EMBARGO 00:01 FRIDAY 5th FEBRUARY

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IFSBriefing Note B317

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Employment, income and council tax during the COVID-19 crisis: a geographical analysis and implications for councils

Trust for London
Tackling poverty and inequality

Local Government Association

UKRI Economic and Social Research Council

Standard Life FOUNDATION

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Published by **The Institute for Fiscal Studies**

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ISBN 978-1-80103-021-2

Preface

The authors would like to thank Bevis Ingram, Nicola Morton, Kamal Panchal and Sarah Pickup from the Local Government Association, as well as Mubin Haq from the Standard Life Foundation, for comments and advice on earlier drafts of this briefing note. They would also like to thank the staff at Money Dashboard, including Maria Anaplioti, Ian Christie, Anthea DeSyllas, Raonull MacKinnon, Max Thomas and Daniel Weeden, for their extensive help in understanding and using the Money Dashboard data.

The authors gratefully acknowledge funding from the Trust for London to enable analysis of the impacts of the COVID-19 crisis across different regions, and from the Local Government Association to enable analysis of council tax collections and how impacts vary across local authorities with different characteristics. In addition, Standard Life Foundation has supported this project (reference 202005-GR000020) as part of its mission to contribute towards strategic change which improves financial well-being in the UK. Its focus is on tackling financial problems and improving living standards for people on low-to-middle incomes. It is an independent charitable foundation registered in Scotland. Finally, co-funding from the Economic and Social Research Council (ESRC), as part of UK Research and Innovation's rapid response to Covid-19, under the grant 'Covid-19 and councils finances: understanding risks and impacts & improving policy' (ES/V005073/1) as well as from the ESRC-funded Centre for the Microeconomic Analysis of Public Policy at IFS (grant number ES/T014334/1) also supported this work.

Please note that all opinions and any errors or omissions in terms of analysis are the responsibility of the authors only.

Executive summary

The decline in economic activity that has resulted from the COVID-19 crisis and associated public health restrictions have had a significant effect on the finances of households. Employment has fallen, the number of people in receipt of unemployment and means-tested benefits has risen, and a significant number of people have stopped paying large and important bills such as mortgages and council tax, whether on an agreed basis (such as via a mortgage holiday or council tax deferrals) or otherwise. Falls in council tax revenues have, alongside falls in other income streams and increases in spending, contributed to a 'perfect storm' for local authorities' (LAs') finances as well.

In this briefing note, we update and extend previous IFS analysis, to consider how employment, incomes, benefit claims and council tax payments have evolved over a longer period and have varied geographically, and draw out key implications for local government. This includes a particular look at the characteristics of households that have stopped paying council tax during the COVID-19 crisis – including how their characteristics differ from those of households that stopped paying council tax prior to the COVID-19 crisis, and how their income and spending changes compare with those of households that have continued paying council tax. To do this, we use anonymised data from the Money Dashboard budgeting app, in conjunction with the latest administrative and survey data from households, businesses and local government.

Key findings

1 The number of employees on payroll was 3.0% lower by November 2020 than it had been in February 2020, with around three-quarters of this decline taking place during the first national lockdown. Almost 9 million jobs were furloughed during April and May, and around 2.5 million were still furloughed in October. After an initial fall in April and May, the median pay of employees on payroll – including those furloughed – was 3.4% higher by November. However, perhaps half of this growth reflects the

fact that lower-paid workers were more likely to lose their jobs, pushing up the average pay of those still in work. And overall household earnings – a measure that also accounts for this fall in employment, as well as the earnings of the self-employed – do not appear to have regained pre-COVID levels by early autumn. In particular, data from the UK Household Longitudinal Survey suggest median household earnings were 3.3% lower in September 2020 than in January/February 2020, although this compares with an 11.5% difference in April.

2 England's second national lockdown, in November, was associated with a more muted impact on the labour market than the first lockdown. In particular, employment, earnings and claims for unemployment-related benefits were similar to earlier in the autumn. The share of workers furloughed did increase from 7% to around 13%, but this compares with around 30% during the first lockdown. This may reflect the shorter and less stringent nature of the second lockdown though, and the current third lockdown may have a larger effect.

3 The more muted effect of England's second lockdown extended to claims for local council tax support (LCTS), which according to figures from LAs, have been broadly steady since July. However, working-age claimant numbers were around 11% (250,000) higher in July–September 2020 than they were in October–December 2019, prior to the COVID-19 crisis. These increases in LCTS costs are one factor behind a shortfall in council tax revenues. While council tax revenues increased 0.4% in the first half of the 2020–21 fiscal year compared with 2019–20, pre-COVID forecasts were for an increase of 5.4%. This suggests a shortfall in revenue of almost £0.9 billion in the first half of the fiscal year, with LAs predicting a full-year impact of around £1.3 billion.

4 All regions of the UK have seen substantial falls in the number of employees in paid work, ranging from 1.4% in Northern Ireland, between 2 and 3% in most regions of England, to 5.5% in London. Moreover, even prior to the second lockdown, approximately 6–7% of employees were furloughed in most parts of England, including around 7.5% in the North West and 10% in London. Data from Money Dashboard also suggest that

overall household incomes have fallen in all regions, with the largest falls in the South and Midlands of England.

5 Council tax shortfalls have been most notable in London, the North East and North West, where in the first half of the 2020–21 fiscal year receipts actually fell year-on-year by 1.4%, 1.3% and 0.2% respectively, despite increases in tax rates of almost 4%.

6 This weaker performance partly reflects a larger impact from increases in LCTS claims, but may also reflect increases in payment failures and the pausing of enforcement action. However, it is worth noting that while other regions saw an increase in council tax receipts – of up to 1.7% in the South West of England – all have seen a shortfall relative to pre-COVID forecasts. And the fact that LAs in the South of England rely more on council tax for their funding means overall financial impacts are more evenly distributed across regions.

7 Both the numbers claiming unemployment-related benefits and the numbers claiming LCTS have increased most relative to existing claimant numbers in less deprived English LAs. However, they have increased more relative to population in more deprived English LAs, with claims for unemployment-related benefits increasing by the equivalent of 3.7% of the working-age population in the most deprived fifth, compared with 2.4% in the least deprived fifth. This suggests the number of people affected by financial hardship has increased most in the areas where it was already highest.

8 Council tax revenues fell by 1.2% in the most deprived fifth of English LAs in the first half of 2020–21, but grew by 2.4% in the least deprived fifth. LAs' own forecasts for the full year suggest a similar pattern, with the most deprived fifth seeing a shortfall relative to pre-COVID forecasts of 5.4% compared with 2.9% for the least deprived fifth. However, as the least deprived fifth rely on council tax for around 1.6 times the share of

their overall core funding that the most deprived fifth do, impacts on overall funding levels are broadly comparable.

9 Amongst Money Dashboard users who regularly paid council tax before the crisis, 14.7% did not make a monthly council tax payment in at least one month between April and June 2020. The equivalent figure in 2019 was 12.3%. The proportion missing at least one payment increased between 2019 and 2020 across age groups and most regions, although many households that did not make a payment for the first time in April or May did restart making payments from June. This fits with reports from councils that they allowed around 4% of council tax payers to defer payments to later in the year, but may also reflect payment failure.

10 Average (pre- and post-crisis) incomes were lower amongst Money Dashboard users who did not make at least one council tax payment. However, these users were no more likely to have suffered substantial falls in their incomes than those who did not miss any, and they were also no more likely to have stopped paying other bills or to have reduced their spending on other things. However, other data suggest that those who failed to make a payment – rather than getting a deferral, for example – did see larger falls in their income, and suggests a correlation between payment failure, use of deferrals and LCTS claims with more general financial difficulties.

Overall, it is clear that the COVID-19 crisis has had a substantial impact on households' employment and incomes – albeit significantly mitigated by policies such as the furlough scheme – and, as a result, on their payments of council tax. While the summer and autumn of 2020 showed a slowdown in falls in employment, a levelling-off of benefit claims and some recovery in earnings, the situation over the coming financial year is likely to deteriorate again as the furlough scheme is wound down and unemployment rises. The Office for Budget Responsibility (OBR), for example, forecast in November that unemployment would rise to 7.5% by June, albeit with significant uncertainty: its more optimistic scenario was for unemployment to remain broadly constant at 5.1%, but its more pessimistic scenario was for it to more-than-double to 11% by the start of 2022.

This briefing note also shows how impacts have varied around the country, with London, other urban, and more deprived areas hit harder in terms of employment, reliance on the furlough scheme, benefit claims and council tax revenues (although more affluent areas are more reliant on these revenues). Trends are likely to continue to differ, but how much and in what way will depend on the future shape of the economy, including the extent to which changes in shopping and commuting patterns persist. Evidence on this may begin to emerge during the course of this year, as the COVID vaccination programme hopefully allows a relaxation of most public health restrictions.

The government's response across a range of policy areas – including benefits, employment and skills, and investment and regional funding – will also matter for outcomes. This includes its approach to local government funding. The way it has addressed shortfalls in council tax revenue that have arisen this year – a grant to cover 75% of the shortfall between collections and pre-COVID forecasts – will not only help ameliorate overall impacts, but will also help minimise the inequalities in funding between LAs that could be driven by differences in the size of shortfalls. The up-front grant funding planned for 2021–22 will be of particular benefit to the most deprived LAs, given it will be based on existing levels of LCTS claims, which are much higher than in more affluent LAs. Plans for 2022–23 and beyond have not been set out though. If extra funding to cover higher LCTS claims is discontinued at that point, as well as impacting on funding for local government as a whole, those LAs seeing the largest increases in the numbers facing unemployment and low incomes may also be particularly affected by shortfalls in revenue.

1. Introduction

The COVID-19 crisis has a significant effect on households' finances, driven by falls in employment and hours of work. For example, real-time information from HM Revenue and Customs (HMRC) and the Office for National Statistics (ONS) suggests that the number of employees on payrolls fell by 2.2% (650,000) between February and May and then another 0.8 percentage points (233,000) by November. Median earnings initially fell by 3.2% between February and April, but then started recovering and exceeded February levels by July, reaching 3.4% above February levels by November (although this could be partly driven by lower earners being more likely to have lost their jobs).

The COVID-19 crisis has also had a significant impact on local authorities' (LAs') finances, with both significant increases in spending and falls in locally generated income. This includes income raised from council tax, where the financial difficulties facing households have led to an increase in eligibility for means-tested discounts ('local council tax support' or LCTS) and an increase in non-payment. Across England, the number of working-age recipients of LCTS has increased by 11% (around 250,000), and while overall revenues during the first half of the 2020–21 fiscal year were approximately 0.4% above the same period of 2019–20, they were almost 5% below pre-crisis forecasts.

Previous analysis at IFS has considered both the effects of the crisis on households' finances and the knock-on effects for council tax collections. For example, Bourquin et al. (2020) used anonymised data from the Money Dashboard finance app to track changes in households' earnings, incomes and bill payments (including council tax) up until the end of May. They found a fall in median post-tax earnings of 9% and a fall in median post-tax income of 8% relative to what would have been expected given pre-COVID-crisis trends. Partly as a result of this and partly as a result of other policy measures (such as mortgage holidays and a moratorium on evictions), the number of households making mortgage, rental and council tax payments was 14%, 11% and 9% lower than what would have been expected. And Delestre et al. (2020) found evidence that non-payment of council tax increased particularly among furloughed workers, those receiving money from the Self-

Employment Income Support Scheme (SEISS) and those in receipt of universal credit.

Looking at the other side of the council tax transaction, Ogden, Phillips and Spiliotis (2020) find that LAs' forecasts imply a fall in council tax revenues of approximately 5%, compared with pre-COVID-crisis forecasts, with non-payment accounting for just under 60% of this. However, the ultimate impact on LAs' finances will depend crucially on the extent to which they can recoup non-payments via late payments or enforcement action.

This briefing note updates and extends our previous analysis to consider:

- How recent trends in earnings, income, and council tax payment and revenue vary across regions and types of LAs, and how these have evolved over a longer period. This can provide information on the extent to which the crisis is having disproportionate short-term effects on households and in turn LAs' finances in particular parts of the country.
- The characteristics of households that have stopped paying council tax – such as their pre-crisis income levels and the extent to which their income and other spending has fallen. The poorer and more adversely affected such households have been, the harder it may be for LAs to recoup unpaid council tax via late payments and enforcement action.

In order to do this, we again make use of data from the Money Dashboard app and the UK Household Longitudinal Survey (UKHLS), as well as a range of administrative data including real-time information (RTI) on earnings from HMRC, unemployment benefit claims, council tax receipts and LCTS claimant numbers. Most of our regional analysis covers the whole of Great Britain, but our analysis of administrative data on council tax payments and of how trends vary across types of LAs is for England only.

