



# Institute for Fiscal Studies



## Arrears and material deprivation

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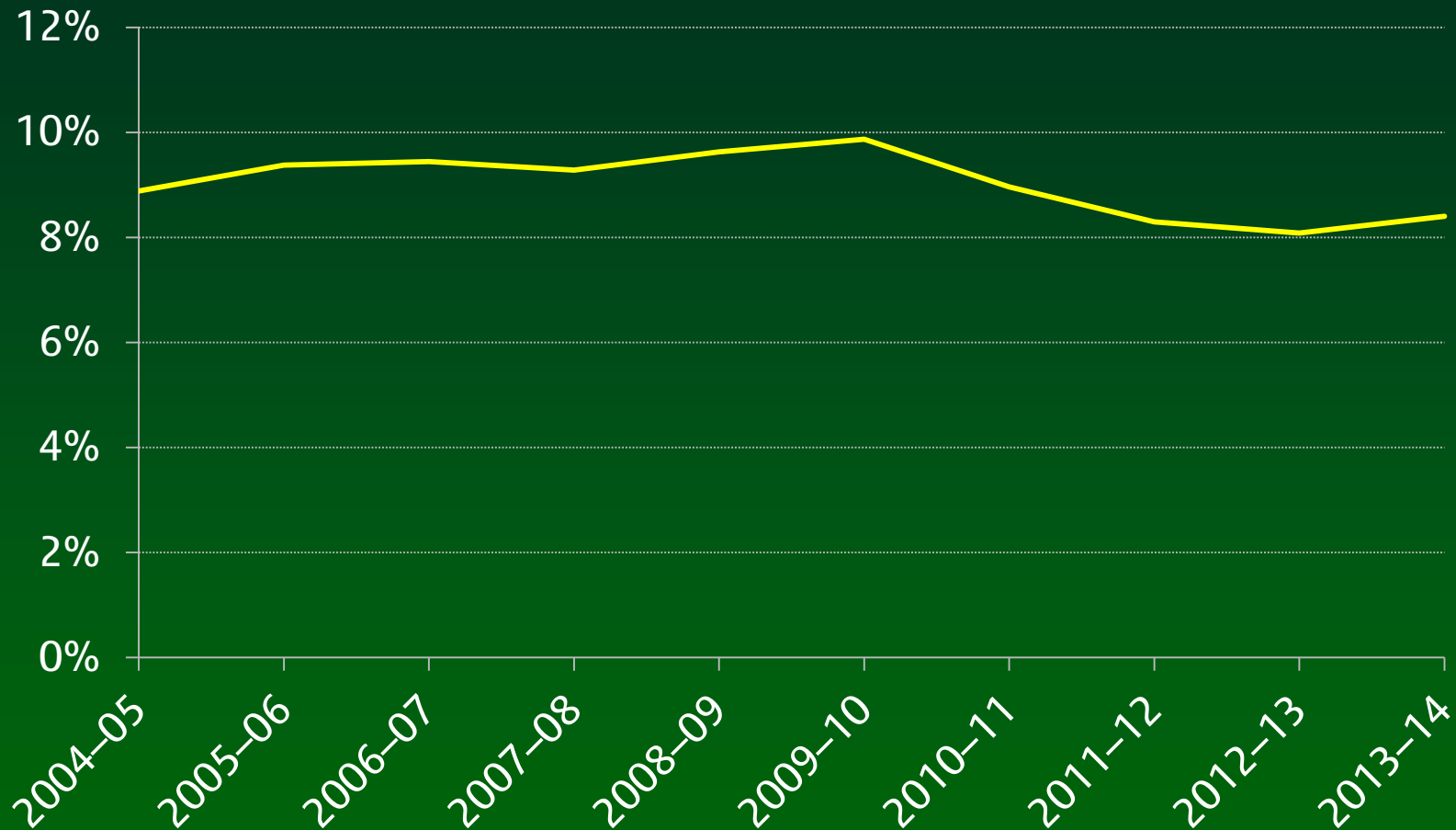
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# Outline

1. Arrears on household bills
  - Trends since the mid-2000s
  - The impact of recent benefit cuts
  
2. Material deprivation
  - What explains the rise in child material deprivation since the mid-2000s?
  - How do material deprivation and income poverty relate?

# Percentage of individuals whose family is in arrears on at least one bill



Note: Bills used are electricity, gas, other fuels, council tax (or rates in Northern Ireland), insurance policies, telephone, television rentals and other hire-purchase schemes.

