The impact of localised council tax support schemes

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From joint work with Stuart Adam and Thomas Pope

Social Security Advisory Committee, 24 July 2019
Overview of this talk

1. Policy background: what happened, and who was impacted?

2. Our research on the effects of these reforms: lessons for policy
Policy background: what happened, and who was impacted?
Council tax support (CTS)

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

- Average award of £770 per year
The reforms – funding cuts and localisation

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

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

We’ll focus on working-age households in England

• Devolved govts kept previous schemes, largely unchanged

Universal credit has important implications – but not for today
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

Mirroring national benefit cuts
Other changes

14% cut
20% cut
24% cut

Notes and sources: See Figure 3.3 of The impact of localised council tax support schemes
Cut to working-age entitlements in England

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

1.4m 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
- ⅔ in LAs with no minimum payment, ⅓ in group protected by their LA
Net council tax liabilities among those who would have been entitled to full CTB

Notes and sources: Working-age households in England only. See Figure 3.5 of *The impact of localised council tax support schemes*
Net council tax liabilities among those who would have been entitled to full CTB

Percentage of households

2018-19

No liability
£1 - £100
£101 - £200
£201 - £300
>£300

63%

2013-14

0%
20%
40%
60%
80%
100%

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Percentage of households

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

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Low-income working-age people more likely to lose support if they live in a poor area...

Notes and sources: See Figure 3.8 of *The impact of localised council tax support schemes*
...but biggest losses tend to be among low-income people in more affluent areas

Notes and sources: See Figure 3.8 of *The impact of localised council tax support schemes*
Lessons for policy from our research
Lessons for policy

For central government when devolving responsibilities and funding

• Temporary incentives can have long-lasting impacts
Number of English councils with different minimum council tax 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 ≤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
Lessons for policy

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
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
Cuts to LA funding for CTS and probability of having a minimum payment, 2018-19

Notes and sources: See Figure 2.12 of The impact of localised council tax support schemes

The impact of localised council tax support schemes © Institute for Fiscal Studies
Cuts to LA funding for CTS and probability of having a minimum payment, 2018-19

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Effects of funding for LAs: a labelling effect?

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BUT:

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

Suggests labelling of funding affects how LAs spend it
Lessons for policy

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

• Increasing bills for low-income households can lead to lots of arrears/non-payment...
Is the additional council tax successfully collected?

Proportion of additional liability from CTS cuts uncollected

Notes and sources: See Figure 4.2 of *The impact of localised council tax support schemes*
Is the additional council tax successfully collected?

Proportion of additional liability from CTS cuts uncollected

- All cuts to CTS: Average non-collection rate in 2012–13 (2.5%)
- Minimum payments only: Rate of non-collection for this extra tax 10x higher than normal

Notes and sources: See Figure 4.2 of The impact of localised council tax support schemes
Minimum payments lead to higher arrears

Minimum payment in recipient’s LA in 2013–14:

- 0%
- 0.1% - 8.5%
- 8.6% - 20%
- >20%

Notes and sources: See Figure 5.1 of *The impact of localised council tax support schemes*
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Share of CTS recipients in council tax arrears

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• Increasing bills for low-income households can lead to lots of arrears/non-payment...
• ...and giving people new bills much more likely to lead to non-payment than increasing the size of existing bills
Estimated effect of losing CTS on chances of going into council tax arrears

The impact of localised council tax support schemes

Notes and sources: See Figure 5.4 of The impact of localised council tax support schemes
Lessons for policy

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• ...and giving people new bills much 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
Effects persist for at least 5 years

Share of additional liability from minimum payments uncollected

Average non-collection rate in 2012–13 (2.5%)

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- Increasing bills for low-income households can lead to lots of arrears/non-payment...
- ...and giving people new bills much 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 too (e.g. housing benefit, TV licences)
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