The focus of our geographical analysis is on how the impacts of the COVID-19 crisis on employment, earnings, benefit claims and council tax receipts vary – not the large pre-existing inequalities that already exist in the UK. However, it is important not to forget those pre-existing differences between places. Recent research at IFS has highlighted, for instance, how high earners are particularly concentrated in London, its environs and a few 'well-to-do' suburbs of other major cities such as Trafford in Greater Manchester and Solihull in the West Midlands

(Agrawal and Phillips, 2020). For example, almost 30% of Londoners working full time earned more than £50,000 in 2019, compared with just 10% in the North East of England, Wales and Northern Ireland. Areas that may be termed 'left behind' – based on pay, employment, formal educational qualifications and incapacity benefit claims – are particularly concentrated in large towns and cities outside of London and the South East, in former industrial areas, and in coastal and isolated rural areas (Davenport and Zaranko, 2020). For example, median earnings in Blackpool (£379) were around half those in much of West London, while the share of the working-age population claiming incapacity-related benefits (11.7%) was around five times higher than in parts of the Home Counties (such as 2.1% in Wokingham). Inequalities in health, wealth and education have been increasing. But geographical inequalities in earnings and employment have, if anything, been shrinking. And as well as being home to more of the affluent, the capital has the highest poverty rate, driven by its high housing costs.

These complex patterns mean different areas already faced different types of problems to different extents – whether housing affordability, poor educational attainment or a paucity of high-paying jobs. The COVID-19 crisis may amplify some of these geographic inequalities, but may also lead to shifts in patterns, not least if changes in commuting, shopping and socialising habits persist.

Bearing this in mind, the rest of the briefing note proceeds as follow. Section 2 describes the data sources we use. Section 3 looks at trends in earnings, incomes and bill payments for Great Britain or England as a whole. Section 4 then examines how trends vary by region and LAs' characteristics. Section 5 looks in more detail at council tax payments, and considers the characteristics of households that stopped paying council tax after the COVID-19 crisis hit in March 2020. Section 6 concludes.

2. Data

This briefing note makes use of four main types of data. First is data on a sample of households' income and spending from the Money Dashboard budgeting app. Second is data from Understanding Society: the UK Household Longitudinal Study. Third is a range of official and administrative data on employment, earnings, furlough and universal credit, as well as council tax revenues and local council tax support (LCTS) claimant numbers. And fourth is data on the socio-economic characteristics of different LA areas. The first of these is discussed in Section 2.1, the second in Section 2.2 and the last two in Section 2.3.

2.1 Money Dashboard data

Money Dashboard (MDB) is a free budgeting app running since 2010, available via computer and smartphone. On the eve of the crisis in January 2020, it had over 100,000 registered users. When a user signs up to MDB, they provide their age, gender and postcode, and can then link in their financial accounts, including current accounts, credit cards and savings accounts. The MDB data therefore provide information on income, spending and account balances before and during the COVID-19 crisis in a very granular and quantitatively precise way, and in near real-time as the situation evolves.

Section 2 and appendices A and B of Bourquin et al. (2020) provide a detailed discussion of these data, including the construction and definition of variables and sample representativeness and weighting. We use an updated version of the sample used in that work, extending the following requirements to December 2020:

- have at least £200 in debits in all months, or all months but one, between July 2018 and December 2020;
- have at least some transactions in July 2018 and December 2020, to ensure that all transactions in the intervening months have been downloaded by Money Dashboard;

- signed up to Money Dashboard before 1 March 2020 in order to avoid including users who signed up because of the impacts of the COVID-19 crisis on their financial circumstances;
- have exactly the same set of current accounts throughout the period, to avoid conflating the addition (or removal) of an account that was already in use (or continues to be in use) but was not linked to the Money Dashboard app (or has been removed from the Money Dashboard app) for some reason.

This gives us a sample size of around 8,600 users meeting these conditions.

Our main variables of interest are income, earnings, and payment of council tax and mortgages. These are identified and constructed in the same way as in Bourquin et al. (2020), although our measure of income is net of payments to and from HMRC. We make this change primarily so as to incorporate the impact of the Self-Employment Income Support Scheme (SEISS) on income, but it also means we net off other tax payments, penalties and refunds, which may include some transactions (such as payments of capital gains tax or stamp duty land tax) that we would ideally not net off. Figure A.2 in the appendix shows that trends in median household income are very similar if we exclude transactions with HMRC from our measure of income, or if we only include transactions that we are highly confident are SEISS payments.

We look at overall trends across our whole sample, weighted to be representative of the distribution of the population across regions and age groups, and then split our sample by region and by characteristics of the LAs in which users live (see below).

2.2 Understanding Society data

We complement our analysis using MDB with an alternative survey-based data source – Understanding Society: the UK Household Longitudinal Study (University of Essex, 2020a and 2020b). UKHLS is a broadly representative household survey of the same individuals in the UK each year (starting in 2009) and contains detailed information on individual and household characteristics. The last available pre-COVID wave of the UKHLS covers 2018 to 2019. Since April 2020, participants of the UKHLS have been asked to complete short online surveys on the impact of the COVID-19 pandemic, including on their labour market situation and earnings, with five waves covering April to September available at the time of writing.

Respondents are asked two questions about pre-COVID (January/February 2020) and post-COVID (April to September) earnings, the first on their own earnings and the second on their household's earnings. Unfortunately, answers to these questions are not always consistent and, in those households in which all adults took part in the survey, the sum of individual earnings is generally higher than reported household earnings, suggesting some respondents provide the earnings of *other household members* when providing an answer to the household earnings question. For this reason, our main analysis of earnings using UKHLS is based on the individual earnings question for those households where all adults respond to the survey and provide an answer to this earnings question. We then reweight the data according to region, age, number of adults and children and the number of workers in the pre-COVID period (January/February) and post-COVID period (April to September) using inverse probability weighting. Results based on reported household earnings are included in Figure A.1 in the appendix.

2.3 Administrative and socio-economic data

We also look at a range of official and administrative data covering employment, earnings, furlough and universal credit, as well as council tax revenues and local council tax support (LCTS) claimant numbers. Our analysis focuses on the following:

- Real-time information (RTI) from HMRC on the number of payrolled employees and on their earnings (ONS, 2021a). This provides the most up-to-date information on employment and earnings across the population, and should capture payments made to furloughed employees, although 'flash' estimates for December are based on partial information and may be revised.
- Survey-based estimates of employment, unemployment and inactivity rates from the Labour Force Survey (ONS, 2021b).
- Administrative data on the number of claims made for jobs furloughed under the Coronavirus Job Retention Scheme (HMRC, 2021), although only provisional estimates are available for December.
- Estimates from a fortnightly ONS survey of businesses (ONS, 2021e), which are published very rapidly and currently extend into January. These are based on a relatively small sample of UK businesses, but are weighted to be representative and allow comparison over time.

- The number of people claiming benefits principally for the reason of being unemployed, based on administrative data from the benefits system (ONS, 2021c). This can be used as a proxy for unemployment, although claimant numbers also increased in 2020 due to changes to eligibility criteria for benefits made in response to the coronavirus pandemic, and the count includes some people who are employed but on low incomes. Comparisons over time and between places are complicated by the roll-out of universal credit.
- The alternative claimant count (DWP, 2021), which measures the number of people who would have been subject to work-search requirements if universal credit had been in place since 2013. This allows for comparisons on a consistent basis over time, although is still affected by changes to eligibility in 2020.
- The number of households claiming LCTS from their local council each quarter (MHCLG, 2020b).
- The total value of council tax receipts collected by each local authority each quarter (MHCLG, 2020d). This measures council tax performance so far in the year, but will also reflect agreements to defer payments to the second half of the year.

In terms of socio-economic characteristics of LAs, we utilise the following data:

- The relative deprivation in an area, based on the average score from the English Index of Multiple Deprivation (IMD) at the lower-tier LA level (MHCLG, 2019b).
- The type of settlement in which most of an area's population lives, according to a city–town classification produced by the House of Commons Library (2018)
- The proportion of employees in an area who work in 'shut-down' sectors – such as arts, entertainment & recreation, accommodation and food services, and non-essential retail directly affected by lockdowns and reduced demand – as described in Joyce and Xu (2020). This is based on information from the Business Register and Employment Survey (ONS, 2020c), so reflects the number of employees working in an area, rather than the employment of residents.

3. The national picture

We begin by providing an updated analysis of national trends in employment, earnings, incomes, benefit receipt and bill payments, drawing out the implications for both households and local government. This updates our earlier analysis of data from the Money Dashboard app (Bourquin et al., 2020), and complements it using administrative data (which cover a narrower range of income sources, but are not subject to sampling error and potential biases).

Overall, data suggest that after an initial fall, earnings among those in employment recovered over the summer and autumn, but employment has continued to fall – albeit more slowly – and is forecast to fall further, especially following the planned end of the furlough scheme. These employment trends mean household earnings and incomes have recovered to a lesser extent – despite increases in the generosity of the benefit system and special support schemes.

Council tax (and other bill) payments fell notably in the early stages of the COVID-19 crisis. However, while the number of working-age households eligible for means-tested discounts continued to rise during the summer, revenues recovered somewhat, potentially as short-term deferrals granted by councils expired.

3.1 Trends in employment and earnings

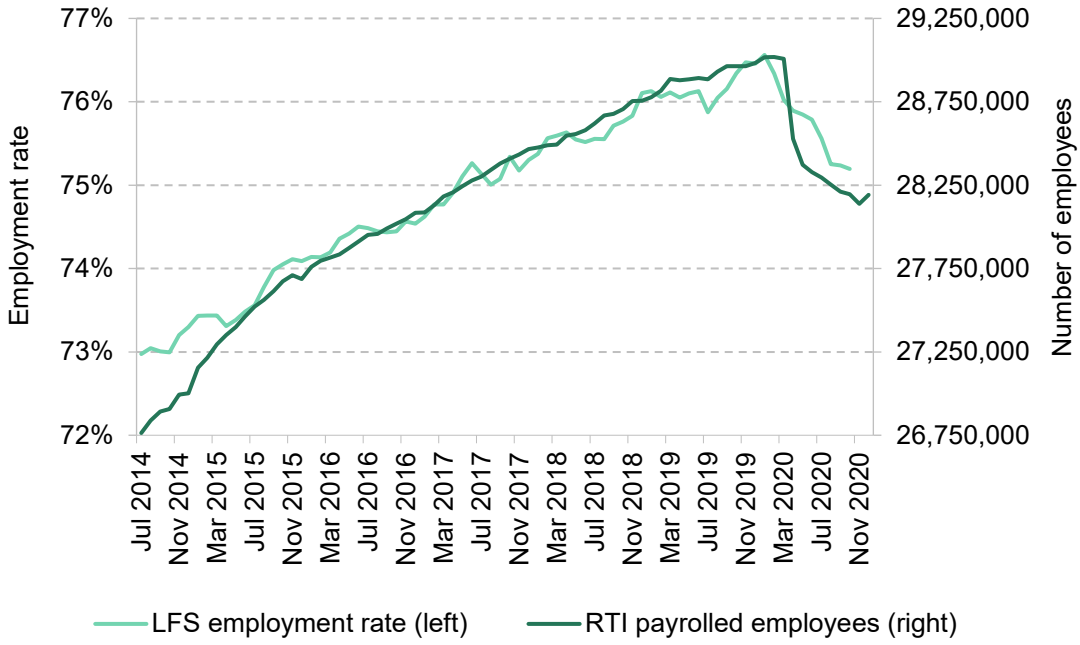
The restrictions on economic and social activity put in place to reduce transmission of COVID-19 have had a significant effect on the labour market, albeit significantly mitigated by the Coronavirus Job Retention Scheme (often termed the 'furlough scheme'), which has supported employment and earnings for millions of people.

The number of employees has fallen by over 800,000 …

Figure 3.1 shows two measures of employment:

- the number of employees on payroll and reported to HMRC using the real-time information (RTI) system (on the right-hand axis);

Figure 3.1. Employment rate and number of payrolled employees in the UK



Note: The number of payrolled employees is seasonally adjusted. The employment rate is also seasonally adjusted, and is a three-month average for 16- to 64-year-olds.

Source: ONS, 2021a and 2021b.

- the overall employment rate of adults aged 16–64 as recorded by the Labour Force Survey (LFS) (on the left-hand axis).

The figure shows a sharp fall in the number of employees on payroll in the first national lockdown, with a decline by May of around 650,000 (2.2%) on a seasonally adjusted basis compared with February 2020 levels. The decline has continued in subsequent months, albeit at a substantially slower and steadier rate, reaching 880,000 (3.0%) by November. So-called 'flash' estimates for December (based on around 85% of the full data that will eventually be available) suggest a small increase in payrolls compared with November, but still show a fall of around 830,000 (2.9%) relative to February.

It is notable that the second English lockdown, in November, was not associated with a particularly large decline in the number of employees on payroll, potentially reflecting several factors. First, many of the jobs most likely to be lost as a result of lockdown restrictions were already lost in the first lockdown, with ongoing restrictions and lower demand meaning these jobs were not recreated when the first

lockdown was ended. Second, the second lockdown was less stringent than the first, with a wider range of sectors able to remain open, and hence their workers gainfully occupied. Third and related to this, consumer spending fell substantially less during the second lockdown, including at restaurants and clothing retailers, where collection and delivery services may now be more developed (Davenport et al., 2020a). Fourth, as this second lockdown was pre-announced to last only four weeks, employers may have decided to retain workers in anticipation of a resumption of activity in December. If this was the case, the open-ended nature of the current third national lockdown in England means it may be associated with a larger fall in employment.