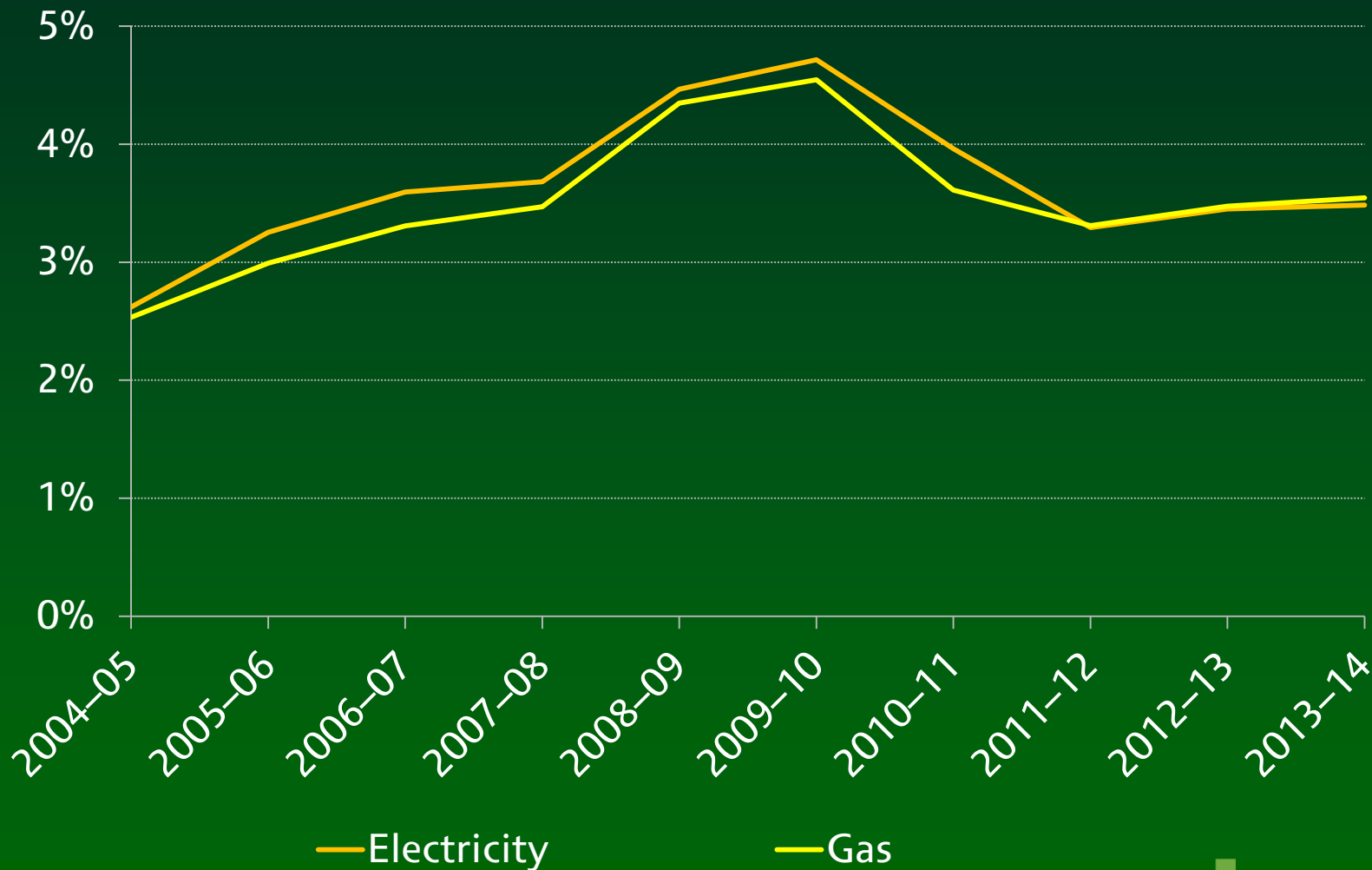
Source: Figure 5.1 of *Living Standards, Poverty and Inequality: 2015*



# Trends in arrears

- Rate of arrears rose through late 2000s, but fell in recent years
  - From peak of 9.9% in 2009–10 to 8.4% in 2013–14
- Rises up to 2009–10 due to higher arrears on gas and electricity
  - Prices rose by over 20% in 2006–07 and 2008–09

# Percentage of non-pensioners in arrears on particular bills



# Trends in arrears

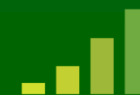
- Rate of arrears rose through late 2000s, but fell in recent years
  - From peak of 9.9% in 2009–10 to 8.4% in 2013–14
- Rises up to 2009–10 due to higher arrears on gas and electricity
  - Prices rose by over 20% in 2006–07 and 2008–09
- Not so clear why arrears have fallen since 2009–10
  - Incomes flat or falling over this period
  - Highlights that the relationship between income and arrears is not straightforward

# The impact of specific benefit reforms on arrears

- Look at two benefit cuts introduced in 2013–14
  1. Localisation and cut to council tax support
  2. The ‘bedroom tax’
- Both cuts resulted in low-income families having new bills to pay
  1. Introduction of ‘minimum council tax payments’
  2. Housing benefit no longer covers all of rent for some social tenants
- Analysis of impact on arrears helps us to understand the impact of these reforms
  - And sheds light on how low-income families respond to shocks in their income

