Institute for Fiscal Studies

The impacts of localised council tax support schemes

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E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

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Preface

The Nuffield Foundation is an endowed charitable trust that aims to improve social well-being in the widest sense. It funds research and innovation in education and social policy and also works to build capacity in education, science and social science research. The Nuffield Foundation has funded this project, but the views expressed are those of the authors and not necessarily those of the Foundation. More information is available at www.nuffieldfoundation.org. Co-funding from the Economic and Social Research Council through the Centre for Microeconomic Analysis of Public Policy (CPP) at IFS (grant ES/M010147/1) is also gratefully acknowledged.

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The views expressed and any remaining errors are the authors' alone.

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Executive summary

In April 2013, council tax benefit (CTB), which provided help for low-income households with their council tax, was abolished. In its place, local authorities (LAs) in England were charged with designing their own council tax support (CTS) schemes for those of working age – though they were obliged to provide a centrally determined (and largely protected) level of support for pensioners. With reduced funding made available to them by central government, most LAs chose CTS schemes that were less generous than the CTB system they were replacing, with some low-income households having to pay council tax for the first time and others seeing their tax liabilities increase.

CTS remains a significant part of our system of means-tested support. Across Great Britain, it was paid to 4.9 million households in 2017–18 – more than any other means-tested payment. It cost LAs £4.1 billion, which represents an aggregate reduction of about 11% of gross council tax bills (leaving them with £33 billion of net council tax revenue). Spending on the 2.4 million working-age claimants in England – the focus of this report, since it is their entitlements that now vary between LAs – came to £1.8 billion, implying an average award for those claimants of £770 per year.

Five years on from the localisation and funding cut for CTS, this report looks at how LAs' CTS schemes have evolved since they were first introduced, and at the changing effects of these scheme choices on claimants and on LAs.

Using information on CTS schemes kindly provided to us by entitledto and the New Policy Institute, we first describe the evolution of schemes since they were first introduced and examine how different kinds of LA have chosen different kinds of CTS scheme. We then use the IFS tax and benefit microsimulation model to estimate the effects of these reforms on household incomes and work incentives. Using this information on scheme choices and the effects on households, we assess how households have responded to the changes. We use regression techniques to compare how outcomes have changed differentially in otherwise-similar LAs that chose different CTS schemes, allowing us to robustly identify the causal effects of scheme choices. Finally, we use similar techniques to evaluate the effect of losing CTS entitlement on outcomes *at the household level* by comparing the trends in outcomes of otherwise-similar households whose CTS entitlement differs because of the LA in which they live.

This should be useful to English LAs – and the Scottish and Welsh governments – which continue to be tasked with setting CTS schemes, providing them with evidence on the likely impact of different choices. It should be useful to those interested in the effects of the welfare reforms of recent years, of which the cuts to CTS form a part. And it should be useful to central government and others seeking to understand how local councils make decisions, the consequences of localisation and funding cuts, and how households respond to being given a new or bigger bill to pay.

Going forward, the roll-out of universal credit (UC) – a major and troubled reform to the benefit system, integrating six working-age benefits and tax credits into one – has significant consequences for CTS, and LAs will need to consider it in the design of their schemes (as some are already). This report, however, analyses CTS scheme choices and their consequences in a period before UC is mostly rolled out. We therefore do not address this crucial issue directly in any depth – but we will do so in future work, and in

the meantime we hope that our findings here will help LAs considering changes to their scheme in response to UC to understand better what the impacts might be.

Local authorities' choices of council tax support scheme

- 90% of English councils had made some changes to their CTS scheme for working-age households (other than mirroring changes made to the wider benefits system) by 2018–19, almost all of them cuts. This figure is up from 82% in 2013–14.

- Furthermore, central government cuts to national benefits – such as the freeze to most working-age benefit rates that has been in place since April 2015, and the abolition of extra support for third and subsequent children – have often been mirrored in councils' CTS schemes, reducing the income that claimants can earn before their CTS is withdrawn. This means that even the 'default' option involves a reduction in CTS relative to maintaining the generosity of the pre-2013 national council tax benefit system.

- The most widespread and important change to CTS schemes has been the introduction of minimum council tax payments, requiring all households (except any 'vulnerable groups' the council decides to protect) to pay at least a certain proportion of their gross council tax bill. This is the first time since the poll tax that many of the lowest-income households have been required to pay local tax.

- Councils' schemes differ substantially, which means that similar families can have very different council tax bills depending on where they live. The most common level of minimum payment is 20% – adopted by 78 councils (almost a quarter) in 2018–19. But a fifth of councils have no minimum payment, and another fifth have minimum payments of over 20%, with the highest being 50% in North Lincolnshire. LAs with higher minimum payments are more likely to have cut CTS in other ways as well.

- More deprived councils, and Labour councils, have been more likely to introduce minimum payments than other councils – but only because they received larger cuts to CTS funding from central government. After adjusting for other differences between councils – including differences in funding cuts – Labour councils were 15 percentage points *less* likely to introduce minimum payments than Conservative councils.

- Although LAs that saw bigger cuts to their funding for CTS have been more likely to introduce minimum payments, broader cuts to funding from central government have had no such effect – even though councils are free to allocate spending as they wish between CTS and other priorities. This suggests that the labelling of money from central government has real effects on how it is spent.

- LAs were given temporary additional funding if they set a minimum payment no higher than 8.5% in 2013–14. But 38 LAs still had a minimum payment of exactly 8.5% in 2018–19, five years after the incentive expired. This bunching around 8.5% is found in clusters of neighbouring LAs, and a few LAs whose neighbours had them even introduced an 8.5% minimum payment after the incentive had been removed. This suggests that a temporary distortion of councils' incentives can have lasting impacts on their chosen policies, and hence on the households subject to them.

Consequences for household incomes and work incentives

- The 3.6 million working-age households in England who would have been entitled to some support under the old CTB system are now entitled to 24% (£196 a year) less on average – 1.0% of their income – than if the generosity of the system had been maintained at its pre-2013 level. This amounts to a £706 million reduction in entitlements: £286 million – about 70% – more than the cut made by councils in the first year of localisation in 2013–14.

- About half of the additional cut since 2013–14 is the result of councils mirroring cuts that central government has made to the wider benefits system, such as the benefits freeze, in their CTS schemes. Excluding those changes – which might plausibly have occurred as a knock-on effect of those wider benefits changes even if CTS had not been localised – the other changes introduced by LAs amount to a 20% cut to support, up from 14% in 2013–14.

- There are now 1.4 million households who have to pay some council tax who would not have had to pay it if the generosity of the pre-2013 system had been maintained. Of these, the vast majority (1.3 million) have been brought into the council tax net by LAs' decisions to go beyond just mirroring other national benefits cuts in their CTS schemes (most significantly by the introduction of minimum payments).

- A further 1.6 million households are billed for more than they otherwise would have been – around one-quarter (0.4 million) due to the mirroring of national benefits changes in CTS schemes and the remaining three-quarters (1.2 million) due to the additional cuts to CTS schemes that councils have made.

- Overall, only around 500,000 – barely a quarter – of the households that would have had their council tax bills entirely covered by the old CTS system still have it fully covered by CTS. The other three-quarters have to pay at least some council tax in 2018–19; 63% must pay more than £100, a third must pay more than £200 and almost one in ten must pay more than £300.

- Unsurprisingly, the bulk of the savings has come from low-income households, who received most support to start with. But the biggest percentage cuts to support have been felt by working claimants with children.

- Low-income households are more likely to have seen their CTS cut if they live in a more deprived area. This is because councils in poorer areas received bigger funding cuts from central government and, as a result, were more likely to cut CTS. Households among the lowest-income fifth in England had a 60% chance of seeing their entitlement reduced if they also lived in one of the most deprived fifth of LAs, but only a 46% chance if they lived in one of the least deprived fifth of LAs.

- However, because council tax levels tend to be higher in more affluent areas, those poor households in affluent areas who *have* seen a cut to CTS have tended to receive a larger additional council tax bill (losing £323 a year on average) than those in poorer areas (£229).

- Cutting the support that households can get if they have low income has given them slightly stronger incentives to work and to earn more. Because the generosity of CTS has been reduced further since it was localised in 2013, the impact on work incentives has also grown.

Impacts of scheme choices at the local authority level

- Cuts to council tax support have, as some predicted, led to sizeable increases in the amount of council tax going uncollected.

- We estimate that about a quarter of the additional council tax liability arising from cuts to CTS is not collected in the year it is due. This is far higher than the typical rate of non-collection of council tax: around 10 times higher than the 2.5% of council tax that councils failed to collect, on average, in 2012–13, before the cuts to CTS. Of course, cuts to CTS are small relative to total council tax, so the effect on the aggregate rate of non-collection is still relatively modest – increasing it from 2.5% to 2.7% on average.

- These difficulties in collecting the extra tax appear to be long-lasting: we estimate that councils failed to collect a quarter of the additional liabilities created by minimum payments in 2017–18 even when the minimum payment had been in place since 2013–14.

- Introducing a minimum payment in an LA also caused a significant increase in the number of people in that LA contacting Citizens Advice for advice or help relating to council tax or CTS. On average, minimum payments increased these enquiries by around 15–20% in the councils concerned, primarily driven by more enquiries relating to council tax debt. Other changes to CTS schemes have not led to a statistically significant increase in enquiries to Citizens Advice.

- The increase in the volume of enquiries to Citizens Advice is similar for all sizes of minimum payments, suggesting that it might be requiring households to pay some council tax when they would otherwise have had no bill, rather than the size of those bills, that is leading to more queries.

Impacts of scheme choices at the household level

- Reducing a household's CTS entitlement significantly increases the probability that it reports being in arrears on its council tax.

- Among households entitled to less CTS in 2016–17 than they would have got under the default scheme, the median loss was £179 per year. We estimate that a loss of that size increased a household's chances of being in council tax arrears by a half.

- The impact of losing CTS on council tax arrears is entirely driven by households that would, in the absence of cuts, have been entitled to maximum CTS and hence would have had no council tax bill to pay at all. We find no significant effect on the arrears rates of those already paying council tax being required to pay more; and among households that would not previously have had to pay any council tax, the increase in the probability of arrears is almost as big for those given a small bill as for those given a large one.

- These findings suggest that the relatively low collection rate of the additional council tax liabilities, identified in Chapter 4, is driven by the difficulty of collecting tax from those who would not have had to pay it in the absence of cuts to CTS. Councils are likely to receive more revenue if they increase liabilities for those already paying some council tax than if they cut support by the same amount for those who currently have no council tax bill to pay.

- Lone parents, renters, and claimants in councils that already had relatively low council tax collection rates are all more likely than average to fall into council tax arrears as a result of being required to pay a council tax bill that they would not have had in the absence of cuts.

- We find no significant impact of losing CTS on whether a household reports being in arrears on other bills or being unable to afford other items – despite the fact that the relatively tough enforcement and penalties for non-payment of council tax mean that it would usually make more sense for households to pay the council tax and (if necessary) go into arrears on another bill instead. This reinforces the impression that the problem is not simply one of dealing rationally with the loss of £1 or £2 a week within an optimal budgeting process. Rather, faced with a council tax bill they would not otherwise have had to pay, many households simply do not pay it – irrespective of its size.

1. Introduction

Council tax benefit (CTB) was a Britain-wide social security benefit that provided support for council tax to low-income families.[1] In April 2013, it was abolished. Local authorities (LAs) in England and the Scottish and Welsh governments were charged with designing their own council tax support (CTS, also known as council tax reduction) schemes. They were given grants equal to only 90% of what would have been spent by central government on CTB in their area, with the discretion to spend more or less than that grant on their own CTS scheme.

In Scotland and Wales, the devolved administrations decided to maintain centralised CTS schemes rather than devolving the policy to LAs, and to maintain the previous levels of support by absorbing the funding cut elsewhere in their budgets. The Scottish and Welsh schemes have changed little since. Our analysis focuses on England, where LAs have been obliged to maintain support for pensioners at levels set by central government (and largely protected) but have had wide discretion to make changes to the scheme for working-age families. The requirement to protect pensioners meant that LAs where a larger share of CTB went to pensioners would need to make bigger percentage cuts to working-age support to achieve a given reduction in overall spending on CTS.

Most English LAs have cut support for council tax for working-age families to below the level of generosity that they are still obliged to provide for pensioners. These changes have meant that many low-income working-age families are liable for a tax that they would not have had to pay before, or have seen their tax liability increase. But council tax levels, and the cuts to CTS made by LAs, vary substantially across the country. This means that the impacts of changes to CTS on the incomes of households have been wide-ranging, with otherwise-similar families facing very different systems of CTS if they live in different localities.

Building in large part on the valuable work of the New Policy Institute (NPI) in compiling a database of LAs' chosen CTS schemes, previous research at IFS and elsewhere has examined what kinds of CTS scheme choices have been made by English LAs up to 2017–18 and, in the earlier years of localisation, whether particular kinds of LAs were especially likely to choose certain kinds of schemes (Adam et al., 2014; Barry Born et al., 2015).

In Chapter 2 of this report, we bring this evidence on LAs' scheme choices up to date (2018–19) using scheme databases from NPI and entitledto, as there has continued to be a significant amount of change to schemes each year. In doing so, we draw out the major ways in which schemes have changed since they were first introduced, and we examine the associations between scheme choices and various characteristics of LAs, attempting to disentangle the effects of different characteristics that are often found together (e.g. their political control and their funding situation) – something which only our own previous work on the topic (Adam et al., 2014) has done to date, and which is important if trying to draw conclusions about the drivers of LAs' choices.

Chapter 3 uses the IFS tax and benefit microsimulation model to estimate the scale of the effects of these reforms on household incomes and work incentives. We examine how

[1] Northern Ireland has a separate system of domestic rates and rates rebate. This was not affected by the reforms introduced in the rest of the UK, and we do not consider it further in this report.

these effects vary across the population, and how they have changed since 2013–14 as CTS schemes have evolved.

In Chapter 4, we use the fact that different LAs have made different choices to examine the impacts of different scheme choices on council tax liabilities, rates of council tax collection, and council-tax-related queries to Citizens Advice. Previous work tells us that those LAs that have reduced the generosity of CTS (and in particular have introduced large minimum council tax payments) tend to have lower council tax collection rates and higher rates of arrears, council tax administration costs and court costs (Kenway, Bushe and Aldridge, 2014; Aldridge and Bushe, 2014; Aldridge and Barry Born, 2015; Ayrton and Barker, 2017) and has documented a general increase in arrears since the reform (e.g. Ashton, Francis and Woudhuysen, 2016). We build on this by using methods that allow us to identify robustly the extent to which outcomes in LAs change as a direct result of their CTS schemes (rather than other factors that may also be changing) and to separately identify the impacts of different elements of scheme choices (e.g. changes to minimum payments versus changes in taper rates) even though those elements are often changed at the same time. We also update our previous work using data kindly provided by Citizens Advice, to assess the impacts of CTS scheme choices on the volumes of related enquiries to Citizens Advice Bureaux.

In Chapter 5, we extend the analysis to look, for the first time, at the impacts of cuts to CTS at the level of individual households rather than LAs. We ask how the amount of support lost by a household as a result of changes to CTS affects outcomes such as their chances of falling into arrears on council tax, and we examine how this varies between different kinds of household.

Chapter 6 concludes.

We intend this report to be useful for a number of audiences. LAs and the Scottish and Welsh governments continue to be tasked with setting CTS schemes, and this research provides them with evidence that should help them to do so: evidence on what different choices about their CTS scheme are likely to mean for outcomes such as claimants' financial well-being and the efficacy of council tax collection, and how this depends on the characteristics of the LA and the families within it.

The cuts to CTS have been part of a wider set of welfare reforms hitting low-income working-age families at a time when living standards in general have been severely squeezed, and we therefore also hope that this research on the patterns of cuts across the country – and the effects they have had – is of interest to organisations looking to monitor poverty or ameliorate its effects.

Finally, despite the localisation of CTS, this should continue to be a topic of great interest to central government. First, it is presumably interested in the effects that the localisation and cuts to funding for CTS have had on households and on LA finances. Second, our analysis of the scheme choices made by LAs allows us to examine some aspects of how councils make decisions, which is likely to be informative about how they would make decisions about other matters that may or may not be devolved to them. Third, by studying the impacts of giving low-income households a new or bigger bill to pay, we may learn about the potential consequences of doing so with respect to things other than

council tax – for example, by asking people to pay more rent when cutting housing benefit, as the government has done recently.

Going forward, the roll-out of universal credit (UC) – a major and troubled reform to the benefit system, integrating six working-age benefits and tax credits into one – has significant consequences for CTS, and LAs will need to consider it in the design of their schemes (as some are already). This report, however, analyses CTS scheme choices and their consequences in a period before UC is mostly rolled out. We therefore do not address this crucial issue directly in any depth, though we hope that our findings will help LAs considering changes to their scheme in response to UC to understand better what the impacts might be.

2. Local authorities' choices of council tax support scheme

Key findings

- **90% of English councils had made some changes to their CTS scheme for working-age households (other than mirroring changes made to the wider benefits system) by 2018–19, almost all of them cuts. This figure is up from 82% in 2013–14.**

- **Furthermore, central government cuts to national benefits – such as the freeze to most working-age benefit rates that has been in place since April 2015, and the abolition of extra support for third and subsequent children – have often been mirrored in councils' CTS schemes, reducing the income that claimants can earn before their CTS is withdrawn. This means that even the 'default' option involves a reduction in CTS relative to maintaining the generosity of the pre-2013 national council tax benefit system.**

- **The most widespread and important change to CTS schemes has been the introduction of minimum council tax payments, requiring all households (except any 'vulnerable groups' the council decides to protect) to pay at least a certain proportion of their gross council tax bill. This is the first time since the poll tax that many of the lowest-income households have been required to pay local tax.**

- **Councils' schemes differ substantially, which means that similar families can have very different council tax bills depending on where they live. The most common level of minimum payment is 20% – adopted by 78 councils (almost a quarter) in 2018–19. But a fifth of councils have no minimum payment, and another fifth have minimum payments of over 20%, with the highest being 50% in North Lincolnshire. LAs with higher minimum payments are more likely to have cut CTS in other ways as well.**

- **More deprived councils, and Labour councils, have been more likely to introduce minimum payments than other councils – but only because they received larger cuts to CTS funding from central government. After adjusting for other differences between councils – including differences in funding cuts – Labour councils were 15 percentage points *less* likely to introduce minimum payments than Conservative councils.**

- **Although LAs that saw bigger cuts to their funding for CTS have been more likely to introduce minimum payments, broader cuts to funding from central government have had no such effect – even though councils are free to allocate spending as they wish between CTS and other priorities. This suggests that the labelling of money from central government has real effects on how it is spent.**

- **LAs were given temporary additional funding if they set a minimum payment no higher than 8.5% in 2013–14. But 38 LAs still had a minimum payment of exactly 8.5% in 2018–19, five years after the incentive expired. This bunching around 8.5% is found in clusters of neighbouring LAs, and a few LAs whose neighbours had them even introduced an 8.5% minimum payment after the incentive had been removed. This suggests that a temporary distortion of councils' incentives can have lasting impacts on their chosen policies, and hence on the households subject to them.**

Council tax, a levy on residential property in Great Britain, raised around £37 billion in 2017–18 (in today's prices) before deducting the cost of council tax support or £33 billion after deducting it – a little under 5% of total tax revenue. Nevertheless, council tax attracts far more attention than its revenue yield might lead us to expect, partly because for the vast majority of people it is one of the only taxes they are asked to remit themselves.

Since council tax was introduced in 1993, low-income families have been entitled to a means-tested rebate to help them pay it: council tax benefit (CTB) until 2012–13, and council tax support (CTS) thereafter. Claimants receive their rebate in the form of a zero or reduced council tax bill, rather than paying council tax and receiving the benefit in cash separately. CTB was administered by local authorities (specifically, billing authorities) but the scheme was set nationally. CTS is also administered by LAs, but while the scheme for pensioners[2] continues to be set nationally, LAs in England and the Scottish and Welsh governments design their own schemes for working-age families.

Across Great Britain, around 4.9 million claimants received CTS in 2017–18 – more than received any other form of means-tested support – at a cost to LAs of £4.1 billion, implying an average award of £840 per year. 43% of claimants were pensioners. Spending on the 2.4 million working-age claimants in England – the focus of this report, since it is their entitlements that vary across the country – comes to £1.8 billion, implying an average award for those claimants of £770. Since CTS was localised, central government no longer publishes more detailed statistics on it, but in 2012–13, the last year of centralised CTB, just over a third of working-age claimants were long-term sick or disabled, almost a third were lone parents and 16% were classified as unemployed.[3]

In this chapter, we examine how CTS schemes for working-age claimants in England have evolved across different kinds of LAs since they were localised. But as a starting point, we

[2] Defined as families with a member over pension credit age, equivalent to the female state pension age (SPA).

[3] See https://www.gov.uk/government/collections/benefit-expenditure-tables.

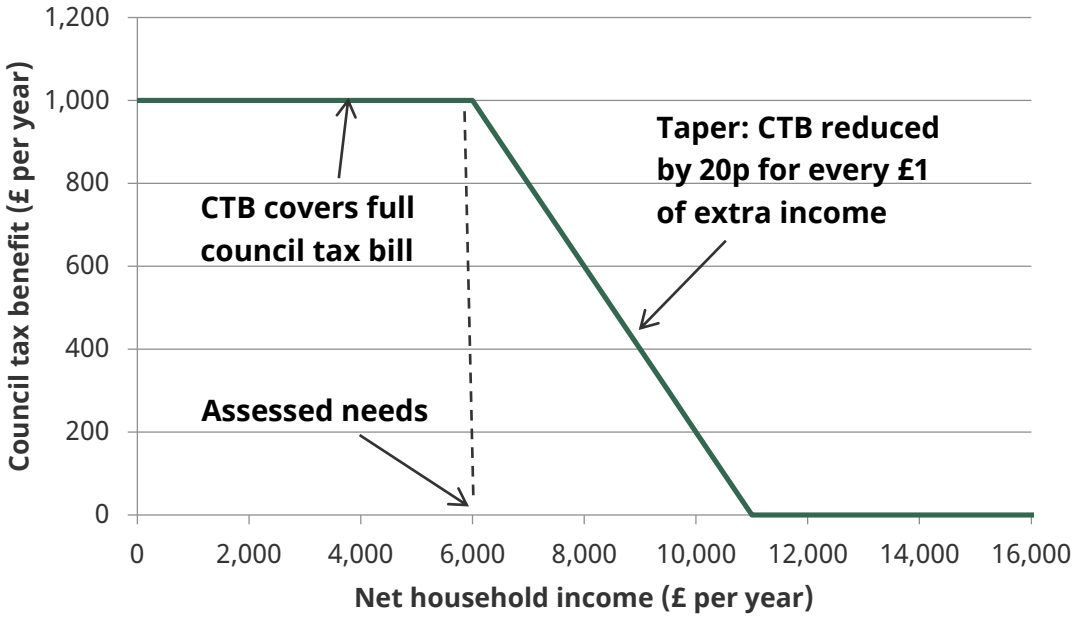
describe the previous system, CTB, which remains essential for understanding its replacements.

2.1 Council tax benefit before 2013–14

The maximum CTB award that a family could receive was their council tax liability. Families receiving a means-tested out-of-work benefit – that is, income support, income-based jobseeker's allowance, income-based employment and support allowance (ESA) or pension credit guarantee credit[4] – automatically qualified for maximum CTB, and this group accounted for two-thirds of CTB claimants and 70% of spending on CTB.[5] Those who were not 'passported' onto full CTB in this way had to undergo a separate means test, which compared the family's income with a centrally determined measure of minimum needs. Needs were expressed as an 'applicable amount', the sum of various allowances and premiums which depended on age, whether single or in a couple, number of children and any disability and which were generally aligned with parameters elsewhere in the benefit system. If the family's income was below their applicable amount, they qualified for maximum CTB; otherwise, their CTB was reduced by 20p for each £1 of income in excess of their assessed needs until their entitlement was exhausted. This basic structure is illustrated in Figure 2.1 for an example claimant.

Among the set of households eligible for CTB in 2012–13, we estimate that a little under half were entitled to full CTB (i.e. were passported on or had income below their assessed needs). But those with low entitlements were less likely to take up the benefit, so in practice well over half of recipients had no council tax bill to pay.

Figure 2.1. An example of how CTB entitlement varied with income



Note: Assumes family has a council tax bill of £1,000 and assessed needs of £6,000.

[4] For brief descriptions of these benefits, see Hood and Norris Keiller (2016); for full details, see Child Poverty Action Group (2018).

[5] Source: Authors' calculations using Department for Work and Pensions (2013).

As well as the main income-based means test, the CTB scheme also contained an additional means test based on assets, such that households with (non-housing, non-pension) assets exceeding £6,000 were entitled to less CTB, and households with those assets totalling more than £16,000 were not entitled to any CTB.

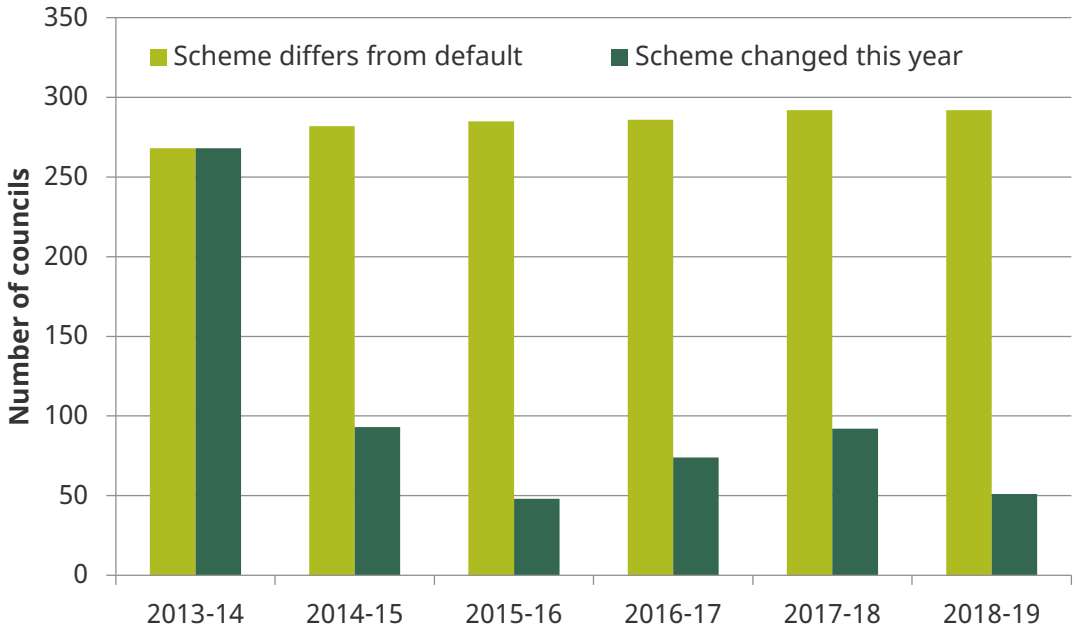
Awards were also adjusted for 'non-dependant deductions', which reduced the householder's CTB to take account of incomes of other adult residents of the household who were assumed to make a contribution towards the bill.