Not all sectors – and, as we discuss later, regions of the country – have been equally affected, with the number of employees in the health and social work sector actually growing by 75,000 (+1.9%) between February and November, while the number in the accommodation and food services sector fell by around 320,000 (–15.4%).[1] This will reflect the differing impact of the COVID-19 crisis and associated public health measures on the demand for different sectors, and hence those sectors' demand for labour. Differences in the sectors in which different types of people work, among other factors, also mean employment has fallen more for lower-paid, less-educated, and younger people, and ethnic minority groups (Brewer et al., 2020).

LFS-based estimates of the overall employment rate – which includes those classed as self-employed as well as employees – have also fallen. The rate peaked at 76.6% in the three months to February 2020 and declined to 75.9% by the three months to May 2020 and 75.2% on the three months to November 2020. This is a fall of 1.4 percentage points, equivalent to approximately 500,000 fewer working-age people in work.

This fall is somewhat smaller than the fall in the number of employees recorded by HMRC. Part of the gap reflects a reduction in employment among those aged 65 or over, estimated to be approximately 50,000 using the LFS. Some of the gap may

[1] See ONS (2020a) for further information on breakdowns by sector. Sectoral-level flash estimates for December are also available but are subject to even greater revision than overall figures. They suggest further growth in jobs in the health and social work sector (to 2.1% more than February 2020 levels) and a further decline in jobs in the accommodation and food services sector (to 16.5% fewer than in February 2020).

also reflect the statistical margins of error in any survey: there is a 5% chance, for instance, that the true employment rate is more than 0.5 percentage points lower or higher than the LFS-based estimates. However, part of the gap may also reflect the fact that the weights used to estimate population-wide figures from the LFS sample are based on pre-COVID population projections. O'Connor and Portes (2021) suggest this may be a significant problem, resulting in the LFS failing to reflect the impact of a fall in the number of overseas-born residents and workers on overall population and employment numbers.

However, unlike RTI-based data, the LFS can provide information on those not in employment. For example, people who are no longer working can become either unemployed – meaning they are actively and regularly looking for other employment – or economically inactive – meaning they are not. LFS-based estimates suggest that, as of the three months to November 2020, the economic inactivity rate had reached 20.7%, up from 20.2% in the three months to February 2020 (ONS, 2021b). This means that around two-fifths of the fall in employment by the early autumn had been reflected in increased inactivity, with around three-fifths reflected in rising unemployment. By the three months to November 2020, for example, the unemployment rate was 5.1% compared with 4.0% in the three months centred on January.

… but has been supported by the furlough scheme

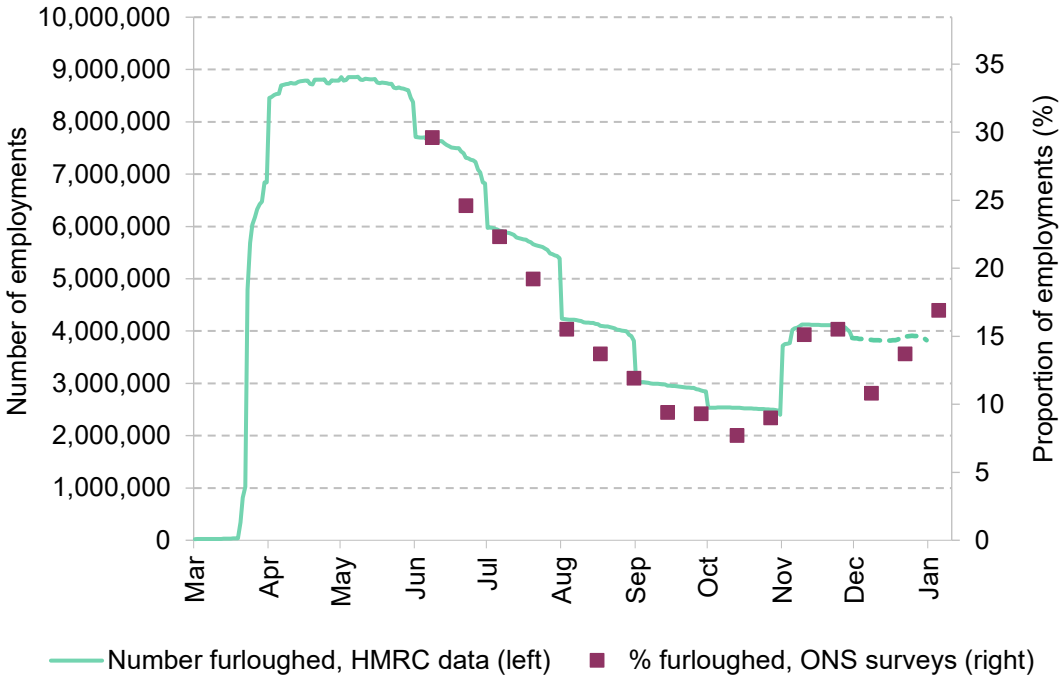
Both HMRC's and LFS-based estimates of employment include those who are 'temporarily away' from work so long as they have a job to which they are expecting to return. On average, around 2–2.5 million people were 'temporarily away from work' at any given point, pre-pandemic – including those on sick leave, annual leave, or maternity or paternity leave. According to the LFS, this rose to a high of 7.9 million in April in the midst of the first national lockdown as large parts of the economy were shut down, and had fallen to 3.7 million in October 2020, although this remains significantly higher than pre-crisis (ONS, 2020b).

Many of those away from work and receiving at least some pay will have been 'furloughed' as part of the Coronavirus Job Retention Scheme, which was introduced in March both to support households' incomes and to maintain attachments between employers and employees who cannot or lack work as a result of the COVID-19 crisis. Workers are provided with 80% of their usual pay for any hours not worked, up to a maximum of £2,500 of net pay per month, although until

July it was only available for those employees working zero hours. The government initially paid all employment costs, but employers became responsible for National Insurance and pension contributions from August, and in September and October were also responsible for a portion of pay costs too.[2]

Figure 3.2 shows that approximately 9 million employments were furloughed by the start of April – just after the commencement of the first national lockdown. Use of the furlough remained at a broadly similar level to the start of June, when it fell to just over 7.5 million as certain parts of the economy reopened or prepared to reopen

Figure 3.2. Number and proportion of jobs furloughed



Note: Number of furloughed jobs includes both fully and, from July, partially furloughed jobs. Dashed line shows provisional HMRC data for December, which are likely to be revised. Proportion of employments furloughed is amongst businesses that had not permanently stopped trading, in the sectors covered by the ONS business surveys, with estimates centred at the middle date in each survey reference period.

Source: HMRC, 2021; ONS, 2021e.

[2] 10% and 20% in September and October, respectively.

(for example, non-essential retail could reopen from 15 June in England). There were further declines between summer and mid autumn, with around 2.5 million employments being supported by the furlough scheme by October.[3] This trend reversed as the number of employments furloughed increased sharply over the first week of November, to over 4 million. This corresponds with England's second national lockdown, which was officially announced on 31 October and came into force on 5 November.

Administrative data on the furlough scheme are currently available only to the end of November, although provisional estimates for December (which are subject to revision) are also available. However, the ONS's fortnightly survey of employers (BICS) asks respondents what share of their employees are furloughed at the time they are completing the survey. Data from this survey are currently available into January, and so cover England's third national lockdown. However, the data exclude a number of sectors – agriculture, energy production, and finance and insurance, as well as much of the public sector – for which levels and trends in use of the furlough scheme differ.

Nevertheless, results from the BICS survey are also shown in Figure 3.2 (the dark squares), and levels and trends match administrative data reasonably closely over the period between June and October when both were available.[4] These data also suggest a large increase to around 15% during November, coinciding with England's second national lockdown. This is a sizeable increase but notably smaller than that during the first national lockdown, potentially reflecting the factors identified above when discussing why the number of employees on payroll did not notably fall in November. In addition, the furlough scheme in place in November was less generous to employers than that in place during the first national lockdown in the spring: employers now have to pay National Insurance and pension contributions, unlike in the first lockdown. Some employers may therefore have chosen to redeploy some of their employees to other activities so that they were not paying National Insurance and pension costs without any work being undertaken.

[3] See HMRC (2020a) for further analysis of the furlough scheme up to and including October 2020.

[4] The two axes in Figure 3.2 are aligned so that the number of employments on the left-hand axis corresponds to the same number amongst those covered by the ONS surveys on the right-hand axis. There are around 26 million employments in businesses sampled as part of the ONS surveys, based on business population estimates (BEIS, 2020).

In early to mid December, the share of employments furloughed fell back at the end of England's second national lockdown. However, the survey covering the end of December and start of January, when a large part of England was back under near-lockdown conditions, shows an increase in the share of workers who are furloughed to almost 14%. The most recent survey shows a further significant rise to nearly 17%, following the extension and tightening of lockdown measures in virtually every part of the UK (although administrative data for this period are not expected until late March).

Estimating the impact of the furlough scheme on incomes and job retention is difficult as we cannot observe the counterfactual world in which the scheme did not exist. However, it is almost certainly the case that the scheme prevented large numbers of workers being immediately made redundant or placed on unpaid leave. Evidence also suggests that the vast majority of those leaving the furlough scheme over the summer and early autumn returned to employment rather than entering unemployment or economic inactivity. For example, Brewer et al. (2020) find that, of those furloughed during the first lockdown, 55% had returned to work by September, of whom nine-in-ten returned to the same employer; 32% were still furloughed and 9% were no longer working (compared with 5% of workers not furloughed during the first lockdown). HMRC (2020b) likewise estimates that of those who had left the furlough scheme by August, 90% were still on their original employer's payroll in that month.[5]

This suggests that, in the short term at least, the furlough scheme has enabled most employee–employer relationships to be maintained, potentially avoiding some of the frictions of labour market matching that can slow down economic recovery. It is unlikely that all jobs supported by the furlough scheme will be viable in the long term though, and one of the key challenges for economic policy this year will be to wind down the furlough scheme in a way that avoids keeping people in unviable jobs, while continuing to support those jobs that are viable in the longer term but still subject to temporary restrictions or reduced demand. The existing ability to furlough workers for varying proportions of their hours does provide flexibility to employers to respond to changes in restrictions and demand, but does not

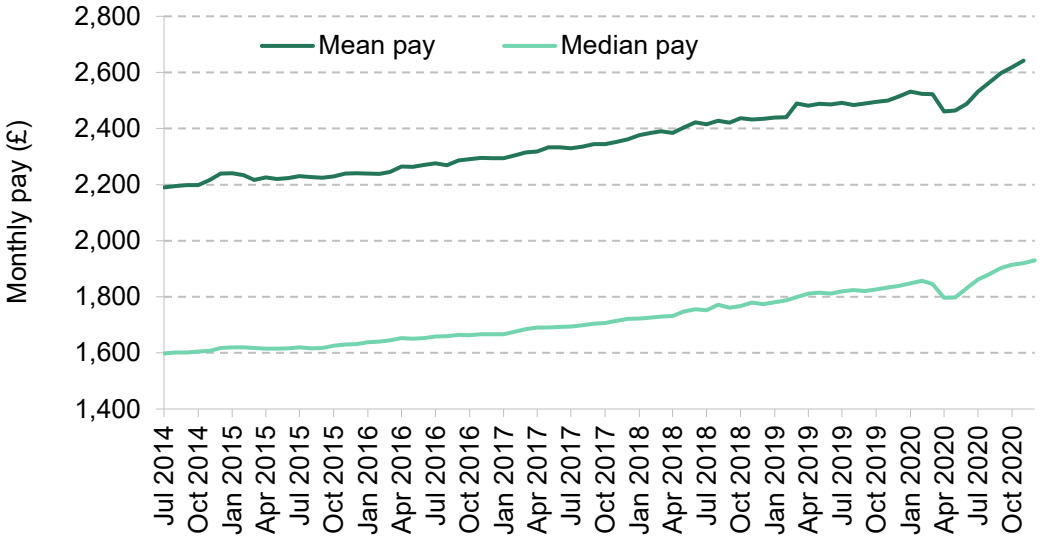
[5] This may capture some people who have been made redundant though, as redundancy payments also generally go through payroll systems.

differentiate between temporarily and permanently unviable jobs. Future schemes may need to have different rules for different regions and sectors, depending on the type of restrictions in place and on sector-wide (rather than employer-specific) demand conditions.[6] Larger contributions from employers may also allow greater targeting of support at jobs that are viable in the long term.

Average earnings fell but rebounded into the autumn

Although employers are free to top up pay to 100% of usual levels, survey data suggest slightly less than half of employees who have been furloughed have had their pay topped up, meaning more than half will have received (at most) 80% of their usual gross pay (ONS, 2021e).[7] As a result, earnings among those in work fell during the first lockdown, as shown in Figure 3.3.

Figure 3.3. Mean and median pay in the UK each month, seasonally adjusted



Note: Mean and median pay amongst payrolled employees each month, seasonally adjusted.

Source: ONS, 2021a.

6 See Johnson (2020) and Pope, Dalton and Tetlow (2020) for further detail.

7 Weighted results from waves 7–14 of the fortnightly BICS survey suggest between 44% and 49% of furloughed employees had their pay topped up over the period mid June to September. The Annual Survey of Hours and Earnings suggests that 11% of all jobs were furloughed with reduced pay in April 2020 (ONS, 2020d). This suggests that earlier in the crisis, a higher proportion of those furloughed – perhaps two-thirds – may have had their pay topped up.