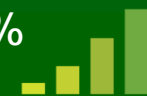
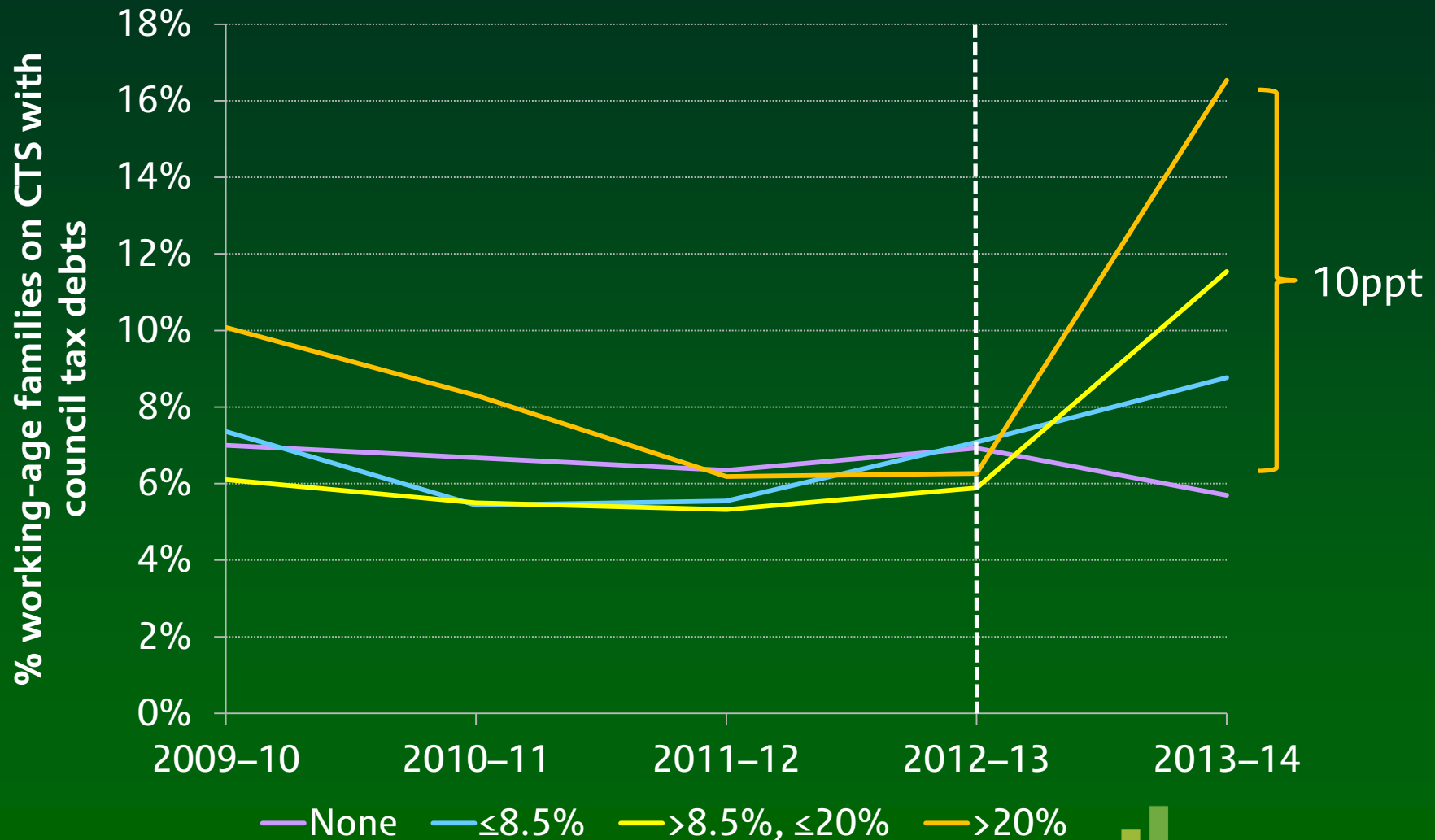
# Localisation and cut to council tax support

- Before April 2013, council tax benefit completely covered council tax for the lowest-income households
- From April 2013, CTB abolished with councils told to design their own council tax support (CTS) schemes, with 10% cut to funding
  - Pensioners had to be protected = 18% cut to funding for working-age claimants
- 80% of English local authorities cut support, with 70% introducing a minimum council tax payment
  - Wales, Scotland and NI maintained support at CTB level
- 1.4 million households who could previously have been fully rebated became liable to pay some council tax





