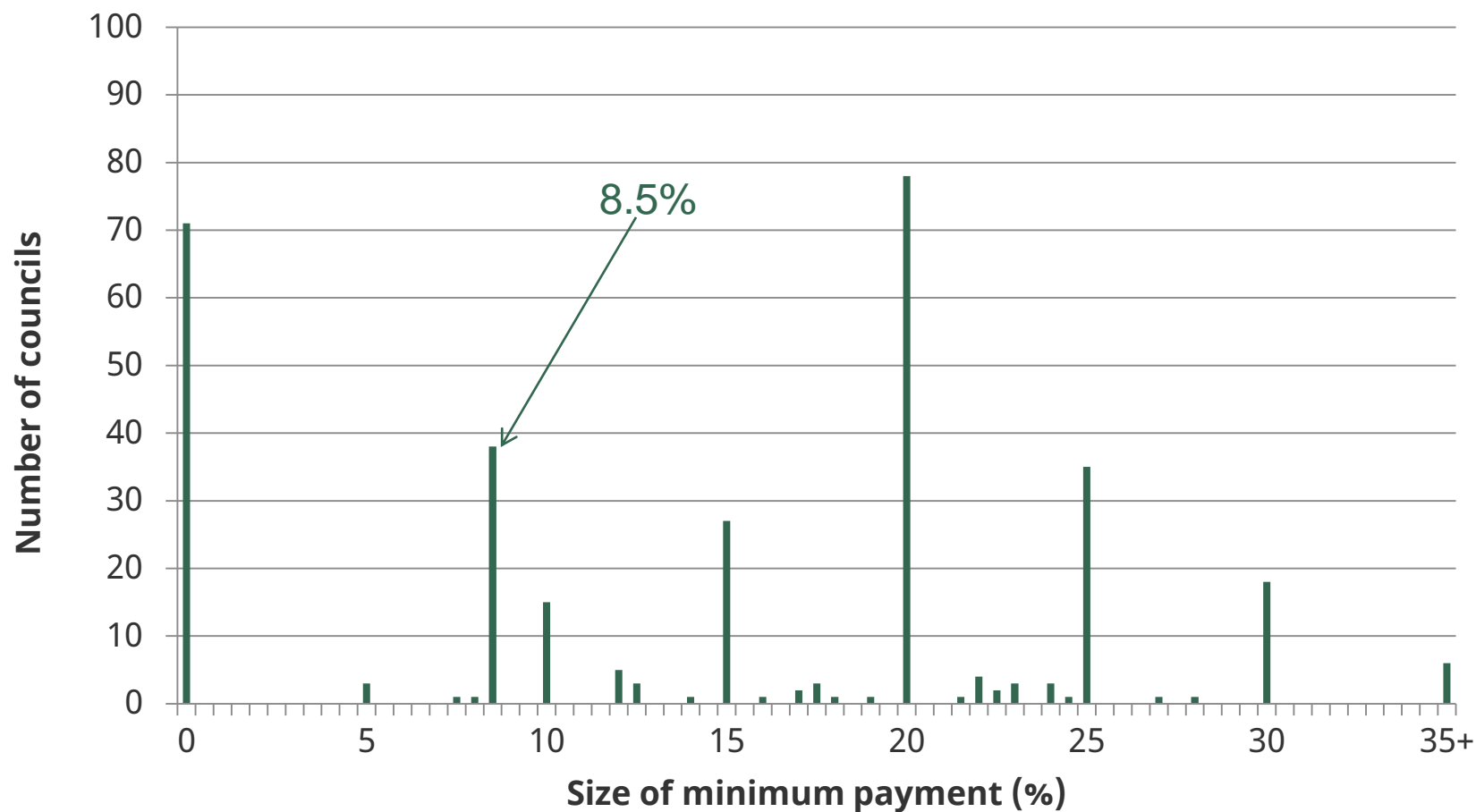
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# Cut to working-age entitlements in England



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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%

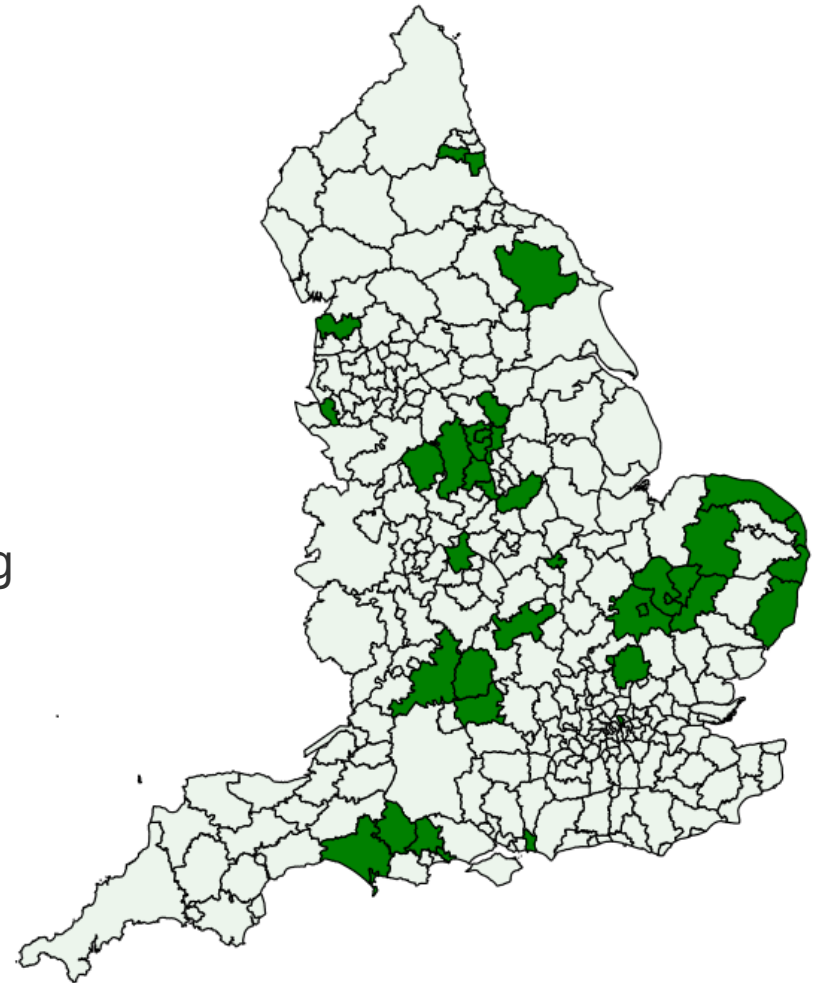
**In 2018–19, 38 LAs still had a minimum payment of 8.5%**