2.2 CTS scheme choices since 2013–14

Since 2013–14, the scheme for pensioners has continued to operate along the lines illustrated in Figure 2.1. The levels of applicable amounts are kept aligned with parameters in the benefit system – most closely with those for housing benefit – and are uprated or frozen accordingly in line with wider government policy on benefits. The Scottish and Welsh governments have chosen to keep this system largely intact as well, with only a few changes. In this report, we focus on the CTS schemes chosen by English LAs for working-age CTS claimants since 2013–14.

The default option for LAs is to continue to use a scheme like the old CTB and to keep parameters in line with those used for housing benefit, for pensioners and so on. With some minor exceptions, that is the scheme that continues to operate in Scotland and Wales and for pensioners in England. We start by looking at how LAs have deviated from that baseline – though we will go on to discuss how cuts to social security benefits nationally (some of which do not apply to pensioners) have meant that this 'default option' entails significant cuts to working-age CTS relative to maintaining the generosity of the old CTB system.

Figure 2.2. Council tax support scheme changes since 2013–14



Source: Authors' calculations using data provided by entitledto and NPI.

Figure 2.2 documents the number of councils in England that, in each year, had a CTS scheme for working-age households that deviated from the 'default', and the number of councils that made any change to their scheme in that year. As has been documented in previous work (e.g. Adam et al., 2014), a large fraction (82%) of English councils chose to deviate from the default scheme at the first available opportunity in 2013–14. More councils have done so since, such that by 2018–19 only 34 councils (10%) had made no change.

Figure 2.2 also shows that scheme changes after 2013–14 were frequent. Every year since then, between 48 and 93 councils have made some change to their scheme. 28 councils have made changes in at least four of the six years that they could do so (i.e. including 2013–14), while a further 70 have adjusted their scheme three times.

Types of scheme change

Schemes have been changed in numerous ways. Some of these changes have been widespread while others have been adopted by only a small minority. In almost all cases, these changes represent reductions to the generosity of the system.

Minimum council tax payments

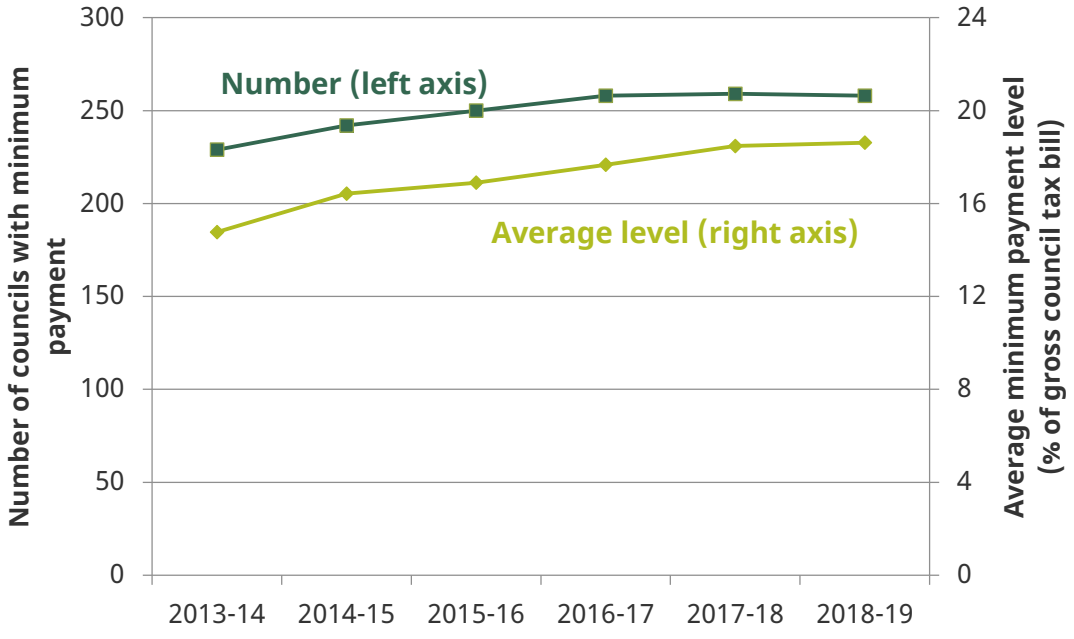
By far the most popular change to schemes has been to introduce a minimum payment for council tax, meaning that every working-age household, regardless of their circumstances, must pay at least a certain share of their gross council tax bill. One important consequence of this is that even those who would previously have had no net council tax bill, because their incomes and assets were so low that they would have qualified for a 100% discount, now have to pay something. This is the first time since the poll tax that many of the lowest-income households have been required to pay local tax. 258 councils had a minimum payment in 2018–19, up from 229 in 2013–14 (Figure 2.3).[6]

Figure 2.3 shows that, as well as more councils introducing minimum payments since 2013–14, they have also become larger on average since then. The average minimum payment in 2013–14 was 15%; by 2018–19 it stood at 19%. This increase has been driven by both newly introduced minimum payments being at higher-than-average levels and existing minimum payments being increased. Figure 2.4 shows that increases in existing minimum payments are common – over 50 were increased in 2014–15 from their 2013–14 level, and in each subsequent year at least 14 have been increased. It has been rare for minimum payments to be decreased or abolished entirely. There have been only 22 decreases and 8 abolitions, compared with 153 increases, since localised schemes were first introduced.

[6] In 2018–19, 215 councils have implemented the minimum payment as a reduction in maximum entitlement, in effect calculating CTS entitlement as if the claimant's council tax were (say) 10% lower, hence reducing entitlements by the relevant percentage of the gross council tax bill. This means that CTS runs out at a lower income level than previously and implies a larger percentage cut for those on the taper than for those previously entitled to full support. 40 councils implement their minimum payment as an across-the-board cut, calculating entitlement as if there were no minimum payment and then simply reducing all entitlements by the relevant percentage. This means that the level of income at which CTS runs out is the same as in the absence of a minimum payment, and effectively implies a lower taper rate. This distinction is discussed in Adam and Browne (2012). The remaining three councils with minimum payments have implemented it as a fixed cash amount per week.

Figure 2.5 gives more detail behind the increase in prevalence and average size of minimum payments over time, showing the full distribution of minimum payments across LAs in 2013–14 and 2018–19. In 2013–14, 42 councils had a minimum payment of over 20%, but by 2018–19 this had risen to 75 councils.

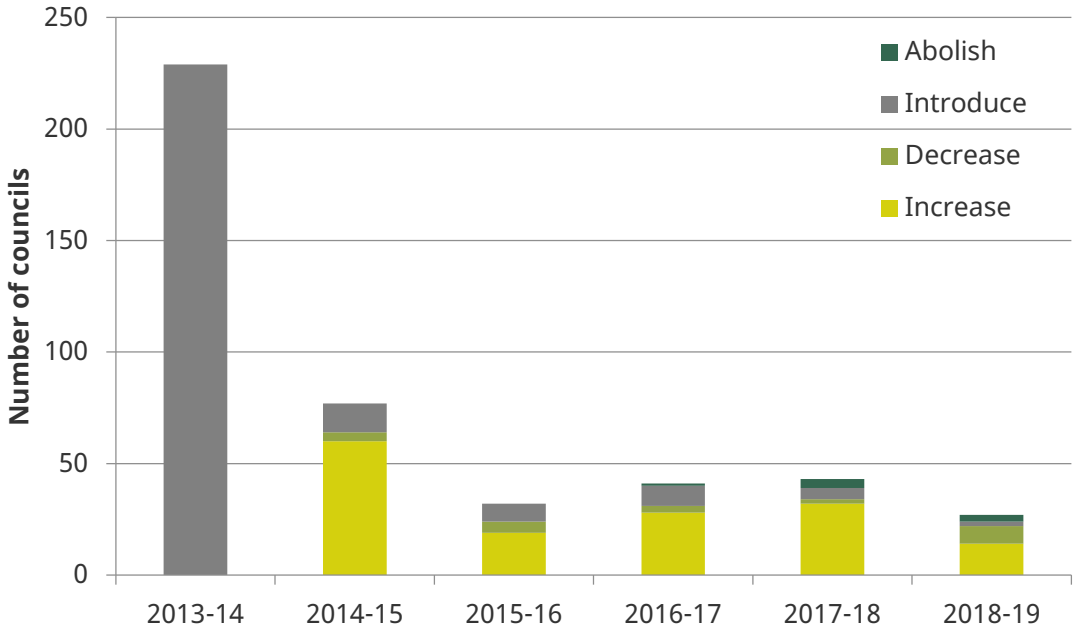
Figure 2.3. Number of minimum payments and average minimum payment levels



Note: Average minimum payment level is the average among LAs that have a percentage minimum payment (i.e. it does not include zeros or cash-terms minimum payments).

Source: Authors' calculations using data provided by entitledto and NPI.

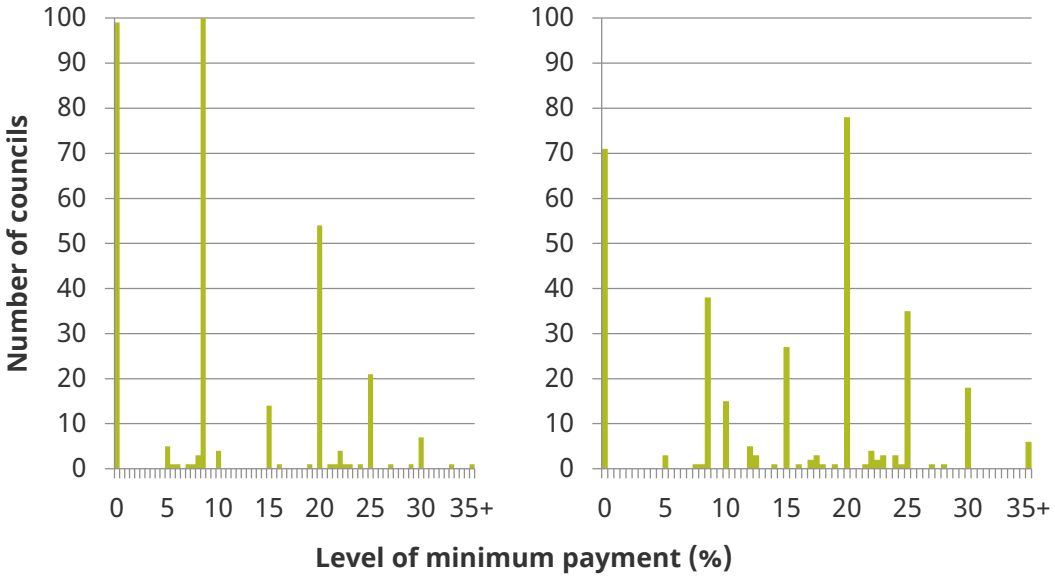
Figure 2.4. Changes to minimum payments since 2013–14



Source: Authors' calculations using data provided by entitledto and NPI.

Figure 2.5 also highlights how minimum payments have created a large amount of variation that did not previously exist between the CTS entitlements of otherwise-similar households living in different places. Even in 2018–19, about one-third of councils either had no minimum payment or a small minimum payment (of no more than 8.5%), while about one-quarter had a minimum payment of over 20%. The highest minimum payment is that in North Lincolnshire, where the council requires claimants to pay at least 50% of

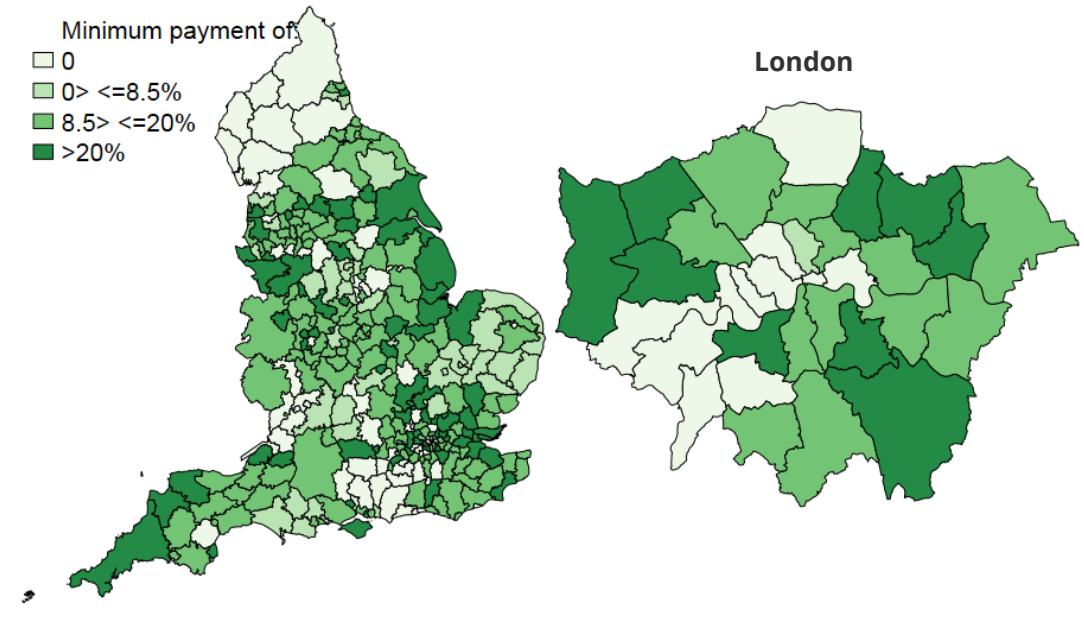
Figure 2.5. Distribution of minimum payments, 2013–14 (left panel) and 2018–19 (right panel)



Note: Excludes councils with a minimum payment that is fixed in cash terms.

Source: Authors' calculations using data provided by entitledto and NPI.

Figure 2.6. Geographical distribution of minimum payments in England, 2018–19



Source: Authors' calculations using data provided by entitledto and NPI.

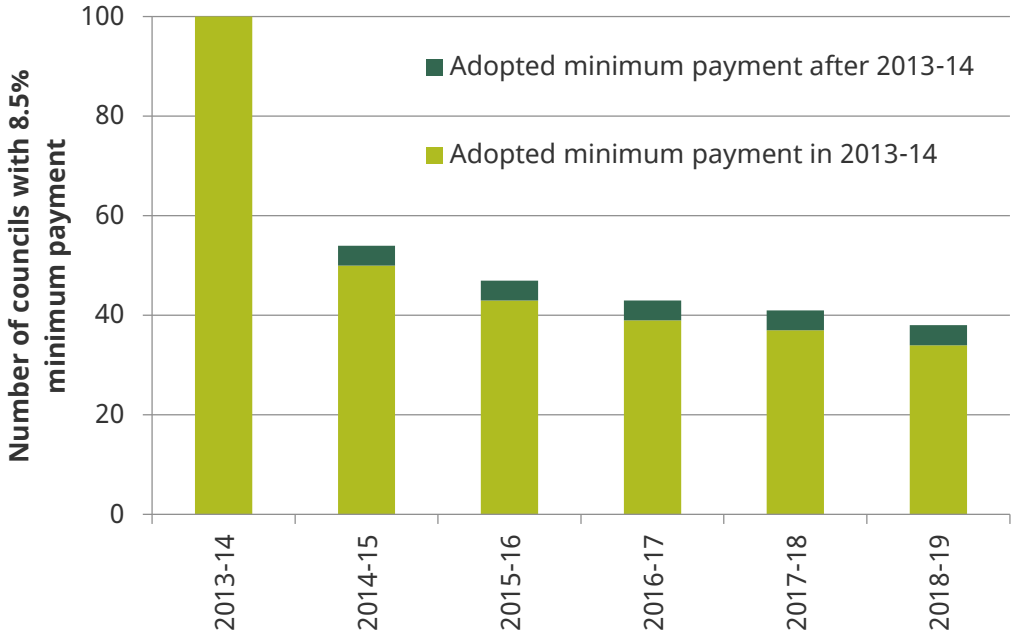
their gross council tax bill.[7] The pattern of minimum payments across the country is displayed in Figure 2.6.

Bunching at 8.5% minimum payment

Another notable feature of Figure 2.5 is the large number of councils choosing minimum payments of exactly 8.5%. Almost all other minimum payments are set at whole numbers and almost half are set at multiples of 5%. The reason for the large number of minimum payments set at 8.5% in 2013–14 is that the government offered additional temporary funding to councils whose chosen schemes satisfied certain criteria, one of which was to have a minimum payment of no more than 8.5%. A minimum payment level of exactly 8.5% was duly adopted by 100 councils in that year.

However, beyond 2013–14 there was no transitional grant for councils, and therefore no direct financial incentive to have a minimum payment of exactly 8.5%. While 50 of the 100 councils that had an 8.5% minimum payment in 2013–14 changed their minimum payment in 2014–15 (almost all to higher levels), even in 2018–19 there are still 38 councils with a minimum payment at 8.5%. Of those councils, over 70% have made no further scheme changes since first introducing minimum payments. This suggests that, for whatever reason, there is considerable inertia in LA scheme choices. This might partly be explained by the cost and difficulty of consulting on, agreeing on and implementing changes and by the other demands on local policymakers' attention. But it does imply that councils are not making the choices – and so not giving households the entitlements – that they would if they were designing their CTS schemes from scratch today.

Figure 2.7. Number and fraction of LAs with an 8.5% minimum payment



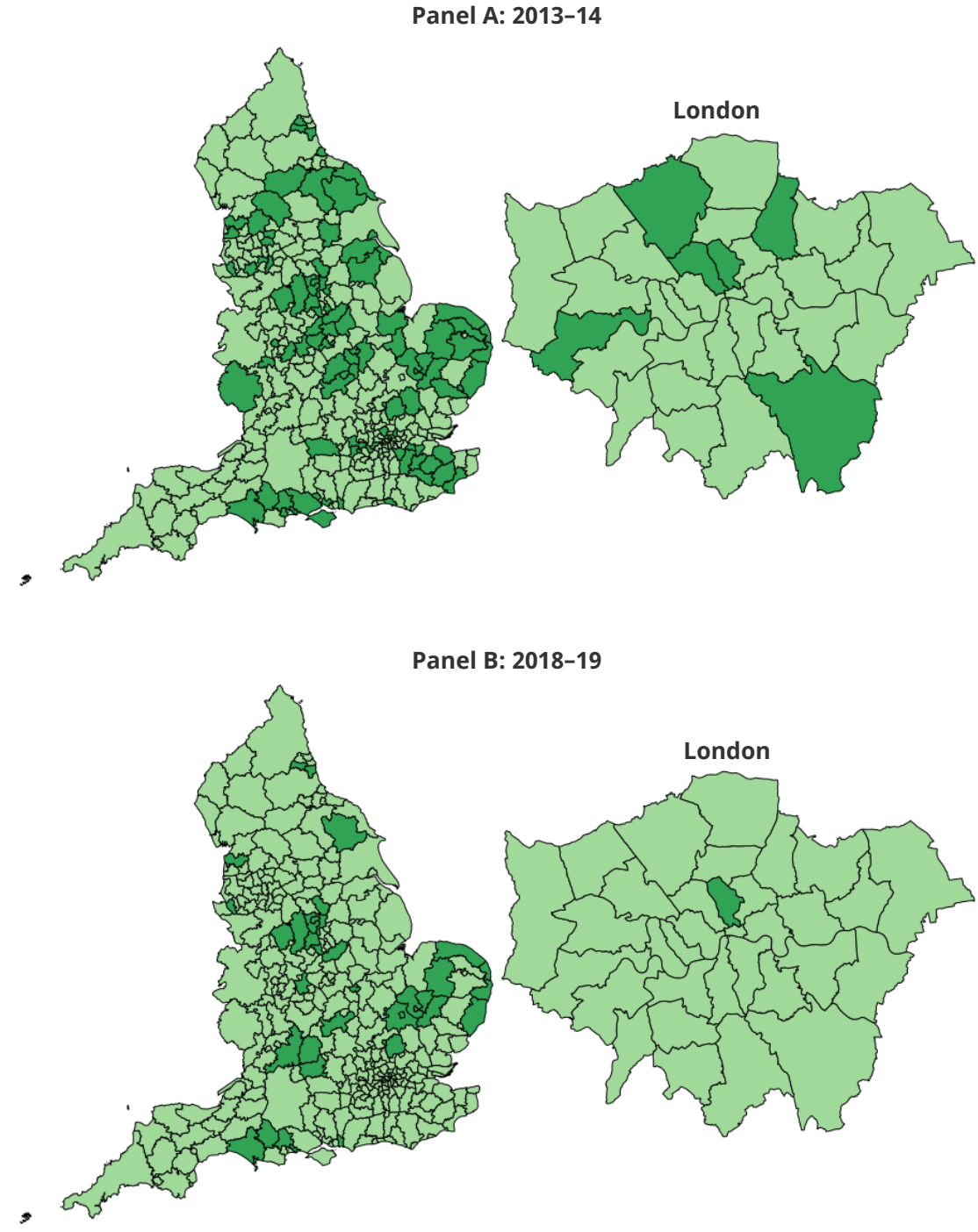
Note: Councils split into those that adopted a minimum payment in 2013 and those that adopted one in a subsequent year.

Source: Authors' calculations using data provided by entitledto and NPI.

[7] North Lincolnshire applies a lower minimum payment of 23% to disabled claimants.

Interestingly, the bunching of minimum payments at 8.5% after 2013–14 may not only signal inertia in decision-making. Figure 2.7 shows that a few councils even adopted minimum payments of 8.5% *after* 2013–14 (Cotswold, Vale of White Horse, West Oxfordshire and Dudley in 2014–15 – though Dudley promptly moved away from 8.5% in 2015–16 – and South Cambridgeshire in 2015–16). This points towards the possibility that, having been a popular choice of minimum payment level initially, 8.5% has become a

Figure 2.8. Map of councils with an 8.5% minimum payment in 2013–14 and 2018–19 (dark green indicates 8.5% minimum payment)



Source: Authors' calculations using data provided by entitledto and NPI.

reference point to which councils gravitate, perhaps following the lead of neighbouring LAs. Indeed, Figure 2.8 shows that there is clustering of LAs with a minimum payment of 8.5%. This was true even in 2013–14, when 100 councils had a minimum payment of this level. In 2018–19, all but 6 of the 38 LAs with an 8.5% minimum payment, and every LA that introduced a minimum payment of that level after 2013–14, bordered another LA that also had an 8.5% minimum payment. LAs with 8.5% minimum payments are mostly clustered together in a few areas such as Derbyshire, Dorset and East Anglia. There is clearly a desire among councils to have CTS schemes similar to their neighbours'.

Figure 2.5 also shows much more bunching at a minimum payment of exactly 20% than at other round numbers such as 15%, 25% or 30%. It is possible that this was a natural choice for councils implementing CTS cuts because, on average, a cut to working-age CTB spending of about 20% would be required to recoup the 10% funding cut upon localisation in 2013–14.[8]

Other scheme choices

While minimum council tax payments have been the most common scheme change adopted by councils, a number of other changes have also been introduced. In most cases, these follow the trend of minimum payments: over time, they have become more widely adopted and have made CTS schemes less generous to recipients. Below we briefly summarise the main ones.

- **Reducing asset limits:** Under the default scheme, families with savings or other non-pension financial wealth of more than £16,000 are not entitled to any CTS. In 2013–14, 58 councils reduced this limit, and by 2018–19 104 councils had done so. This removes CTS completely for a relatively small number of families.[9]

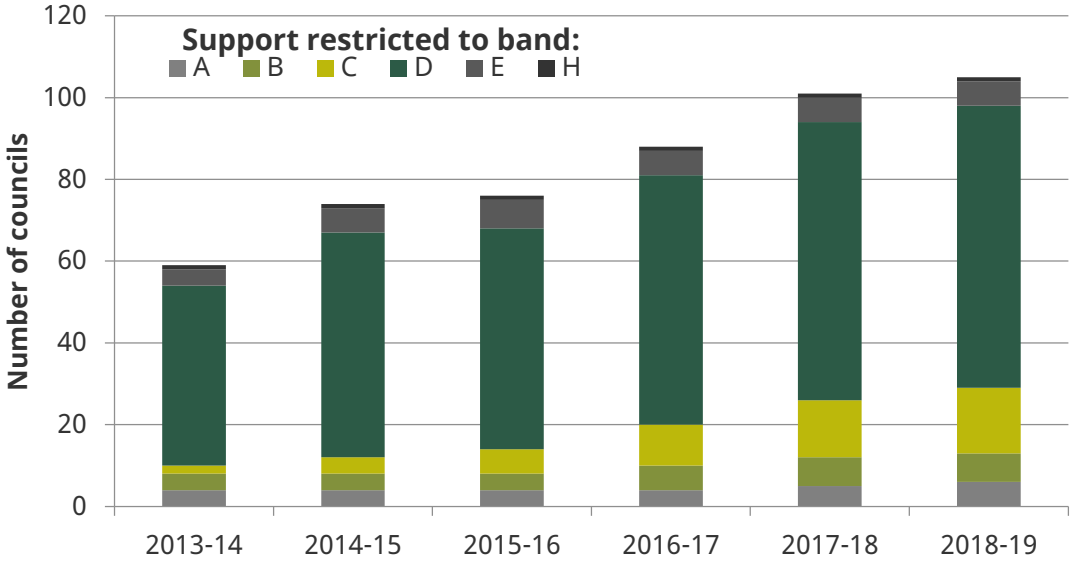
- **Capping CTS at a particular council tax band:** This reform means that those living in a relatively expensive property (as measured by its 1991 value, which – absurdly – is still used to determine council tax bands) are only entitled to support based on the council tax bill they would have faced in a lower-band property. The number of councils adopting this restriction has risen from 59 in 2013–14 to 105 in 2018–19 (Figure 2.9). Of those councils that have adopted this scheme change, most have set the limit at band D. This change affects relatively few claimants. Only 19% of all properties are in bands E–H, and only 7% of working-age families entitled to CTS live in these properties.[10]

[8] As we discuss below, the necessary cut to working-age CTS to recoup the funding cut varied across LAs. On average, the required cut was around 20% because (protected) pensioner spending on CTS accounted for around half of total CTB spending.