In particular, the mean and median pay of employees fell by 2.5% and 3.2%, respectively, between February and April 2020. Falls were much larger in those sectors of the economy most affected by COVID-related restrictions and where use of the furlough scheme was initially highest. This includes construction (where median pay fell by 12.4% between February and April), accommodation and food services (–14.9%) and arts, entertainment and recreation (–8.0%). On the other hand, a number of sectors saw median pay increase, including health and social work (+1.5%) and finance and insurance (+2.0%).

Both mean and median employee pay have increased since April though, and by November they were 4.7% and 3.4%, respectively, higher than in February 2020. This rebound has been broad-based across sectors, although differences do remain. For example, while median pay in the construction sector in November slightly exceeded its February level, median pay in the accommodation and food services sector was still down 4.6%, having recovered during the summer but subsequently fallen back. On the other hand, median pay was up 5.6% in the finance and insurance sector, 4.7% in the education sector and 4.5% in the health and social work sector.

These figures must be interpreted with caution though, as the composition of jobs and employees is likely to have changed – with younger workers in less-well-paid sectors and occupations more likely to have lost their jobs (Brewer et al., 2020). This means more of those still in work will be older and in higher-paid sectors, pushing up measures of average employee earnings. ONS's (2021f) analysis of other earnings data – the Monthly Wages and Salaries Survey – suggests that this compositional change could have pushed up average pay growth by around 1.6 percentage points or more, suggesting underlying growth in mean earnings of closer to 3% and median earnings of closer to 2%.

Other data suggest pay growth has been less strong, with the Bank of England (2020) reporting that the median pay settlement in quarter 3 of 2020 was 0%. However, there is still broader evidence of a genuine recovery in earnings from a low point during the first lockdown, as the number of people furloughed (or placed on unpaid leave despite the furlough scheme[8]) declined and, more generally,

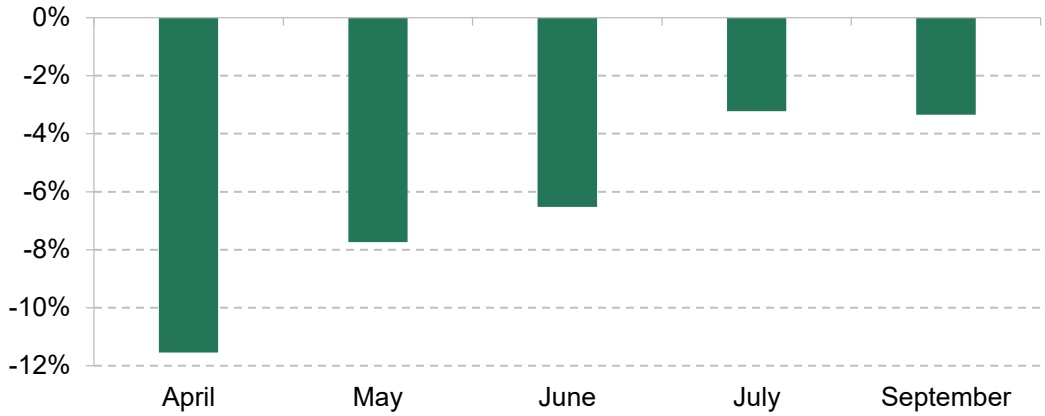
[8] The number of people away from work receiving no pay increased to 658,000 in April, before falling back to 211,000 by October, for example.

opportunities for work and hours of work increased for both employees and self-employed with the relaxing of some public health restrictions.

Figure 3.4, for instance, presents the change in median household earnings since January/February 2020 for a representative sample of households surveyed as part of the UKHLS special COVID surveys. It shows that median household earnings fell by around 11% in April compared with January/February, but then slowly recovered so that they were down by just over 3% in July and September, the latest wave of this survey currently available.

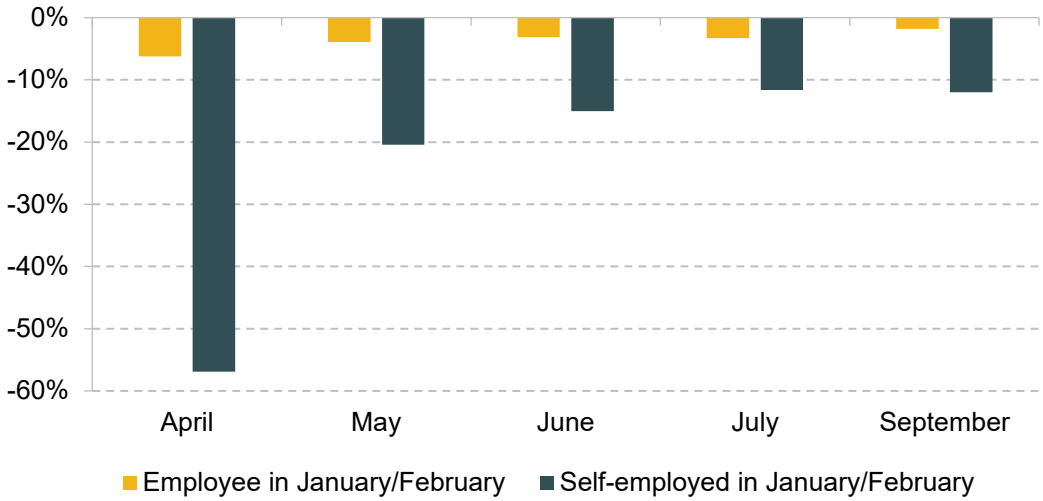
These data also suggest that falls in earnings have been substantially larger for those who were self-employed as opposed to employees prior to the start of the crisis. This is illustrated in Figure 3.5, which shows that the median amount earned by those who were employees prior to the COVID crisis was 6% lower in April than in January/February. However, the median amount earned by those who were self-employed prior to the COVID crisis was 57% lower in April than in January/February. The gap was much narrower in subsequent months – potentially reflecting some sectors (such as construction) restarting work, as well as UKHLS survey participants recording income from the Self-Employment Income Support Scheme (SEISS; see below) as part of their earnings once it was up and running in May. But even in September 2020, while the median earnings of those who were initially employees were just under 2% lower than in January/February 2020, the median earnings of those who were initially self-employed were 12% lower.

Figure 3.4. Change in household median earnings since January/February 2020



Source: UKHLS COVID-19 waves 1–5, weighted using longitudinal weights.

Figure 3.5. Change in individual median earnings since January/February 2020, by initial employment status



Source: UKHLS COVID-19 waves 1–5, weighted using longitudinal weights.

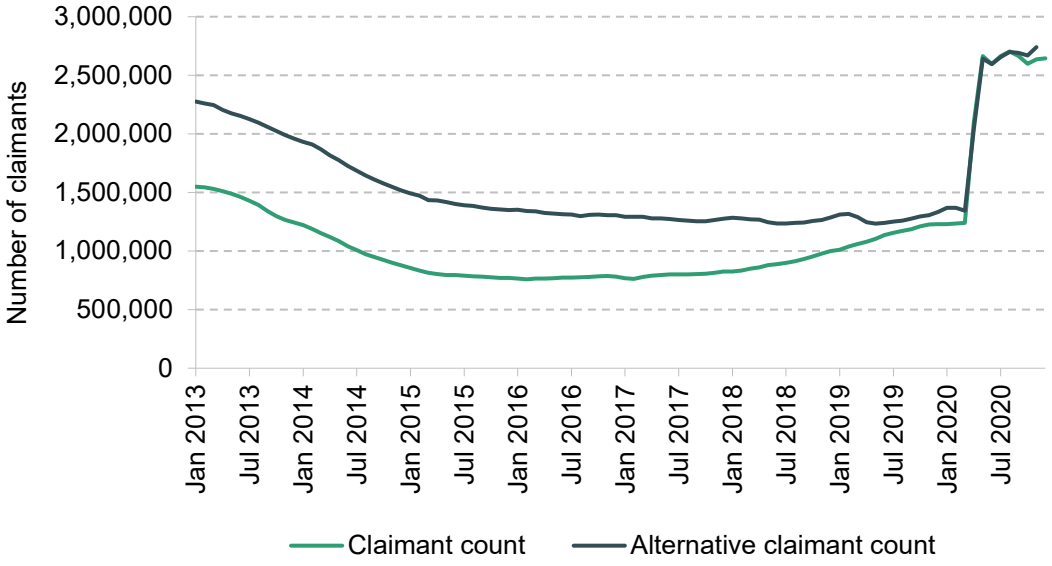
Research by Bourquin et al. (2020) suggests that the initial fall in earnings was highest for households and workers with low income and pay, reflecting a greater likelihood of job loss and furloughing. However, the subsequent recovery was also stronger for low-paid workers, at least up until September, as many returned to work following furlough, although some gap remained (Brewer et al., 2020). The increases in the number of employees who are furloughed during England's second and third lockdowns mean this partial 'catch-up' among lower earners is likely to have been at least partially reversed in recent months.

3.2 Trends in incomes and benefit claims

As well as the furlough scheme, households' incomes have also been supported by the benefit system. In particular, means-tested benefits provide a degree of insurance against and compensation for job and earnings loss, especially for lower-income households. The government has also introduced a number of increases in the generosity of the benefit system, including for universal credit, housing benefit and, in England, the council tax support scheme.[9]

[9] For details, see Adam, Miller and Waters (2020) and Phillips (2020).

Figure 3.6. Monthly claimant count and alternative claimant count in the UK



Note: The claimant count is the number of people in receipt of jobseeker's allowance or universal credit primarily because of unemployment (or under-employment). The alternative claimant count is an adjusted series that accounts for the fact that universal credit, which was rolled out over this period, applies work-search requirements to a wider set of people than jobseeker's allowance. Both series are seasonally adjusted.

Source: DWP, 2021; ONS, 2021c.

Falls in employment and earnings, and increased generosity, led to significant increases in the number of people in receipt of benefits. Figure 3.6, for example, shows the evolution of the claimant count – the number of people claiming jobseeker's allowance or universal credit principally for the reason of being unemployed (or 'under-employed' and subject to conditions requiring the seeking of employment with higher pay).

It shows that the claimant count approximately doubled between March and May, and has since oscillated at a new higher level of around 2.6–2.7 million, including during England's second national lockdown in November. This is somewhat surprising given that employment has continued to fall, albeit at a slower pace, and may reflect a changing composition of claimants, with more former employees and fewer self-employed individuals (many of whom started benefiting from the SEISS, as discussed below) claiming unemployment-related benefits as time has gone by.

Bourquin et al. (2020) have shown how the operation of the benefit system mitigated income losses during the early phase of the crisis. For example, while median household net earnings fell by around 11% between January/February and April, median household net income – including benefits income – fell by less than half this amount (around 5%). They also showed that while households with lower pre-COVID incomes saw a larger fall in earnings in the early phase of the crisis, this was not the case once benefits income was accounted for as well. That is, the operation of and increases in generosity of the benefit system counteracted the regressive falls in earnings caused by the COVID-19 crisis.

Subsequently, further support to household incomes was provided by the Self-Employment Income Support Scheme, which was first paid in May for those meeting a number of eligibility criteria.[10] The initial set of payments covered 80% of previous self-employment income up to a maximum of £7,500 over three months (paid in one instalment). The second set of payments were designed to cover 70% of previous self-employment income up to a maximum of £6,570 over three months (again paid in one instalment). A third set of payments at the original level of generosity has been announced to cover the period between November 2020 and January 2021, while a fourth payment of as-yet unspecified generosity is set to be available for between February and April 2021.

Delestre et al. (2020) estimated that the first phase of the SEISS meant that claimants saw an average fall in household income of only 4%, as opposed to around one-third in the absence of the SEISS. However, there was wide variation across households with around 25% seeing their income between mid April and mid July 2020 increase by over 50% compared with the period between mid December 2019 and mid March 2020. Conversely, approximately 30% still saw a fall of more than 30%. This is similar to what was observed between the same three-month periods in the previous year, suggesting that, on average, the SEISS broadly compensated for falls in incomes among the self-employed.

