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

Robert Joyce, Senior Research Economist, IFS
Presentation to Chartered Institute of Public Finance and Accountancy
2nd July 2014
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  – Under UC you get one payment; as your earnings rise it is withdrawn according to one set of rules
Current system: an example lone parent with 2 children

Net weekly income

Hours worked per week, at £6.50 per hour

© Institute for Fiscal Studies
The same example lone parent – impact of Universal Credit

Note: ignores council tax and associated rebates.
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?
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
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
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
Net council tax liabilities in 2013-14 among those with no liability under previous system (England, working-age only)

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

Housing Benefit for private renters: various cuts

• 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)
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?
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