- 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

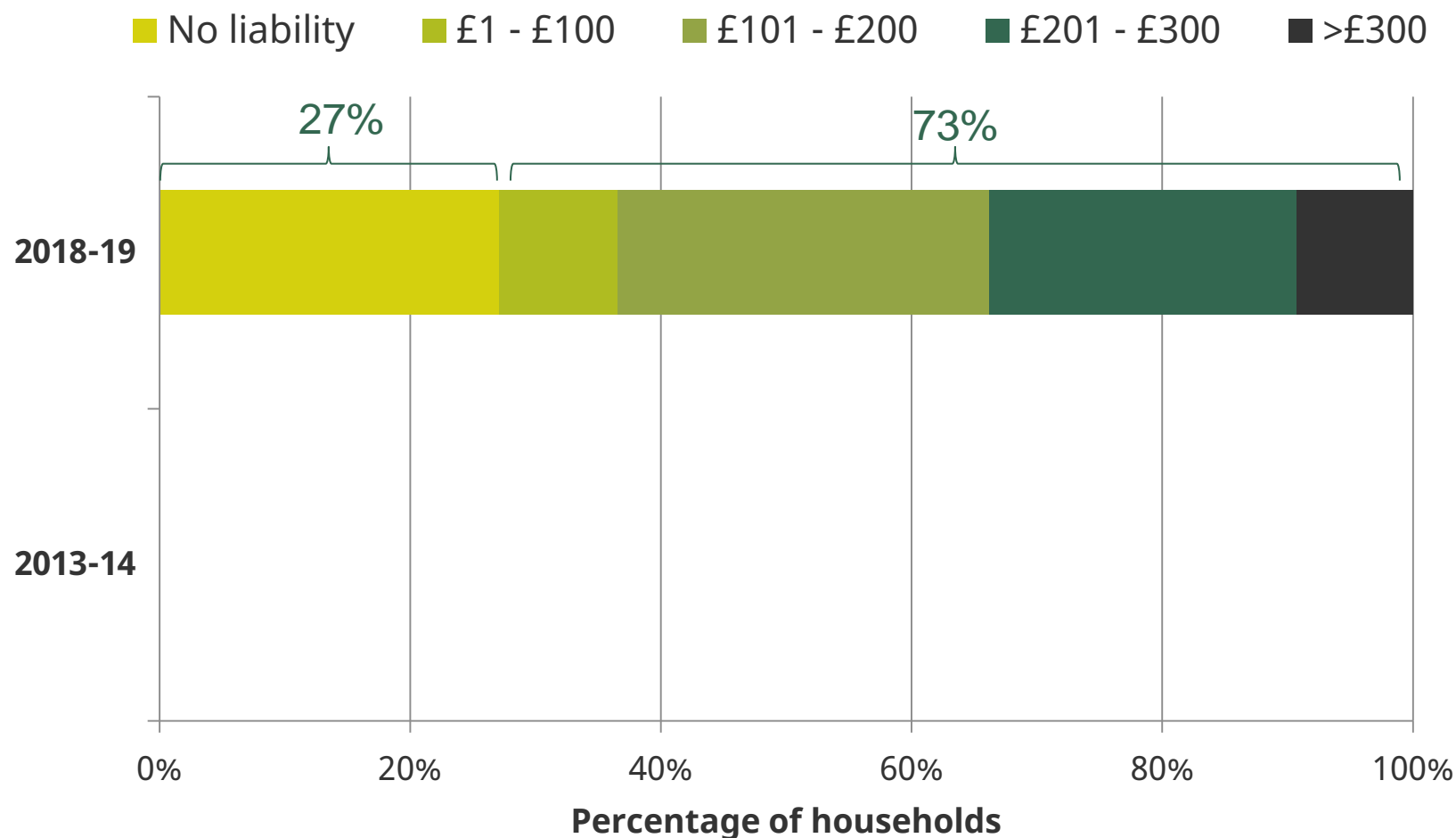
**1.6m face a bigger bill than they would have under CTB**

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

**0.5m still have no bill to pay**

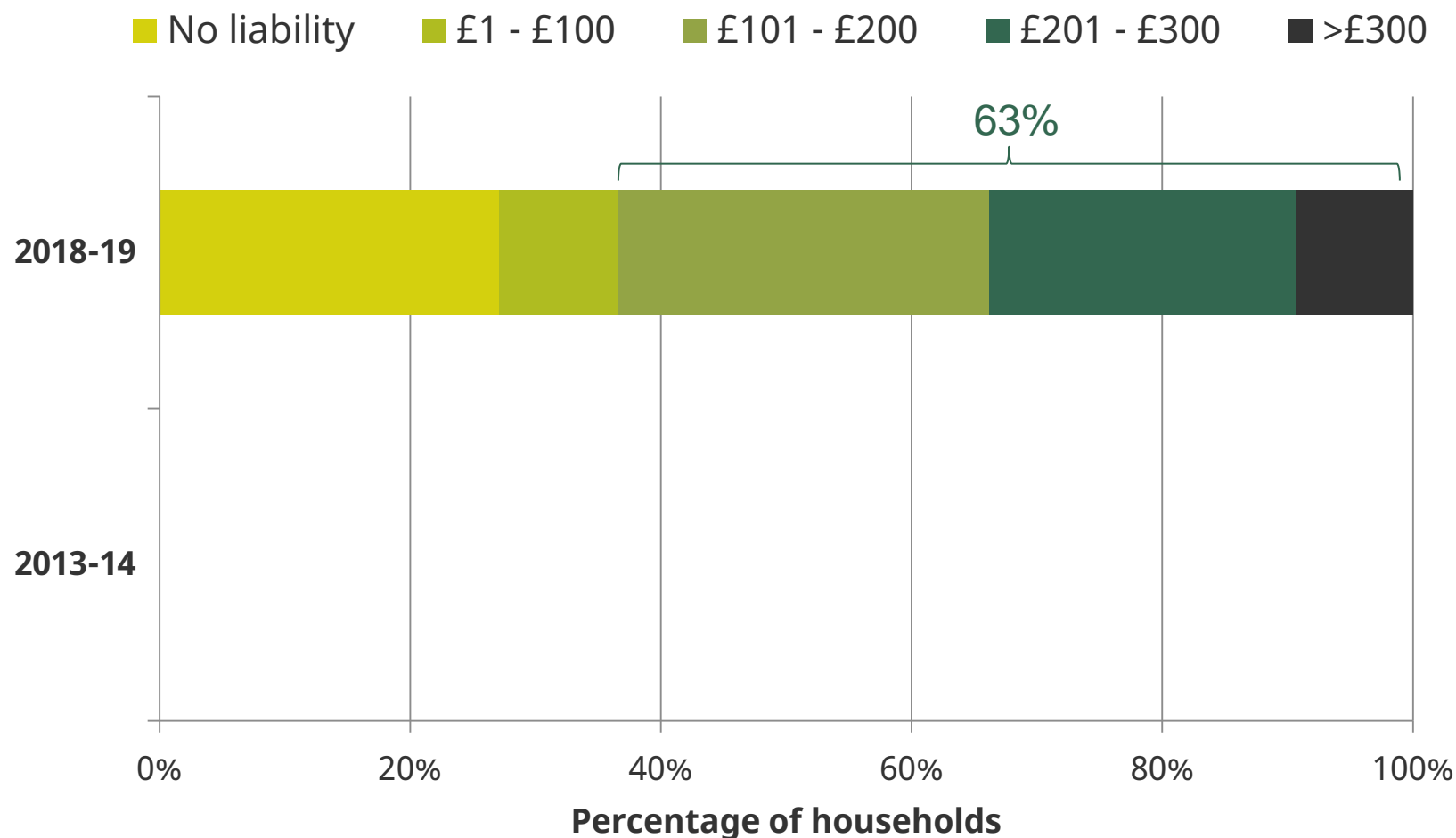
- $\frac{2}{3}$  in LAs with no minimum payment,  $\frac{1}{3}$  in group protected by their LA