There is as yet no administrative or survey data on incomes including not only earnings, but also benefits income. However, data from the Money Dashboard app do enable us to look at income. Figure 3.7 presents the trend in median monthly

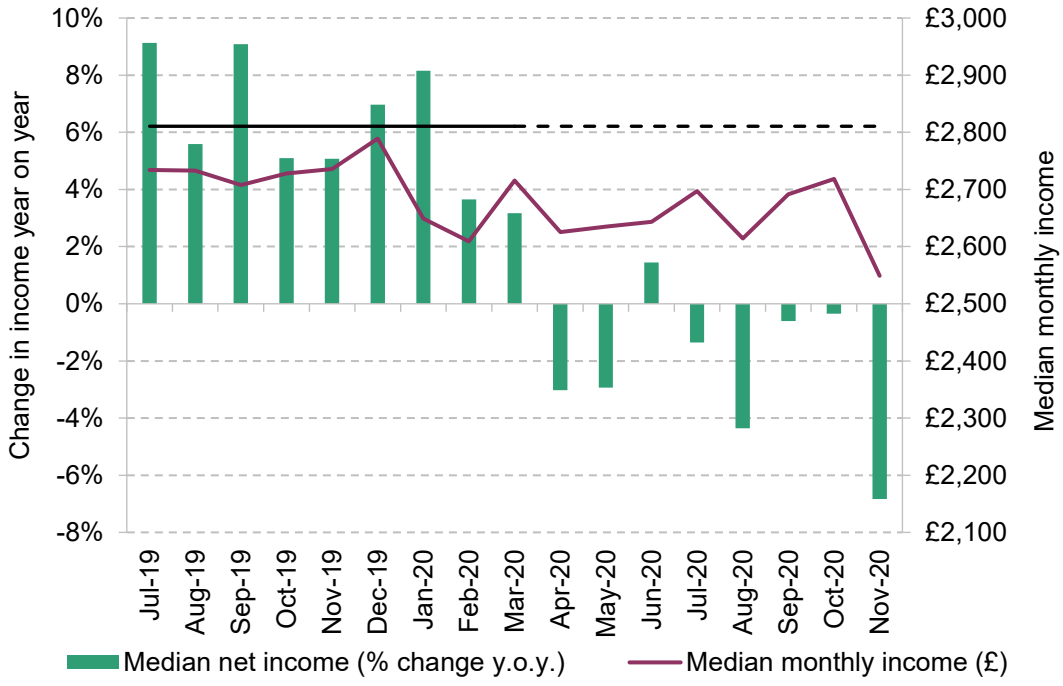
[10] See https://www.gov.uk/guidance/claim-a-grant-through-the-coronavirus-covid-19-self-employment-income-support-scheme.

income of app users (with the data reweighted to match the distribution of the population across regions and age groups). It shows that whereas prior to the COVID-19 crisis, incomes for our sample of Money Dashboard users were growing by approximately 6% per year, incomes fell in April year on year, and remained at a lower level through to the autumn of 2020. Even as restrictions to control the virus reduced in the summer, year-on-year growth in incomes was basically zero, representing an effective fall in incomes since March when strong year-on-year growth was seen.

In Figure A.2 in the appendix, we show that these trends are robust to excluding all tax payments other than those identified as being received under the SEISS scheme, and to excluding SEISS payments too.

Figure 3.8 shows how the SEISS scheme has helped those who receive it maintain their income. We identify SEISS recipients as in Delestre et al. (2020) for the first wave of SEISS payments, and use a similar method to identify the second wave.

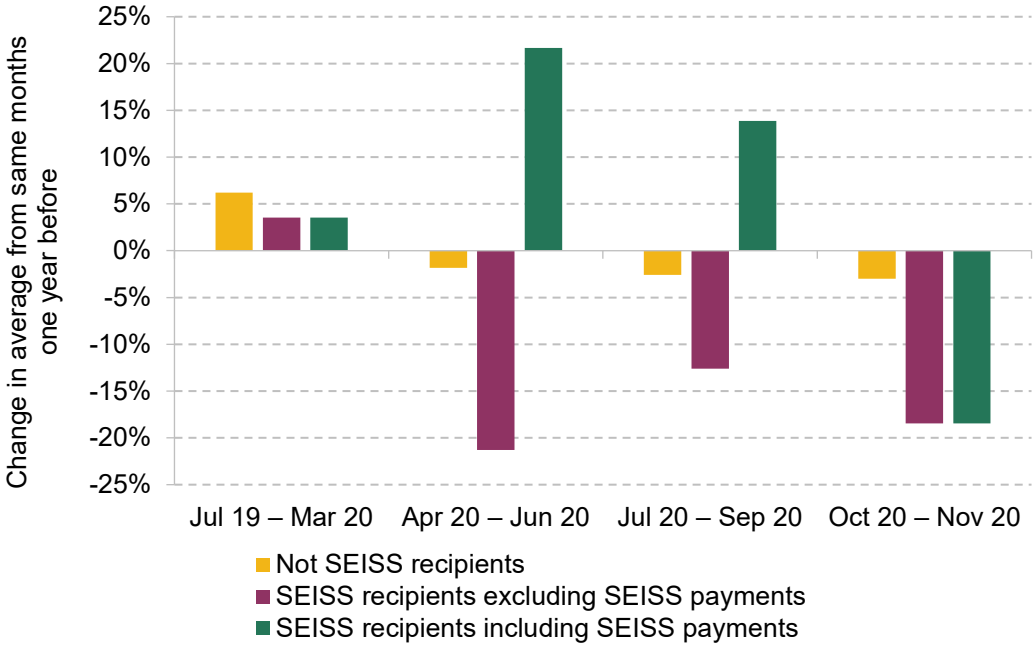
Figure 3.7. Median monthly net income of users of MDB app, and year-on-year change each month



Note: Figures are in nominal terms.

Source: Authors' calculations using Money Dashboard data.

Figure 3.8. Annual change in median household income for Money Dashboard users, by SEISS status



Note: Figures are in nominal terms.

Source: Authors' calculations using Money Dashboard data.

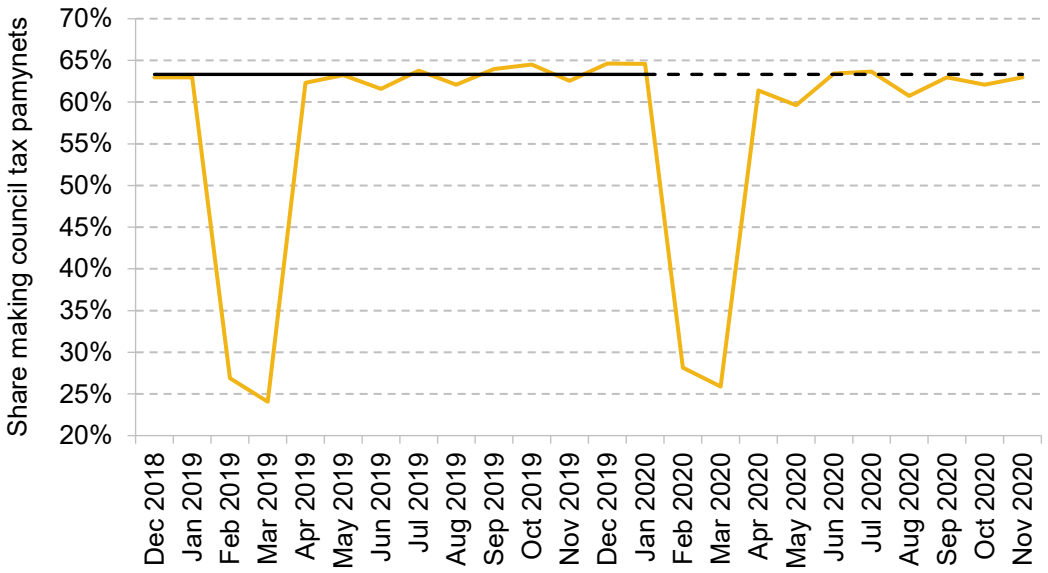
The first wave of SEISS payments were paid in May, with a maximum payment of £7,500, whilst the second wave were paid in August, with a £6,570 cap. The yellow bars in Figure 3.8 show changes in average net incomes over four periods for those who never receive a payment we identify as being from the SEISS scheme. These users represent most of our sample, so these trends closely mirror those seen in Figure 3.7. The next set of bars show what happened to the net income of those who we identify as receiving a SEISS payment during the first two waves of SEISS, where income includes tax payments aside from those identified as being from SEISS. These users, we can assume, are self-employed, and their non-SEISS income performs very badly following the beginning of the pandemic. The green bars show net income for SEISS recipients, this time including SEISS payments. For the two periods where SEISS payments were made, April–June and July–September 2020, SEISS clearly provided a large boost to income for these individuals, whereas income fell a lot during the October–November period when no SEISS payments were made.

3.3 Trends in bill payments

Falls in income and a number of policy changes – such as mortgage holidays, a moratorium on evictions, and additional council tax support and deferrals – have contributed to a decline in the proportion of households paying major bills.

A survey by Citizens Advice suggested that approximately 14% of the adult population were behind on at least one bill in November, with higher rates among the under-35s (27%), those who rented their home (26%) and those who had been furloughed (24%) than among the wider population.[11] UKHLS data suggest only around 7% of adults were behind on at least one bill in April, May and August 2020, but find the same qualitative pattern, with younger adults and those renting most likely to be in this situation.

Figure 3.9. Share of Money Dashboard users making council tax payments



Note: Council tax is identified from algorithm- or user-generated tags in the MDB data. The black line shows the average proportion of MDB users making council tax payments for the months between April 2019 and January 2020.

Source: Authors' calculations using Money Dashboard data.

[11] Nationally representative survey of 6,004 UK adults carried out in November 2020. See Byrne (2020).

Money Dashboard data allow us to examine payment trends for specific types of bills. The trend in the proportion of MDB users making council tax payments each month is shown in Figure 3.9, with the trend for mortgage payments shown in Figure A.3 in the appendix.

The most notable feature of Figure 3.9 is the large fall in the share of MDB users making council tax payments in the months of February and March 2020. This is not an impact of the COVID-19 crisis though, instead reflecting the fact that most people pay council tax in ten instalments between April and January each year. Comparing the yellow line with the dashed black line shows that the proportion of households paying council tax from April onwards was lower than in April–January of the 2019–20 fiscal year. This was particularly notable in April and May, when 61.4% and 59.6% of users made payments, compared with an average of 63.3% during the 2019–20 fiscal year. From June onwards, there was a slight recovery, but the proportion paying each month has remained somewhat depressed, averaging 62.6%.

For mortgage payments shown in Figure A.3, the fall and recovery are proportionally larger, with the share of MDB users making mortgage payments falling from an average of 25.3% during 2019–20 to 22.1% in May 2020, and recovering to just under 25% by October and November 2020.

In interpreting these results, it is important to bear in mind two things:

- First, the cessation of paying bills is not necessarily associated with failure to pay a bill that is due, or even necessarily financial distress, especially for mortgages and council tax.
  - Mortgage holidays, for example, have been made much more widely available during the crisis, allowing households to postpone repayments. By mid June, approximately one-sixth of mortgages were subject to such a payment deferral, although some were only for part of the payments due (UK Finance, 2020). Money Dashboard data suggest many of those who had taken a mortgage holiday during the first few months of the COVID-19 crisis had started paying again by the autumn.
  - Councils have provided alternative payment plans for council tax, allowing some taxpayers to move from paying between April 2020 and January 2021 to between June 2020 and March 2021, for example. Data from councils' COVID financial monitoring information (FMI) returns to the Ministry of

Housing, Communities and Local Government (MHCLG) suggest such plans have been granted to around 4% of taxpayers.[12] Furthermore, as of 2018–19, around one-fifth of councils in England offered 100% reductions in bills for those working-age households with the lowest incomes via their local council tax support (LCTS) schemes (as did all councils in Wales and Scotland as part of the national schemes operating in these countries).[13] Since then, some additional councils may have increased discounts to 100% for at least some working-age claimants, utilising the £500 million council tax hardship fund provided to councils for the 2020–21 fiscal year. However, unfortunately, no comprehensive database is available in real time that tracks these developments.

- Second, reductions rather than complete cessation of bill payments will also be important, especially in relation to council tax. As indicated above, around four-in-five English local authorities (LAs) required working-age beneficiaries of their LCTS schemes with even the lowest incomes to pay at least part of their council tax bill. And a tapering system means those beneficiaries with income above a certain point are required to pay part of the bills in all English (and Scottish and Welsh) LAs.

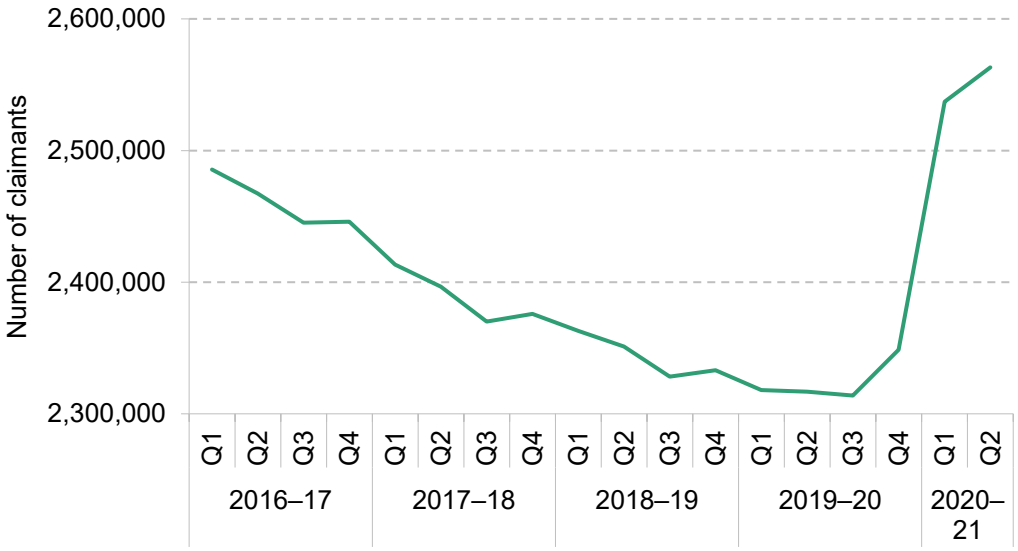
Administrative and survey data from LAs provide further information on trends in LCTS claimants, council tax revenues, and the factors associated with shortfalls in council tax revenues this year. Figure 3.10 shows that the number of working-age LCTS claimants increased by approximately 11% between October–December 2019 and July–September 2020 (quarter 2 of the 2020–21 financial year).