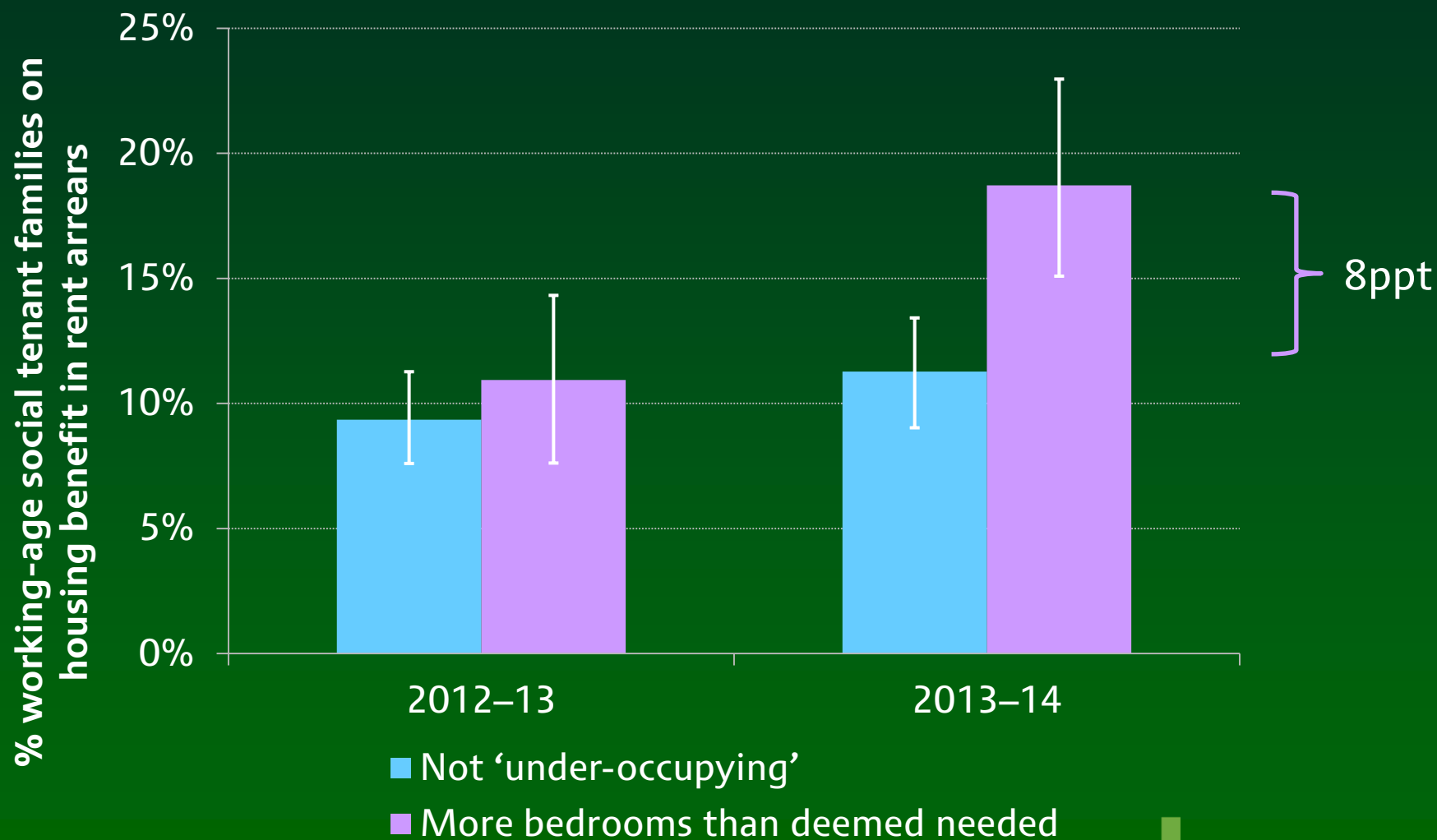
# Council tax arrears by size of minimum payment in local authority (England)



# The 'bedroom tax'

- Before April 2013, rent of social housing tenants fully covered by housing benefit (HB), subject to a means test
- From April 2013, HB cut for 500,000 families deemed to be 'under-occupying' their property
  - HB only covers 75% or 86% of rent
- Only have rent arrears data from 2012–13
  - Harder to be confident about causal impacts, because we cannot observe pre-reform trends

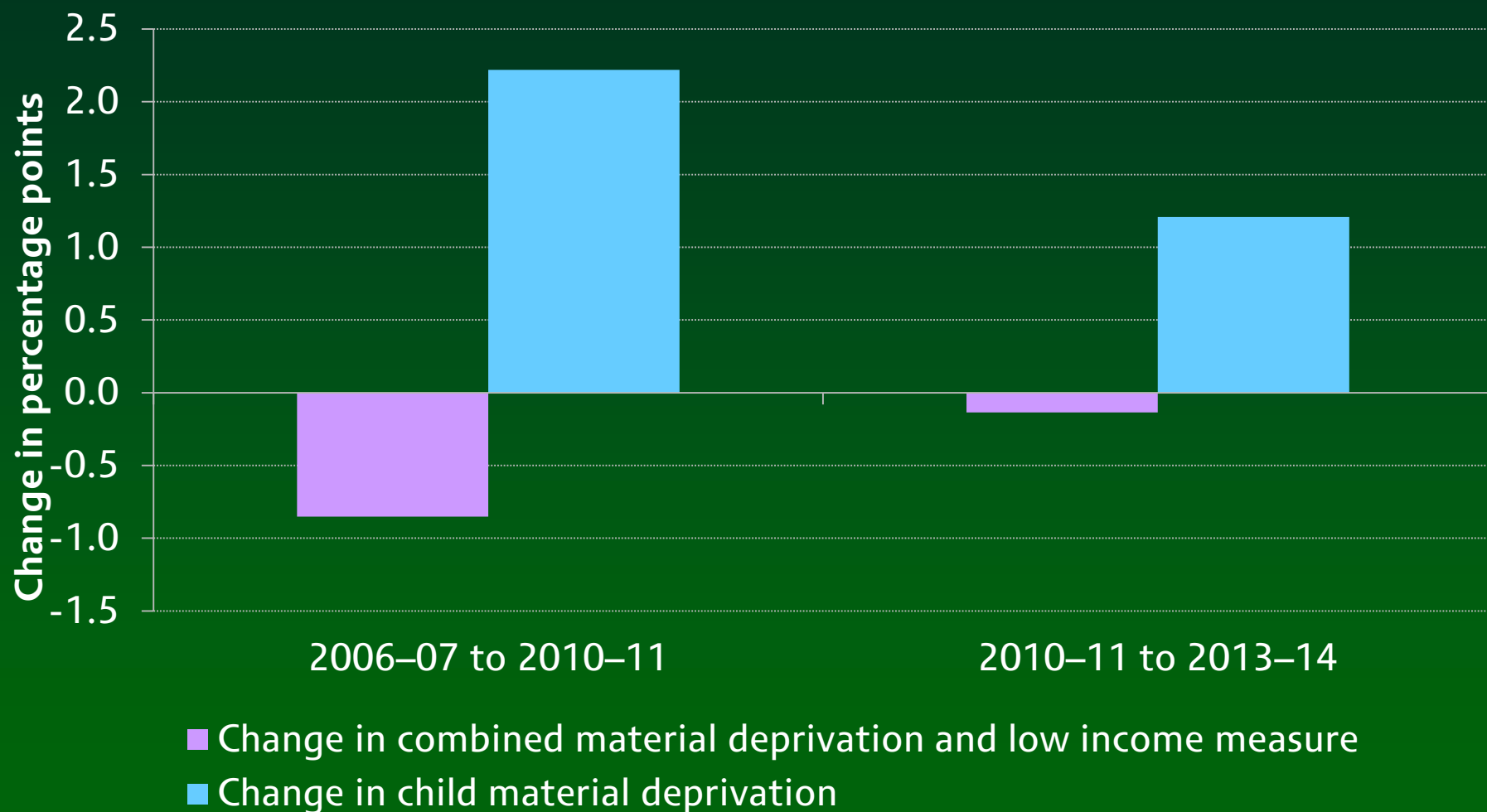
# Rent arrears by 'under-occupation' status (GB)