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



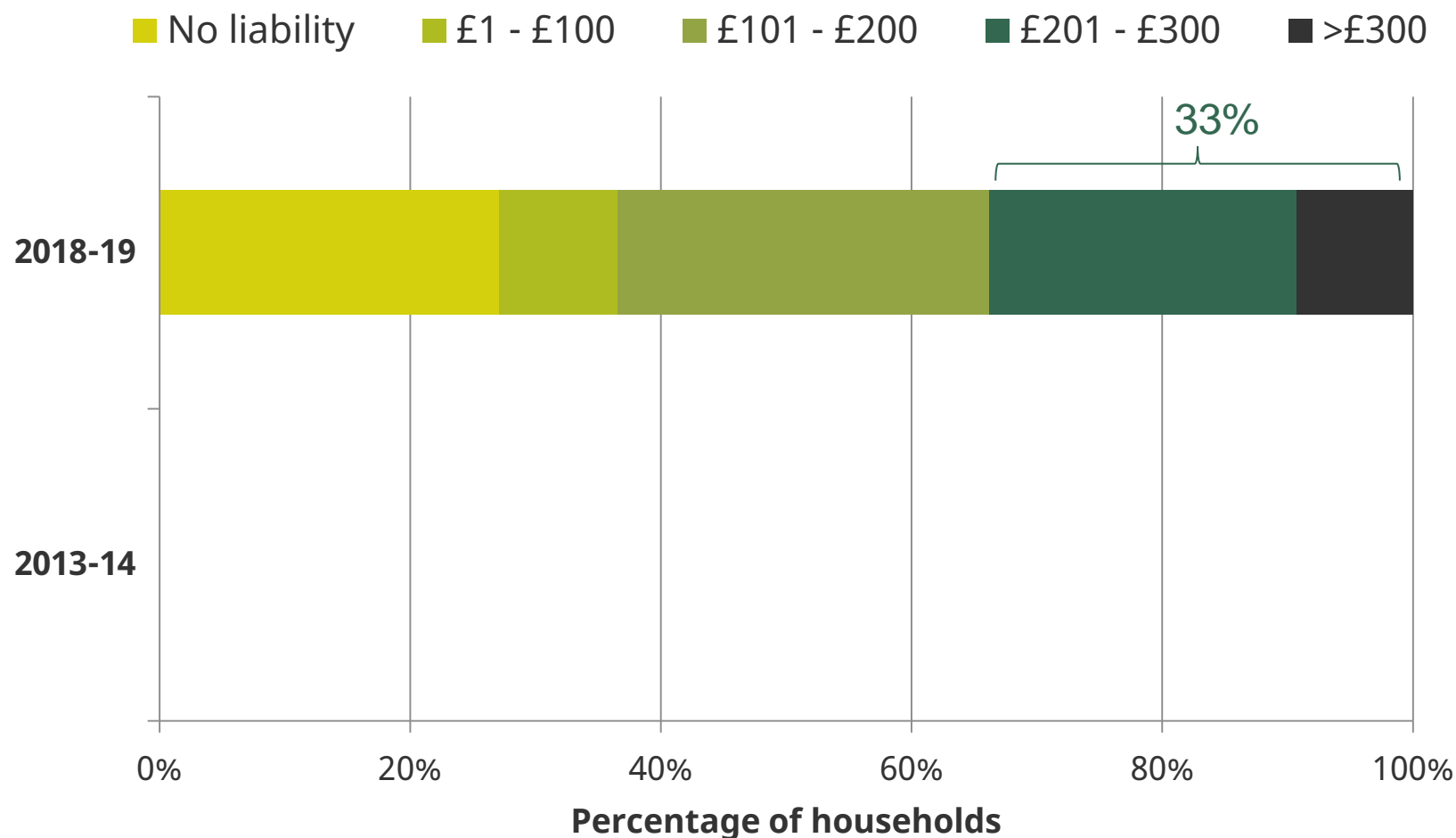
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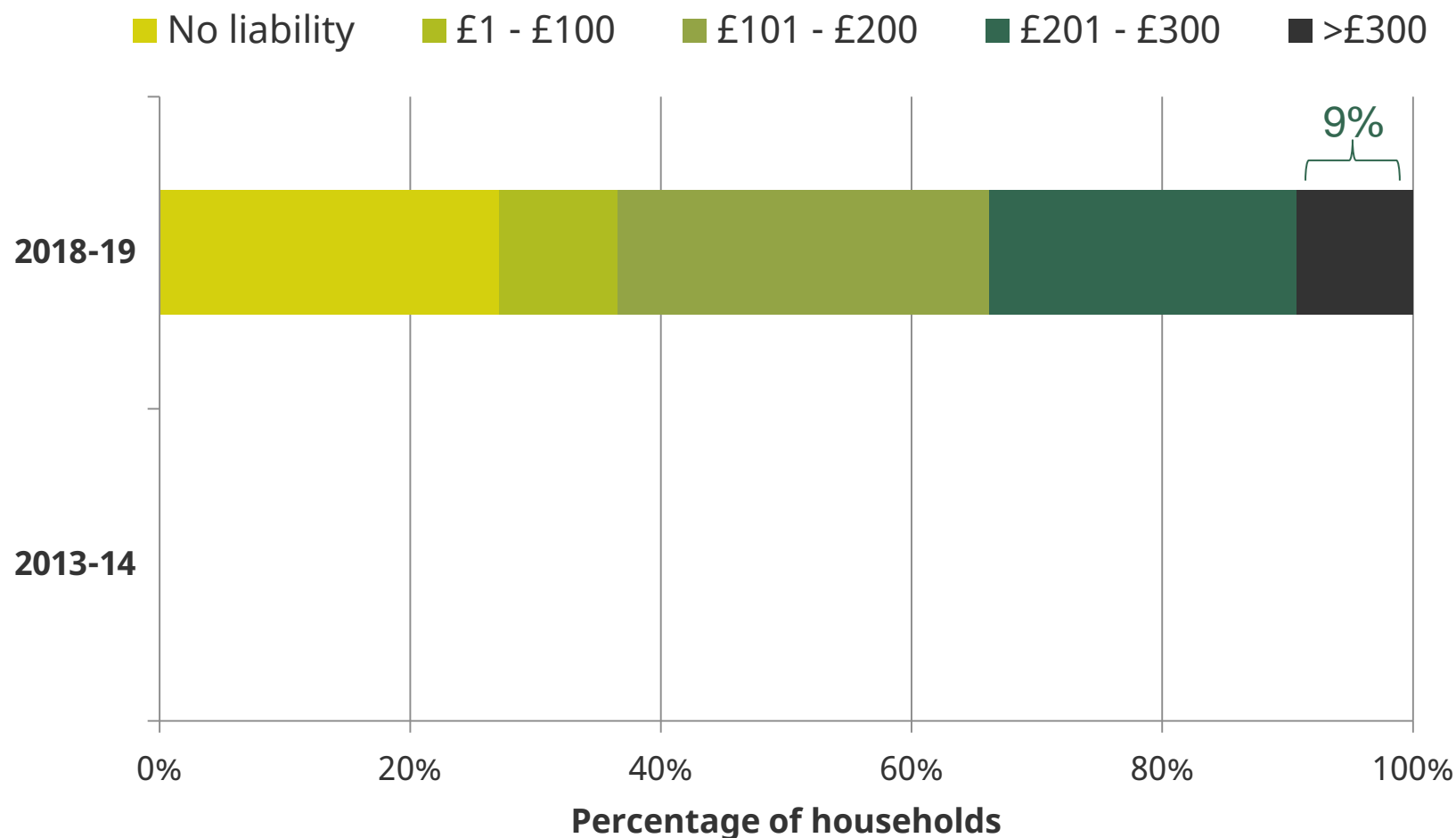
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