This reverses the steady decline in claimant numbers seen over the past four years, which had reflected increases in employment and reductions in the generosity of the schemes (Adam, Joyce and Pope, 2019). More recent information from LAs' FMI returns suggests that the number of working-age LCTS claimants was broadly steady between September and December 2020, despite England's second national lockdown, although further increases are expected over the course of 2021 as unemployment rises (Ogden, Phillips and Spiliotis, 2020). As can be seen in Figure

[12] Authors' analysis of COVID-19 financial impact monitoring returns, MHCLG (2020a). Similarly, in a representative survey of 5,825 UK householders carried out in July, 6% reported having missed a council tax payment, 2% had taken advantage of a payment holiday and 2% had reduced the value of their payments (Standard Life Foundation, 2020).

[13] See Adam, Joyce and Pope (2019).

Figure 3.10. Number of working-age claimants of LCTS in England each quarter



Source: MHCLG, 2020b.

A.5 in the appendix, these data also suggest that the increase in LCTS claimants was steadier – taking place between March and July – than in the case of unemployment benefit claims – which was between March and May. This may reflect households prioritising the larger and more salient unemployment benefits (universal credit or jobseeker's allowance), or LA eligibility rules ('passporting') and processes which make it easier to claim LCTS once other benefits have been successfully applied for.

Unlike for other benefits – and unlike prior to 2013 when a centrally funded council tax benefit operated in place of today's LCTS schemes – increases in the number of claimants have a direct impact on LAs' funding. In November, LAs estimated the annual cost of providing working-age LCTS to their residents. They expected the total value of forgone council tax revenue to be £2.28 billion in 2020–21, up from £1.94 billion in 2019–20, an increase in cash terms of around £340 million or 17.5% (MHCLG, 2019a and 2020c).

The fact that this is greater than the increase in claimant numbers is partly explained by the fact that average council tax levels have increased by 3.8%, mechanically pushing up the cost per claim.[14] However, it may also reflect:

- *Changes in the composition of claimants as a result of the COVID-19 crisis.* Although those newly eligible do not appear to be different in terms of the council tax band of their properties, they may differ in their eligibility in other ways. Declines in employment and earnings this year may also mean existing claimants are entitled to bigger proportional discounts.
- *Changes in the design of schemes.* For example, while the guidance asks them not to and the MHCLG has tried to adjust figures to address this issue, some LAs may have included the cost of additional 'hardship discounts' granted to working-age LCTS claimants.

Overall, LAs' most recent FMI returns imply a shortfall in council tax receipts of £1.3 billion relative to pre-crisis forecasts, with additional LCTS costs accounting for £407 million of this, payment failures £755 million, and other factors (such as changes in eligibility for non-means-tested discounts or premiums,[15] or changes in the number of new properties being completed) £142 million. Overall, this amounts to 3.9% of pre-crisis forecasts for council tax revenue.

These forecasts had been for revenue in 2020–21 to be 5.4% higher than in 2019–20, reflecting the 3.8% increase in average bills and increases in the tax base as a result of new properties being completed and a further expected fall in the cost of LCTS claims.

Administrative data on collections are only available for the first two quarters of the 2020–21 financial year. Figure 3.11 shows that in the first quarter of 2020–21, receipts were 0.9% lower in cash terms than in the same quarter last year. Receipts recovered slightly in quarter 2, perhaps as some households made up for missed

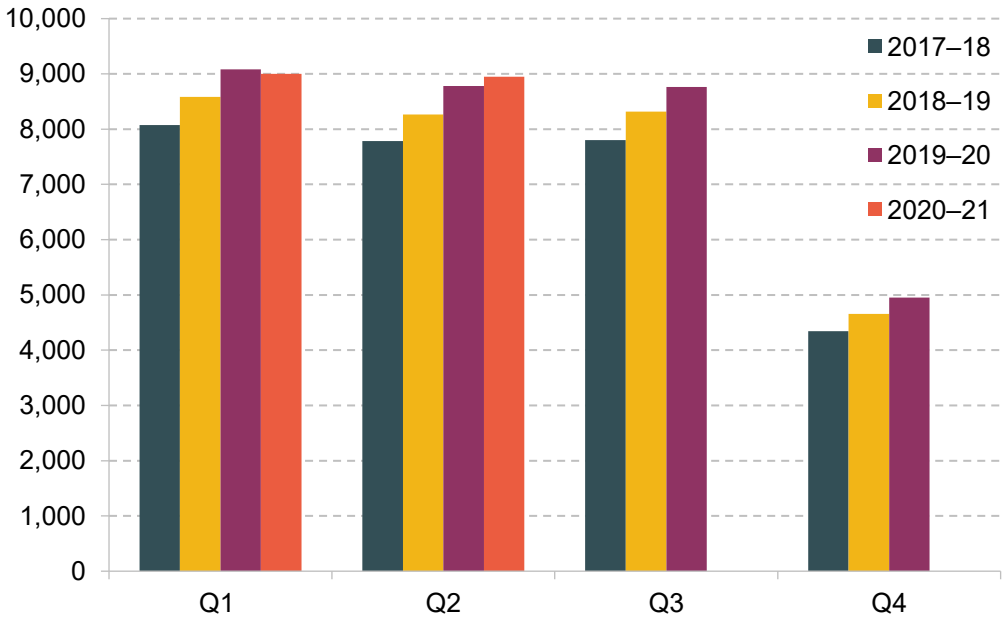
[14] The average band D council tax level (excluding parish precepts) in England increased from £1,719 in 2019–20 to £1,785 in 2020–21 (MHCLG, 2020e, table 1).

[15] For instance, changes in household composition as a result of the pandemic, such as students or adult children moving back in with their parents, may have affected eligibility for single person discount. There has also been an increase in the number of properties receiving a Class F exemption (classed as dwellings left empty by deceased persons) from 89,300 in 2019–20 to 110,500 in 2020–21 (MHCLG, 2020c, table 5).

payments in April to June, so that receipts across the first two quarters were 0.4% higher than over the same period last year.

This suggests that compared with a forecast increase of 5.4% prior to the COVID-19 crisis, councils collected £880 million less than they could have expected to between April and September 2020. This compares with a shortfall relative to expectations of £1.1 billion reported in LAs' FMI returns for the same period. The reason for these differences is unclear, but one possibility is that the monthly data recorded in FMI returns may not fully reflect the impact of late payments. This may also be one reason why the £1.1 billion shortfall reported in the FMI returns for April to September is over 80% of the shortfall forecast for the year as a whole (£1.3 billion). It is also worth noting that like administrative data on actual receipts, the FMI returns data also show a partial recovery in revenues in quarter 2 of 2020–21 (a £430 million reduction compared with pre-COVID forecasts) relative to quarter 1 of 2020–21 (£667 million).

Figure 3.11. Council tax receipts in England, by quarter



Note: Council tax receipts each quarter, irrespective of the quarter or year to which they relate.

Source: MHCLG, 2020d.

4. How do trends vary geographically?

We now turn to examining how some of the major trends discussed in the previous section vary geographically, both across regions and across local authorities (LAs) with different socio-economic characteristics.

All regions have seen significant falls in employment, increases in benefit claims and use of the furlough scheme. Data suggest that initial impacts during the first lockdown last spring were broadly similar across regions, but since then falls in employment and increases in unemployment have been larger in London than elsewhere. However, the rate of employment remains lower in the West Midlands and northern regions of England, as well as in Northern Ireland, Scotland and Wales, reflecting pre-existing geographical inequalities and previous strong growth in employment in the capital.

Data also show that while increases in the number of benefit claimants have been greater relative to existing claimant numbers in more affluent areas, they have been greater relative to the overall population in more deprived areas. This is true both for unemployment benefits and for council tax support, suggesting that COVID-19-related financial hardship has affected more people in areas that were already poorer than average. Of most direct relevance for local government, there is a strong relationship between deprivation and council tax revenue performance – with revenues falling in the most deprived LAs but growing in the most affluent LAs during the first half of the 2020–21 tax year. However, revenues have fallen short of pre-crisis forecasts in all regions and types of LAs, and more affluent LAs' greater reliance on council tax means impacts on *overall* funding levels are similar to those in more deprived LAs.

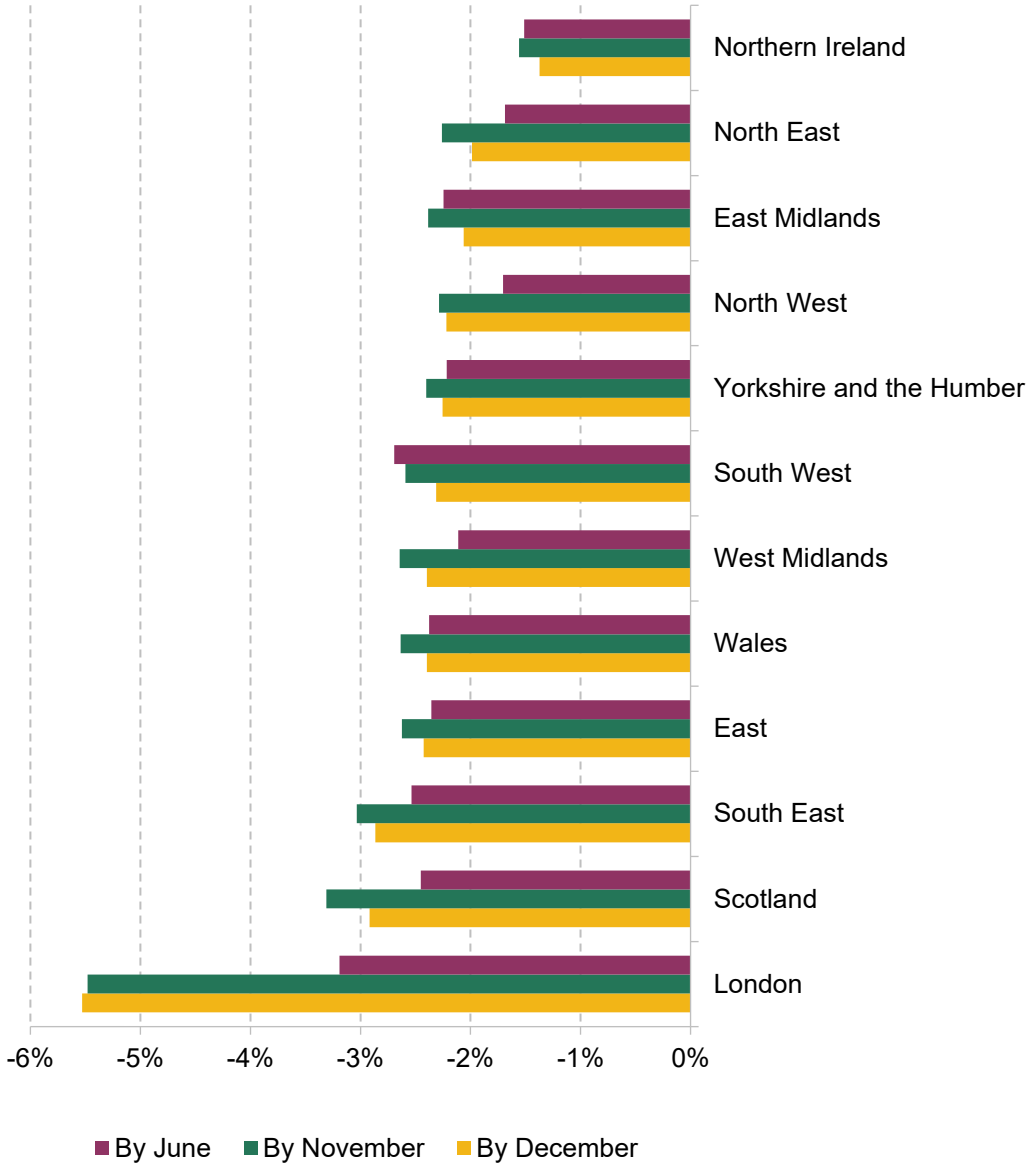
4.1 Variation across regions

Certain data, including on employment, earnings and how use of the furlough scheme has varied over time, are available only at the regional level.

Employment impacts vary across regions …

Figure 4.1 shows the change in the number of employees on payroll between February 2020 and each of June, November and December 2020 (with the last being a 'flash' estimate and subject to revision as new data become available).

Figure 4.1. Change in the number of employees on payroll since February 2020, by region



Source: ONS, 2021a.

It shows that during the first lockdown in Spring 2020, the number of employees on payrolls fell in each region. The smallest falls between February and June were in Northern Ireland (1.5%) and the North East of England (1.7%), while the largest falls were in London (3.2%) and the South West of England (2.7%).

Since then, most regions have seen a further decline in the number of employees on payrolls, with the exceptions of the South West of England and, based on flash estimates for December, Northern Ireland and the East Midlands. The biggest decline during the summer and autumn, and hence overall, has again been in London, at 5.5%, compared with a maximum of 2.9% in any other English region (the South East, although the Surrey and Sussex sub-region has seen a fall of 3.3%). Falls in the North have generally been smaller than those in the South, but Greater Manchester (2.8%) and the West Midlands metropolitan county (2.9%) sub-regions have seen falls that are larger than those in most of the South.