# Child material deprivation

- Families with children are asked if they can afford certain items
  - e.g a warm winter coat or to save £10 a month
- Judged to be ‘materially deprived’ if unable to afford a certain (weighted) number of items
- Child material deprivation cannot be compared before and after 2010–11, due to a change in the measure
- Government reports a combined low income and material deprivation measure
  - Proportion of children in material deprivation and with an income below 70% of the median

# Change in child material deprivation and the government's combined measure: 2006–07 to 2013–14



# Trends in child material deprivation

- Combined low income and material deprivation measure fell in late 2000s, and almost unchanged since 2010–11 (at 13%)
  - Driven by falls in relative child poverty
- Child material deprivation has been rising for most of the period since the mid-2000s
  - Increase from 24.4% in 2006–07 to 26.7% in 2010–11 (old measure)
  - Increase from 22.3% in 2010–11 to 23.5% in 2013–14 (new measure)
- Rise in child material deprivation not visible in official statistics
  - We suggest government publishes rates of child material deprivation separately

# Explaining the rise in child material deprivation

- Increase in child material deprivation driven by rising rates of deprivation in working families
  - Explains all of the increase since 2010–11

# Change in child material deprivation by family type and work status: 2010–11 to 2013–14

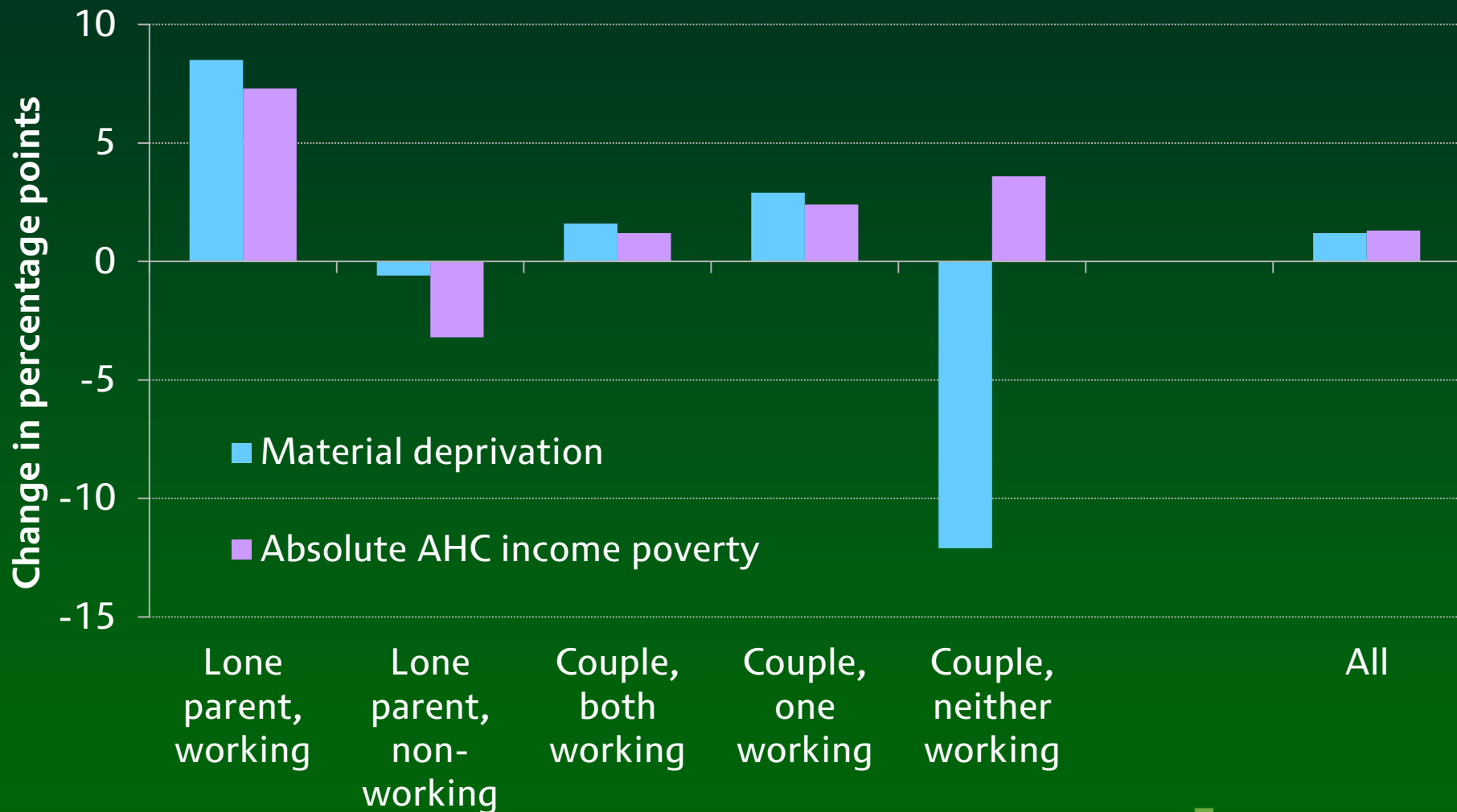




# Explaining the rise in child material deprivation

- Increase in child material deprivation driven by rising rates of deprivation in working families
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- 58% of materially deprived children now live in a family where at least one adult works
  - Compared to 49% in 2010–11
- Change since 2010–11 similar to trends in income poverty

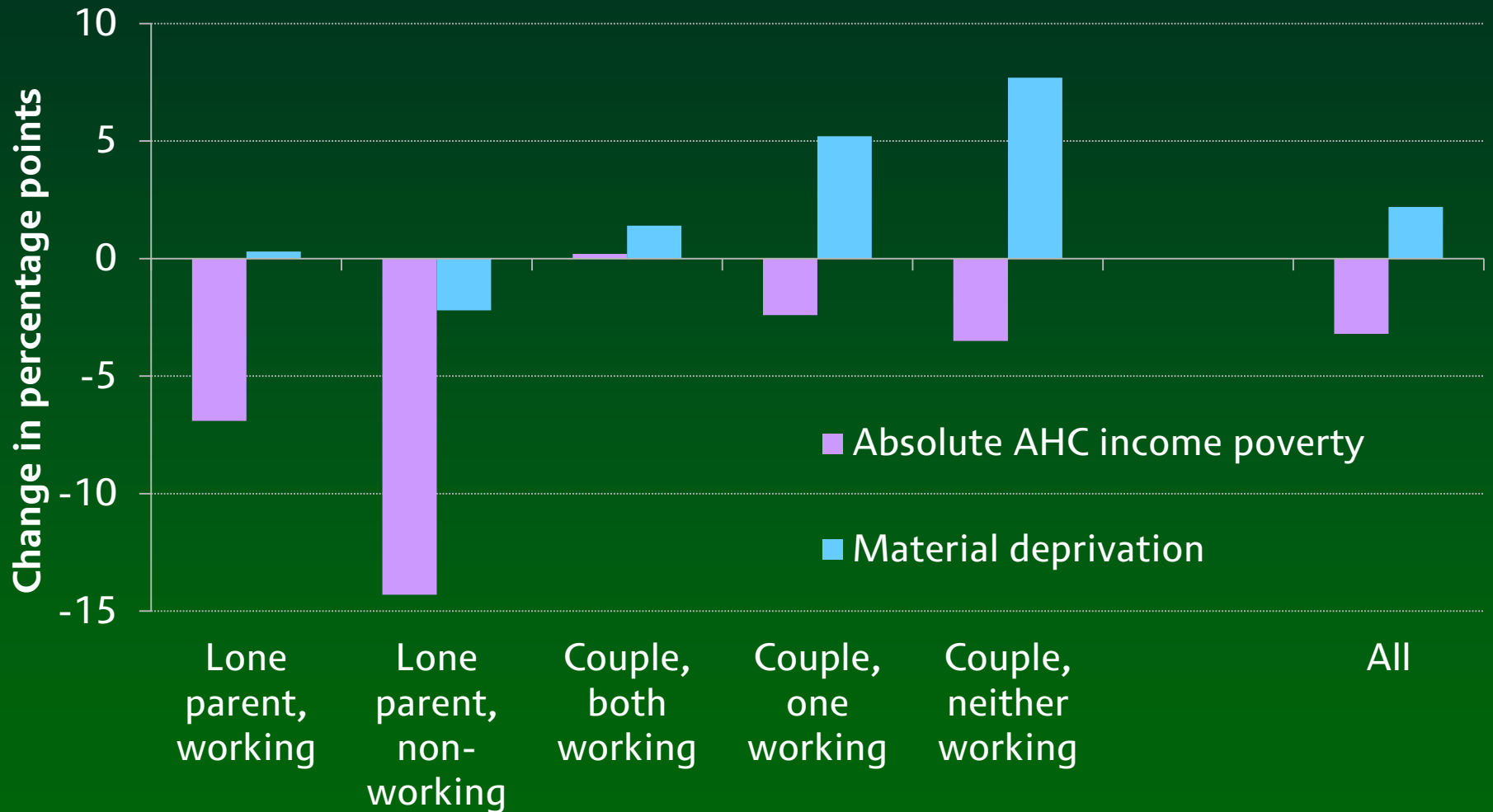
# Change in income poverty and material deprivation by family type and work status: 2010–11 to 2013–14