[9] The default scheme also has a lower asset limit: savings of more than £6,000 reduce entitlement. In 2018–19, only 2 councils – Hyndburn and South Holland – had reduced this limit below £6,000.

[10] Share of dwellings in bands E–H in England taken from https://www.gov.uk/government/statistics/council-taxbase-2018-in-england. Share of working-age CTS-eligible households based on authors' calculations using the Family Resources Survey and modelling using TAXBEN (see Chapter 3).

Figure 2.9. Number of councils restricting support to a council tax band



Source: Authors' calculations using data provided by entitledto and NPI.

- **Changing the taper rate:** The taper rate (the rate at which support is withdrawn once income exceeds a certain threshold which varies by family type) was 20% under the old CTB system, which meant that 20p of support was withdrawn for every £1 by which after-tax income exceeded the relevant threshold. Changing the taper rate therefore does not affect those who would have been entitled to full support under the old CTB system, but it does affect the amount of support given to low-income working families. Not many LAs have changed the taper rate directly, and it has not become more popular: in both 2013–14 and 2018–19, 18 councils had a taper rate above 20%, while 3 had one below.[11] But a further 40 councils have implicitly reduced their taper rate in 2018–19 by implementing their minimum payment as an across-the-board cut rather than a reduction in maximum entitlement (see footnote 6).

- **Changes to non-dependant deductions:** Non-dependant deductions (NDDs) reduce the claimant's CTS to take account of the incomes of other household residents who are assumed to make a contribution towards the council tax bill – principally other adults, excluding the claimant's partner, living in the household with weekly earnings above a certain threshold. Deductions are not made for those who paid rent on a commercial basis. 94 councils had changed their NDDs in some way in 2018–19, up from 57 in 2013–14.

- **Changes that mirror other changes to the UK benefit system since 2012:** Some other nationwide benefit changes have knock-on effects on the default CTS scheme. For example, the work-related activity group (WRAG) premium in employment and

[11] A small but growing number of councils – 10 in 2018–19 – have moved from a system with a gradual taper to one of constant entitlement within income bands. This means that, as income increases, the amount of CTS does not change until income trips over into a new band, at which point support falls discontinuously. These banded schemes mean that claimants with very similar incomes can have very different entitlements, and have the undesirable feature that they can lead to some particularly strong disincentives to work: in particular, increasing one's earnings will in some cases lead to lower household income. We understand that this change is being introduced as the roll-out of universal credit continues, to minimise the frequency at which claimants' entitlements change.

support allowance, which has been abolished, is also a parameter in the default CTS scheme since it is added to the amount of income that a qualifying family can have before it starts losing CTS under that scheme. The most significant of these is the cash-terms freeze to most working-age benefit rates that applies from 2015–16 to 2019–20, which has been adopted by almost all councils. Others are set out in Table 2.1. While mirroring these changes in CTS is the easiest option for LAs, they do not have to do so, and the introduction and application of these changes vary considerably across councils, with some not implementing the changes at all, others introducing changes for new claimants only and others introducing them for all claimants.

- Many other scheme changes have been adopted by councils. Some have been relatively widely adopted but have little effect on families' entitlements – for example, the abolition of second adult rebate and the elimination of awards below a certain minimum.[12] There have also been a number of changes to what is counted as income for the purposes of the CTS means test – for example, some councils count child benefit or child maintenance as income. In some instances, changes have also been made to the income threshold above which support is withdrawn – this includes the benefit freeze and most of the changes mentioned in Table 2.1.

So far, we have considered each scheme choice independently. In practice, many LAs have changed their schemes in multiple ways, and different types of scheme change often occur together. Figure 2.10 shows that those councils that adopted large minimum payments (defined here as greater than 8.5%) in 2018 were more likely to have also adopted other scheme changes. We also find that the other scheme changes considered in Figure 2.10 are mostly correlated with one another. For example, councils that have introduced band restrictions are also more likely to have reduced asset limits.

An important feature of scheme changes is protections for vulnerable groups: some of the cuts do not apply to designated protected family types. 113 of the 292 councils that deviated from the default scheme protected at least one group from at least one of the

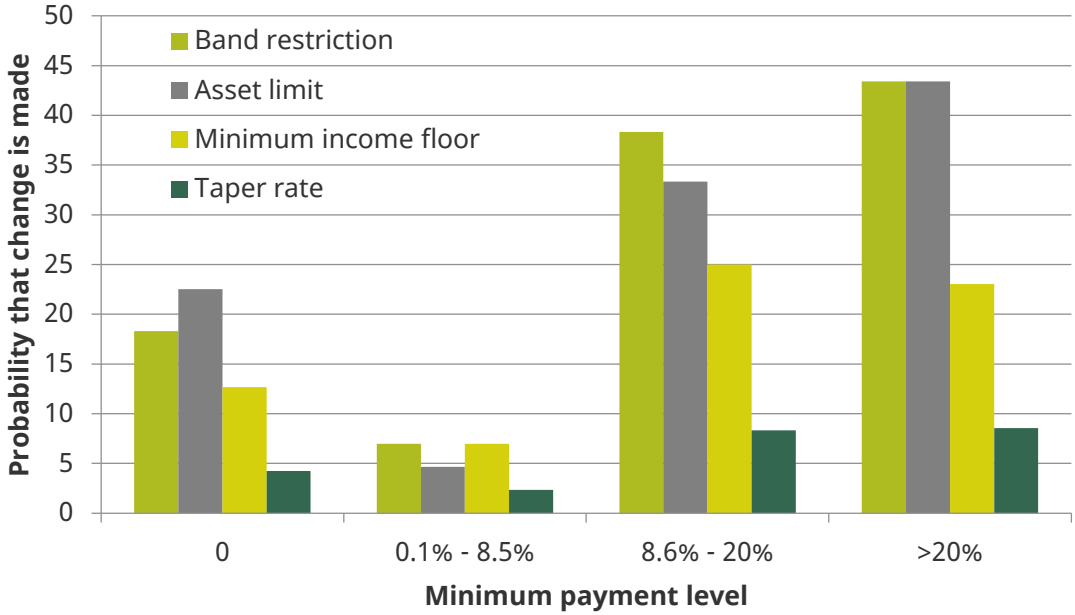
Table 2.1. Number (and %) of councils adopting changes made to other parts of the UK benefit system in their CTS system, 2018–19

Scheme change	Not introduced	New claimants only	All claimants
Minimum income floor for the self-employed	264 (81%)	0	62 (19%)
Abolish family premium	181 (56%)	145 (44%)	0
Introduce two-child limit	232 (71%)	20 (6%)	74 (23%)
Abolish ESA WRAG premium	80 (25%)	246 (75%)	0

Note: The minimum income floor is a minimum monthly level of income that a self-employed person is assumed to have if their reported income is below this. The other three changes listed remove the support claimants can receive (or, as in the case of CTS, the additional income they can receive before their support is withdrawn) if they have children, have more than two children, or are in the work-related-activity group for employment and support allowance (i.e. deemed sick enough to qualify for benefits but expected to make preparations to move into work).

[12] For more information on these scheme changes, see section 2.1 of Adam et al. (2014).

Figure 2.10. Coincidence of minimum payments and other scheme changes, 2018–19



Source: Authors' calculations based on data provided by entitledto and NPI.

scheme changes. The most commonly protected groups are veterans (protected by 70 councils in 2018–19) and disabled people (protected by 88 councils in 2018–19).[13] Some councils also protect certain family types – for example, young unemployed people, those with young children or lone parents. The most common changes from which groups are protected are minimum payments: 98 of 258 councils with a minimum payment exempted a vulnerable group. Protections from minimum payments have also become more widespread over time: only 27% of councils with a minimum payment in 2013–14 exempted a vulnerable group, while 38% adopted at least a partial exemption (i.e. a lower minimum payment) for vulnerable groups in 2018–19.

As well as designating certain vulnerable groups as protected from cuts to CTS, many councils have also introduced discretionary hardship funds, which allow officials to give additional support to claimants as they deem appropriate on a case-by-case basis within a limited overall budget. 117 councils (36%) had some kind of hardship fund in 2013–14, while 162 (50%) had one in 2018–19. Since by definition this additional support does not have clearly laid-out criteria for application, we ignore it in our quantitative analysis, but in practice these discretionary funds can be important in alleviating some of the worst hardship that cuts to CTS might otherwise cause.

2.3 Which types of LA have made which scheme choices?

The previous section has displayed the variation in the schemes adopted by different English LAs. In this section, we look at which kinds of LAs tended to make which kinds of scheme choices. In our analysis, the LA characteristics we consider are:

[13] The qualifying conditions for disability-based protections vary across LAs.

- the annual funding cut per household implied by the cut to central government funding for council tax support in 2013–14 (recall that this funding cut was equal to 10% of projected spending on council tax support in that LA under the old, national, CTB system);
- the percentage cut in working-age CTS spending that would have been needed in 2013–14 to recoup the full funding cut imposed by central government (given the requirement to protect pensioners);
- the percentage real-terms cut to total (i.e. not just CTS) funding from central government from 2012–13 to 2017–18;[14]
- Index of Multiple Deprivation;[15]
- number of queries to Citizens Advice in 2012 as a share of CTB claimants (see Section 4.2);
- (log) band D council tax rate and share of properties in bands A, B, C, D and E–H;
- (log) population and population density;
- region;
- whether the LA is a district council or a single-tier authority;
- political control: Conservative, Labour or Liberal Democrat majority, or 'other' (which means independent or no overall control).

As well as investigating the 'raw' relationships between LA characteristics and scheme choices (e.g. 'Are more deprived LAs more likely to introduce a minimum payment?'), we also disentangle the role of different factors in predicting scheme choices (e.g. 'Are more deprived LAs more likely to introduce a minimum payment, even after adjusting for the fact that they are more likely to have received a large funding cut?'). To do this, we use (probit) regression analysis. The full set of results is presented in Appendix Table A.1. Here we focus on the most interesting patterns that emerge. In all cases, differences are statistically significant at the 5% level unless stated otherwise.

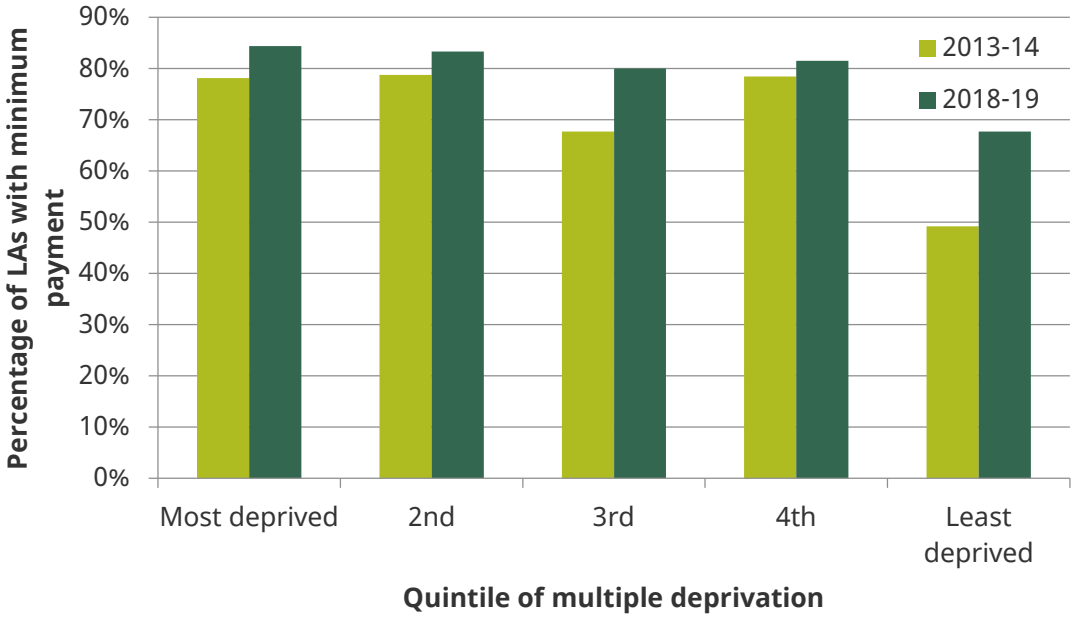
Level of deprivation in the LA

Figure 2.11 shows that LAs in more deprived areas are generally more likely to have introduced minimum payments than LAs in less deprived areas, although the gap between more and less deprived LAs has narrowed over time. In 2018–19, an LA among the least deprived fifth in England had a 68% chance of having introduced a minimum payment, while an LA among the most deprived fifth had an 84% chance of having a

[14] Specifically, the measure we use is the percentage real-terms cut to the LA's non-ring-fenced grant from central government plus any business rates retained.

[15] This measure is based on a weighted average of different measures of deprivation in an area, including income levels, employment levels, health and crime. More details about this measure can be found at https://www.gov.uk/government/statistics/english-indices-of-deprivation-2015.

Figure 2.11. Relationship between Index of Multiple Deprivation and probability of having a minimum payment



Source: Authors' calculations using Index of Multiple Deprivation and scheme choices provided by entitledto and NPI.

minimum payment. These patterns are evident at the extremes – the least deprived council (Hart District Council in Hampshire) has not introduced any changes to the default scheme, while the most deprived council (Blackpool) has had a minimum payment of over 25% in place since 2013–14. The biggest differences are between the least deprived fifth of LAs and the rest.

However, this pattern – that more deprived LAs have been more likely to introduce minimum payments – is largely explained by the fact that more deprived areas differ from less deprived areas in other ways too. In particular, more deprived areas have experienced bigger cuts to LA funding – both overall and as a result of CTS localisation – than less deprived ones. After adjusting for the differences associated with the size of the funding cut, the association between the level of deprivation of a council and its probability of introducing a minimum payment is no longer statistically significant.

LA funding

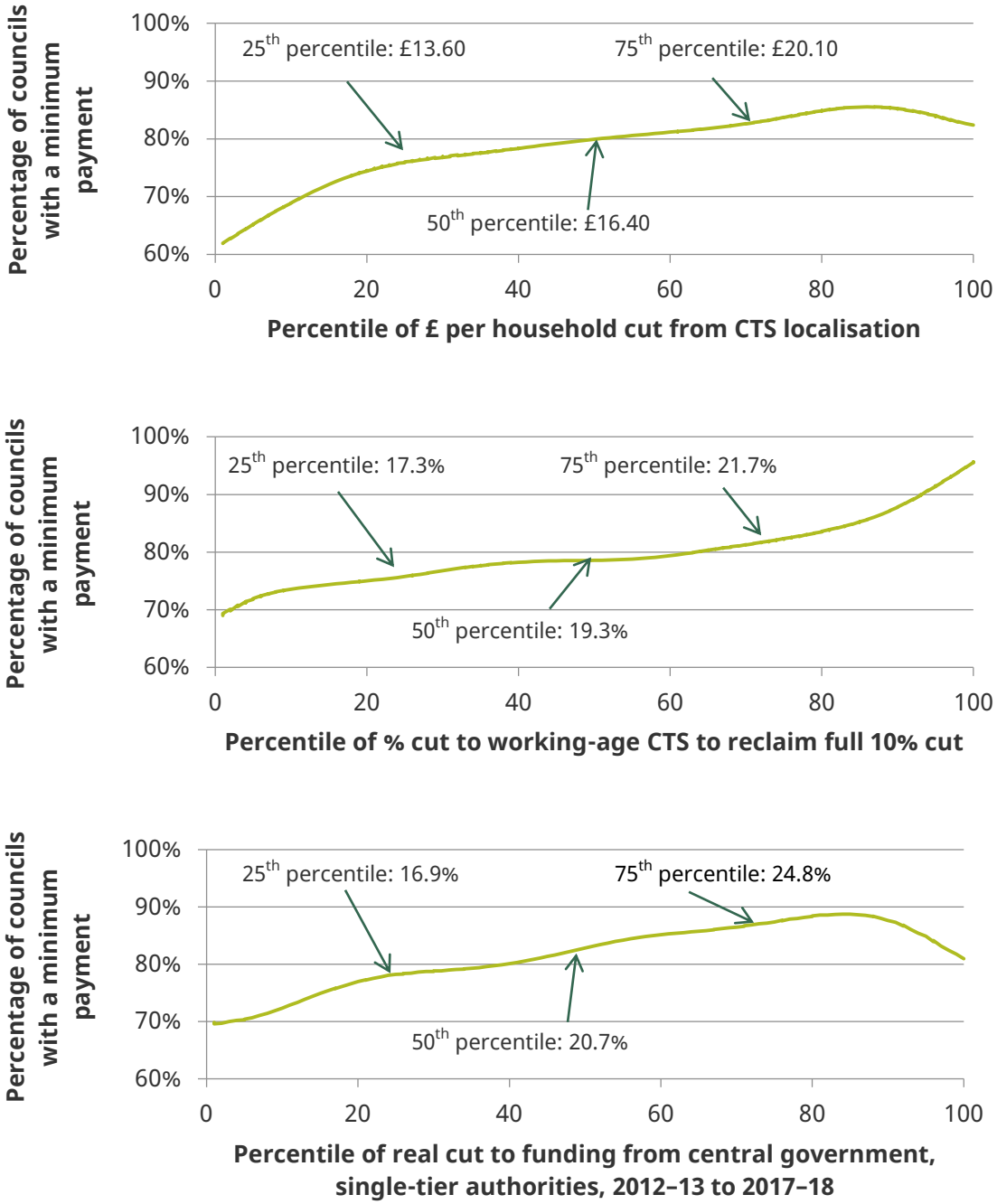
When CTS was localised in 2013, LAs were given grants 10% smaller than what would have been spent by central government on CTB in their area. LAs could spend more or less than that grant on their own CTS scheme, but were required to protect pensioners. In subsequent years, this grant to LAs was not separated out, but simply rolled into central government's overall grant to LAs – which was steadily cut. The funding available for CTS, like the funding available for LAs' other activities, depended on their overall financial position.

Figure 2.12 shows the relationship between three different measures of changes to LA funding and the probability that a council has introduced a minimum payment by 2018.

The first two panels show different measures of the size of funding cut that LAs experienced in 2013–14 as a result of the localisation of CTS.

The first measure – the cut in funding per household in the LA – is the size of the total cash loss in funding (i.e. 10% of the cost of CTB) per household. This will be biggest for those LAs that had the highest spending on CTB relative to their population.

Figure 2.12. Relationship between measures of cuts to LA funding and probability of having a minimum payment, 2018–19



Note: Non-parametric (lowess) regressions.

Source: Authors' calculations.

The second measure – the percentage cut to working-age CTS to reclaim the full 10% cut – is the cut to working-age CTS spending that would be necessary to reduce total CTB spending by 10% (and therefore cover CTS spending entirely with the CTS grant from central government in 2013–14). This measure of cut will be higher for councils whose CTB spending was disproportionately on pensioner claimants.

Both of these measures are positively correlated with introducing a minimum payment. In both cases, an LA at the 25th percentile has around a 75% chance of having a minimum payment, while an LA at the 75th percentile has an almost 85% chance.

The final measure in Figure 2.12 relates to the real change in total LA funding from central government between 2012 and 2017.[16] Again, those authorities that have experienced the largest cuts are more likely to have introduced a minimum payment.

However, councils that experienced cuts under one measure of funding also tended to experience cuts on the other measures, and they also tended to have certain other characteristics that may affect scheme choice. After controlling for all of these measures of funding – and other characteristics – simultaneously in a multivariate regression, we find a statistically significant association between (both measures of) the size of the funding cut in the LA due to CTS localisation and minimum payments. Specifically, we find that the cuts required to working-age CTS to recoup the 10% funding cut is a good predictor of whether or not an LA introduced a minimum payment at all, while the annual cut per household from CTS is a good predictor of introducing larger minimum payments. In contrast, we find that councils experiencing similar funding cuts from CTS localisation, but different funding cuts in total, introduced minimum payments to approximately equal extents.

LAs thus appear to be much more responsive in their choices of CTS scheme to the size of cut specifically associated with CTS, than to cuts to funding in general. This suggests a potentially powerful labelling effect in LAs' decision-making: they are more likely to cut CTS if they receive a funding cut that is specifically labelled as a 'CTS funding cut', even though in principle they can decide how to allocate their budgets between CTS and other spending priorities.

LA structure

Of the 326 English billing authorities, 125 are single-tier authorities (unitary authorities, metropolitan districts or London boroughs, depending on the location), and the remaining 201 are district councils which sit under county councils in a two-tier structure that operates in the shires. While both types of council are responsible for administering council tax and CTS, their other responsibilities differ. In particular, single-tier authorities have responsibility for providing services such as social care and transport, which are the responsibility of county councils in two-tier authorities. Given that district councils collect council tax largely on behalf of higher-spending county councils, we might expect them to design their CTS systems differently from single-tier authorities that gain the full benefit of any higher revenues. District councils also tend to be smaller, which might affect their capacity and decision-making, and to cover different (typically more rural) types of area.

[16] Here we restrict our attention to single-tier authorities; we do not find a relationship between real change in total LA funding from central government and scheme choices for district councils.

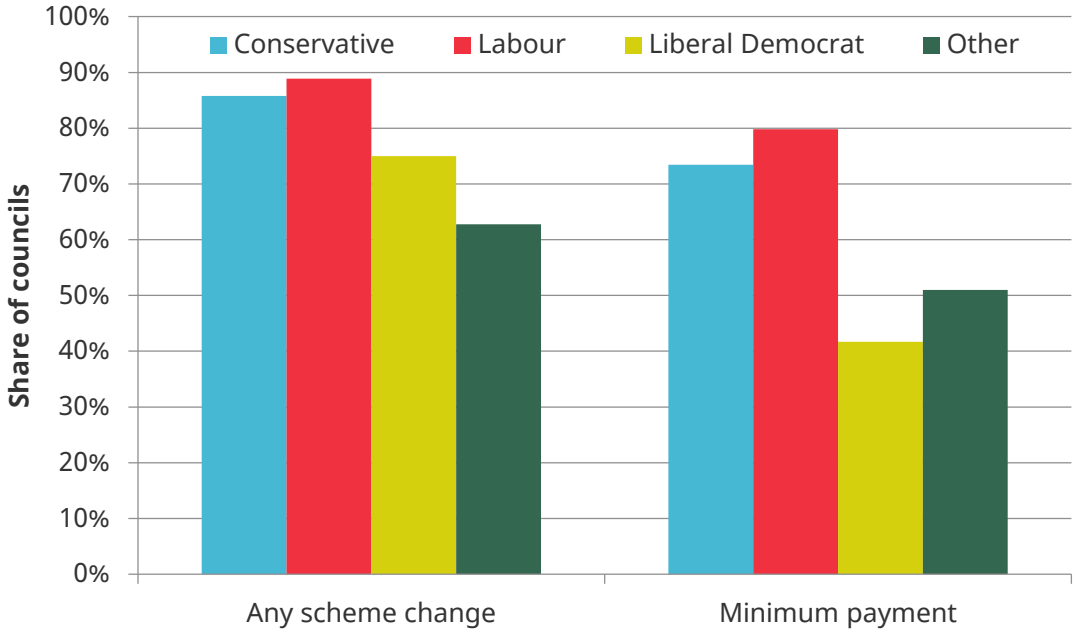
Our regression analysis shows that, controlling for other characteristics, district councils are much (17ppts) less likely to have made any change to their CTS scheme. But this is not because they were less likely to introduce minimum payments; rather, they were much less likely to introduce more minor changes such as reducing the taper rate or asset limit, capping entitlement at a certain band or introducing a 'minimum income floor' for the self-employed.

Council politics

We also find significant differences based on the political control of the LA, though here the story is more nuanced. Doing a simple comparison between councils of different political stripes shows that in 2013–14 Labour councils were more likely to make scheme changes, and more likely to introduce a minimum payment, than Conservative councils. By 2018–19, Labour councils were slightly more likely to have made some scheme change, while Conservative councils were more likely to have introduced minimum payments.

Again though, those are simply raw associations, and Labour and Conservative councils tend to differ in a number of relevant ways besides just political control – for example, on average Labour councils are poorer, experienced larger funding cuts (both overall and from the localisation of CTS) and are less likely to be district councils. It turns out that controlling for these other differences between Labour and Conservative councils matters a lot: once we compare Labour and Conservative councils that are similar with respect to these (and other) characteristics, it is the Labour councils that are around 15 percentage points less likely to have introduced a minimum payment than Conservative councils.

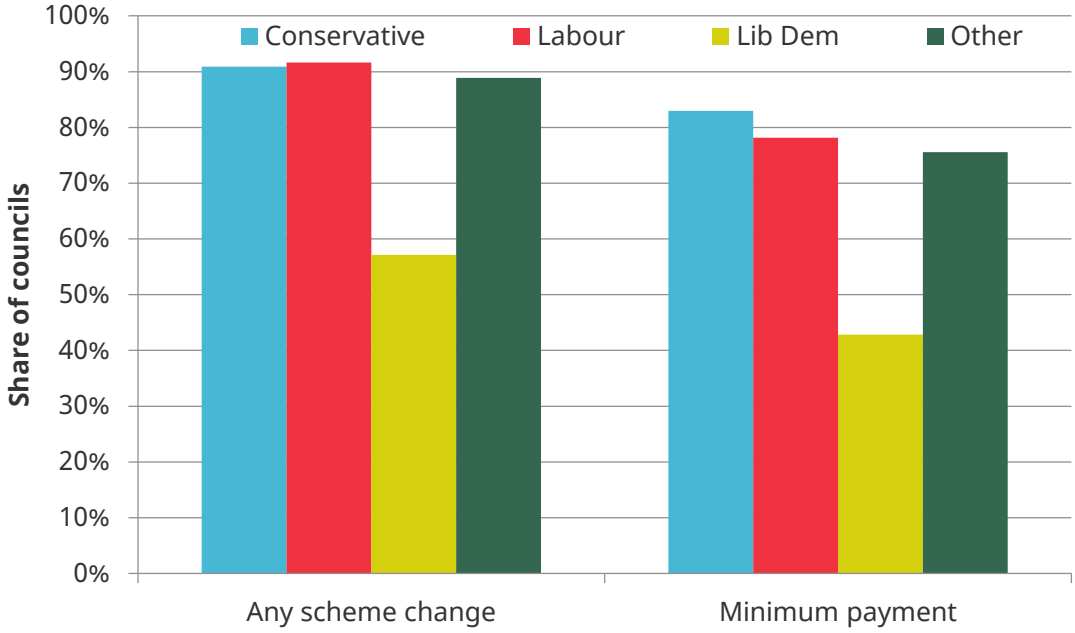
Figure 2.13. CTS scheme choices: variation by political control, 2013



Note: 'Other' includes principally councils with no overall control, as well as independent councils.