Figure A.6 in the appendix shows that measured relative to the projected working-age population for mid 2020, the number of employees on payroll is lowest in Northern Ireland (0.63), the North East of England (0.63) and Wales (0.64), reflecting their low pre-COVID-crisis job numbers. Figure A.7 in the appendix shows LFS-based estimates of the employment rate, which includes the self-employed as well as employees. It shows that overall employment levels remain lower than in the capital in the West Midlands and all the northern regions of England, as well as in Northern Ireland, Scotland and Wales. Thus, while the COVID-19 crisis has led to more job losses in London than elsewhere in the country, it has not fully reversed previous strong employment growth in the capital,[16] or overturned existing geographic inequalities in employment.

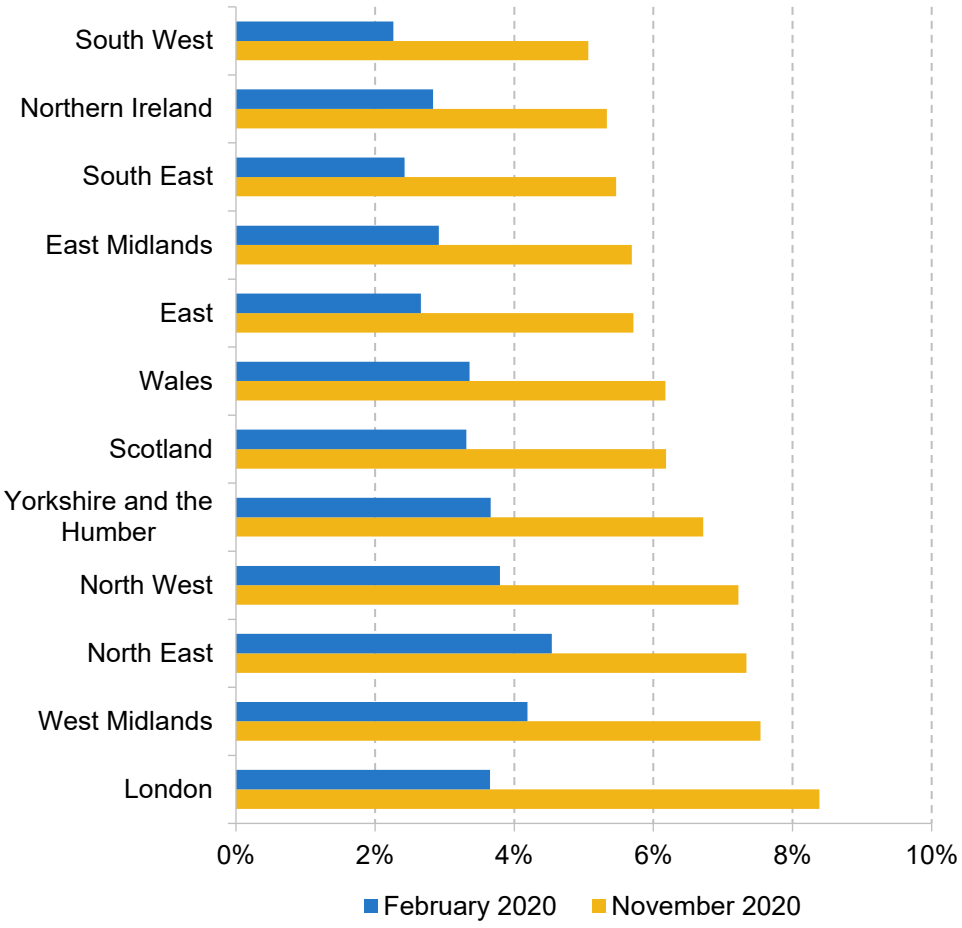
Falls in employment have unsurprisingly been associated with an increase in the share of the population claiming unemployment-related benefits in every region of the UK, as illustrated in Figure 4.2. Most regions in England saw an increase of between 2.8 and 3.4 percentage points, with the increases generally largest relative to existing claimant numbers in areas that initially had the lowest claims, including the East, South East and South West of England. Unsurprisingly given trends in payrolls, the biggest increases have been in London – with the claimant rate increasing by 4.7 percentage points from 3.7% in February to 8.4% in November.

[16] See Agrawal and Phillips (2020).

As a result, London has gone from having the fifth-highest share of claimants among England's regions (behind northern regions and the West Midlands) in February 2020 to the highest in November 2020. Claims for unemployment-related benefits are only a little lower (and above 7% of the working-age population) in the North East, North West and West Midlands as well though.

Figure 4.3 shows that there was significant use of the furlough scheme in all regions in the summer and autumn of 2020, albeit with some notable differences in both levels and trends over time. Some of these reflect differences in public health restrictions. For example, furlough rates at the end of July were above average in

Figure 4.2. The alternative claimant count as a proportion of working-age population, February 2020 and November 2020, by region

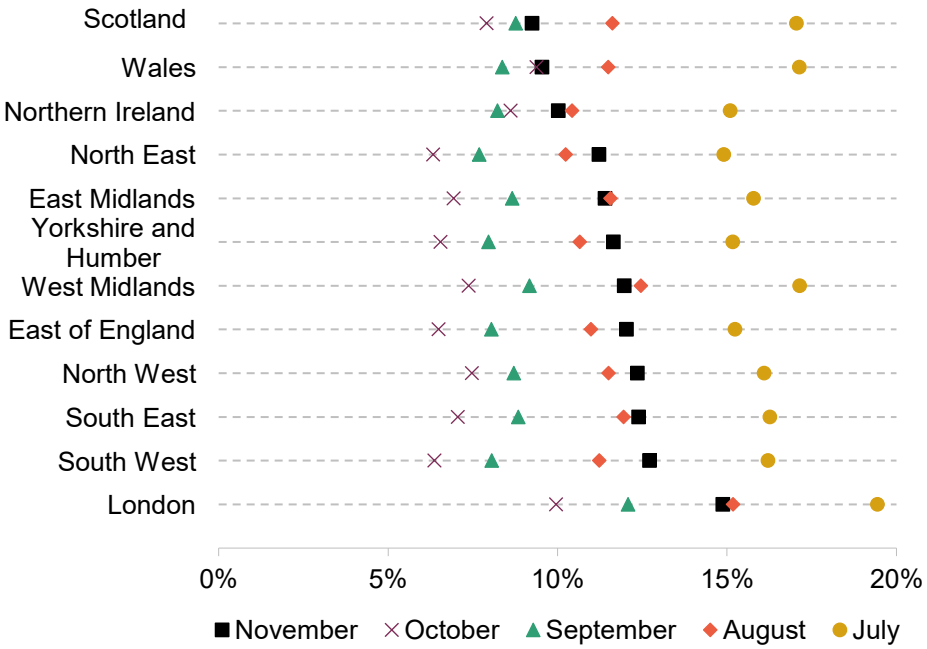


Note: See note to Figure 3.6.

Source: DWP, 2021.

Wales and Scotland (both at 17%), reflecting later and more limited reopening of the accommodation, food and leisure sectors, but they were below average (both around 9%) at the end of November, reflecting the fact that these nations were not subject to a national lockdown at this point, unlike England. Within England, all regions saw a substantial increase in furlough rates between October and November, driven by the second national lockdown. But there was variation across regions, with the South West seeing the largest increase (from 6% to 13%) and the East Midlands and West Midlands the smallest increases (from 7% to 11% and 12%, respectively). This may reflect the composition of employment, with a higher share of jobs in the accommodation and food services sector in the South West, and a higher share of manufacturing (which could remain open) in the Midlands, for example. It may also reflect the fact that the Midlands (and much of the North) were subject to higher levels of restrictions in October than most of the South of England.

Figure 4.3. Proportion of eligible jobs furloughed each month, by region



Note: Reported proportions are for the last day of each month and include fully and partially furloughed jobs.

Source: HMRC, 2021.

The highest levels of furlough throughout the summer and autumn have been in London, however, where in November 15% of jobs were furloughed (up from 10% in October), compared with 11–13% (6–7% in October) across the rest of England. It is also the case that, of those furloughed in November, a higher proportion in London (67.5%) were fully furloughed – that is, not working any hours – than in the rest of the UK (62.3%). This gap was even larger in October, prior to lockdown: 64.4% versus 54.7%.

However, at least during the first lockdown last spring, data suggest that a higher share of those furloughed in the capital received a wage top-up than elsewhere. For example, April 2020's Annual Survey of Hours and Earnings suggests that 8% of all employees were furloughed *and on reduced pay* in London and Scotland in that month, compared with more than 11% in all other regions, including 13% in the West Midlands and 14% in Northern Ireland and the South West of England (ONS, 2020d).

Nevertheless, overall, Londoners have been more likely to lose their job, become unemployed or be furloughed than residents of other regions – although employment levels are still lower in much of the country than in the capital. These differential trends may be partly explained by the larger falls in consumer spending and footfall in central London and other major cities such as Birmingham and Manchester, as shown by Davenport et al. (2020a) and Centre for Cities (2020). They may also be explained by the composition of employment in the capital, with a particularly large share of workers in the arts, entertainment and recreation sector, parts of which (such as theatres) have faced restrictions during almost the entire COVID crisis period.

In the case of the number of employees on payrolls, it may also partly reflect people who had previously lived in London moving to other parts of the UK or overseas. As highlighted above, analysis of the country of birth of respondents to the LFS by O'Connor and Portes (2021) suggests that significant numbers of international migrants may have left the UK, particularly affecting those regions such as London and the South East where migrants made up a relatively large share of the labour force pre-COVID-crisis.[17] These migration responses may also help explain why

[17] They provide what they term 'crude' upper-bound estimates of the fall in the overseas-born population of 1.3 million for the UK as a whole and 0.7 million for London, for example.

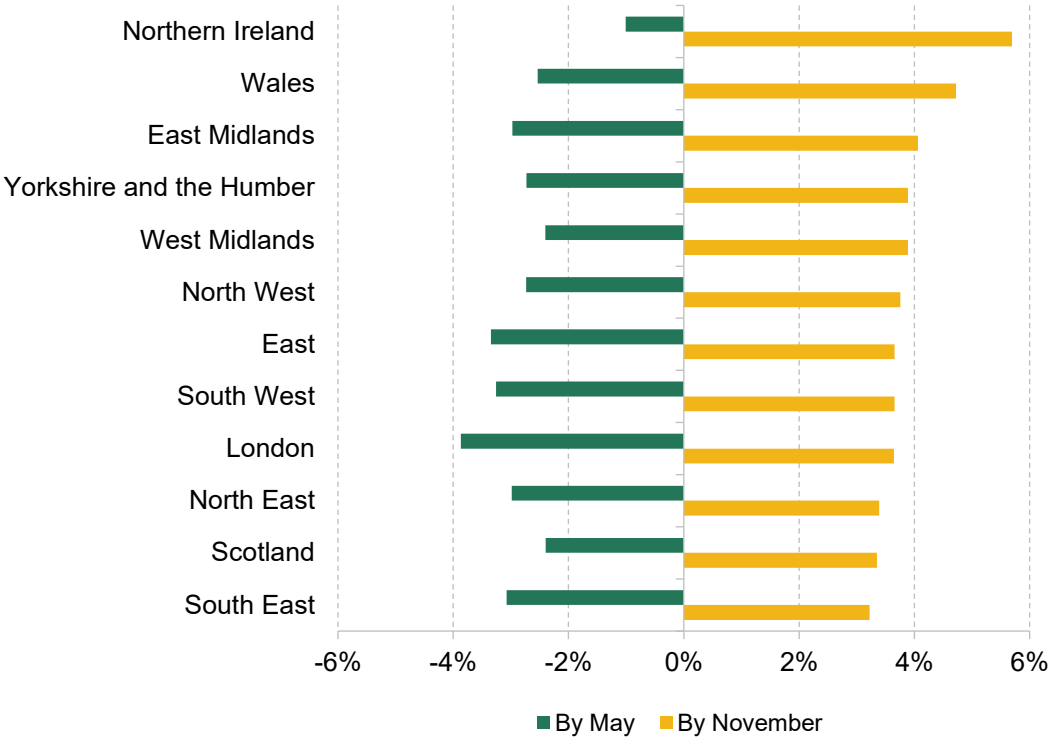
the increase in unemployment-related benefit claims in London, while larger than in other parts of England, does not stand out quite as much as its falls in employee numbers do. And if the changes in migration patterns persist, the implications for the labour and housing markets and local government will be profound.

… as do changes in earnings and incomes …

Figure 4.4 shows that the median pay of employees on payroll fell in all regions during the first lockdown last spring, reflecting lower pay for those furloughed or on reduced hours.