# Explaining the rise in child material deprivation

- Increase in child material deprivation driven by rising rates of deprivation in working families
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- 58% of materially deprived children now live in a family where at least one adult works
  - Compared to 49% in 2010–11
- Change since 2010–11 similar to trends in income poverty
- But big falls in income poverty in late 2000s did not translate into big falls in material deprivation
  - Some groups saw rising material deprivation despite falling income poverty rates

# Change in income poverty and material deprivation by family type and work status: 2006–07 to 2010–11



# Material deprivation and income

- How do material deprivation and low income relate?
- Focus on relationship with AHC income
  - Relationship with BHC income similar

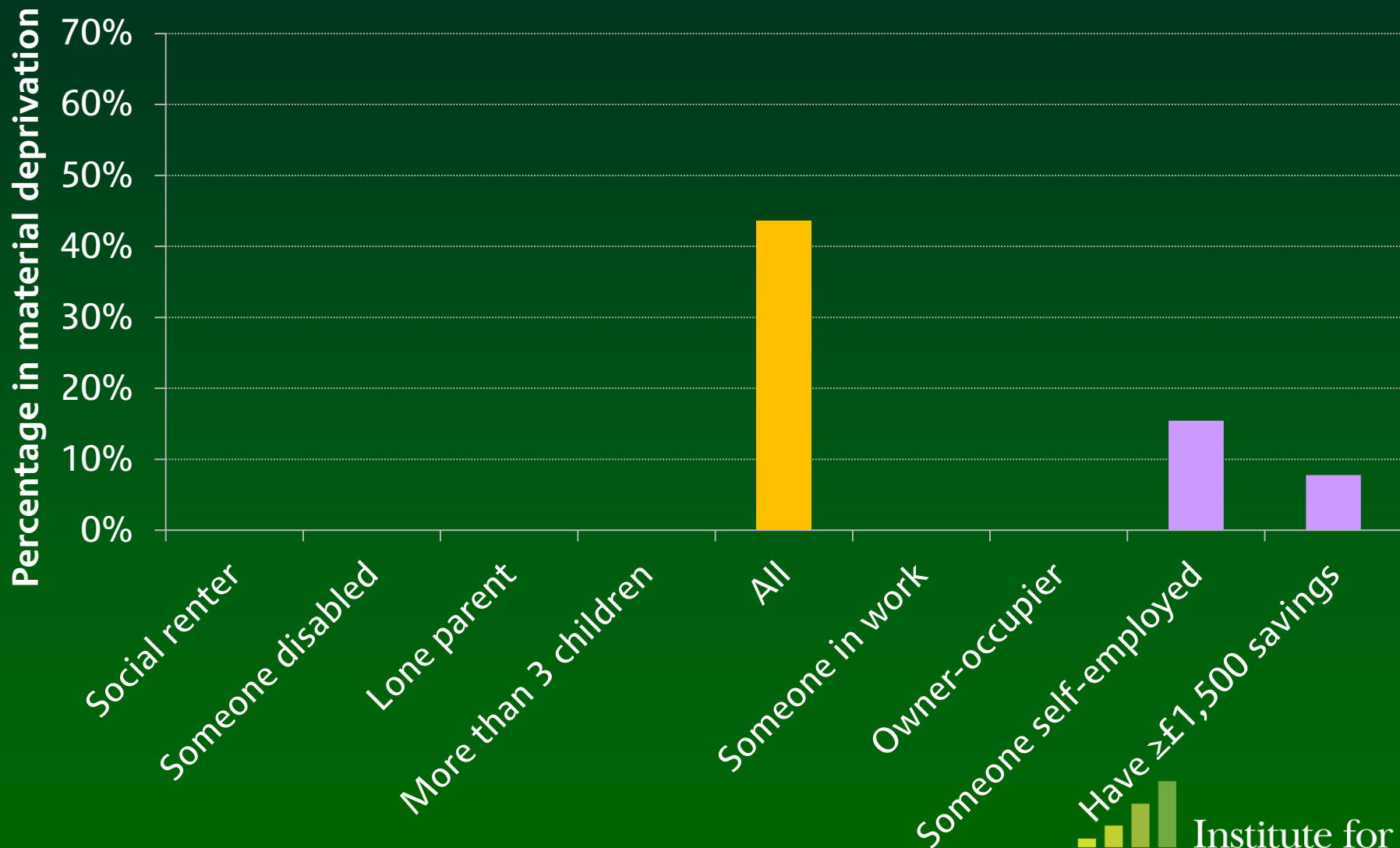
# Material deprivation for families with children below median income (after housing costs)