Source: Authors' calculations based on data from entitledto and NPI.

Figure 2.14. CTS scheme choices: variation by political control, 2018



Note: 'Other' includes principally councils with no overall control, as well as independent councils.

Source: Authors' calculations based on data from entitledto and NPI.

We also find that councils under no overall control (the vast majority of councils in the 'other' category) are, all else equal, less likely to have made any change to their scheme. It is possible that these councils find it harder to agree on changes to CTS schemes.

3. Consequences for household incomes and work incentives

Key findings

- **The 3.6 million working-age households in England who would have been entitled to some support under the old CTB system are now entitled to 24% (£196 a year) less on average – 1.0% of their income – than if the generosity of the system had been maintained at its pre-2013 level. This amounts to a £706 million reduction in entitlements: £286 million – about 70% – more than the cut made by councils in the first year of localisation in 2013–14.**

- **About half of the additional cut since 2013–14 is the result of councils mirroring cuts that central government has made to the wider benefits system, such as the benefits freeze, in their CTS schemes. Excluding those changes – which might plausibly have occurred as a knock-on effect of those wider benefits changes even if CTS had not been localised – the other changes introduced by LAs amount to a 20% cut to support, up from 14% in 2013–14.**

- **There are now 1.4 million households who have to pay some council tax who would not have had to pay it if the generosity of the pre-2013 system had been maintained. Of these, the vast majority (1.3 million) have been brought into the council tax net by LAs' decisions to go beyond just mirroring other national benefits cuts in their CTS schemes (most significantly by the introduction of minimum payments).**

- **A further 1.6 million households are billed for more than they otherwise would have been – around one-quarter (0.4 million) due to the mirroring of national benefits changes in CTS schemes and the remaining three-quarters (1.2 million) due to the additional cuts to CTS schemes that councils have made.**

- **Overall, only around 500,000 – barely a quarter – of the households that would have had their council tax bills entirely covered by the old CTS system still have it fully covered by CTS. The other three-quarters have to pay at least some council tax in 2018–19; 63% must pay more than £100, a third must pay more than £200 and almost one in ten must pay more than £300.**

- **Unsurprisingly, the bulk of the savings has come from low-income households, who received most support to start with. But the biggest percentage cuts to support have been felt by working claimants with children.**

- **Low-income households are more likely to have seen their CTS cut if they live in a more deprived area. This is because councils in poorer areas received bigger funding cuts from central government and, as a result, were more likely to cut CTS. Households among the lowest-income fifth in England had a 60% chance of seeing their entitlement reduced if they also lived in one of the most deprived fifth of LAs, but only a 46% chance if they lived in one of the least deprived fifth of LAs.**

- **However, because council tax levels tend to be higher in more affluent areas, those poor households in affluent areas who *have* seen a cut to CTS have tended to receive a larger additional council tax bill (losing £323 a year on average) than those in poorer areas (£229).**

- **Cutting the support that households can get if they have low income has given them slightly stronger incentives to work and to earn more. Because the generosity of CTS has been reduced further since it was localised in 2013, the impact on work incentives has also grown.**

This chapter shows how the evolving scheme choices described in the previous chapter have affected household incomes and individuals' work incentives.

The analysis uses the IFS tax and benefit microsimulation model, TAXBEN, in combination with a representative sample of the British population from the Family Resources Survey (FRS).[17] For each household in the sample, we compare net incomes and financial work incentives under an unreformed CTB system and under the CTS systems actually operating in their LA in different years.[18]

An important caveat to our findings is that we capture changes to CTS *entitlement*; this ignores the significant non-take-up of CTS. The Department for Work and Pensions (DWP) estimated that only between 62% and 69% of those who were entitled to CTB in 2009–10 took up their entitlements.[19] It is also clear from DWP's statistics that those with only small entitlements to CTB were the least likely to claim. Since those with small entitlements are likely to receive the largest percentage cut in entitlement under many of the changes that LAs have introduced (e.g. in the cases of reductions in maximum entitlements, band caps

[17] Department for Work and Pensions, National Centre for Social Research and Office for National Statistics Social and Vital Statistics Division, 2017. The FRS is an annual cross-sectional household survey. Each year's data contain between 17,000 and 24,000 households, which are then weighted to be more fully representative of the Great Britain population. TAXBEN is described in Waters (2017).

[18] Based on the information on CTS schemes kindly provided to us by entitledto and NPI, our modelling of the schemes is quite detailed and precise. However, there are a few features that we do not model: discretionary hardship funds, changes to non-dependant deductions, changes that affect only new claimants, and the means tests based on income bands that a handful of LAs have now introduced. Our modelling also ignores the roll-out of universal credit, which has knock-on effects on CTS entitlements and will be critical to analysing CTS in future, but affects relatively few people during the period we analyse owing to repeated delays in the roll-out process.

[19] See Department for Work and Pensions (2012). The government has not published estimates of take-up of CTB/CTS for years after 2009–10.

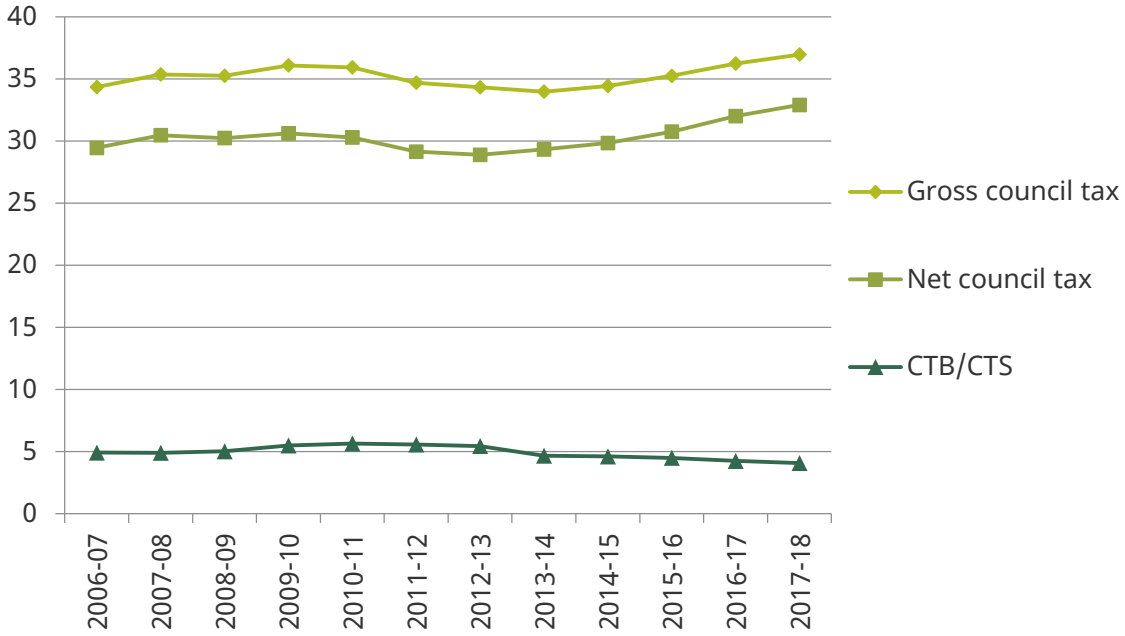
and increases in the taper rate), the percentage reduction in CTS entitlement is likely to be greater than the percentage reduction in spending on CTS.

3.1 Total council tax and council tax support over time

Figure 3.1 shows how council tax revenue and CTS spending across Great Britain have evolved over time. In 2017–18, CTS reduced council tax bills by £4.1 billion in aggregate, significantly less than the £5.4 billion spent on CTB in 2012–13. In fact, CTB/CTS spending has been on a downward trend since 2010–11, when it totalled £5.6 billion. About three-fifths of this roughly 25% decline in CTS spending is explained by a fall in the number of recipients. As Figure 3.2a shows, the CTB/CTS caseload rose sharply between 2008–09 and 2010–11, but then fell by 17% between 2012–13 and 2017–18. In 2017–18, 4.9 million households (4.1 million in England) claimed CTS.

This pattern of declining caseload broadly matches the timing of a fall and recovery in employment and household incomes following the 2008 financial crisis. Figure 3.2a shows that the number of households that we estimate were entitled to CTS using the IFS microsimulation model TAXBEN, like the number of recipients, has fallen considerably since 2012, which suggests that declining caseloads are being driven by fewer households being entitled to CTS rather than a decline in take-up of support.[20] The figure also shows that self-reported receipt of CTS in the Family Resources Survey – the same data we use to

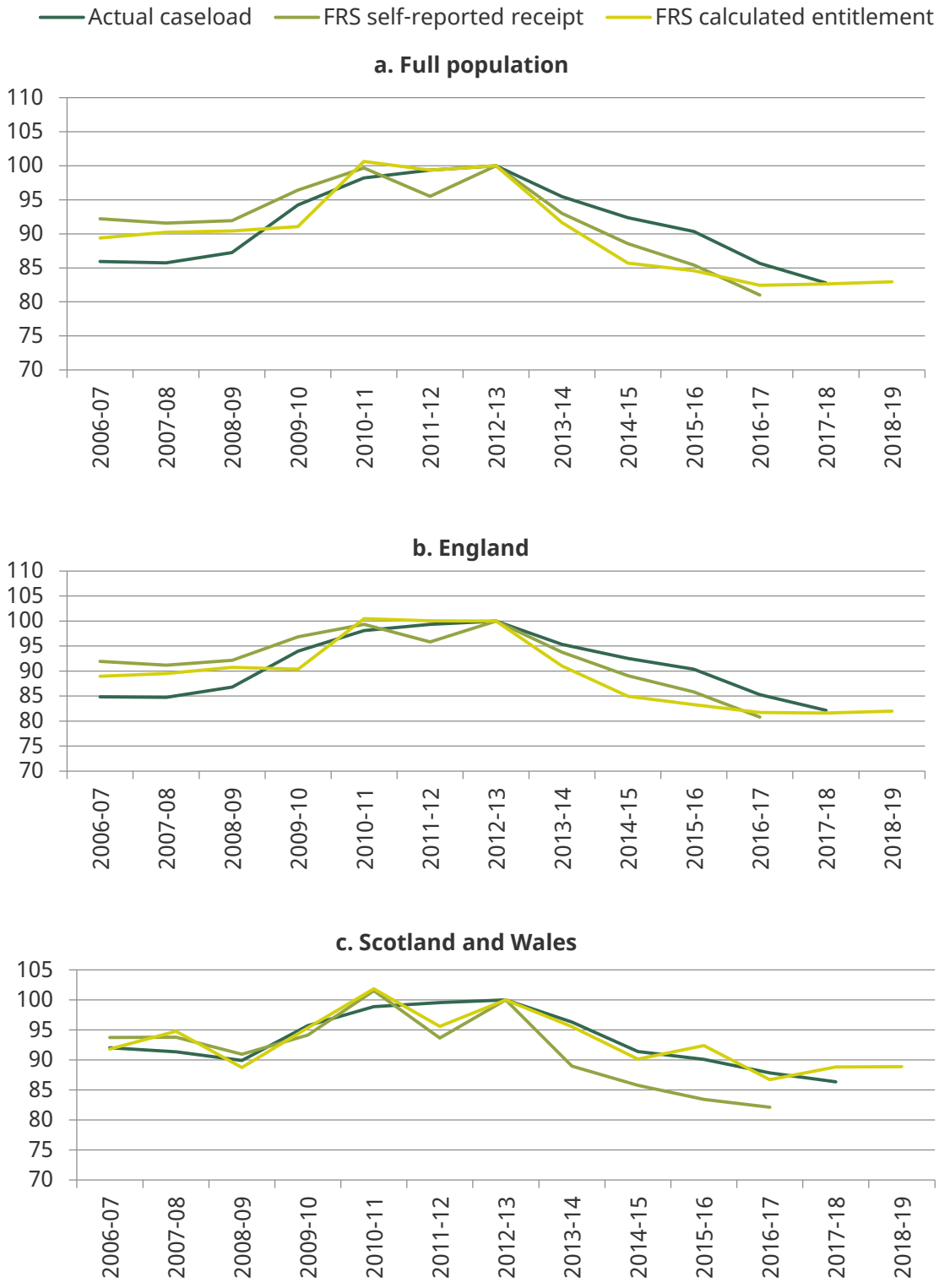
Figure 3.1. Gross council tax revenue, net council tax revenue and aggregate CTB/CTS in Great Britain, £ billion (2018–19 prices)

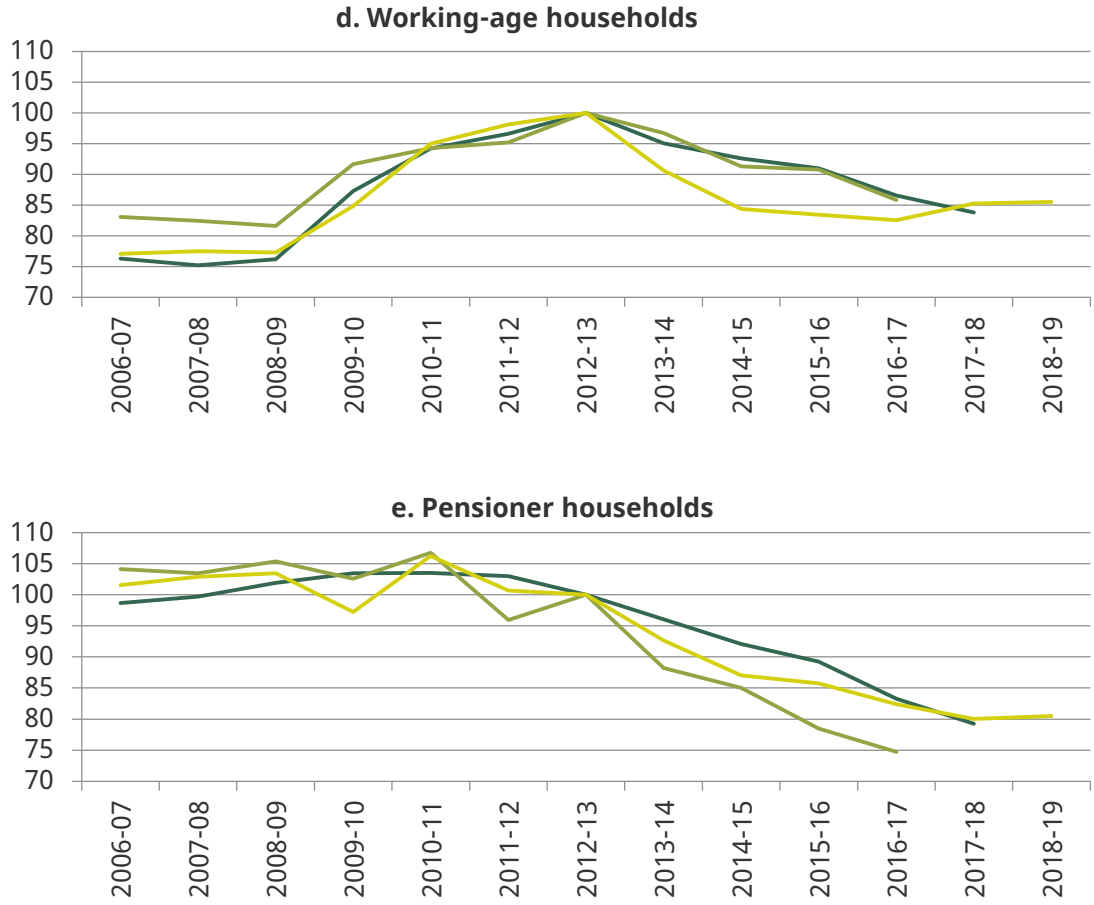


Source: Authors' calculations based on DWP administrative statistics up to 2012–13 and MHCLG, Scottish and Welsh government data thereafter. Deflated to 2018–19 prices using September CPI.

[20] The number we estimate to be entitled will not match perfectly the number of households receiving CTS, as some entitled households do not take up the support while random sampling error, survey response error and modelling error may mean that we model some households to be entitled when they are not (or vice versa).

Figure 3.2. CTB/CTS caseloads for different subgroups (2012 = 100)





Note: FRS receipt based on whether the household reports receiving CTB/CTS. Entitlement based on whether we estimate that the household is entitled to a positive amount of CTB/CTS using the IFS tax and benefit model, TAXBEN, run on the same FRS data.

Source: Administrative caseload statistics from DWP up to 2012–13 and MHCLG, Scottish and Welsh government data thereafter. Authors' calculations using the Family Resources Survey and TAXBEN.

model entitlement – follows a similar pattern, reinforcing this interpretation. Furthermore, similar trends of declining entitlement and receipt are visible in Scotland and Wales as well as England (Figures 3.2b and c) and for pensioners as well as working-age households (Figures 3.2d and e), suggesting that the decline in caseload is primarily driven by wider economic conditions rather than by the CTS reforms introduced for working-age households in England.

3.2 Aggregate and average losses over time

With that background in place, we can now look at the changes to working-age CTS that have been introduced in England since 2013.

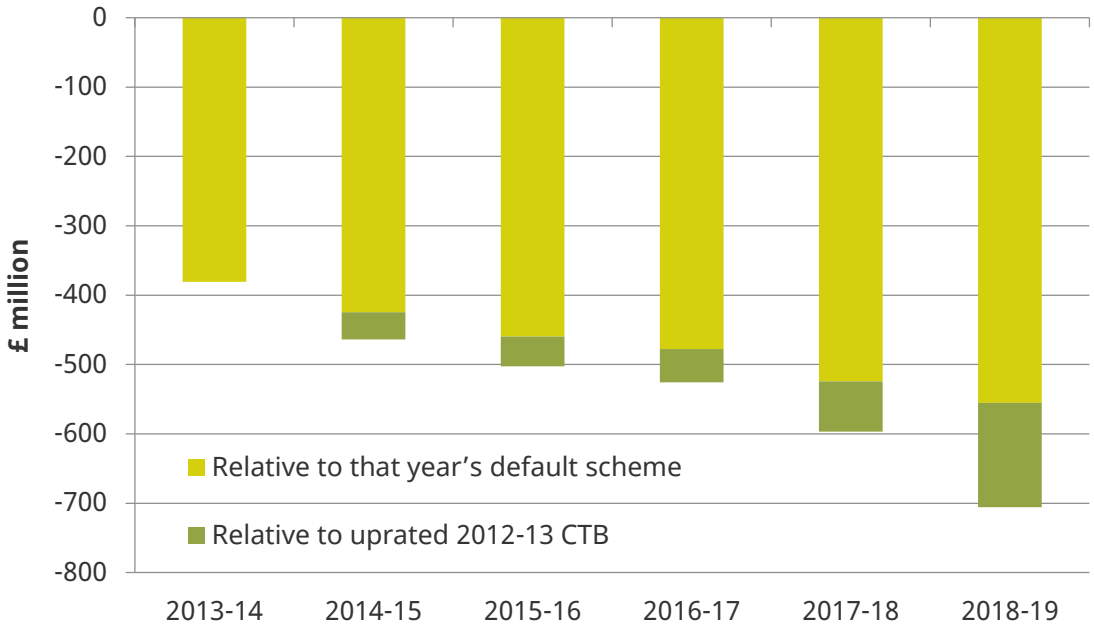
Even if all LAs had stuck with the default CTS scheme for working-age households, that would still have represented a significant real-terms cut in entitlements relative to the pre-2013 national CTB scheme. That is because the national benefits system has been subject to significant cuts, which by default would be mirrored in CTS. Most notably, this includes three years of the four-year freeze to many benefit rates (with a further year of freezes in

April 2019, and preceded by three years of benefits increasing by only 1% per year), which in CTS affects the level of family income at which entitlement starts to be withdrawn. LAs were not obliged to follow central government's lead in making those changes, but most have done so. The Scottish and Welsh governments have done this too, meaning that claimants in Scotland and Wales have also experienced cuts to their CTS entitlement despite keeping centralised schemes (though the Scottish government has also made CTS slightly more generous in some respects, notably increasing the per-child allowance in the income that families can receive before support is withdrawn).

In Figure 3.3, we show the aggregate cut to working-age CTS entitlements in England from all scheme changes since CTS was localised, separating out the part that would have arisen if all LAs had applied the default CTS scheme to all claimants and the part that reflects each LA's reforms relative to that default. As we might expect from the analysis of scheme changes in Chapter 2, the biggest cuts were those introduced in the first year of the schemes, 2013–14, which we estimate increased households' net council tax liabilities by £381 million (in today's prices), but the cuts have become steadily larger over time. In 2018–19, households are entitled to £706 million less support than if the old CTB scheme had simply been uprated with inflation, and £555 million less than if all LAs were applying the default scheme.

The £381 million of cuts made by the original scheme choices in 2013–14 were dominated by the introduction of minimum payments, which accounted for 86% of the reduction in entitlements. That fraction remains very similar (83%) when we look at the £555 million of cuts relative to the default scheme in 2018–19. But minimum payments account for a rather smaller share (65%) of the £706 million of cuts in 2018–19 relative to continuing the old CTB scheme. Alongside minimum payments and the other smaller reforms that councils have explicitly introduced, cuts to the default CTS scheme relative to the previous CTB regime have become an increasingly significant part of the reduction in generosity of

Figure 3.3. Aggregate cut to working-age CTS entitlement in England



Source: Authors' calculations using TAXBEN run on data from the Family Resources Survey.

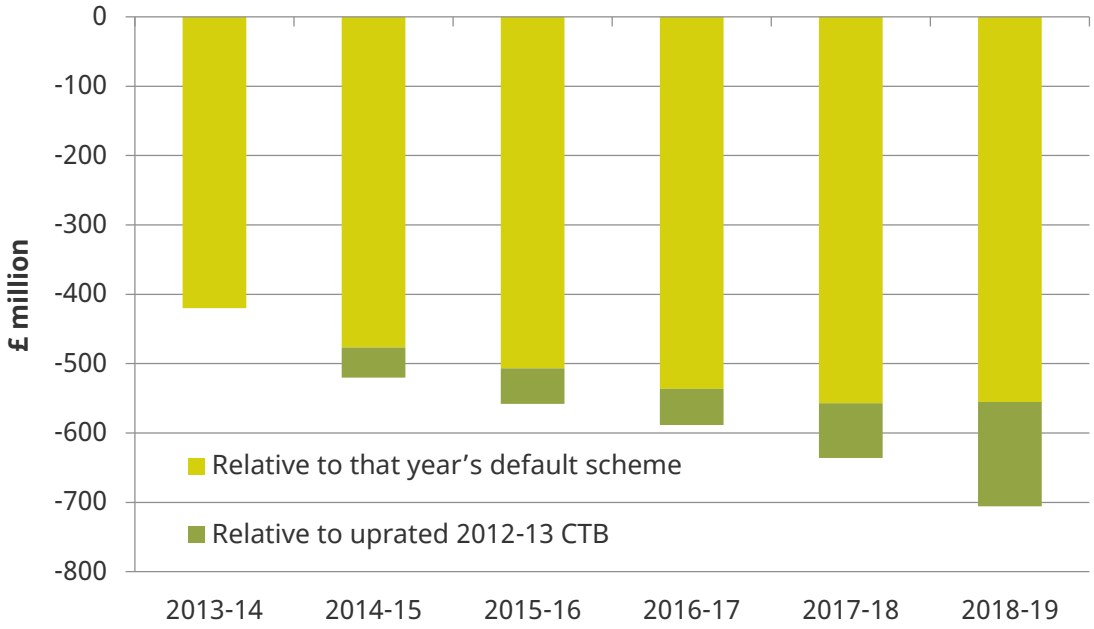
CTS. The reforms introduced in 2013–14 amounted to a 14% reduction in the generosity of support; by 2018–19, this had increased to 20% if we exclude changes to the default scheme (i.e. cuts mirroring those to national benefits), but 24% if we include them.

By far the biggest cut to the default scheme happened in April 2018. This was when significantly higher inflation meant that a cash-terms freeze corresponded to a substantial real-terms cut. For LAs, following central government's lead meant (broadly speaking) a 3% real-terms cut in the amount CTS claimants could earn before their support started to be withdrawn. This significantly reduced the CTS entitlements of working families.

Some of the change in aggregate entitlements over time is due to changes in the size, composition and characteristics (e.g. employment rate and earnings) of the population. In order to isolate the effects of changing CTS schemes, in the rest of this chapter we model the effects of applying different years' CTS schemes to a given population. Specifically, we uprate each year's CTS schemes to 2018–19 prices and show the implications of applying them to the 2018–19 population.[21]

Figure 3.4 shows the results for aggregate entitlements. If applied to the 2018–19 population, the (uprated) 2013–14 schemes would have implied cuts of £420 million relative to an (uprated) national CTB scheme, whereas the actual 2018–19 schemes imply cuts of £706 million as above – an increase of £286 million, or 68%. Cuts to working-age entitlements relative to the default scheme have slowed and then stopped growing in the last couple of years, but the freezes in applicable amounts have meant that the generosity of support has continued to decline.

Figure 3.4. Aggregate cut to 2018–19 population's annual working-age CTS entitlement in England from different years' CTS systems



Source: Authors' calculations using TAXBEN run on data from the Family Resources Survey.

[21] The latest household survey data available are for 2016–17, so we simulate a 2018–19 population by uprating the financial characteristics of 2016–17 households appropriately (earnings in line with average earnings growth, etc.). Waters (2017) describes this and other aspects of our tax and benefit modelling methodology.

The £706 million cut to CTS shown in Figure 3.3 (and Figure 3.4) represents a 3.8% rise in the net council tax liabilities of working-age households in England. The 3.6 million working-age households in England who would have been entitled to some support under the old CTB system were entitled to an average of £196 less support, or 1.0% of their net household income, under the 2018–19 system than they would have been had CTB remained in place unreformed. Among the 3.0 million who actually saw their entitlements reduced, the cut was £240 on average, or 1.2% of their income.

There are now 1.4 million households who have to pay some council tax who would not have had to pay it if the generosity of the pre-2013 system had been maintained (or 1.3 million who would not have had to pay it under the default scheme). A further 1.6 million (or 1.2 million respectively) are billed for more than they otherwise would have been.