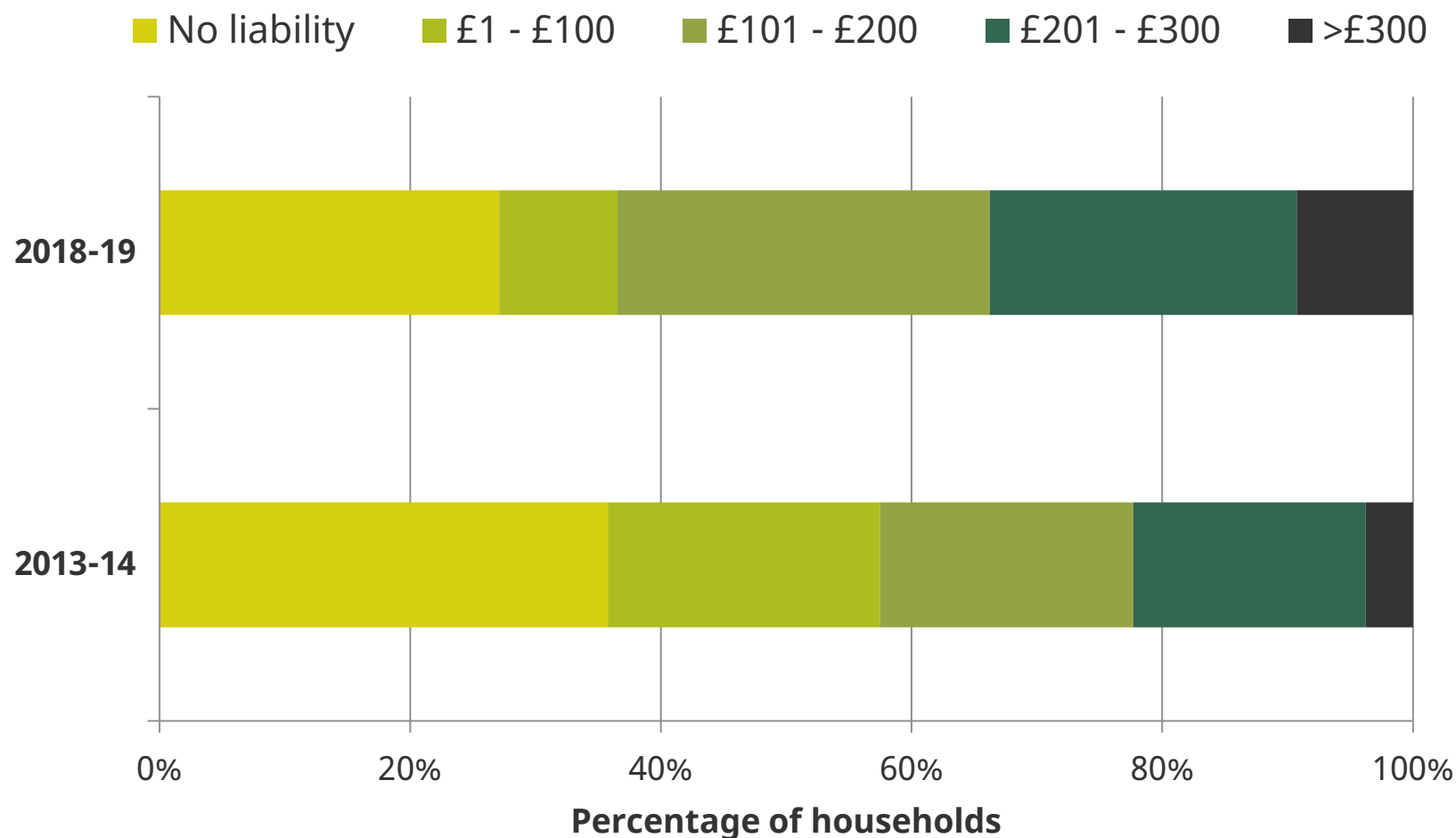
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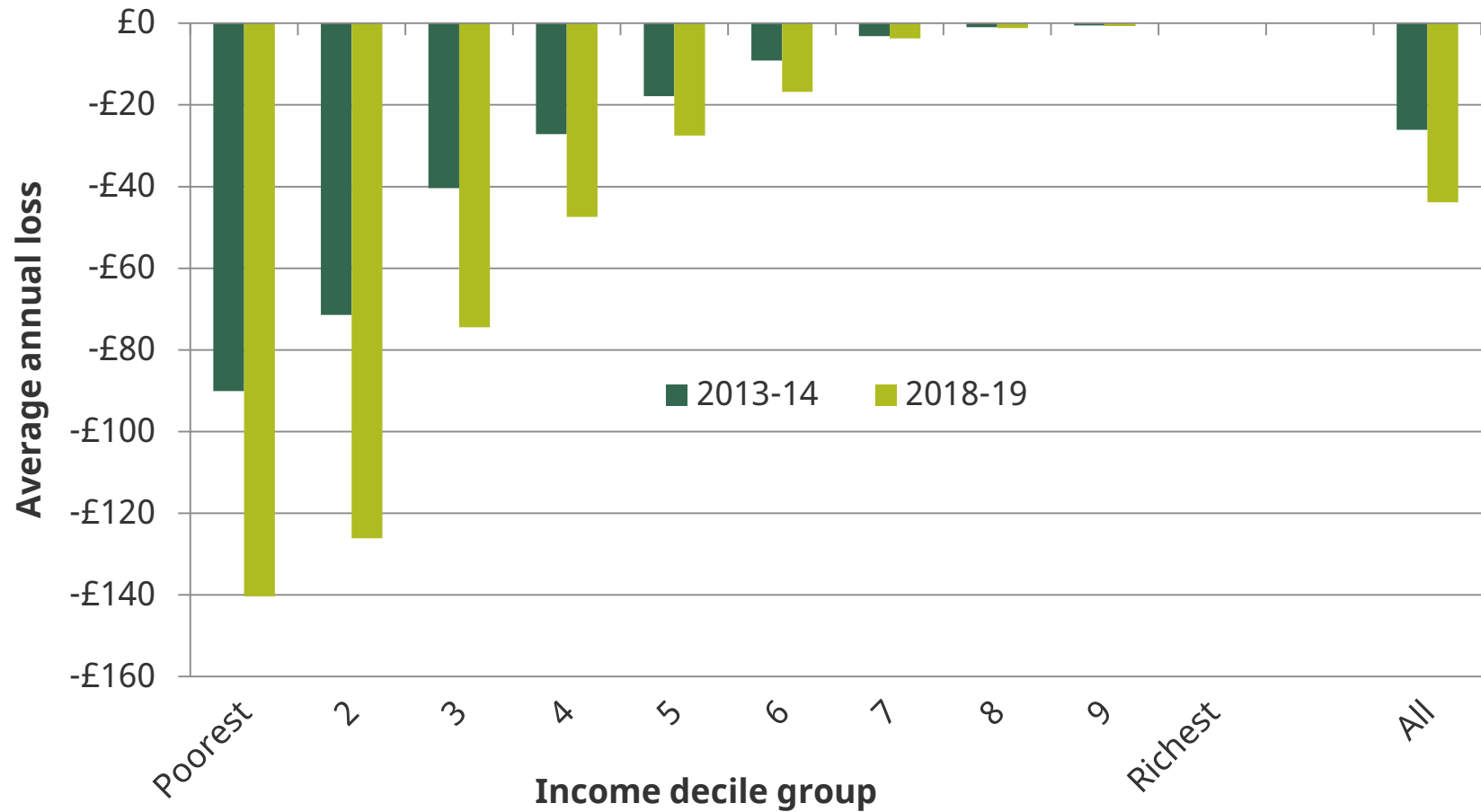
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# Losses focused on low-income households

