Arrears and material deprivation

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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

Source: Figure 5.2 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

• 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)

% working-age families on CTS with council tax debts

Source: Figure 5.5 of *Living Standards, Poverty and Inequality: 2015*
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)

% working-age social tenant families on housing benefit in rent arrears

- 2012–13
- 2013–14

Not ‘under-occupying’
More bedrooms than deemed needed

Note: Error bars indicate 95% confidence interval
Source: Figure 5.6 of *Living Standards, Poverty and Inequality: 2015*
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

Change in percentage points

Source: Table 5.2 of *Living Standards, Poverty and Inequality: 2015*
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

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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

Change in percentage points

Source: Table 5.3 of *Living Standards, Poverty and Inequality: 2015*
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

• 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

Change in percentage points

Material deprivation

Absolute AHC income poverty

Lone parent, working
Lone parent, non-working
Couple, both working
Couple, one working
Couple, neither working
All

Source: Table 5.4 of Living Standards, Poverty and Inequality: 2015
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
• 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

Source: Table 5.4 of *Living Standards, Poverty and Inequality: 2015*
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)

Source: Figure 5.7 of *Living Standards, Poverty and Inequality: 2015*
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

Source: Figure 5.8 of *Living Standards, Poverty and Inequality: 2015*
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

Percentage in material deprivation

Source: Figure 5.8 of Living Standards, Poverty and Inequality: 2015
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
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• 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