The next section examines how the size of these losses varied across working-age households in England. Given the trend of gradually increasing cuts shown above, for ease of exposition in the rest of this chapter we compare just the 2013–14 and 2018–19 schemes with the national CTB scheme in place in 2012–13 (all uprated and applied to the 2018–19 population).[22]

3.3 Distributional effects

Figure 3.5 focuses on working-age households in England that would, based on their circumstances, have been entitled to full CTS (and therefore would have had no council tax bill to pay) under the (uprated) 2012–13 CTB scheme. Of this group of 1.9 million households, only 500,000 (27%) are still entitled to full CTS in 2018–19, of whom two-thirds live in LAs that have not introduced minimum payments and the remaining third have been exempted from the minimum payment by virtue of belonging to a group deemed vulnerable by their LA. (Similarly, the 500,000 who still have no bill to pay represent 28% of the 1.8 million who would have been entitled to full CTS in 2018–19 under the default scheme.)

The other 73% have to pay at least some council tax in 2018–19; 63% must pay more than £100, a third must pay more than £200 and almost one in ten must pay more than £300. This stands in stark contrast to the position if LAs had kept their initial (2013–14) scheme choices in place: only 64% would then have had to pay some council tax, only 43% would owe more than £100 and fewer than 4% would have to pay more than £300.

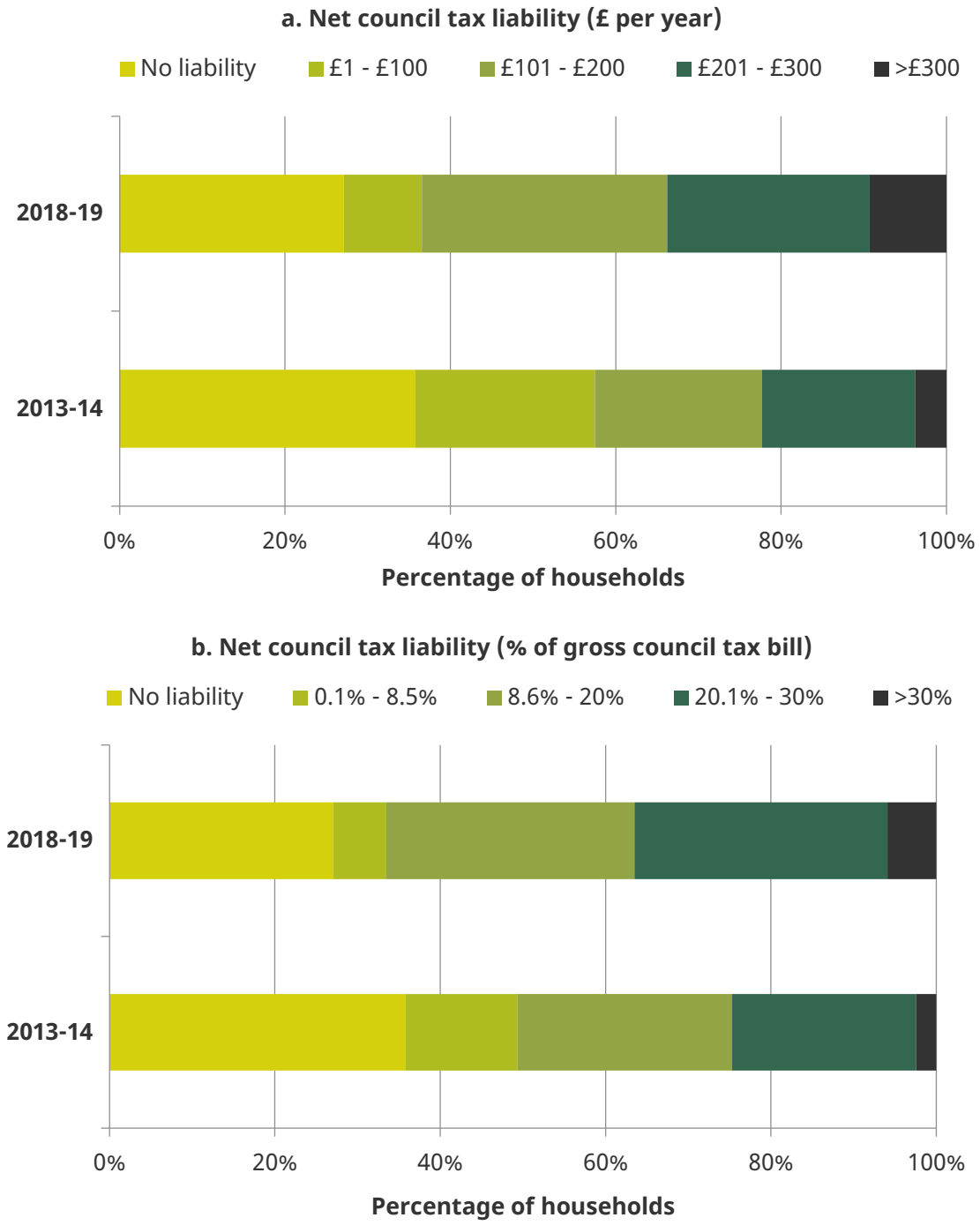
Figure 3.5b shows the equivalent pattern for the share of their gross council tax liability that these households must pay. Two-thirds of those who would have had no bill to pay under CTB must now pay more than 8.5% of their gross council tax (compared with barely half of them under the 2013–14 schemes, when many more LAs had minimum payments of exactly 8.5% as well as fewer having any minimum payment at all). 37% (up from 25%) must pay more than a fifth of their council tax and 6% (rather than 2.5%) must pay more than 30% of it.

Figure 3.6 shows that the cuts introduced in 2013–14 and those introduced by 2018–19 both hurt predominantly lower-income households – hardly surprising given that low-

[22] Results for intervening years are available from the authors on request.

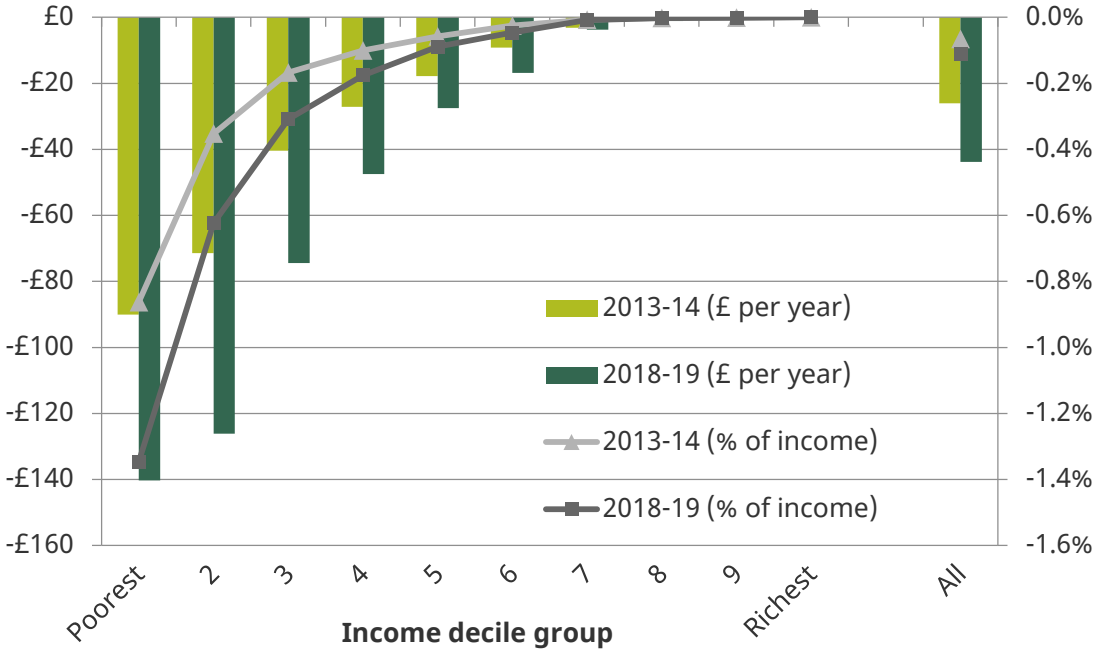
income households are much more likely to be entitled to CTS. It is not immediately obvious from the figure whether the cuts were disproportionately felt by lower-income CTS recipients, or whether more recent cuts have been more or less focused on the lowest-income households than the cuts made in 2013–14. To show that, Figure 3.7 gives the share of the cuts coming from each income decile under the 2013–14 and 2018–19 schemes, along with what those shares would have been if all CTB entitlements had been cut by the same percentage.

Figure 3.5. Net council tax liabilities under 2018–19 and (uprated) 2013–14 schemes, among working-age households in England that would have been entitled to full CTB



Source: Authors' calculations using TAXBEN run on data from the Family Resources Survey.

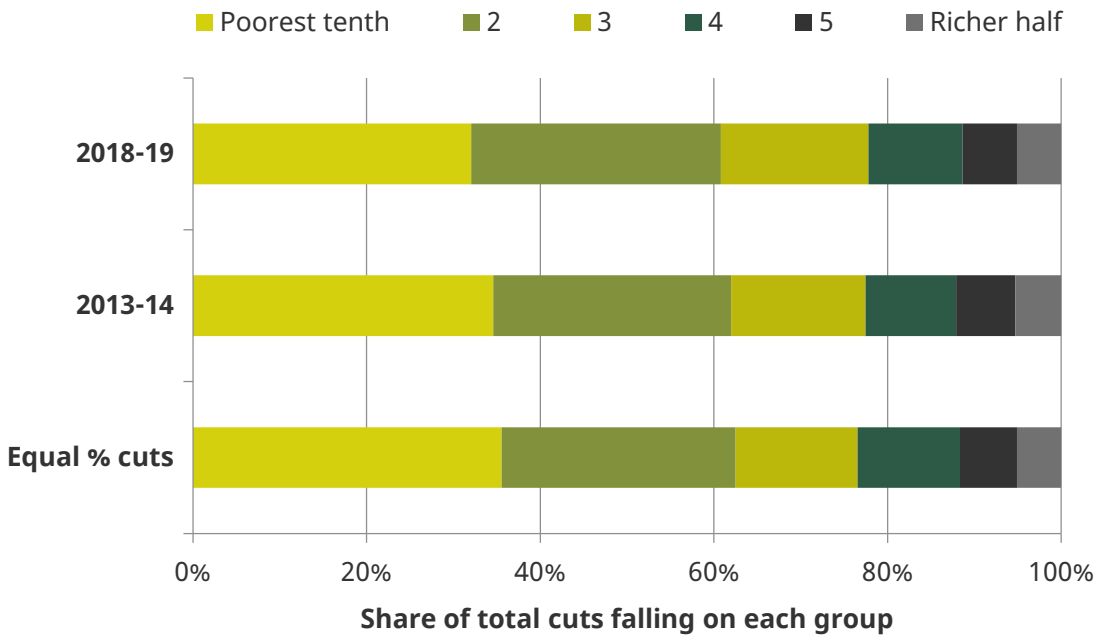
Figure 3.6. Change to average 2018–19 CTS entitlement among working-age households in England from 2013–14 and 2018–19 CTS schemes



Note: Income decile groups are derived by dividing all working-age households in England into 10 equal-sized groups according to income adjusted for household size using the modified OECD equivalence scale.

Source: Authors' calculations using TAXBEN run on data from the Family Resources Survey.

Figure 3.7. 2018 income decile groups' shares of cuts from CTS schemes



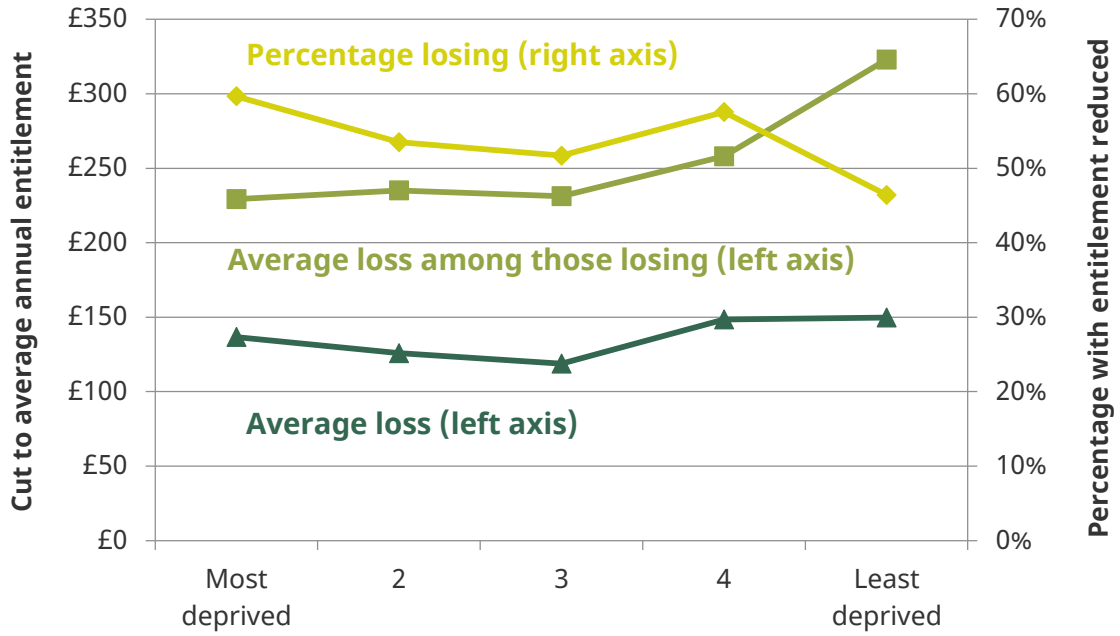
Note: Working-age households in England only. Income decile groups are derived by dividing all working-age households in England into 10 equal-sized groups according to income adjusted for household size using the modified OECD equivalence scale.

Source: Authors' calculations using TAXBEN run on data from the Family Resources Survey.

The differences between the three bars are tiny. In essence, both the 2013–14 and the 2018–19 schemes have spread the cuts across income groups broadly in proportion to their prior entitlement. Under the 2012–13 national scheme, the 2013–14 local schemes and the 2018–19 local schemes alike, it has remained true that 36% of working-age households' entitlements go to the lowest-income tenth of those households, 63% to the lowest-income fifth and 95% to the lower-income half.

Not all of those at a given income level lose the same amount, of course. For example, in Chapter 2 we saw that the least deprived LAs were less likely to introduce minimum payments. Accordingly, Figure 3.8 shows that households among the lowest-income fifth in England had a 60% chance of seeing their entitlement reduced if they also lived in one of the most deprived fifth of LAs in the country, but only a 46% chance of seeing their entitlement reduced if they lived in one of the least deprived fifth of LAs. In both cases, those on low incomes who do lose face a cut in CTS equivalent to a similar proportion of their gross council tax bill, on average (about 22%); but since council tax bills are higher in better-off areas, this equates to a bigger cash-terms cut to CTS among losers in the least deprived areas (£323 on average) than in the most deprived areas (£229) – shown by the mid-green line in Figure 3.8. Thus low-income households are more likely to have their CTS cut if they live in a more deprived area, but the size of the cut is likely to be smaller. As it happens, these two effects roughly offset each other, so the bottom (dark green) line of the figure shows little difference between richer and poorer LAs in the overall average loss for the low-income households that live there.

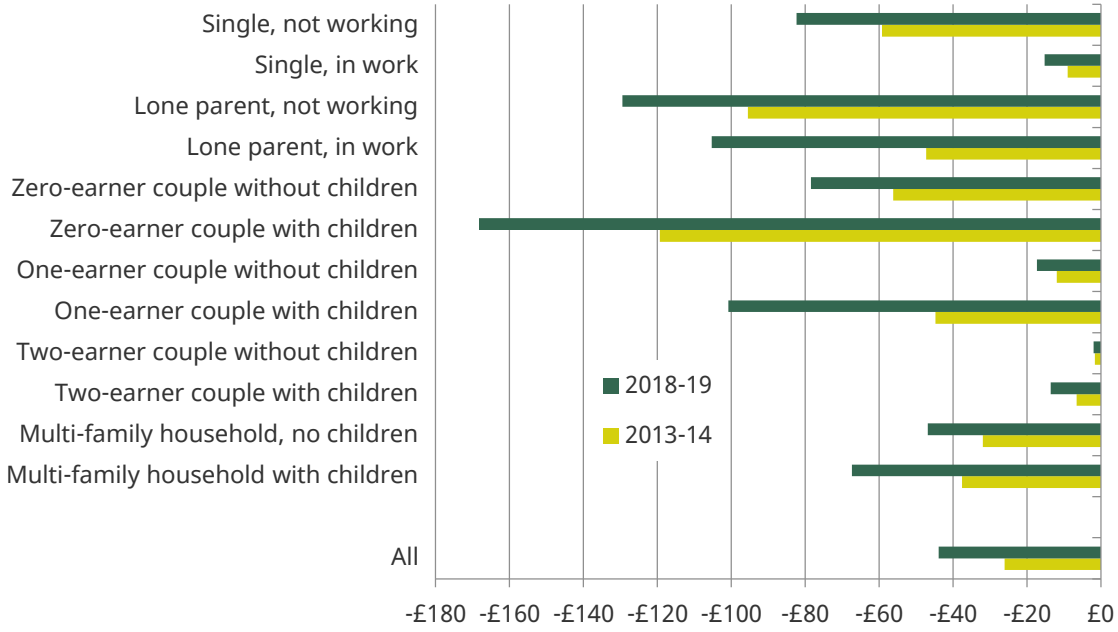
Figure 3.8. Losses from the 2018–19 CTS schemes (relative to an uprated 2012–13 CTB scheme) among the lowest-income fifth of working-age households in England, by deprivation quintile of LA



Note: Income quintile groups are derived by dividing all working-age households in England into five equal-sized groups according to income adjusted for household size using the modified OECD equivalence scale. LA deprivation quintiles based on the Index of Multiple Deprivation.

Source: Authors' calculations using TAXBEN run on data from the Family Resources Survey.

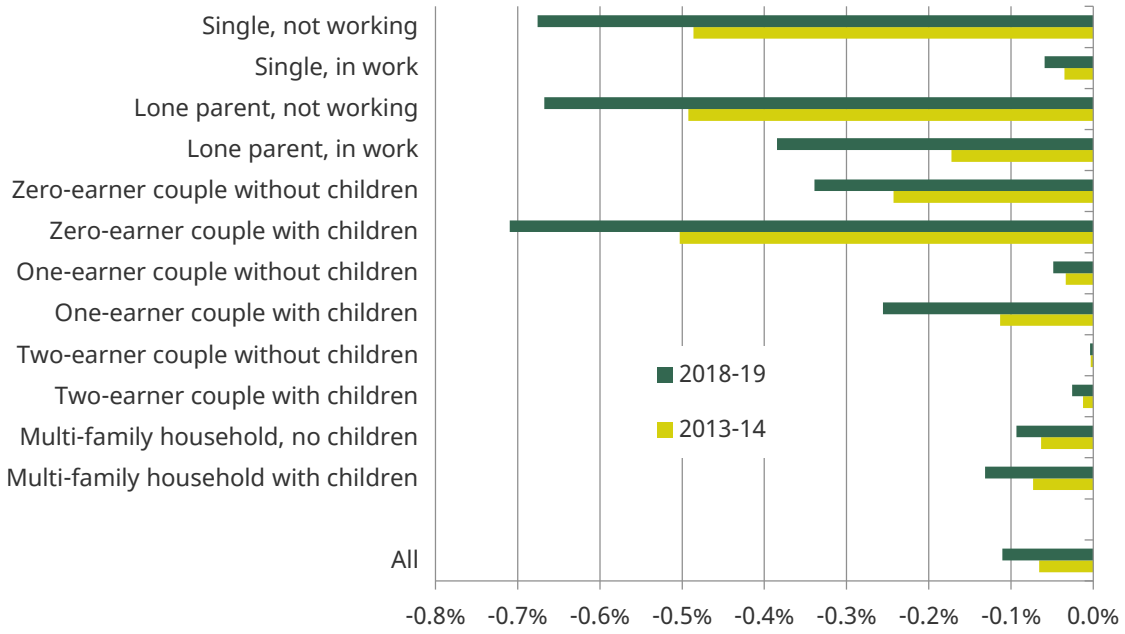
Figure 3.9. Average cash reduction in 2018–19 entitlement by household type under 2013–14 and 2018–19 CTS schemes



Note: Working-age households in England only.

Source: Authors' calculations using TAXBEN run on data from the Family Resources Survey.

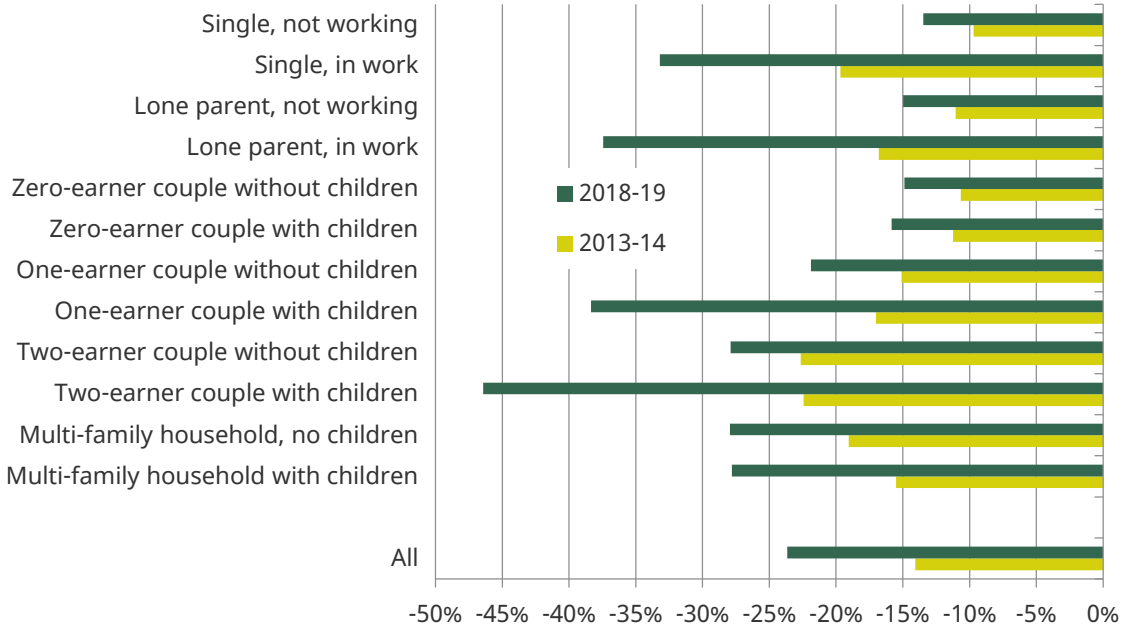
Figure 3.10. Reduction in 2018–19 entitlement as a percentage of income by household type under 2013–14 and 2018–19 CTS schemes



Note: Working-age households in England only.

Source: Authors' calculations using TAXBEN run on data from the Family Resources Survey.

Figure 3.11. Percentage reduction in 2018–19 entitlements by household type under 2018–19 and 2013–14 CTS schemes



Note: Working-age households in England only.

Source: Authors' calculations using TAXBEN run on data from the Family Resources Survey.

In both cash terms (Figure 3.9) and as a percentage of income (Figure 3.10), the biggest average losses have been felt by non-working families with children, with non-working single adults, working lone parents and one-earner couples with children also significant losers, whereas two-earner couples and working people without children have lost much less. To a large extent, this reflects which groups were more or less likely to receive any support in the first place. The groups that have seen the biggest percentage cut to their entitlement have been working households with children, whereas non-working households have seen a smaller percentage cut (Figure 3.11), and as a result now account for a bigger share of the total cost of CTS. These trends were all present in the 2013–14 cuts and have all been accentuated by subsequent further cuts.

3.4 Effects on work incentives

We also use TAXBEN to calculate various summary measures of financial work incentives for those in paid work under an unreformed system and under the CTS systems that LAs have introduced. We focus on two measures of individuals' financial incentives to do paid work at all (as opposed to not working) – namely, participation tax rates (PTRs, which show the percentage of earnings lost in either higher tax payments or lower benefit entitlements when an individual starts work) and replacement rates (RRs, which show an individual's out-of-work income as a percentage of their in-work income). We also examine the effects of reforms on these individuals' incentives to increase their earnings slightly, as measured by effective marginal tax rates (EMTRs, which show the percentage of a small increase in earnings that is lost in either taxes or withdrawn benefit entitlements). With all of these measures, higher numbers correspond to weaker incentives.

We do not assess in this report how much different groups are likely to *respond* to changes in work incentives; there is good evidence that incentives do affect work decisions, but also that some groups (e.g. mothers of school-age children and those around retirement age) are much more responsive to financial incentives than others, and some with severe barriers to work would find it difficult to move into work almost irrespective of the financial implications. Certainly financial incentives are only one factor among many affecting work decisions, and changes to CTS are only one of a number of changes to taxes and benefits (let alone wages) to take effect in the last five years.

Means-tested support generally weakens work incentives, as people can lose some or all of that support if they do paid work or increase their earnings. We might therefore expect cuts in means-tested support to strengthen work incentives, and that is indeed what we find. On the whole the changes are small, though they are bigger from the 2018–19 schemes than from the 2013–14 schemes, and some people see sizeable changes in incentives.

Specifically, the main results of this analysis are as follows:

- **The reforms have slightly strengthened the incentive for individuals to be in paid work, on average**. The mean PTR and the mean RR among those in paid work in working-age households were both 0.3 percentage points (ppts) lower in 2018–19 than they would have been if the old CTB system were still in place. If LAs had made no further changes after their initial 2013–14 scheme choices, then the mean PTR and RR would have been 0.2ppts lower than under CTB.

- **Most people, however, have not seen changes in these incentives**: out of 23.4 million people in paid work in working-age households in England, 16.5 million have the same PTR they would have had under CTB, because either (a) they would not be entitled to CTS whether they were in or out of work (bearing in mind that they might still have a working partner), (b) their LA has made no changes that would affect them or (c) the amount of CTS they would receive if they were not in paid work has been cut by the same cash amount as the amount they would receive if they were working.[23]

- **5.8 million have a PTR that is lower, by an average of 1.4ppts, while 1.0 million have a PTR that is higher, by an average of 1.5ppts**. Lower PTRs imply that the reforms reduce out-of-work income by more (in cash terms) than in-work income, increasing the incentive to be in paid work: typically, this happens because they earn too much to be entitled to CTS when they are in work (regardless of the reforms), while the CTS they would receive if they did not work has been cut – typically by the introduction of a minimum payment. Higher PTRs, implying that in-work income has been cut by more than out-of-work income, are perhaps more surprising. This can happen where LAs have increased the taper rate, so that increased earnings reduce entitlement more quickly; but the biggest contributor is in fact that many LAs have mirrored the central government's benefit freeze, which in the case of CTS does not affect the maximum support available but does reduce the amount that families can earn before their CTS is withdrawn.