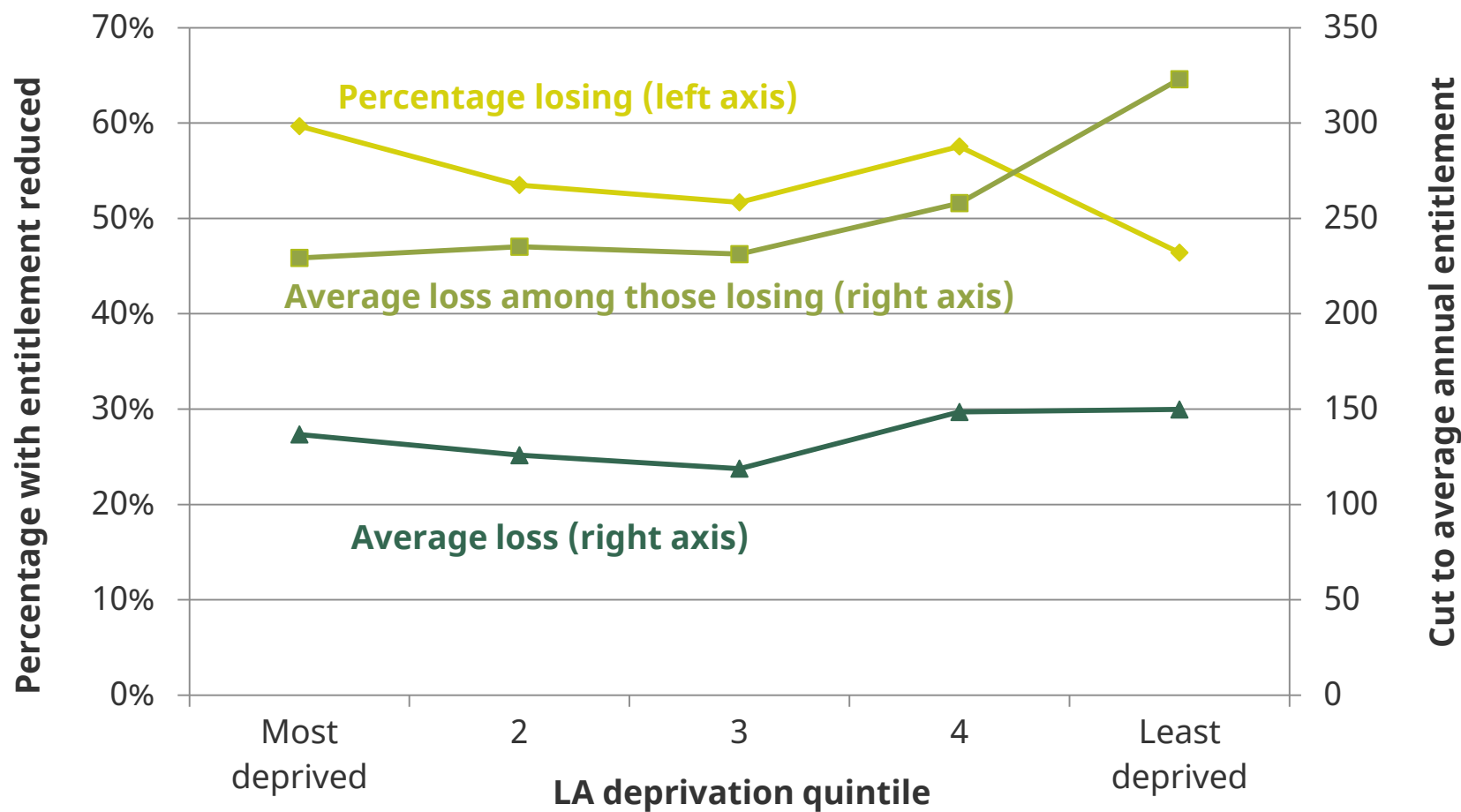


Notes and sources: Working-age households in England only. See Figure 3.6 of *The impact of localised council tax support schemes*



# 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:**

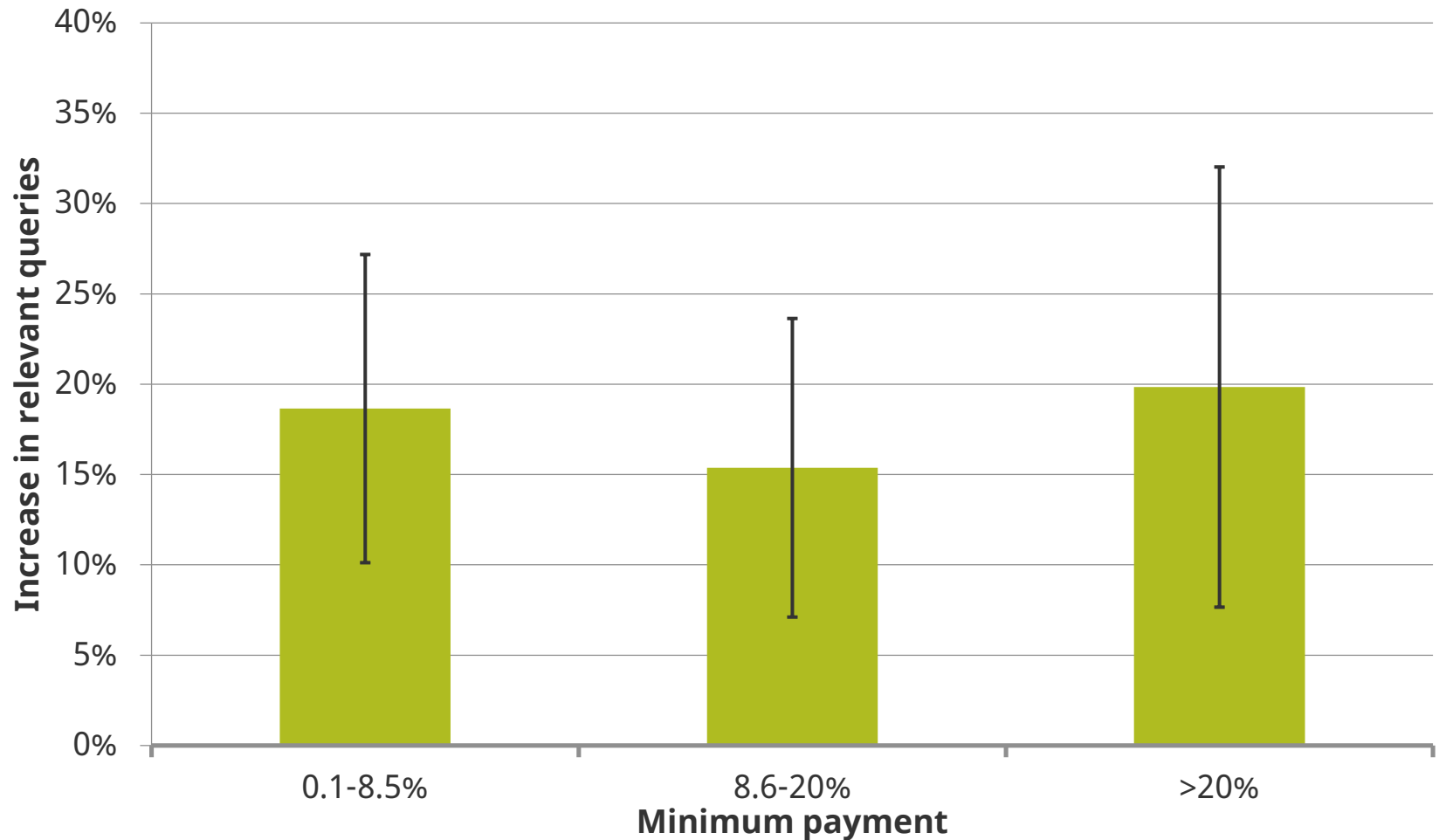
- In the absence of different scheme choices, trends similar in otherwise-similar LAs that made different choices