# Material deprivation and income poverty

- Different kinds of low-income families have very different material deprivation rates

# Material deprivation for families with children in AHC income poverty

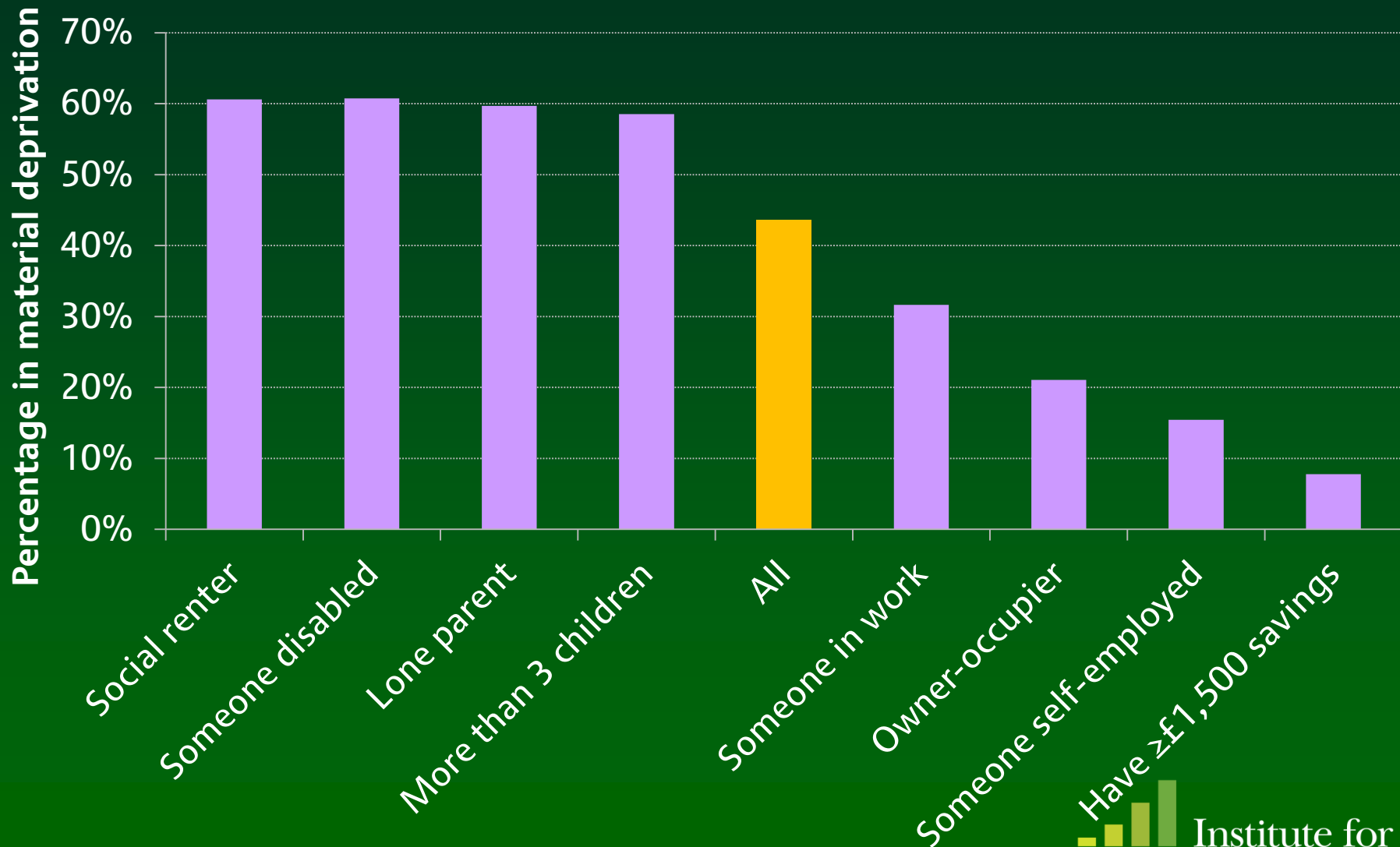




# Material deprivation and income poverty

- Around half of parents and children in income poverty are materially deprived...
- ...but <20% of those in families where someone is self-employed, and <10% for those with more than £1,500 of savings
  - Those groups more likely to be at the very bottom of the income distribution than just above

# Material deprivation for families with children in AHC income poverty



# Material deprivation and income poverty

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  - Those groups more likely to be at the very bottom of the income distribution than just above
- Of those in income poverty, social renters, lone parents, large families and families where someone is disabled all more likely to be materially deprived
  - Possibly reflecting higher costs and/or lower lifetime incomes
- Social renters with incomes around the median at least as likely to be deprived as the lowest-income owner-occupiers



# Conclusions

- Non-income measures clearly help us better understand changes in circumstances of those with low living standards
  - Material deprivation highlights inadequacy of current income when thinking about poverty
- Important to distinguish between non-income measures of low living standards and indicators of the causes of poverty
- Government propose increased focus on causes....
  - This is sensible
- ...but also important to measure and understand current low living standards as well as possible