[23] This last situation arises for those who are on the CTS taper in LAs that have introduced a reduction in the maximum amount of support payable, those who still receive the maximum amount of CTS when they are in paid work and those on the taper affected by a band cap.

- **The pattern for RRs is broadly similar to that for PTRs**, with 6.2 million people seeing a reduction averaging 1.1ppts, 0.8 million seeing an increase averaging 0.5ppts and 16.4 million seeing their RR unchanged from what it would have been under CTB. The rises and falls have similar causes, though the exact numbers are slightly different because RRs depend on the ratio of in-work and out-of-work incomes (and therefore on which has been cut more in percentage terms) whereas PTRs depend on the difference between in-work and out-of-work income (and therefore on which has been cut more in cash terms).

- **The reforms to CTS have changed relatively few workers' incentives to earn slightly more**: of the 23.4 million workers in working-age families in England, only 710,000 face a different EMTR as a result of the reforms. **For that small group, however, the changes are quite big**: 640,000 people see their EMTR fall, by an average of 9.0ppts, while 70,000 see their EMTR rise, by an average of 16.7ppts.

- Those who see a reduction in their EMTR fall into two broad categories: those who would previously have been on the taper but whose entitlements have been completely eliminated by the cuts, so they no longer have any CTS to be withdrawn; and those still on the CTS taper who live in LAs where the taper rate has been reduced – this includes situations where support has been cut by a fixed percentage across the board, as well as the three LAs (Wiltshire, Mid Sussex and Brentwood) where the taper rate has been reduced from 20% to 15%.

- Similarly, the small number who see an increase in their EMTR are either people who would previously have been earning too little to have their CTS withdrawn but are now on the taper because their LA has started withdrawing support from a lower level of income; or people on the CTS taper who live in one of the 18 LAs where the taper rate has been increased.[24]

- **The number of people seeing their EMTR rise or fall, and the average size of the changes, would all have been substantially smaller if LAs had made no further changes after their initial 2013–14 scheme choice**.[25] This is not because more LAs have changed their taper rate (or changed it by more), but because further reductions in maximum entitlement and in the point at which CTS starts to be withdrawn have brought more low earners onto the taper and floated more low-to-medium earners off the taper. The overall effect is that the reforms have left the overall average EMTR among workers in English working-age households in 2018–19 0.2ppts higher than it would have been under CTB and 0.1ppts higher than it would have been under the 2013–14 schemes.

[24] It also includes a small number of people who would previously have been entitled to second adult rebate but who move onto the main CTS taper when second adult rebate is abolished in their LA. Under the old CTB system, individuals entitled to both CTS and second adult rebate received whichever was higher. The abolition of second adult rebate means that such people receive CTS if their incomes are low enough. Remember that whereas second adult rebate does not depend on an individual's own income, CTS is means tested and so, following this change, they lose some support if they increase their income slightly.

[25] Specifically, if there had been no further changes since 2013–14, then only 340,000 workers would have had a lower EMTR than under CTB, the average reduction being 6.6ppts, and 50,000 workers would have had a higher EMTR than under CTB, the average increase being 8.2ppts.

4. Impacts of scheme choices at the local authority level

Key findings

- **Cuts to council tax support have, as some predicted, led to sizeable increases in the amount of council tax going uncollected.**
- **We estimate that about a quarter of the additional council tax liability arising from cuts to CTS is not collected in the year it is due. This is far higher than the typical rate of non-collection of council tax: around 10 times higher than the 2.5% of council tax that councils failed to collect, on average, in 2012–13, before the cuts to CTS. Of course, cuts to CTS are small relative to total council tax, so the effect on the aggregate rate of non-collection is still relatively modest – increasing it from 2.5% to 2.7% on average.**
- **These difficulties in collecting the extra tax appear to be long-lasting: we estimate that councils failed to collect a quarter of the additional liabilities created by minimum payments in 2017–18 even when the minimum payment had been in place since 2013–14.**
- **Introducing a minimum payment in an LA also caused a significant increase in the number of people in that LA contacting Citizens Advice for advice or help relating to council tax or CTS. On average, minimum payments increased these enquiries by around 15–20% in the councils concerned, primarily driven by more enquiries relating to council tax debt. Other changes to CTS schemes have not led to a statistically significant increase in enquiries to Citizens Advice.**
- **The increase in the volume of enquiries to Citizens Advice is similar for all sizes of minimum payments, suggesting that it might be requiring households to pay some council tax when they would otherwise have had no bill, rather than the size of those bills, that is leading to more queries.**

The previous chapters set out the ways in which councils have adjusted their CTS schemes. They showed that, on average, councils have reduced the generosity of these schemes to claimants and that there is substantial variation in how families are treated depending on where they live. In this chapter, we look at some of the impacts of these scheme choices at the LA level: specifically, impacts on council tax collection rates, arrears, administrative and court costs, and enquiries to Citizens Advice. In Chapter 5, we will turn to impacts at the household level.

In order to estimate the impacts that different scheme choices have had, we in effect compare how outcomes change differentially in otherwise-similar LAs that make different

choices over their CTS schemes. We implement this using a multivariate regression, which also means that we can separate the impacts of different changes to the CTS system, even though particular LAs often made more than one change at the same time. For example, we can attempt to answer the question: 'What is the impact of changing minimum payments, *holding all other scheme characteristics constant*?'.

To identify the effects of different scheme characteristics on LA outcomes, the key assumption that we employ is that, in the absence of any reforms, trends in the outcomes would not have varied systematically between apparently similar LAs that chose different kinds of schemes. Under this 'common trends' assumption, differences in trends that do arise reflect the effects of different scheme choices. Estimation of policy effects based on this assumption is known as 'difference-in-differences'. We have conducted tests to confirm that the common trends assumption held true in the pre-reform period, which provides some assurance that we are robustly estimating causal effects of the reforms.[26]

4.1 Council tax liabilities and receipts

For LAs, the primary motivation for reducing the generosity of CTS schemes is to raise more council tax. There are two stages to this process – first an increase in net council tax liabilities (via a reduction in CTS entitlements) and then these extra council tax liabilities actually being collected.

Higher council tax liabilities ...

We first look at the effect of scheme changes on aggregate net council tax liabilities (also known as net collectable debits) in an LA, using publicly available LA-level council tax collection data.[27] This is a measure of how much council tax councils are trying to collect, taking into account any deductions applied for. Those deductions include the CTS that households actually claim, but not the CTS entitlement of claimants who do not take up CTS.

Unsurprisingly, we do find that reductions in scheme generosity lead to an increase in council tax liabilities (holding everything else constant). The first column of Table 4.1 provides estimates of the impact of different scheme characteristics on council tax liabilities. The scheme characteristics that have the biggest impacts are minimum council tax payments. We estimate that introducing a minimum payment of more than 20% increased total council tax liabilities by an average of 1.9% in the LAs that have done so (compared with the liabilities they would have had with no minimum payment), while smaller minimum payments have had smaller but still significant effects. Taper rates and protections for vulnerable groups also matter; other scheme characteristics do not have a large enough effect to detect.

In Appendix Table A.3, we present results which show that minimum payments affect council tax liabilities both by reducing the number of people claiming CTS and by reducing the level of CTS per claimant. The impacts on the number of people claiming CTS are

[26] These tests are regressions in which we interact scheme characteristics with (pre-reform) year dummies to ensure that the trends in collection rates are not statistically significantly different before the introduction of the reforms. They are presented in Appendix Table A.2.

[27] Data can be found at https://www.gov.uk/government/collections/council-tax-statistics.

explained by reductions in the numbers entitled to it, rather than by effects on the rates of take-up among those entitled.[28]

Table 4.1. Impacts of CTS scheme features on council tax liabilities, receipts and collection rates

Scheme characteristic	Estimated effect on:		
	(1) Council tax liability (% change)	(2) Council tax receipts (% change)	(3) Collection rate (ppt change)
Minimum payments (relative to zero):			
Up to 8.5%	0.4***	0.3**	–0.09
8.6–20%	1.2***	1.0***	–0.24***
>20%	1.9***	1.4***	–0.49***
Band restriction	–0.2	–0.3*	–0.08
Reduce asset limit	0.3	0.3*	0.07
Increase taper rate	0.8***	0.7***	–0.05
Minimum income floor	0.2	0.2	0.03
Abolish small awards	–0.3*	–0.2	0.09
Abolish second adult rebate	0.3*	0.2	–0.09
Change non-dependant deductions	0.1	0.2	0.07
Protect vulnerable groups	–0.5***	–0.4***	0.07
Observations	*1,944*	*1,944*	*1,944*

Note: Numbers derived from coefficient estimates from an ordinary least squares (OLS) regression. In columns 1 and 2, the dependent variables in the regression are log council tax liabilities and log council tax receipts respectively. These have been converted to percentage changes here. In column 3, the dependent variable is the collection rate. The independent variables are LA fixed effects, period (year) fixed effects, the CTS scheme characteristics listed in the table, and LA-level controls (region, log population, population density, Index of Multiple Deprivation, cut to LA spending 2012 to 2017, district council indicator, band D rate, unemployment rate and housing tenure) interacted with year dummies. The fixed effect estimates and estimates for controls are not reported. Estimated standard errors are clustered at the LA level. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels respectively.

[28] We show this by testing whether entitlements fall more or less quickly in areas with large minimum payments than in other areas. We do not find a significant difference. Results available from the authors on request.

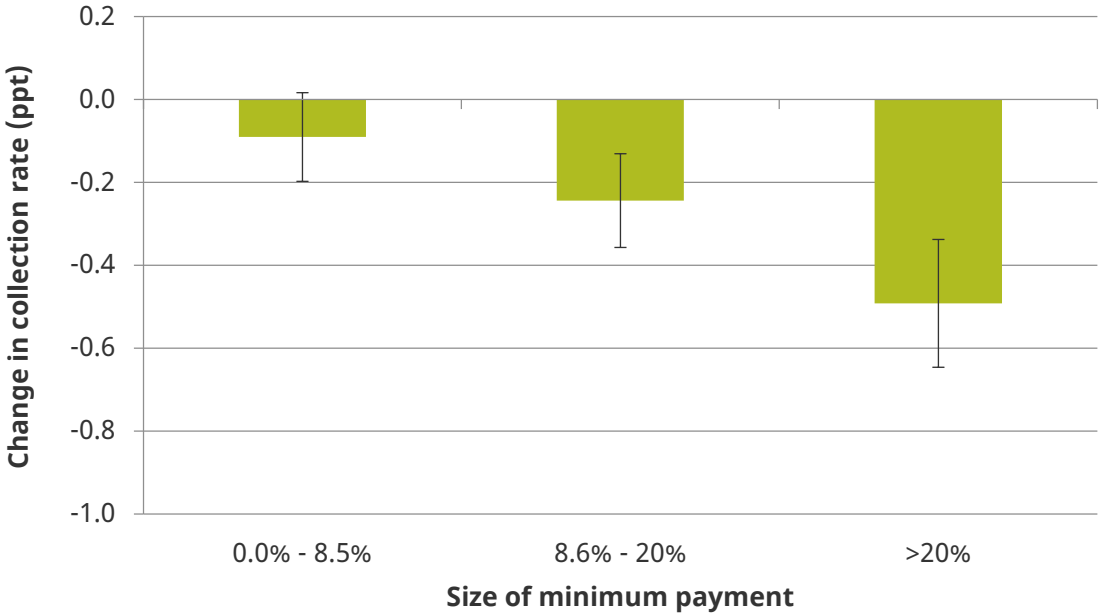
… but lower collection rates

Reductions in scheme generosity will only be effective at saving money if the additional net council tax liabilities are actually collected. In general, council tax in-year collection rates are high. In 2012–13 (the year before CTS was localised), on average councils collected 97.5% of net council tax liabilities by the end of the tax year. There was a small pre-existing difference between the collection rates of LAs that subsequently, in 2013–14, introduced minimum payments and those that did not (97.4% and 97.8% respectively). Our regression analysis essentially strips out those pre-existing differences, and looks at whether collection rates *changed* differentially in otherwise-similar LAs that made different scheme choices.

Column 2 of Table 4.1 shows that introducing minimum payments does increase council tax receipts, but by a smaller proportion than the increase in liabilities. This suggests that it reduces the proportion of council tax liabilities that are actually collected. Column 3 of the table, and Figure 4.1, show this explicitly. A minimum payment of 8.6–20% is estimated to reduce collection rates by 0.2ppts, while a minimum payment of more than 20% reduces collection rates by 0.5ppts. Councils failed to collect 2.7% of council tax on average in 2017–18 – in the absence of cuts, our results suggest they would only have failed to collect 2.5%.

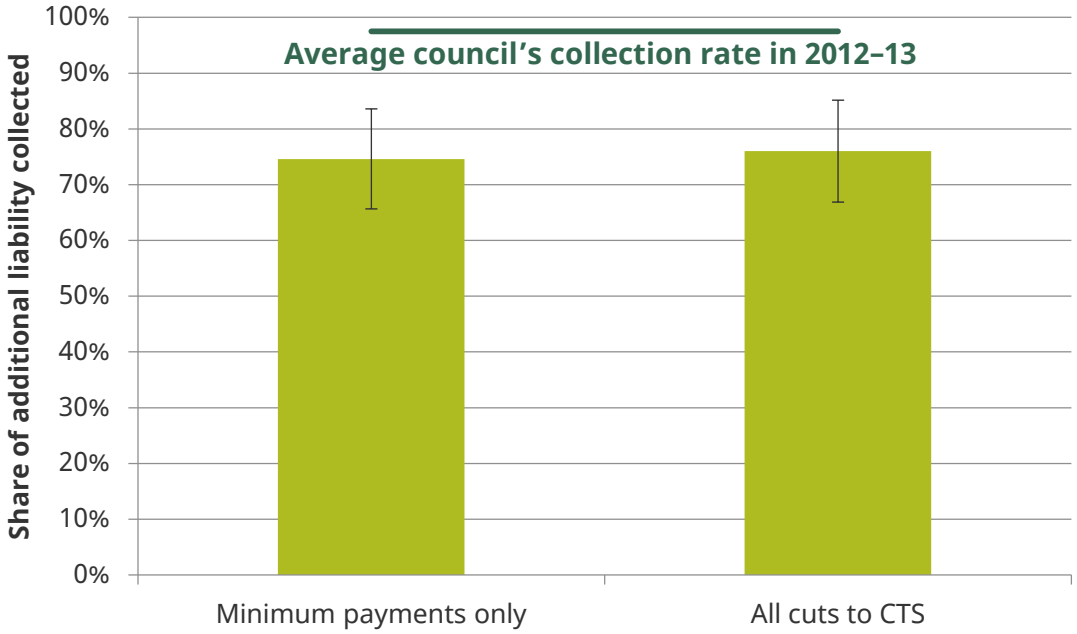
Our estimates imply that around 75% of the additional council tax liability arising from reductions in scheme generosity is collected in the year it is due (Figure 4.2), meaning that a quarter of it goes uncollected (or is not collected until a later year) – 10 times more than

Figure 4.1. Estimated effect of minimum payments on council tax collection rates



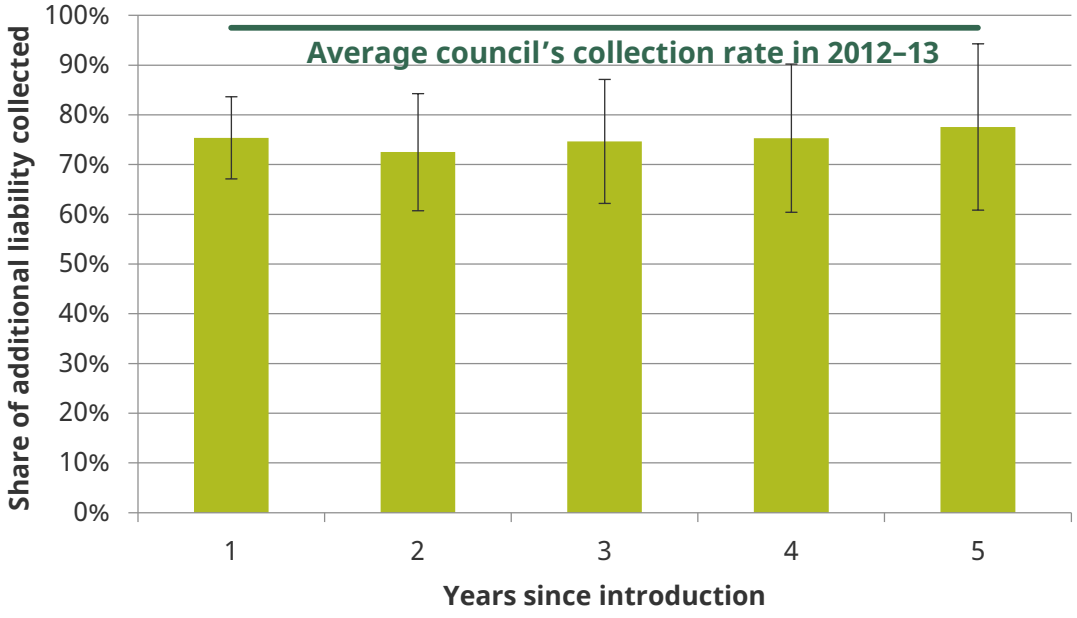
Note: Based on the regression in column 3 of Table 4.1. Lines represent 95% confidence intervals.

Figure 4.2. Estimated proportion of extra council tax liability that is actually collected when CTS scheme is changed



Note: Calculated as the predicted increase in council tax collected as a result of actual cuts as a ratio of the predicted increase in council tax liabilities (all relative to a baseline where scheme changes were not introduced). 'Minimum payments only' shows the estimated effect of minimum payments only, holding all other scheme choices constant. 'All cuts to CTS' shows the estimated effect of all recorded scheme choices. Lines represent 95% confidence intervals obtained via bootstrap.

Figure 4.3. Estimated proportion of extra council tax liability that is actually collected when a minimum payment is introduced, by years since introduction



Note: Calculated in the same way as the 'minimum payments only' bar in Figure 4.2, except effect is estimated separately for each year since the introduction of the minimum payment.

the 2.5% of the pre-existing council tax liabilities that went uncollected.[29] This is also true if we focus only on minimum payments – unsurprisingly, given that minimum payments drive most of the reduction in liabilities. Importantly, this effect also appears to be persistent: even five years after a minimum payment has been introduced, the estimated proportion of the extra liability that is collected remains at a similar level (Figure 4.3).

In Appendix Table A.3, we also present results that show that the outstanding amount of council tax arrears increased by more in LAs that introduced large minimum payments. Overall, these estimates imply that the total amount of outstanding council tax debt in England was around 5% (£125 million) higher in 2017–18 than it would have been in the absence of the reforms. The next chapter looks at how the likelihood of an individual household going into arrears relates to the cut in CTS that household experienced.

In summary, the cuts to CTS have, as some predicted,[30] led to sizeable increases in tax non-compliance.

Even if all liabilities were successfully collected, this may still not lead to a net saving from cutting CTS if the costs of collection also increase. Also in Appendix Table A.3, we present estimates of the impact of CTS scheme characteristics on administrative and court costs as a share of collected council tax. But in fact these do not show a statistically significant effect of minimum payments on administrative and court costs.

4.2 Citizens Advice queries

Citizens Advice is a common port of call for people struggling with their finances (among other things). In this section, we use data collected, and kindly provided to us, by Citizens Advice to look at the relationship between the type of CTS scheme adopted by an LA and trends in the number of people from that LA that made an enquiry to Citizens Advice about issues relating to council tax or CTS.

The main data set underlying this analysis is a record of all queries to Citizens Advice in England. It provides information on the issue that the client came about (e.g. debts relating to council tax), the date (quarter) on which this occurred[31] and some demographic information about the client – including their sex, age, household composition and LA of residence.

We look at all queries related to council tax. Specifically, the data enable us to distinguish between three different kinds of Citizens Advice enquiry that we might expect to be affected by the CTS system in place:

[29] Only a relatively small fraction of the council tax that is uncollected in-year is then collected in a future year. In 2017–18, English LAs had £2.9 billion of unpaid council tax carried forward from previous years, and only £600 million of that was repaid in that year. £160 million was written off and £2.1 billion was carried forward to 2018–19. See https://www.gov.uk/government/statistics/collection-rates-for-council-tax-and-non-domestic-rates-in-england-2017-to-2018.

[30] See, for example, Adam and Browne (2012).

[31] In cases where one individual makes an enquiry to Citizens Advice about multiple issues, each issue is recorded.

- Enquiries relating to council tax debt, within which the most common issues include council tax debt liability, dealing with council tax debt repayments and enforcement by bailiffs.

- Enquiries relating to liability for council tax and its payment (such as exemptions, reductions and administration), which are indicative of issues to do with the operation of the system or of people's understanding of it.

- Enquiries directly about CTB or CTS. These include questions about eligibility, how to claim and problems relating to receipt.[32]

In the analysis in this section, we consider all of these types of query combined.

Most (but not all) of what follows ignores Citizens Advice clients aged above the female state pension age, because pensioners' entitlements to CTS were protected at existing levels.[33] We count the number of council tax and CTB/CTS issues in each LA in each quarter, over a seven-year period between October–December 2011 and June–September 2018. To estimate the impacts of LAs' choices of scheme characteristics on the volume of enquiries to Citizens Advice about issues with council tax or CTS, we use the same difference-in-differences approach as used in the previous section.

Substantial effects on queries about council tax

While it varies considerably from quarter to quarter, on average there are around 160 queries relating to council tax per LA per quarter. Our interest is in looking at whether those councils reducing the generosity of their schemes see an increase in relevant queries, and how long these effects persist.

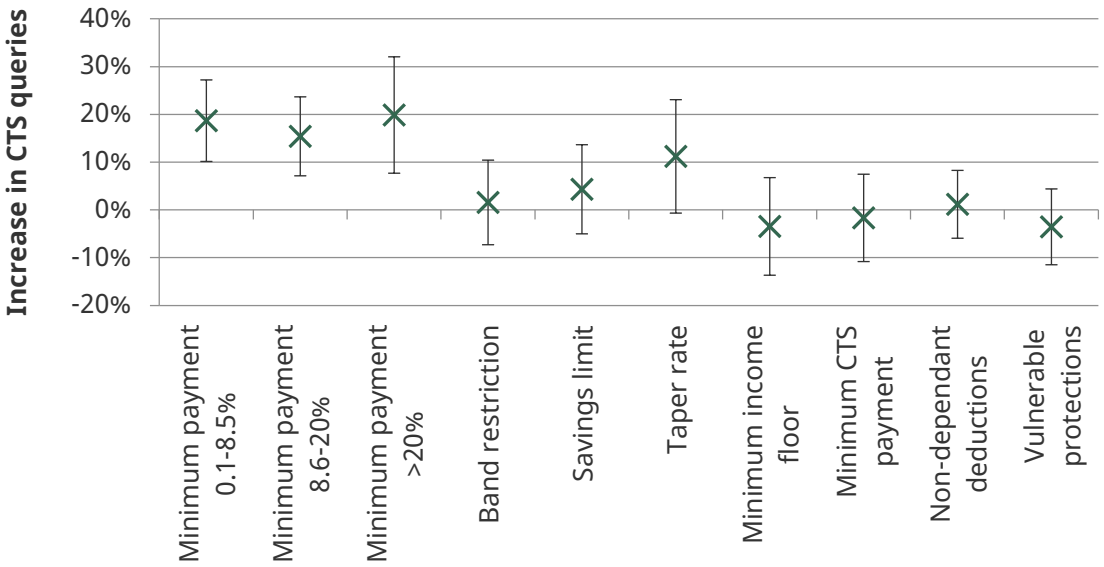
Reductions in scheme generosity via minimum payments are associated with substantial increases in Citizens Advice queries relating to council tax or CTS, as Figure 4.4 shows. Our central estimate is that a minimum payment of less than 8.5% increases queries by 19%, while a minimum payment of more than 20% increases queries by 20% (relative to having no minimum payment), but this difference is not large and we cannot statistically reject the possibility that all levels of minimum payments (other than zero) have the same effect on the volume of Citizens Advice queries. This would be consistent with the key driver of additional queries to Citizens Advice being the imposition of new council tax bills on people who previously had none at all, rather than the precise size of those bills.

These effects are driven primarily by council tax debt queries, which account for the majority of council-tax-related queries to Citizens Advice and are among the most common of all requests for advice they receive (Lane, McCay and Thorne, 2018).

[32] Note that the distinction between the last two types of enquiry may not always be clear-cut. For example, the same query might be described either as a query about how much council tax one must pay or as a query about how much CTS one should get.

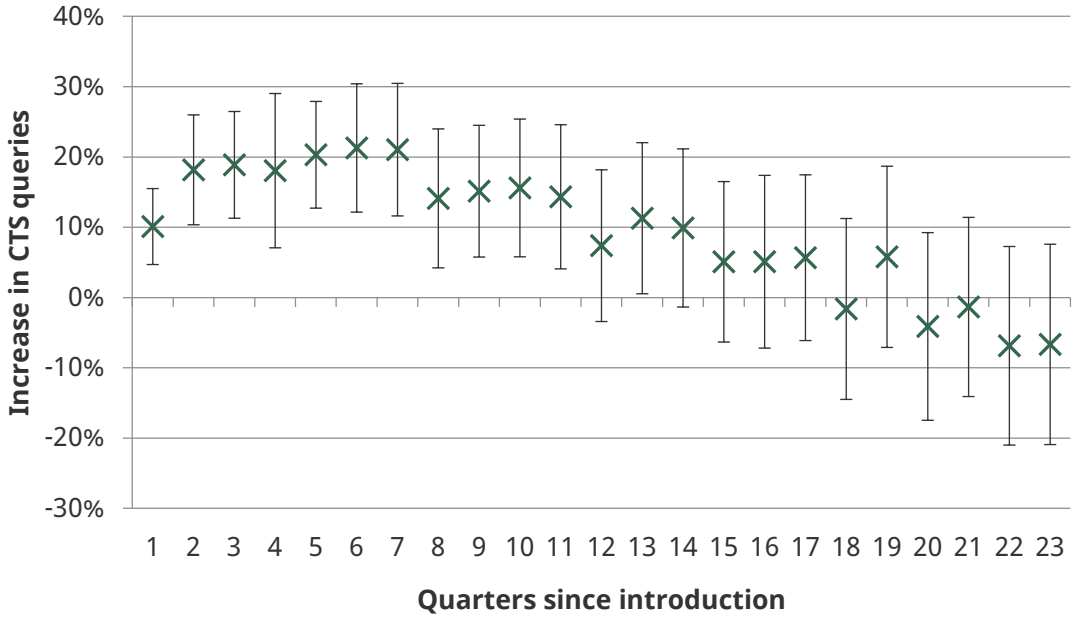
[33] The definition of a pensioner family for the purposes of CTS protection is a family in which at least one adult is above the female state pension age (SPA). The female SPA is gradually rising from 60 to 66, and is currently just over 64. We include a query if the client is under the female SPA at the quarter of interview, rounding the female SPA to the nearest whole year.