# Substantial increase in queries to Citizens Advice

## We use Citizens Advice data on queries

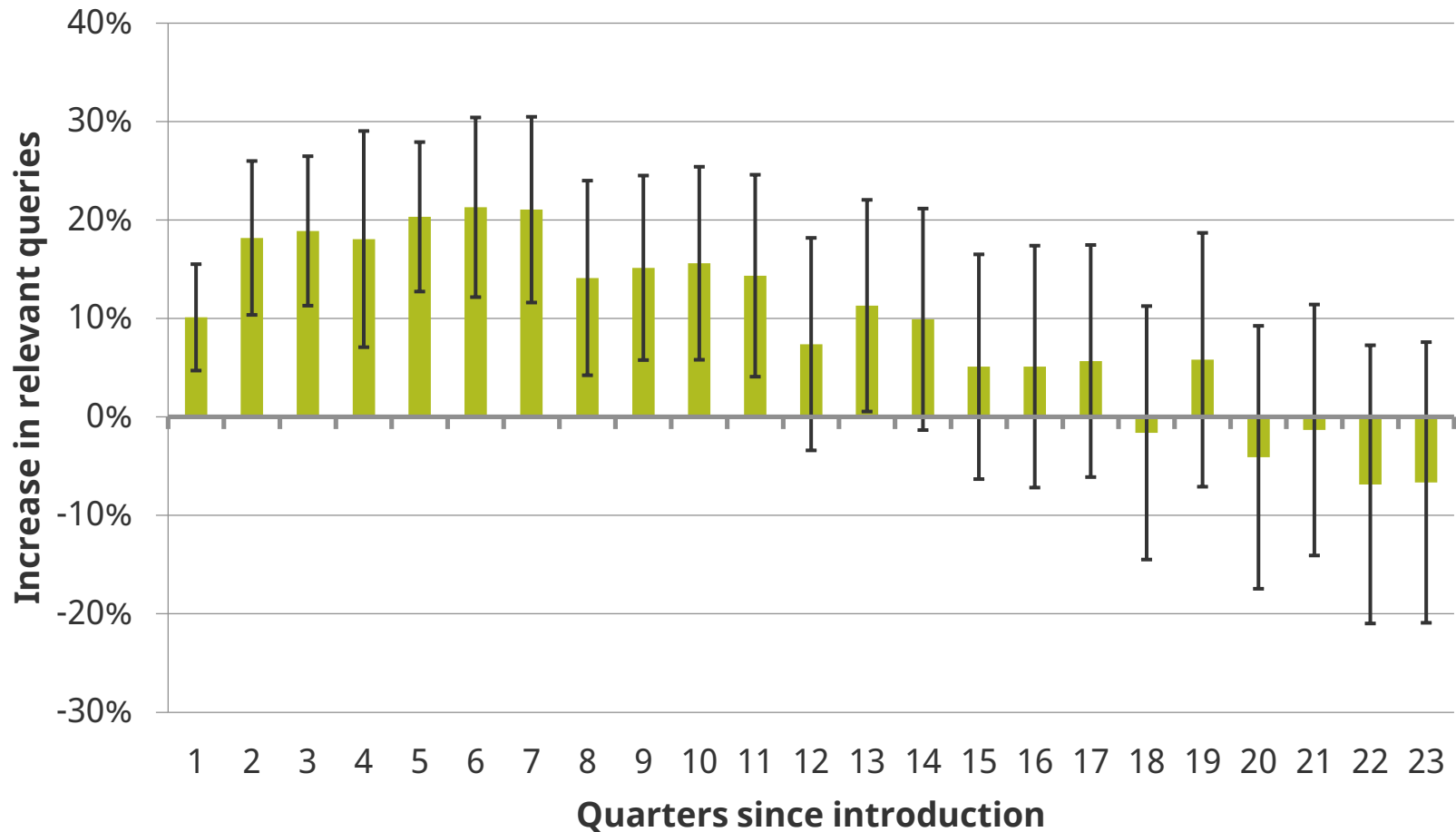
- Queries related to council tax payment, council tax debt and CTS
- Made by working-age households
- Debt accounts for the majority of these issues
- C. 160 queries per LA per quarter: 200,000 queries in England per year

# Estimated impact of CTS cuts on council tax queries to Citizens Advice



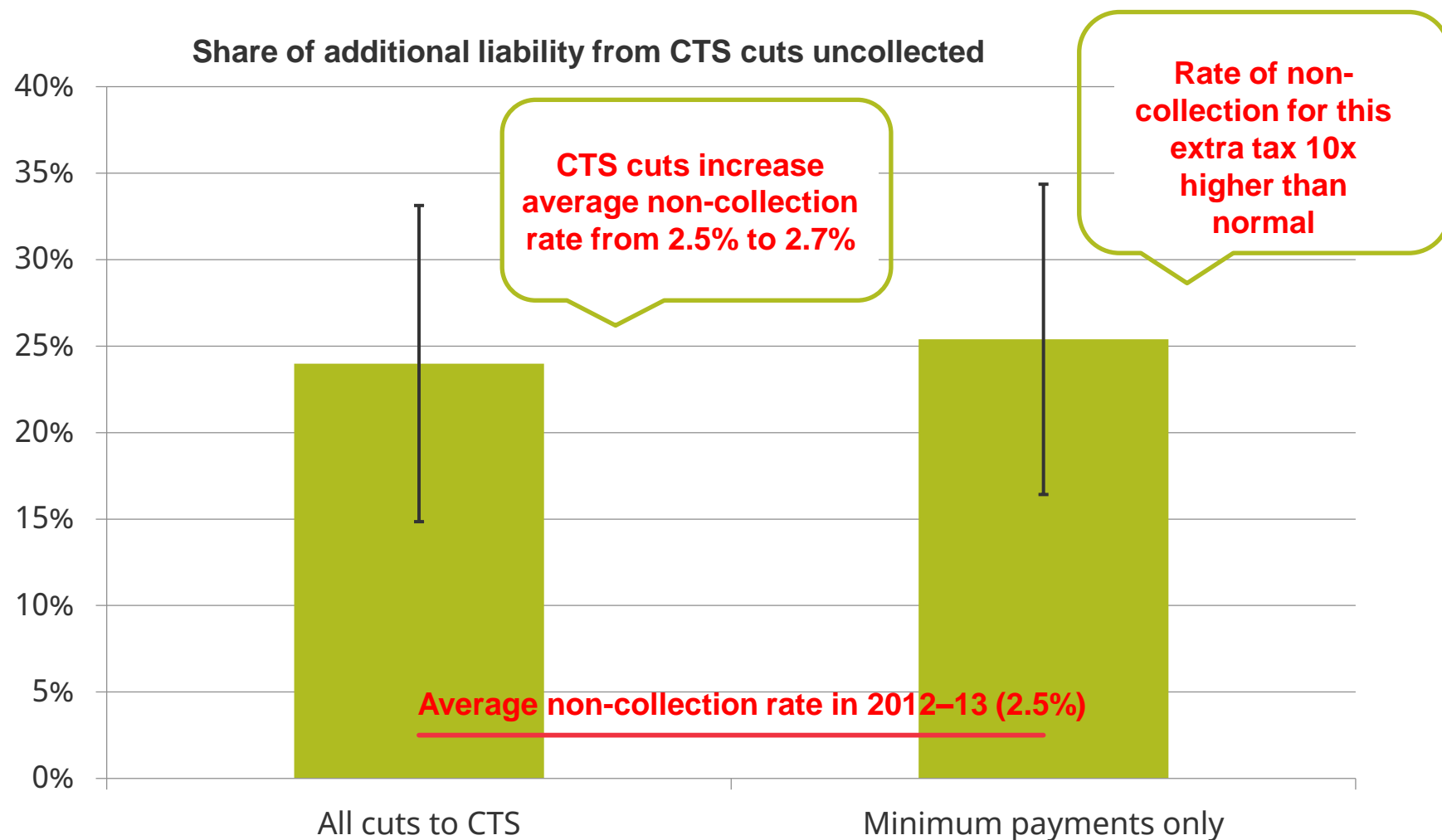
Notes and sources: See Figure 4.4 of *The impact of localised council tax support schemes*