Figure 4.4. Estimated impacts of cuts to CTS on volumes of queries to Citizens Advice about council tax or CTS in the LA



Note: Green crosses are coefficients from a regression of log queries on council tax benefit/support, council tax and council tax debt in an LA in a given quarter on LA and quarter fixed effects, scheme characteristics (shown) and LA-level controls interacted with each quarter (not shown), which are region, log population, population density, Index of Multiple Deprivation, cut to LA spending 2012 to 2017, district council indicator, band D rate, unemployment rate and housing tenure. Coefficients have been converted from log points to percentage changes. Lines represent 95% confidence intervals. Full regression results are presented in Appendix Table A.5.

Figure 4.5. Estimated impact of minimum payments on queries to Citizens Advice relating to council tax or CTS, by quarters since introduction of minimum payment



Note: Based on a regression similar to column 1 of Appendix Table A.5 except scheme characteristics are interacted with 'quarter since introduction' dummies, and all minimum payment levels are pooled together (i.e. there is a 'minimum payment' indicator). Lines represent 95% confidence intervals. Coefficients have been converted from log points to percentage changes.

We find no systematic differences before 2013–14 in the trends among councils that later adopted different minimum payment levels, supporting the 'common trends' (i.e. comparability of LAs) assumption that we are making here in order to estimate the impacts of minimum payments: it does not appear that those LAs that introduced minimum payments were already seeing a rising trajectory of enquiries to Citizens Advice anyway. We also find no significant impact of scheme changes on queries by people aged above the female SPA, which makes sense given that pensioners are unaffected by the reforms and provides further assurance that our assumptions are valid.[34]

Figure 4.5 looks at how effects on queries to Citizens Advice evolve as time passes after minimum payments are introduced. This provides evidence that, around two years after introduction, impacts on queries begin to fade. This would be consistent, for example, with people making an enquiry to Citizens Advice when initially affected by the changes but not indefinitely making repeat enquiries thereafter.

[34] See Appendix Tables A.4 and A.5.

5. Impacts of scheme choices at the household level

Key findings

- **Reducing a household's CTS entitlement significantly increases the probability that it reports being in arrears on its council tax.**
- **Among households entitled to less CTS in 2016–17 than they would have got under the default scheme, the median loss was £179 per year. We estimate that a loss of that size increased a household's chances of being in council tax arrears by a half.**
- **The impact of losing CTS on council tax arrears is entirely driven by households that would, in the absence of cuts, have been entitled to maximum CTS and hence would have had no council tax bill to pay at all. We find no significant effect on the arrears rates of those already paying council tax being required to pay more; and among households that would not previously have had to pay any council tax, the increase in the probability of arrears is almost as big for those given a small bill as for those given a large one.**
- **These findings suggest that the relatively low collection rate of the additional council tax liabilities, identified in Chapter 4, is driven by the difficulty of collecting tax from those who would not have had to pay it in the absence of cuts to CTS. Councils are likely to receive more revenue if they increase liabilities for those already paying some council tax than if they cut support by the same amount for those who currently have no council tax bill to pay.**
- **Lone parents, renters, and claimants in councils that already had relatively low council tax collection rates are all more likely than average to fall into council tax arrears as a result of being required to pay a council tax bill that they would not have had in the absence of cuts.**
- **We find no significant impact of losing CTS on whether a household reports being in arrears on other bills or being unable to afford other items – despite the fact that the relatively tough enforcement and penalties for non-payment of council tax mean that it would usually make more sense for households to pay the council tax and (if necessary) go into arrears on another bill instead. This reinforces the impression that the problem is not simply one of dealing rationally with the loss of £1 or £2 a week within an optimal budgeting process. Rather, faced with a council tax bill they would not otherwise have had to pay, many households simply do not pay it – irrespective of its size.**

In this chapter, we use survey data on a representative sample of thousands of households to try to understand better the impacts of cuts to CTS on the particular households that are actually affected by them, focusing on how the cut to their CTS entitlement affects their chances of going into arrears on their council tax and on other bills, and whether they report being unable to afford various items.

In what follows, as in Chapter 3, we simulate households' CTS entitlement – depending on their circumstances and the LA in which they live – using the IFS tax and benefit microsimulation model, TAXBEN, run on data from the Family Resources Survey (FRS). Our aim is essentially to compare trends in the outcomes of otherwise-similar households whose net incomes differ only as a result of the fact that those living in different LAs face different CTS systems. To do this, we undertake a regression analysis that relates household-level outcomes (e.g. whether they are in arrears on council tax) to household characteristics – household structure, housing tenure, assets, gross council tax bill, the net income they would have under the default CTS scheme, and the difference between their net income under the default scheme and the schemes that applied in their LA in each of the years we analyse. Importantly, this means we are allowing for the kinds of people who lost a lot of CTS entitlement and the kinds who did not to have different outcomes (e.g. different arrears rates) *before* any cuts to CTS. We are looking for whether those outcomes diverge or converge once the CTS reforms actually came in. If so, we interpret it as an effect of the reforms. The key assumption is again 'common trends': that, in the absence of the reforms, trends in outcomes would have been the same for otherwise-similar groups who lost different amounts of CTS from the reforms.

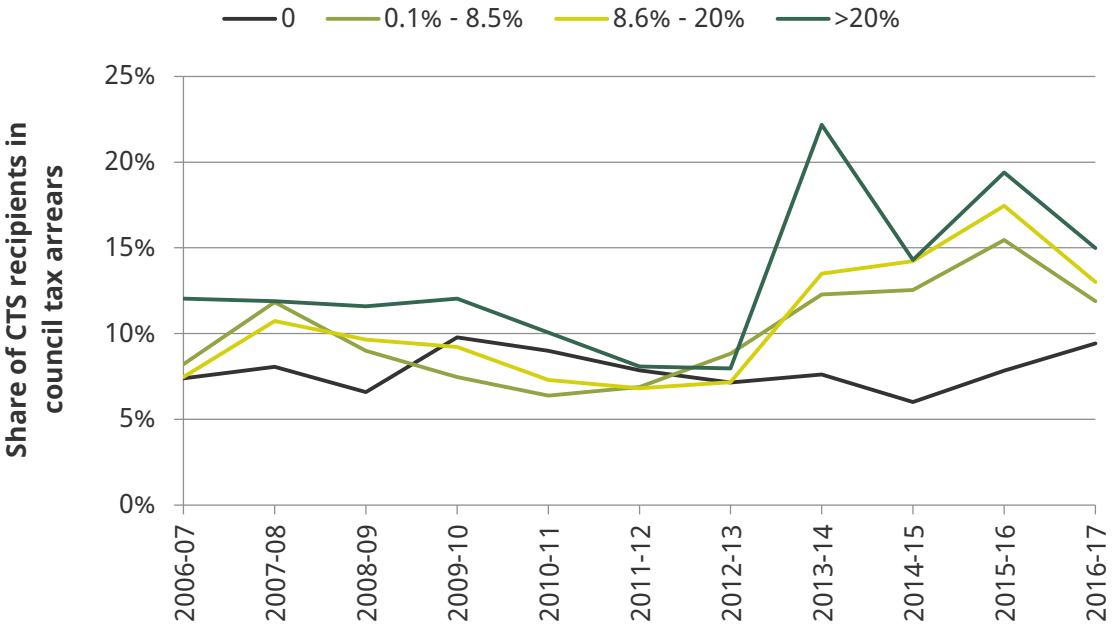
5.1 Council tax arrears

Our main outcome of interest is whether or not a household reports being in arrears on council tax. Based on reporting in the FRS, around 700,000 households in the UK are in arrears each year. Other data sources imply that this is a significant underestimate: for example, data based on Freedom of Information requests compiled by the Money Advice Trust suggest that in 2014–15 councils referred over a million council tax arrears cases to bailiffs,[35] and there were presumably other instances of arrears that were not referred to bailiffs. There are a number of reasons why arrears might be under-reported in the survey data: for example, households may be unwilling to reveal that they are in arrears, or simply unaware of it, especially if they are being required to pay council tax for the first time.

While the FRS considerably understates the total number of households in arrears, however, the trends in this measure across LAs over time can still be informative. Figure 5.1 shows that, before 2013–14, rates of self-reported arrears among CTB recipients were at similar levels in LAs that adopted minimum payments of different magnitudes in that year and those that did not adopt minimum payments in that year. However, in 2013–14, the proportion of households in arrears increased considerably in those councils adopting minimum payments, while it was unchanged in councils that did not introduce minimum payments. This mirrors the changes in collection rates that we identified using administrative data in the previous chapter. And the difference between LAs with and without minimum payments is bigger than the difference between LAs that adopted minimum payments of different sizes – consistent with the estimated impacts on queries

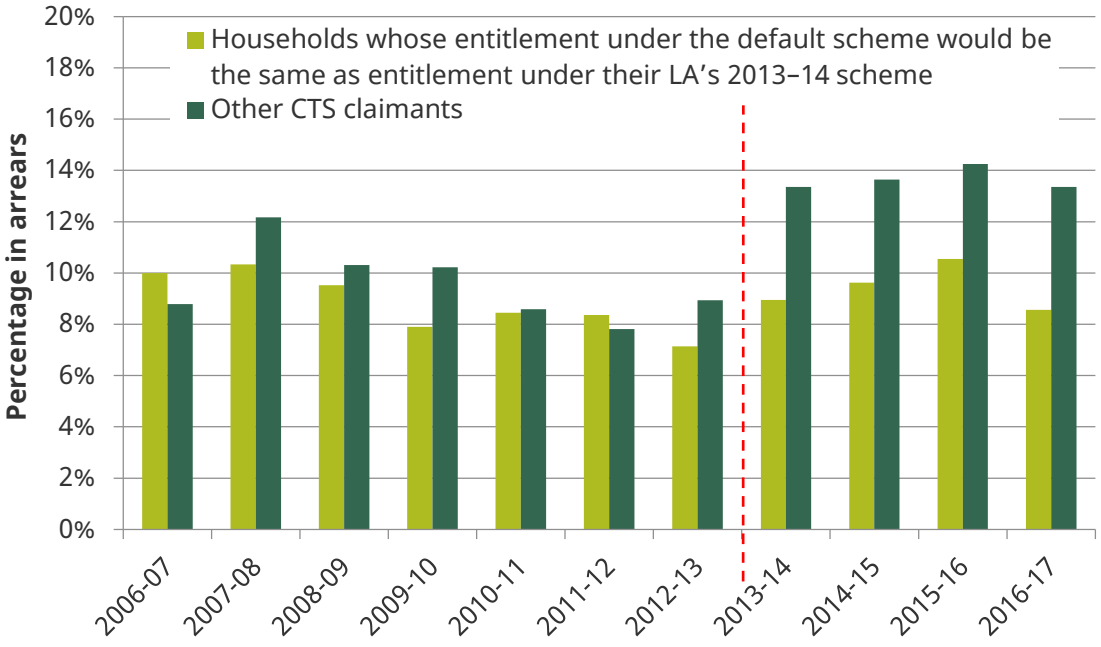
[35] See http://www.moneyadvicetrust.org/media/news/pages/stop-the-knock-2015.aspx.

Figure 5.1. Rates of arrears among CTS recipients in authorities adopting different levels of minimum payment in 2013–14



Source: Authors' calculations using FRS and data on CTS scheme choices.

Figure 5.2. Rates of self-reported council tax arrears among the kinds of households that lost from the CTS reforms and the kinds that were unaffected (those eligible for CTB/CTS only)



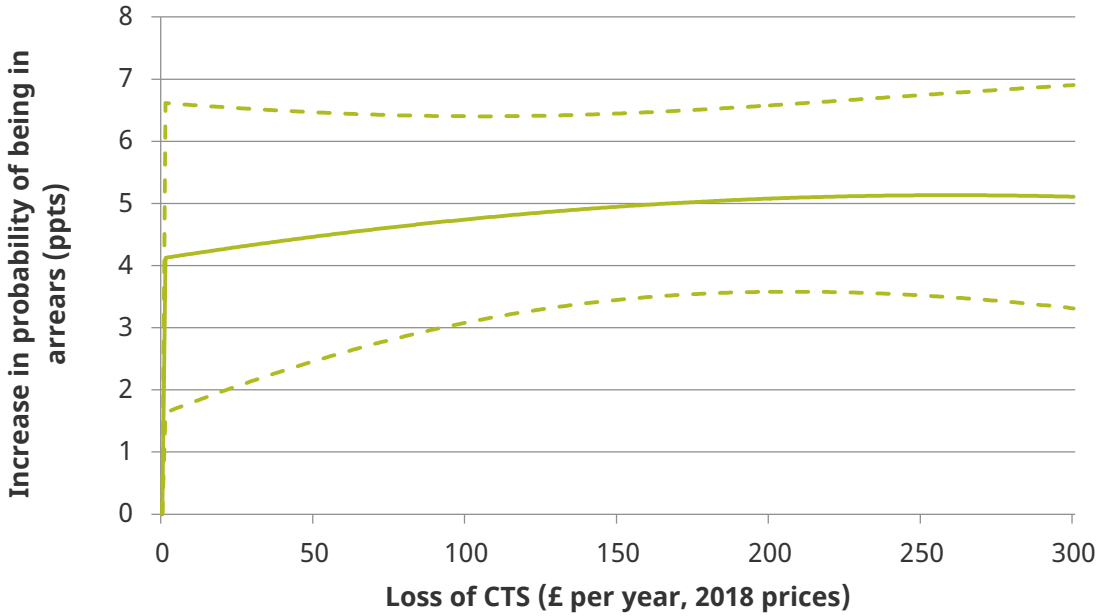
Note: Losses defined based on how households would be treated under their LA's scheme in 2013–14. Red line indicates the reform.

to Citizens Advice. The consistency of these FRS-based results with findings from other sources gives us some confidence that we can use the FRS to identify which types of households are most affected by changes to their CTS entitlement.

The kinds of households that lost support from CTS localisation are not perfectly comparable to the kinds of households that did not (even if focusing only on households in receipt of CTS). Figure 5.2 shows that these two groups of households sometimes had slightly different rates of council tax arrears even before any cuts to CTS came in. It does this by comparing, in each year from 2006–07 onwards, rates of council tax arrears among two groups: CTB/CTS claimants whose circumstances (including the LA in which they live) were such that they would have had lower entitlement had the 2013–14 CTS schemes been in place at that time, and those whose entitlements would have been unaffected. In other words, even in years before the CTS reforms happened, these two groups are representative of the kinds of people who did, and did not, subsequently lose from the reforms. In the seven years leading up to the reform (2006 to 2012), there are some differences between the two groups, but the differences are relatively small (never more than 2.5ppts) and do not look systematic – in some years, the arrears rate in the first group was higher, in other years it was lower. But the graph suggests that the reforms from 2013–14 had a clear impact on arrears: the arrears rates for households that lost from the reforms are at least 4ppts higher than those for the unaffected group in every year from then on.

Our regression results confirm these patterns more formally, stripping out pre-existing differences in arrears rates and also controlling for various other household characteristics. Figure 5.3 summarises the key results (full results are provided in

Figure 5.3. Estimated impact of loss of CTS on probability of reporting council tax arrears



Note: Based on the regression in column 1 of Appendix Table A.6. Effect is the average predicted impact of a given loss of CTS (relative to the default scheme) across all households eligible for CTS. Dotted lines represent 95% confidence intervals obtained by bootstrap.

Appendix Table A.6), showing the estimated impact of a loss of CTS on the probability of being in council tax arrears, for different sizes of loss. The median loss of support, among those who lose relative to the default scheme, was £179 per year in 2016–17. We estimate that, on average, a household losing that much CTS is 5.0ppts more likely to report being in council tax arrears than if they had been assessed under the default CTS scheme. We estimate that under the default scheme, around 9.2% of those eligible for CTS would have reported being in arrears, so this represents an increase in this group's arrears of around a half.

What is particularly striking in Figure 5.3 is that the effect on arrears is almost as large among those who lose a very small amount as among those who lose much more. A household losing only £50 a year from the reform – less than £1 per week – would be 3.3ppts more likely to fall into arrears, while a household losing five times as much would be 4.0ppts more likely to do so. This suggests that the effect of CTS cuts on arrears is almost a binary one – a household losing some entitlement is more likely to go into arrears whether they are being asked to pay a small amount more per year or whether they are being asked to pay a much larger bill.

Based on this analysis, we can estimate the total impact of the cuts to CTS (relative to the default scheme) on the proportion of households that report being in council tax arrears. In 2016–17, 3.9% of working-age households in England reported being in council tax arrears. Our estimates imply that, if the default CTS scheme had been in place everywhere, that would have been 3.2%. The levels of these figures (corresponding to a difference of 110,000 households) should be treated with caution given the under-reporting of arrears in the FRS, but comparing them suggests that cuts to CTS have increased the total number of households in council tax arrears by about 21%. As a proportion of just those households eligible for CTS, this is an increase of 39% (from 8.4% to 11.6%); and as a proportion of those whose entitlements have been cut, it is an increase of 54% (from 8.4% to 12.9%).

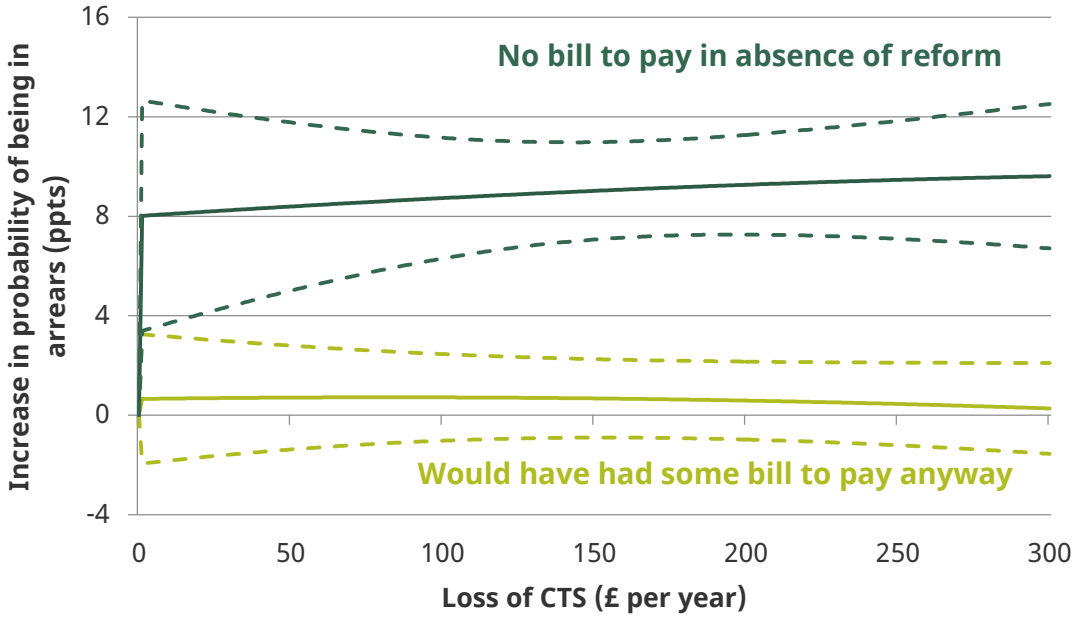
Effects of CTS cuts on arrears for those who would otherwise have had no council tax bill to pay

One of the reasons why arrears, and hence uncollected council tax, always looked like a plausible consequence of these reforms is that the reforms imposed an entirely new bill on many households that would previously had none (because CTB would have fully covered their council tax).

If we split households between those who would have been entitled to full CTS under the default scheme (and therefore would have no council tax bill to pay) and those who would only have been entitled to partial support, we find that the impacts of the CTS cuts on rates of arrears are entirely driven by the former group. Figure 5.4 shows that those households with an entirely new bill to pay experience a substantial increase in their probability of being in arrears. In 2016–17, we estimate that this group were more than twice as likely to report being in arrears as if the cuts had not been implemented (16.5% versus 7.7%).[36] In contrast, reductions in CTS for those who already had to pay some net council tax do not appear to have had an impact on the number of households in arrears.

[36] Note that a significant fraction of households report being in arrears even though we model them as being entitled to full CTS that should cover their bill. Aside from reporting error in the survey or modelling error, this

Figure 5.4. Different impacts according to whether a household had an entirely new bill to pay



Note: Based on the regression in column 2 of Appendix Table A.6. The graph displays the estimated average impact across all eligible households of having a given loss of CTS relative to not losing at all; households are split according to whether they previously had no bill to pay. Dotted lines represent 95% confidence intervals obtained by bootstrap.

This finding explains the relationship between the amount lost and the increase in arrears in Figure 5.3 above. For those households already paying some council tax, being required to pay a little bit more does not substantially increase their likelihood of going into arrears. However, for those households that previously had no bill to pay, even a small reduction in entitlement means that they now have to pay some council tax, and it appears that this is what drives the increase in arrears.

The fact that increases in arrears are similar for those with small new bills to pay and those with larger bills suggests that households struggle specifically to cope with having to pay a new bill, rather than just with the loss of £1 or £2 per week. Reinforcing this impression, note that they are going into arrears on their council tax despite the fact that it would usually make more sense for them to pay the council tax and (if necessary) go into arrears on another bill instead. Failing to pay council tax – unlike most household bills – is a criminal offence, can incur severe penalties and is relatively stringently enforced. Yet we find no significant effects of losing CTS on whether a household reports being in arrears on other bills or being unable to afford other items.[37] The problem is not simply dealing rationally with a loss of income within an optimal budgeting process. Rather, faced with a council tax bill they would not otherwise have had to pay, many households simply do not pay it.

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could be because they have arrears carried over from a previous period when they were not entitled to full support or because they are not taking up the CTS to which they are entitled (perhaps because they do not realise they are entitled).

[37] Full results available from the authors on request.

Whatever the reason for increased council tax arrears, the consequences of non-payment can be serious for households, as noted above; the increase in enquiries to Citizens Advice we showed in Chapter 4 speaks of people's anxieties. And the corresponding revenue loss – which appears to be persistent – can be serious for councils too. It is important for them to know that they are likely to receive more revenue if they increase liabilities for those already paying some council tax than if they cut support by the same amount for those who currently have no council tax bill to pay.

Effect on arrears for different types of household

We also examine whether a given system of CTS has different impacts on the probability of arrears for different kinds of household, by running the analysis separately for different groups (see Appendix Table A.7). Again, this is something that councils may want to know when deciding how much support to provide to different groups. As Table 5.1 shows, we do find some important differences, summarised below.

Table 5.1. Effects of CTS cuts on arrears rates of different groups, working-age households in England only, 2016–17

Group	(1) % entitled to CTS under default scheme	(2) % with no bill to pay under default scheme	(3) % with an entirely new bill to pay	(4) Mean (median) bill for those with entirely new bill to pay	(5) Causal increase in arrears for those with entirely new bill to pay
Lone-parent households	60%	40%	28%	£184 (£178)	14.2ppts
Non-lone-parent households	18%	9%	6%	£194 (£180)	6.4ppts
Renters	36%	22%	15%	£179 (£177)	10.3ppts
Homeowners	9%	3%	2%	£268 (£209)	1.7ppts
LA in top half of collection rates, 2012–13	17%	8%	5%	£215 (£189)	3.2ppts
LA in bottom half of collection rates, 2012–13	23%	13%	9%	£184 (£176)	9.3ppts
All	**21%**	**11%**	**8%**	**£192 (£180)**	**8.8ppts**

Note: Columns 1–3 refer to shares of households in 2016–17. Column 5 is based on the prediction of regressions in Appendix Table A.7 that compare the arrears probability of those in that group that only have a new bill to pay as a result of CTS reforms with their arrears probability if they still had no bill to pay.

- One similarity is that, for every subgroup, we find that any significant effect on arrears is driven by those who would have had no bill to pay under the default scheme, with no statistically significant effect on those who would already have had to pay some council tax. We also find that the effect is driven by whether or not these households have a new bill to pay, with the size of the bill making relatively little difference.

- Renters and lone parents – both groups that are disproportionately affected by changes to CTS – are also more likely to go into arrears when given a council tax bill to pay that they would not previously have received. 28% of lone-parent households would have been entitled to full CTS if their council had made no cuts, but as a result of cuts now have a bill to pay. Of those households, 19% are in arrears, a 14ppt increase relative to a world in which the cuts had not been implemented. For other households given an entirely new bill to pay, the increase in the probability of being in arrears is 6.4ppts (from 9% to 15%). For renters given an entirely new bill to pay, the arrears probability increases by 10ppts (from 8% to 18%), while for homeowners having a new council tax bill to pay leads to a 1.7ppt increase from a baseline of 6%.

- Among two otherwise-similar households, both of which lose the same amount of CTS, where one household lives in an LA with high collection rates and another lives in an LA with low collection rates, the household in the low-collection-rate authority is more likely to go into arrears as a result of the loss of support. This could be driven by two things. First, it might point towards a possible role for the support and/or enforcement activities of the LA in determining whether or not an individual goes into arrears: those LAs that are less effective at collecting council tax at all may also be less effective at collecting any additional liability. The second possibility is that this result is indicative of 'peer effects' – if your neighbours are less likely to pay their council tax, there is a higher chance that you won't pay yours.

6. Conclusion

The localisation of council tax support (CTS) in 2013–14, together with funding cuts from central government, has resulted in substantial cuts to working-age support in England. This contrasts with the situation in Scotland and Wales, where the devolved administrations continue to absorb most of the funding cut through other spending cuts or council tax increases. It also contrasts with the situation for pensioners in England, who the Westminster government has mandated must be protected.