# Estimated impact of CTS cuts on council tax queries to Citizens Advice



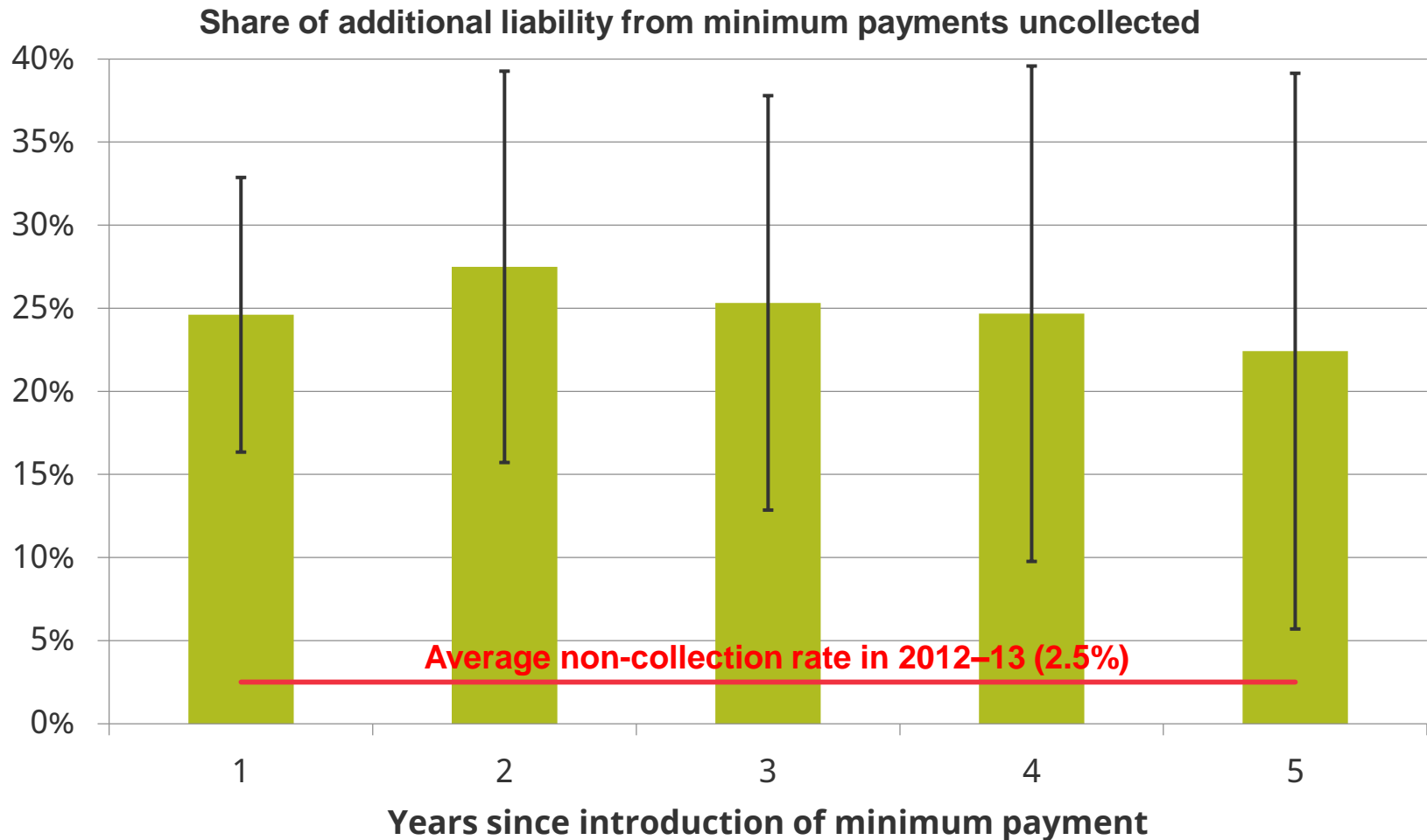
Notes and sources: See Figure 4.5 of *The impact of localised council tax support schemes*

# 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

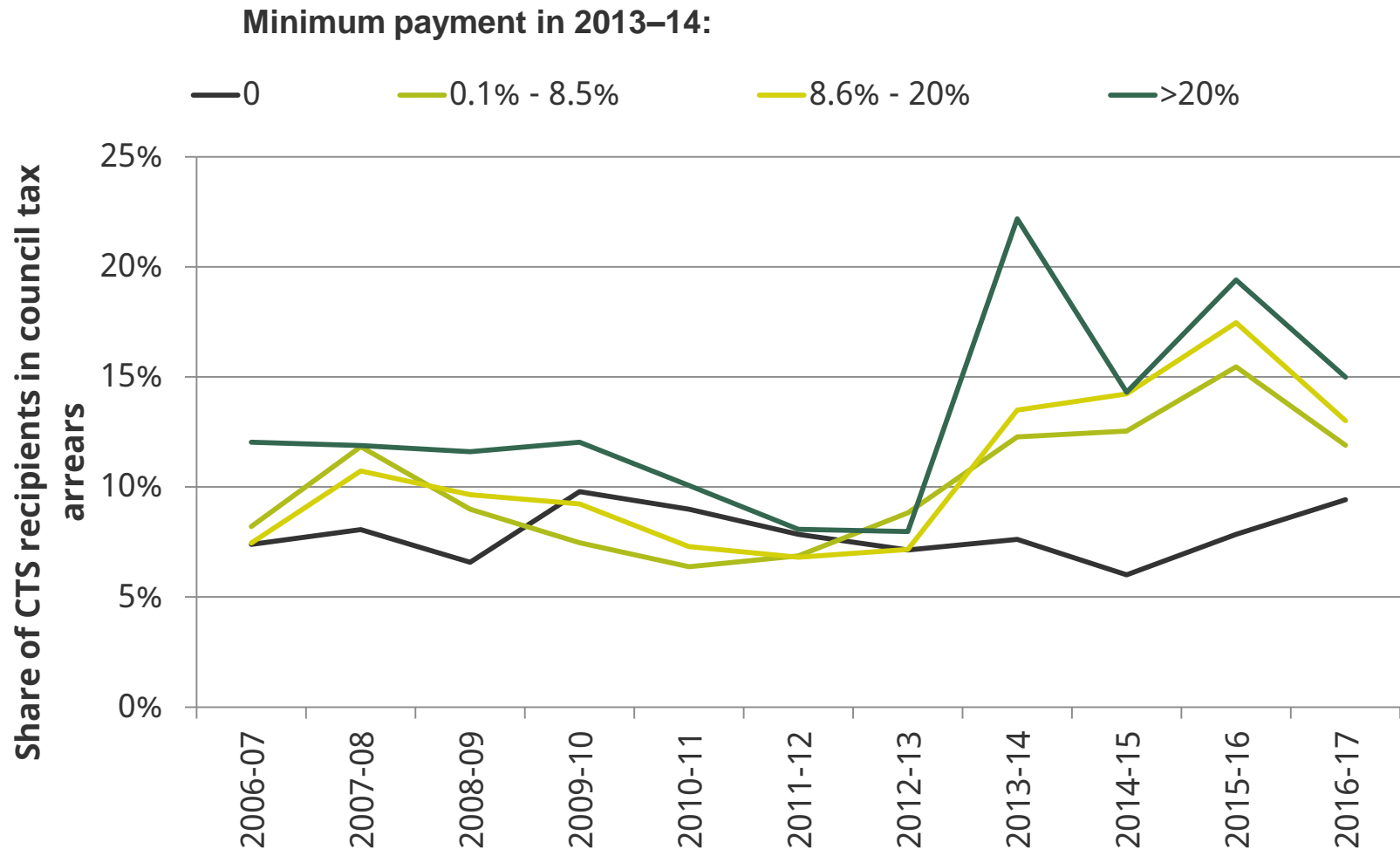
# Self-reported council tax arrears in the data

## **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

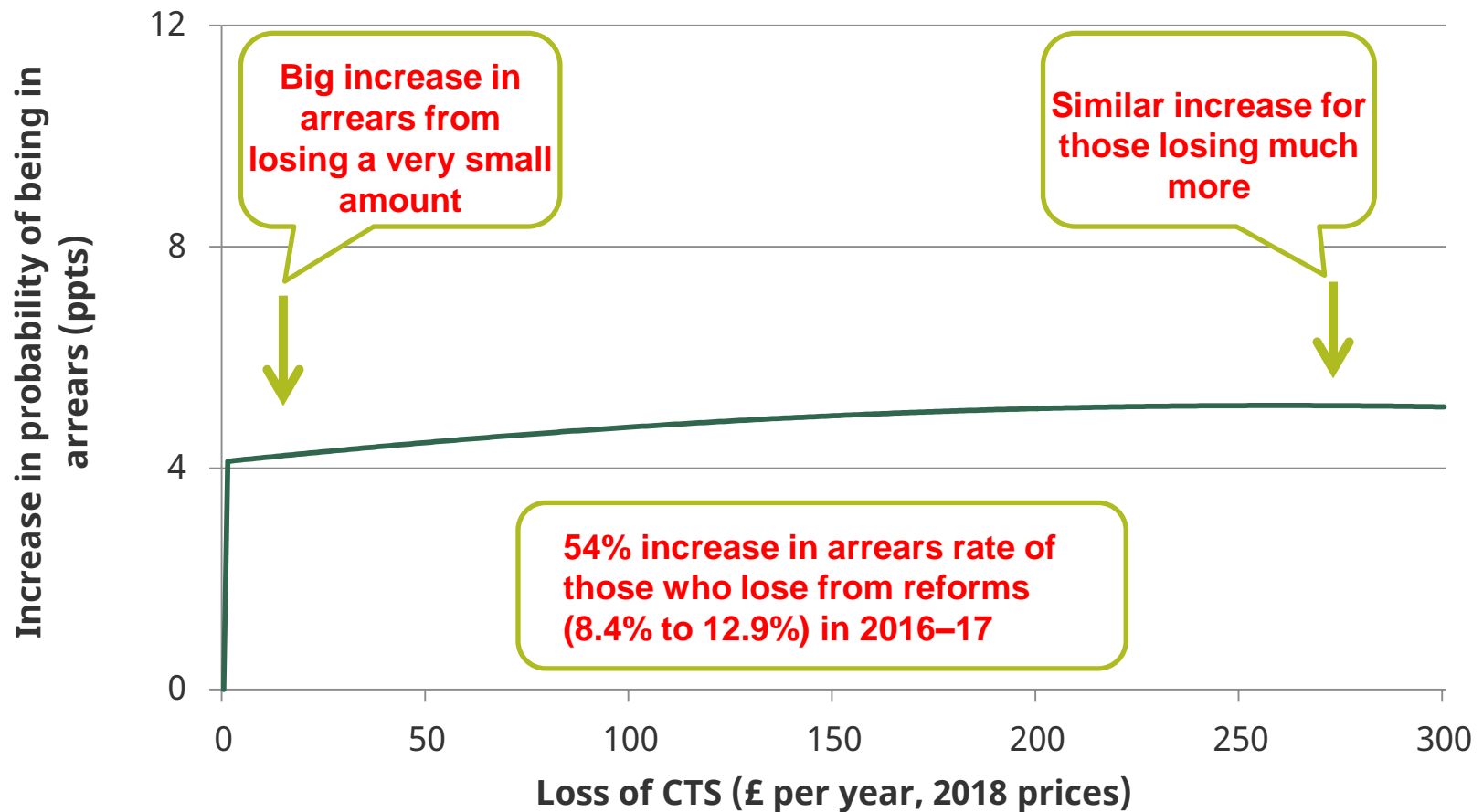


# Minimum payments lead to higher arrears



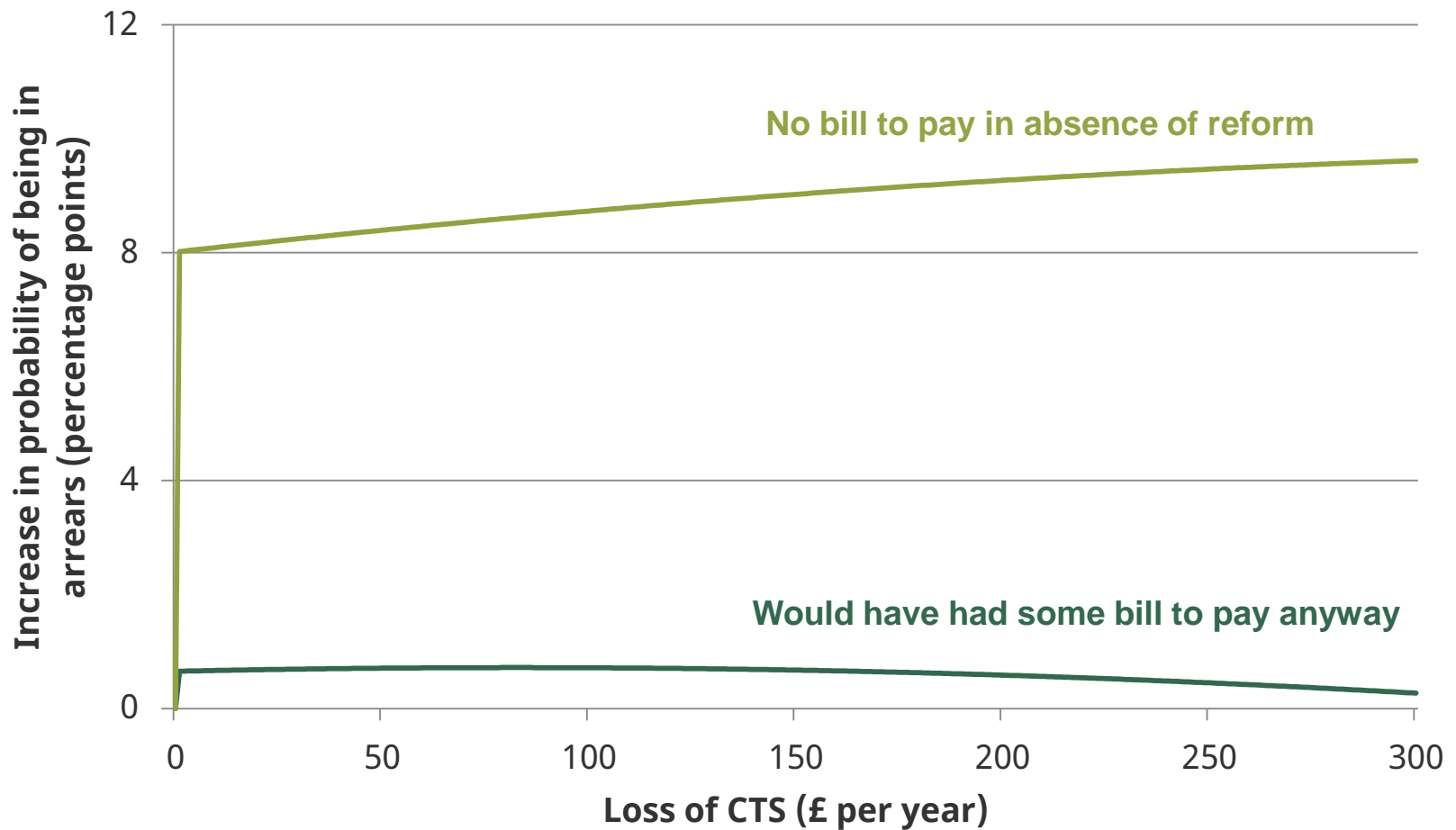
Notes and sources: See Figure 5.1 of *The impact of localised council tax support schemes*

# 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'

## **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)