The cuts were significant at first and have grown further since. In response to the 10% funding cut for these schemes, more than 80% of English councils reduced entitlements for working-age families below the level of support provided to pensioners in 2013–14, and 90% had done so by 2018–19. Relative to the support that would be available if they were still treated like pensioners, the cut to total CTS entitlements for working-age households in England was 14% in 2013–14 and had risen to 20% by 2018–19. On top of this, local authorities (LAs) have mirrored many of the changes happening to the benefits system nationally – most notably the freeze in many benefit rates since April 2015, which in the case of CTS reduces the income a family can earn before support starts to be withdrawn – which means the total cut in working-age CTS is now even bigger, at 24%, relative to what entitlements would have been if the generosity of the old national council tax benefit system had been maintained.

A key feature of these changes is that otherwise-similar working-age households can be treated very differently depending on which LA they live in. For example, of the 2 million working-age households in England that would previously have been entitled to a full rebate for their council tax, 73% must pay some council tax in 2018–19; 63% must pay more than £100, a third must pay more than £200 and almost one in ten must pay more than £300.

Poor households in poor parts of England are more likely to have been adversely affected by these changes than poor households in affluent parts. The reason for this is that councils receiving larger funding cuts from central government were more likely to cut CTS, and the funding cut tended to be larger for councils in poor areas (precisely because they have more CTS recipients). That said, council tax levels tend to be higher in more affluent areas. This means that those poor households in affluent areas who *have* seen a cut to CTS have tended to receive a larger additional council tax bill than the affected households in poorer areas.

The decision to localise CTS has created the potential for schemes to be tailored to local needs and preferences, but it also substantially increases complexity and bureaucracy. A further side effect is that it provides an opportunity to learn about how local governments make decisions when they are given the leeway to do so and about the impacts that different policy choices have.

Some quirks of LA decision-making stand out from our analysis. One is the role of policy ‘inertia’ or ‘stickiness’. In 2013–14, the first year of localisation, the government offered additional temporary funding to councils whose chosen schemes satisfied certain criteria, one of which was to have a minimum council tax payment of no more than 8.5%. A minimum payment level of exactly 8.5% was duly adopted by 100 councils in that year. But five years later, it was still the case that 38 councils had a minimum payment of exactly

8.5%: the initial, one-off distortion of LAs' incentives by central government had a significant persistent impact long after it was removed. Interestingly, a few councils even adopted a minimum payment of 8.5% *after* 2013–14. This points to the possibility that, in addition to policy inertia in the simple sense, there may also be 'reference points' in councils' thinking or a desire to have a similar scheme to other councils. The 38 councils that still have an 8.5% minimum payment in 2018–19 are clustered together in a handful of areas of the country. Central government may be interested to know that a temporary distortion of councils' incentives can have such persistent impacts on their chosen policies, and hence on the households subject to them.

In addition, councils' CTS scheme choices have been more responsive to funding cuts from central government that are related specifically to the cut arising from CTS localisation than to other cuts to their budgets – even though they are in principle free to allocate spending as they wish between CTS and other priorities. Councils experiencing similar funding cuts from CTS localisation, but different funding cuts in total, were roughly equally likely to introduce minimum payments. But among councils experiencing similar funding cuts in total, those experiencing bigger cuts from CTS localisation were more likely to introduce minimum payments. Again, central government should be aware that the way that it 'labels' money can have important real effects on how it is spent.

The other major insight we can get from this large number of local policy experiments is on the impacts that different scheme choices have. We do not find evidence of strong impacts of cuts to CTS on relatively general measures of households' financial distress or well-being – perhaps unsurprisingly, because CTS tends to be only a modest proportion of households' total incomes and, even among those facing a reduction in CTS, the cut represents barely 1% of their total income. But we do find clear effects on the likelihood of households falling behind with their council tax payments and, as a result, on LAs' ability to actually collect the extra council tax they intend.

We estimate that around one-quarter of the additional council tax liability arising from councils' decisions to introduce minimum council tax payments was not paid in the year it was due, which is about 10 times higher than the typical rate of non-collection of council tax. We also show that the increase in council tax arrears underlying this is entirely driven by the households that would, in the absence of cuts, have been entitled to maximum CTS and hence would have had no council tax bill to pay at all; we find no sign that those already paying some council tax are more likely to go into arrears if required to pay more. This is the first evidence of this kind we have had since the poll tax. We hope that it will be useful to LAs going forward as they continue to grapple with the difficult decisions and trade-offs in this area that central government has landed them with. It may also be relevant for the design of other parts of the tax and benefit system, such as housing benefit, which also affects the size of a bill to be paid by low-income households.

Appendix

Table A.1. Probit regressions of scheme choices on LA characteristics

Variable	Any change	Minimum payment	Minimum payment >15%	Cap CTS at a certain council tax band	Taper rate	Reduce asset limit	Reduce or abolish second adult rebate	Change non-dependant deductions	Abolish small awards	Minimum income floor	Protect a specific group	8.5% minimum payment
CTS cut per household	0.009	0.008	0.016**	0.012*	0.006**	0.015**	0.006	0.006	0.003	0.002	0.008	−0.003
Percentage cut for working age	0.025***	0.021**	−0.016	−0.002	0.010*	0.001	0.005	−0.006	0.003	0.001	−0.001	0.016**
Consultation weeks	0.001	0.015	−0.003	−0.035***	0.007	−0.029***	−0.014	0.000	−0.007	0.003	0.021	0.027**
Consultation responses	0.001	0.001	0.002	−0.000	−0.005*	0.002	0.002	0.002	−0.007**	−0.001	0.008**	−0.003
% increase in CTB claimants 2008–12	0.006*	−0.003	0.001	0.000	0.006	0.008*	0.016***	−0.003	0.010***	−0.001	0.001	−0.007*
% increase in CTB spending 2007–11	−0.000	0.000	0.000	0.000	−0.004	−0.000	−0.000	−0.000	−0.000	−0.001	−0.000	0.000

Index of Multiple Deprivation	0.046	0.088*	0.068	−0.084	−0.073***	−0.096*	−0.022	−0.096	0.018	0.023	−0.118*	0.010
Log population	−0.007	−0.049	−0.012	−0.084	0.028	0.093	0.026	0.181***	0.057	−0.008	0.067	−0.045
Log population density	0.012	0.002	−0.014	0.010	0.027*	−0.042*	−0.032	−0.034	0.046**	−0.036***	0.001	0.010
% properties in band A	−0.002	−0.004	−0.004	0.004	0.005**	−0.005	−0.000	−0.000	0.002	−0.004***	0.007	0.001
% properties in band B	−0.001	−0.002	−0.006	−0.003	0.006*	−0.005	0.008	−0.000	−0.004	−0.004*	0.001	−0.001
% properties band D	0.001	0.008	0.008	0.005	0.007	−0.006	−0.005	−0.004	0.004	−0.002	0.013*	0.003
% properties bands E–H	−0.004	−0.008**	−0.004	0.002	0.003	−0.003	0.004	−0.007*	0.002	−0.004**	0.002	−0.003
Log band D rate	−0.073	−0.268	−0.871**	−0.307	−0.191*	0.232	0.290	−0.262	0.512*	−0.018	−0.872**	0.459
Change to revenue 2012–17	0.002	−0.005	−0.006	0.001	0.000	0.004	0.004	−0.007**	0.000	0.006***	−0.005	0.001
District × Change to revenue 2012–17	−0.003	0.005	0.004	−0.003	−0.001	−0.005	−0.005	0.006*	0.002	−0.006***	0.003	−0.000

Labour	−0.050	−0.147**	−0.170***	−0.112*	0.013	0.105	0.076	−0.040	−0.051	−0.016	−0.124*	0.062
Lib Dem	−0.131	−0.362***	−0.314***	0.031	0.009	0.195	0.165	0.120	−0.028	0.187*	−0.072	−0.157***
Other	−0.115***	−0.178***	−0.097*	−0.040	−0.045**	0.122**	−0.042	−0.052	−0.009	0.038	−0.113**	−0.064*
East of England	0.026	−0.033	0.015	0.088	−0.027	0.089	0.035	0.209***	−0.146	0.070	0.023	0.047
Inner London	−0.381	−0.546**	−0.477***	−0.274***	−0.158**	−0.183*	0.001	0.086	−0.154	−0.028	−0.288**	0.119
Outer London	−0.109	−0.291	−0.360***	−0.200*	−0.146**	−0.066	−0.014	0.404**	−0.210**	0.003	−0.096	−0.025
North East	−0.265*	−0.104	−0.121	—	—	−0.221***	−0.045	−0.022	−0.169*	0.022	−0.137	−0.072
North West	−0.101*	−0.136*	0.021	−0.007	−0.106*	−0.033	−0.170	0.157**	−0.087	−0.020	−0.220**	−0.141**
South East	−0.027	−0.156*	−0.100	0.004	−0.013	0.083	0.039	0.172**	−0.019	0.047	−0.037	−0.090
South West	−0.079	−0.102	0.063	0.153	−0.142**	0.170*	−0.042	0.122	−0.174*	0.014	−0.077	−0.048
West Midlands	−0.104*	−0.145*	0.095	0.129	−0.120*	0.214**	0.131	0.193**	−0.032	0.019	0.191*	−0.129*
Yorkshire and the Humber	0.000	0.005	0.026	−0.191**	−0.139**	−0.203***	−0.025	−0.089**	−0.161*	0.077	−0.125	0.017
District council	−0.168***	−0.023	−0.145	−0.280***	−0.230***	−0.349***	−0.288***	0.159*	−0.040	−0.181***	−0.101	0.052
Year = 2014	0.043***	0.043***	0.095***	0.048***	0.003	0.035***	0.045***	0.027***	0.009	0.015**	0.022***	−0.153***
Year = 2015	0.056***	0.075***	0.150***	0.062***	0.005	0.045***	0.065***	0.052***	0.013	0.023***	0.034***	−0.182***

Year = 2016	0.047***	0.085***	0.195***	0.099***	–0.002	0.087***	0.080***	0.069***	0.014	0.089***	0.059***	–0.207***
Year = 2017	0.070***	0.099***	0.247***	0.153***	0.003	0.117***	0.130***	0.099***	0.017	0.181***	0.144***	–0.226***
Year = 2018	0.072***	0.106***	0.275***	0.180***	0.014	0.130***	0.137***	0.137***	0.005	0.195***	0.209***	–0.246***
Obs.	*1,938*	*1,938*	*1,938*	*1,866*	*1,866*	*1,938*	*1,938*	*1,938*	*1,938*	*1,938*	*1,699*	*1,938*

Note: Figures shown are mean marginal effects (on the probability of adopting the relevant scheme feature) of increasing the annual funding cut per household by £1, the percentage cut in working-age support required to make up the full funding cut by 1 percentage point, the length of consultation period before introducing the 2013–14 scheme by 1 week, the number of consultation responses by 100, the percentage rise in number of CTB claimants from November 2008 to November 2012 by 1 percentage point, the percentage rise in CTB spending from 2007–08 to 2011–12 by 1 percentage point, the Index of Multiple Deprivation by 1 standard deviation, the log of the population by 1 (i.e. the population by 172%), the log of the population density (measured as people per square kilometre) by 1 (i.e. the population density by 172%), the percentage of properties in particular council tax bands by 1 percentage point (at the expense of fewer properties in band C, the omitted category) and the log of the band D rate by 1 (i.e. the band D rate by 172%); of a 1 percentage point cut in LA funding from government between 2012 and 2017 (for a single-tier and district council respectively); of moving from Conservative majority control (the omitted category) to each different party control of the council; of moving from East Midlands (the omitted category) to each other region; of moving from a single-tier LA to a district council; and of moving from 2013 (the omitted category) to subsequent years. Additional controls (not shown) are included for missing data on length of consultation and number of responses. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels respectively, calculated using robust standard errors. City of London and Isles of Scilly are omitted.

Table A.2. 'Common trends' test for collection rate regressions

Variable	(1) Main coefficient	(2) × 2008	(3) × 2009	(4) × 2010	(5) × 2011
Minimum payment of:					
0–8.5%	–0.2	–0.0	–0.0	–0.1	–0.0
8.6–20%	–0.9***	–0.1	–0.0	–0.1	–0.0
>20%	–0.6**	–0.1	–0.2	–0.2	0.0
Band restriction	0.3**	0.1	0.0	–0.1	–0.1
Increase taper rate	–0.4	0.2	0.5***	0.3**	0.2*
Abolish second adult rebate	0.1	0.1	0.0	0.0	0.0
Change non-dependant deductions	0.2	–0.1	–0.1	–0.1	–0.1
Minimum income floor	–1.7*	–0.4*	–0.3	–0.1	–0.2
Abolish small awards	–0.3	–0.1	–0.1	–0.1	0.1
Protect vulnerable groups	0.3**	0.1	0.1	0.0	0.0
Reduce asset limit	0.5***	–0.1	–0.1	–0.0	–0.0
Observations	*1,630*	*1,630*	*1,630*	*1,630*	*1,630*

Note: Output of a regression of collection rates on year dummies (not shown), region and district council dummies interacted with year (not shown), the scheme characteristics of an LA in 2013 (column 1) and those characteristics interacted with years (columns 2–5; 2012 is the excluded category). Data cover years 2008 to 2012. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels respectively, calculated using robust standard errors. Tests of common trends require that there are no significant differences in the pre-reform (pre-2013) period (i.e. the coefficients in columns 2–5 are not significant). With the exception of taper rate changes, this is satisfied.

Table A.3. Effects of CTS scheme features on caseloads, CTS spend per claimant, administrative and court costs, and arrears

Variable	Claimants / Total population (ppts)	Spend per claimant (£1000s)	Total arrears (log points)	Administrative and court costs / Collected council tax (ppts)
Band restriction	−0.0559	−2.176	0.0260	0.0733**
Increase taper rate	−0.136**	8.208	0.0227	0.0330
Abolish second adult rebate	−0.0375	−13.44	0.00987	0.0292
Change non-dependant deductions	−0.0930**	13.88	−0.0214	0.0342
Minimum income floor	−0.153***	−8.049	0.0312	−0.0188
Abolish small awards	−0.113*	26.30**	−0.0377	−0.0975**
Minimum payment 0–8.5%	−0.0799	−40.70***	0.0334	−0.0115
Minimum payment 8.6–20%	−0.0817	−92.87***	0.0480**	0.00912
Minimum payment >20%	−0.212***	−155.0***	0.125***	0.0376
Protect vulnerable groups	0.0356	20.60*	−0.0196	−0.0514*
Reduce asset limit	−0.128**	6.488	−0.0127	−0.00628
Observations	*1,895*	*1,785*	*1,944*	*1,944*

Note: Based on regressions with LA fixed effects, year dummies and LA-level controls (region, log population, population density, Index of Multiple Deprivation, cut to LA spending 2012 to 2017, district council indicator, band D rate, unemployment rate and housing tenure) – none of which is shown here – and scheme characteristics on the share of CTS claimants in the population and spend per claimant. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels respectively, calculated using robust standard errors.

Table A.4. 'Common trends' tests for Citizens Advice data regressions

Variable	(1) Main coefficient	(2) × 2011Q4	(3) × 2012Q1	(4) × 2012Q2	(5) × 2012Q3
Minimum payment of:					
0–8.5%	–9.9	6.1	–3.7	5.3	3.5
8.6–20%	–30.7	–1.6	–10.3	–2.9	3.2
>20%	–29.9	–3.3	–0.4	6.5	–5.8
Band restriction	7.5	–6.1	–2.7	–9.4	–21.3**
Increase taper rate	–6.3	–12.7	–22.4	–18.2	–12.5
Abolish second adult rebate	–15.1	–19.9***	–13.6	–10.0	–11.4
Change non-dependant deductions	9.4	10.0	18.0*	17.1*	17.7**
Minimum income floor	7.4	54.9**	40.2*	–4.3	8.1
Abolish small awards	11.4	–8.5	–4.5	–2.7	3.5
Protect vulnerable groups	1.8	10.2	15.7	8.6	12.9
Reduce asset limit	–16.9	20.1*	8.6	14.2	15.4
Observations	*1,620*	*1,620*	*1,620*	*1,620*	*1,620*

Note: Output of a regression of Citizens Advice queries related to council tax on quarter dummies (not shown), region and district council dummies interacted with year (not shown), the scheme characteristics of an LA in 2013 (column 1) and those characteristics interacted with quarters (columns 2–5; 2012Q4 is the excluded category). Data cover 2011Q4 to 2012Q4. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels respectively, calculated using robust standard errors. Tests of common trends require that there are no significant differences in the pre-reform (pre-2013) period (i.e. the coefficients in columns 2–5 are not significant). For minimum payments, this is satisfied.

Table A.5. Effects of scheme choices on Citizens Advice queries about council tax and CTS (working age and pensioners)

Variable	Queries to Citizens Advice about council tax and CTS: working age (log points)	Queries to Citizens Advice about council tax and CTS: pensioners (log points)
Minimum payments of different levels (relative to zero):		
Up to 8.5%	0.17***	0.07
8.6–20%	0.14***	–0.00
>20%	0.18***	–0.06
Band restriction	0.02	–0.04
Reduce asset limit	0.04	–0.00
Increase taper rate	0.11*	0.04
Minimum income floor	–0.00	0.01
Abolish small awards	0.01	0.02
Non-dependant deductions	–0.04	0.02
Protect vulnerable groups	–0.04	–0.00
Observations	*9,069*	*9,012*

Note: Numbers are coefficient estimates from an ordinary least squares (OLS) regression. The independent variables are LA fixed effects, period (year) fixed effects, the CTS scheme characteristics listed in the table and LA-level controls (region, log population, population density, Index of Multiple Deprivation, cut to LA spending 2012 to 2017, district council indicator, band D rate, unemployment rate and housing tenure) interacted with year dummies. The fixed effect estimates and estimates for controls are not reported. Estimated standard errors are clustered at the LA level. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels respectively.

Table A.6. Probit regressions of impact of loss in CTS support on probability of council tax arrears

Variable	(1) Baseline result	(2) Separate impacts based on whether entitled to full CTS under default	(3) Placebo test of baseline result	(4) Placebo test of separate impacts result
Lose from CTS reforms	0.04122***	0.04490***	0.02276	0.02500
Those with no bill under default	0.04148***	0.07695***	0.02158	0.01733
Those with bill under default	0.04092***	0.00672	0.02410	0.03372
Lose extra £1 CTS	−0.00005	−0.00003	0.00002	0.00005
Those with no bill under default	−0.00006	−0.00005	0.00002	0.00000
Those with bill under default	−0.00005	−0.00001	0.00003	0.00011
No bill under default scheme	−0.02433***	−0.01813**	−0.03482***	−0.02911***
Some loss relative to default	−0.02843***	0.04037***	—	—
No loss relative to default	−0.02305***	−0.03649***	—	—
Other covariates				
North West	−0.01054	−0.01083	−0.00335	−0.00398
Yorkshire and the Humber	−0.00364	−0.00533	−0.00830	−0.00955
East Midlands	−0.02019*	−0.02203**	−0.00571	−0.00653
West Midlands	−0.02775***	−0.02912***	−0.02068*	−0.02198*

East	−0.00997	−0.01066	0.00605	0.00532
London	−0.00949	−0.00884	−0.00694	−0.00706
South East	−0.00478	−0.00531	0.00275	0.00176
South West	0.01831	0.01841	0.01674	0.01581
Wales	−0.03861***	−0.04131***	−0.02071	−0.02282
Scotland	0.11029***	0.10699***	0.10841***	0.10577***
1 adult, children	0.01884***	0.01870***	0.01644***	0.01612***
>1 adult, no children	0.01479***	0.01475***	0.01537***	0.01486***
>1 adult, children	0.03576***	0.03532***	0.03967***	0.03889***
1 child	0.02333***	0.01932***	0.02624***	0.02575***
2 children	0.02857***	0.02759***	0.02962***	0.02903***
3 children	0.03494***	0.02948***	0.03451***	0.03380***
4 children	0.04006***	0.03630***	0.04112***	0.04027***
Net household income under default	−0.00000***	−0.00000***	−0.00000***	−0.00000***
CTB entitlement under default	0.00000	0.00000	−0.00001	−0.00001
Savings	−0.00000	−0.00000	−0.00000	−0.00000
Gross council tax bill	−0.00002	−0.00002	−0.00003	−0.00003
CT band B	0.00154	0.00187	0.00275	0.00228
CT band C	−0.00593	−0.00542	0.00123	0.00051
CT band D	−0.02368**	−0.02249*	−0.01331	−0.01403
CT band E and above	−0.03848**	−0.03459*	−0.02474	−0.02443

Buying with mortgage	0.06768***	0.06792***	0.07496***	0.07522***
Part own, part rent	0.08183**	0.08017**	0.10481**	0.10497**
Rent	0.12825***	0.12820***	0.11867***	0.11859***
Rent-free	0.02847	0.03047	0.05365**	0.05448**
Observations	*32,131*	*32,131*	*21,804*	*21,804*

Note: Coefficients presented are average marginal effects on the probability of being in council tax arrears. Other covariates (not shown) are quadratics in the hypothetical loss that a household would have experienced (relative to the default scheme) if their circumstances were like they are in 2013–14, 2014–15, 2015–16 and 2016–17. In column 1, the actual loss experienced by a household enters as a quadratic and year dummies. In column 2, the actual loss enters as a quadratic interacted with whether or not a household would have been entitled to full CTS under the default scheme. Columns 3 and 4 present placebo tests for the specifications in columns 1 and 2, where the 'actual loss experienced' is the hypothetical loss under the LA's 2013–14 scheme, but evaluated in 2012–13, with data only on pre-2013–14 years. We do not find statistically significant effects on arrears from 'hypothetical loss' in these tests. Data taken from the Family Resources Survey 2006–07 to 2016–17, based on the sample of households calculated as being eligible for some CTB/CTS under the default scheme. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels respectively, calculated using robust standard errors.

Table A.7. Probit regressions of impact of loss in CTS support on probability of council tax arrears for different subgroups

Variable	Lone parents	Other household types	Renters	Homeowners	LA in bottom half of collection rates, 2012–13	LA in top half of collection rates, 2012–13
Lose from CTS reforms	0.08672***	0.02801*	0.07999***	–0.02595	0.04813**	–0.00967
Those with no bill under default	0.10414***	0.05468*	0.11034***	0.00130	0.08065***	0.02361
Those with bill under default	0.00026	0.00310	0.03184	–0.04014	0.00866	–0.04216
Lose extra £1 CTS	–0.00009	–0.00004	0.00011	–0.00014	0.00002	–0.00010
Those with no bill under default	–0.00021	–0.00005	0.00012	–0.00010	0.00001	–0.00003
Those with bill under default	–0.00073***	–0.00003	0.00009	–0.00016	0.00003	–0.00017
No bill under default scheme	–0.02577	–0.01544*	–0.01658	–0.00355	–0.01797	–0.04448***
Some loss relative to default	0.09005**	0.02426	0.06109***	0.00350	0.04344*	–0.02970
No loss relative to default	–0.06100***	–0.02801***	–0.04176***	–0.00556	–0.04153***	–0.04966***
Other covariates						

North West	−0.01935	−0.00734	−0.01085	−0.00831	−0.01610	0.05877*
Yorkshire and the Humber	−0.01289	−0.00115	0.00026	−0.01815	−0.00978	0.06156*
East Midlands	−0.01871	−0.02239*	−0.03530***	0.00563	−0.02124*	0.03878
West Midlands	−0.02792	−0.02785**	−0.02909**	−0.02340	−0.02599**	0.03795
East	−0.03693*	−0.00202	−0.00639	−0.01778	−0.00994	0.05723*
London	0.00159	−0.00961	−0.00765	−0.01487	−0.01432	0.07733**
South East	−0.01096	−0.00302	0.00167	−0.02026	−0.01310	0.06644**
South West	0.00386	0.02283*	0.03488**	−0.02542	0.01131	0.08507***
Wales	−0.03988	−0.03900**	−0.04521**	−0.02794	—	—
Scotland	0.16289***	0.09127***	0.13731***	0.01155	—	—
1 adult, children	—	—	0.02514***	0.00172	0.01562***	0.01509**
>1 adult, no children	—	0.02126***	0.01785***	0.00565	0.01399***	0.00911
>1 adult, children	—	0.02696***	0.04688***	0.00841	0.03146***	0.02814***
1 child	—	0.02464***	0.03027***	0.00419	0.02161***	0.01684**
2 children	−0.01870	0.02344***	0.03878***	0.00167	0.02420***	0.02356***
3 children	−0.03116*	0.03561***	0.04528***	0.00953	0.02896***	0.03385***
4 children	—	0.03301***	0.04415***	0.02425***	0.03302***	0.03210**
Net household income under default	−0.00000***	−0.00000***	−0.00000***	−0.00000	−0.00000***	−0.00000***

CTB entitlement under default	0.00002	−0.00000	−0.00003***	0.00003***	−0.00001	0.00001
Savings	−0.00001**	−0.00000	−0.00001***	−0.00000	−0.00000	−0.00002***
Gross council tax bill	0.00000	−0.00002	0.00001	−0.00004	−0.00002	0.00003
CT band B	0.00146	0.00099	0.00256	0.00047	0.00776	−0.00961
CT band C	−0.01447	−0.00435	0.00345	−0.02070*	−0.00977	−0.01717
CT band D	−0.02949	−0.02123	−0.01904	−0.02013	−0.01875	−0.03373
CT band E and above	−0.03437	−0.03308	−0.02638	−0.02028	0.00689	−0.07393**
Buying with mortgage	0.02284	0.06977***	—	0.04688***	0.05348***	0.07724***
Part own, part rent	0.01536	0.08657*	—	—	0.06137	0.07726
Rent	0.08844***	0.12856***	—	—	0.10461***	0.12352***
Rent-free	0.04914	0.01541	—	0.02147	0.01952	0.06213
Observations	*9,128*	*23,000*	*24,296*	*7,835*	*18,153*	*7,091*

Note: Coefficients presented are average marginal effects on the probability of being in council tax arrears. Other covariates (not shown) are quadratics in the hypothetical loss that a household would have experienced (relative to the default scheme) if their circumstances were like they are in 2013–14, 2014–15, 2015–16 and 2016–17. The actual loss experienced by a household enters as a quadratic and year dummies. Data taken from the Family Resources Survey 2006–07 to 2016–17, based on the sample of households calculated as being eligible for some CTB/CTS under the default scheme. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels respectively, calculated using robust standard errors.

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