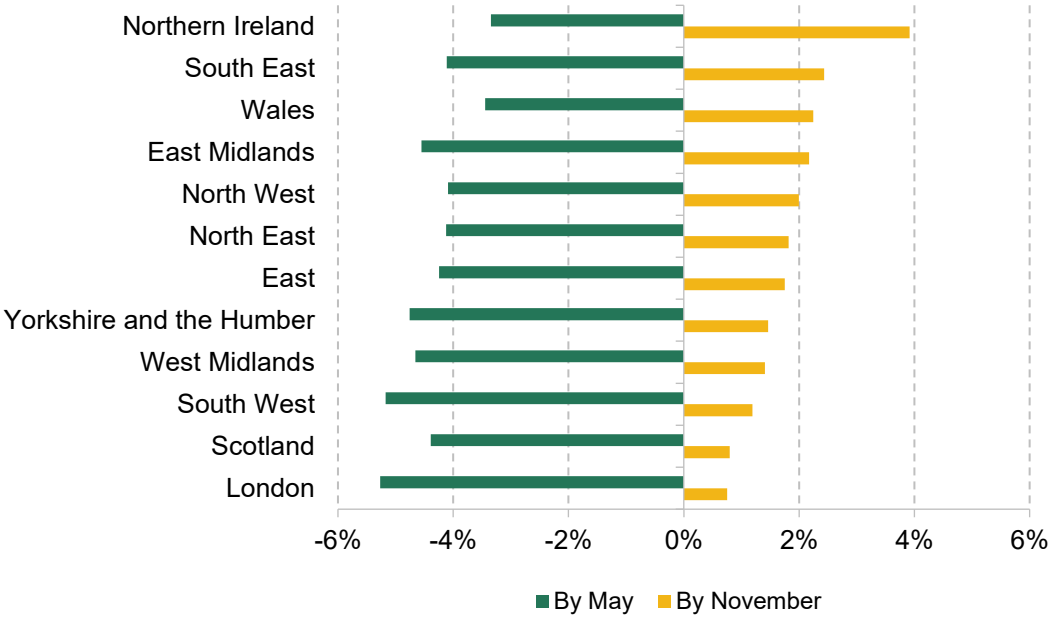
For example, between February and May 2020, median pay fell by 1.0% in Northern Ireland, 2.4–3.0% in Scotland, Wales and the northern and Midlands regions of England, 3.1–3.3% in the southern regions of England, and 3.9% in London. Median pay subsequently recovered during the summer and autumn in all regions, largely reflecting a reduction in the numbers furloughed (and a broader

Figure 4.4. Changes in median pay relative to February 2020, by region



Source: ONS, 2021a.

Figure 4.5. Changes in aggregate pay relative to February 2020, by region



Source: ONS, 2021a.

recovery in working hours). But as discussed in Section 3, it is also partly driven by the fact that job losses have been concentrated among the low-paid (pushing up the median pay of the jobs that remain). This complicates comparisons across regions with different numbers of job losses. In particular, while headline figures suggest that median earnings had recovered more strongly in London (with median pay up 3.6% between February and November 2020) than in the North East (up 3.4%), Scotland (up 3.4%) and the South East (up 3.2%), this may partly reflect bigger changes in the composition of employees in the capital, driven by its bigger reductions in job numbers.

Figure 4.5 shows that aggregate pay follows a similar pattern of decline and recovery in each region, although falls in the number of jobs mean that the initial decline was larger and subsequent growth slower than for the median pay of those in work.

There are differences by region though. For example, by November, the aggregate pay of employees on payrolls in the capital was 0.8% higher than in February 2020, compared with 1.6% across the UK as a whole. While not insignificant, this difference is much smaller than for the trends in the number of jobs discussed

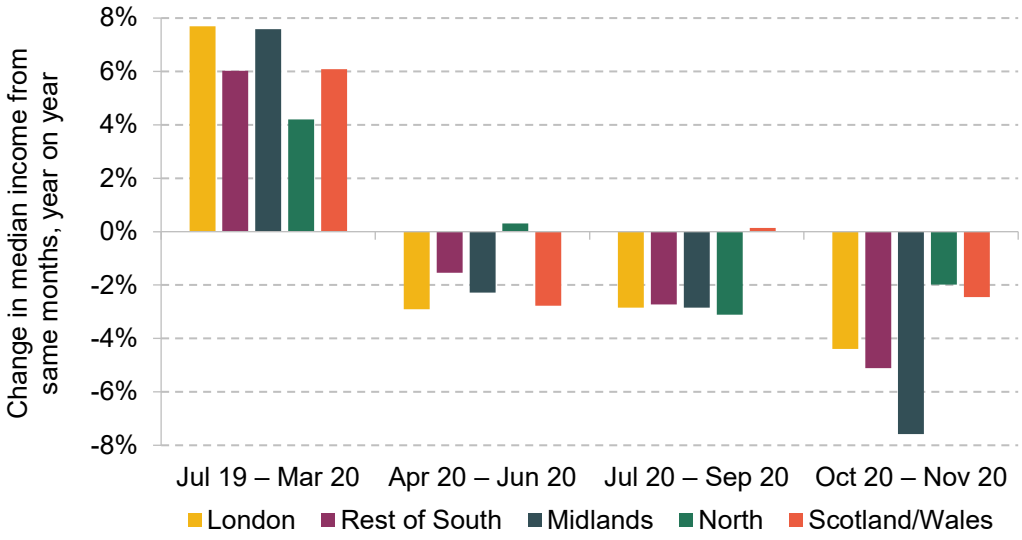
above, reflecting the concentration of job losses among lower-paid workers. In the rest of England, the increase ranged from 1.2% in the South West to 2.4% in the South East. This is despite the South West seeing a smaller fall in the number of jobs (2.6%) than the South East (3.0%). The reasons for this particular pattern are unclear, but could include both the composition of job losses (potentially less concentrated among the lowest-paid in the South West, given overall lower pay levels in this region) and the hours of work of the jobs that remain (which may have fallen more in the South West).

Figures 4.4 and 4.5 also show that both median and aggregate pay have performed better in Northern Ireland and Wales than in the rest of the UK, despite the Northern Irish Executive and the Welsh Government having adopted more stringent COVID-related restrictions than England for much of this period. This may reflect the higher share of employment and pay from the public sector, where employment, hours and pay have held up better than in other sectors. Scotland has also adopted a more stringent approach to COVID-related restrictions than England at times as well, and does see a somewhat slower recovery in median and aggregate pay than most regions of England.

Turning to overall income, we are restricted to information from the Money Dashboard app. These data show falls in income in all broad regions of the UK, with larger falls in London, the South and Midlands of England than in the North of England, Scotland and Wales, as shown in Figure 4.6.

For example, whereas in the period July 2019 to March 2020 median income increased at an annual rate of approximately 8% for our sample of MDB users in the Midlands of England, from April 2020 onwards median income was lower than in the same month a year ago: by 2.3% between April and June, 2.8% between July and September, and 7.6% between October and November. Conversely, while median income has fallen in the North of England, Scotland and Wales, the divergence from previous trends is smaller than elsewhere. For example, median income in October and November 2020 was around 2–2.5% lower in these regions than a year earlier.

Figure 4.6. Change in median net income relative to a year earlier, by region



Note: Income is that tagged as income in the underlying data, including salaries, benefit income, income from dividends and bonds, and pensions. Figures represent year-on-year changes in average nominal-terms income over the months in question. Rest of South includes East of England, South East and South West; Midlands is East Midlands and West Midlands; North is Yorkshire & Humber, North East and North West. Regions are grouped to ensure sufficient sample size for robust analysis.

Source: Authors' calculations from Money Dashboard data.

… with differences in impacts on council tax mitigated by other funding streams

The effects of the COVID crisis on the labour market will have important implications for LAs in all regions. Increases in unemployment and economic uncertainty, for example, are associated with increased rates of ill health, particularly in relation to mental health (Janke et al., 2020). Evidence from the late 2000s recession also suggests that parts of the US that saw a bigger economic shock saw an increase in rates of child abuse (Schneider, Waldfogel and Brooks-Gunn, 2017). Such factors may lead to a particular increase in demand for local public services in London, especially if the larger labour market impacts seen so far persist. However, this is in the context of existing levels of ill health and interactions with children's social services, which vary across regions.

Ogden and Phillips (2020a and 2020b) also suggest differences across regions in terms of their exposure to more direct financial effects of the COVID-19 crisis on their revenues. For example, on average, LAs in London and the rest of southern

England rely more on income from sales, fees and charges (SFCs) for services such as parking than those in the north, and are therefore more exposed to falls in these income streams – although variation within regions is much greater than across regions.

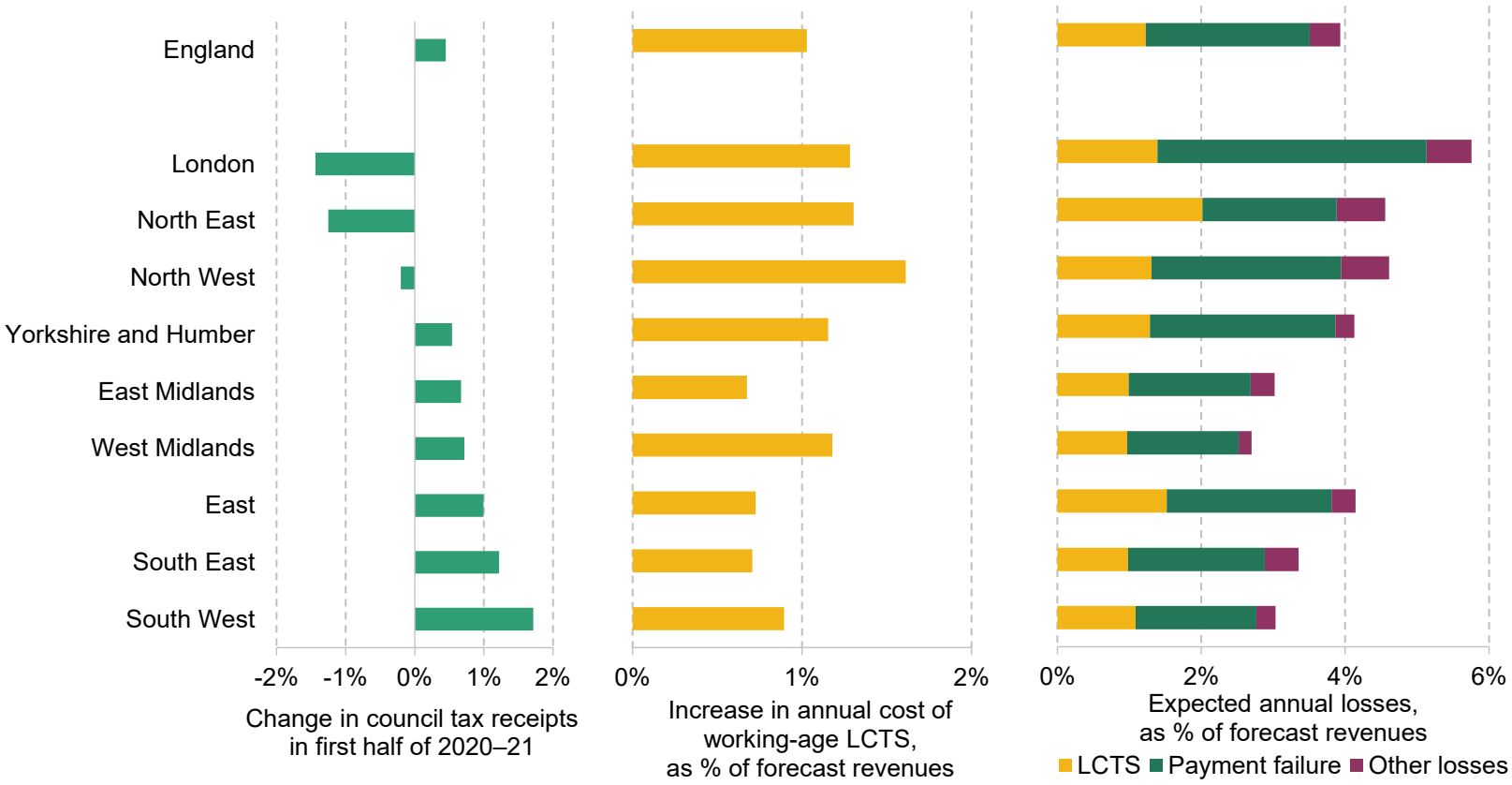
Council tax is a much more significant source of revenue than SFCs though. The left-hand panel of Figure 4.7 shows that during the first half of 2020–21, LAs in London and the North East saw their council tax revenues perform worse than most of the rest of England, with falls of 1.4% and 1.3% relative to the same period in 2019–20, compared with an increase of 0.4% for England as a whole. LAs in the North West also saw falls in council tax revenue (–0.2%), while the South East (+1.2%) and South West (+1.7%) saw the largest increases.

The middle panel of Figure 4.7 shows that part of this may be explained by the fact that increases in the cost of LCTS claims are forecast to be larger as a share of council tax revenues in London (1.3%), the North East (1.3%) and especially the North West (1.6%) than in England as a whole (1.0%). Conversely, increases in LCTS costs are forecast to be smaller than average in the South East, East and East Midlands (equivalent to 0.7% of council tax revenues). Differential changes in the cost of LCTS cannot explain these differences entirely though.

The right-hand panel of Figure 4.7, based on LAs' FMI returns, suggests that in the case of London, part of it could relate to higher rates of payment failure – forecast to amount to 3.7% of pre-COVID revenues in London, compared with 2.3% in England as a whole. It may also reflect different impacts of the COVID-19 crisis on the timing of revenues, although LAs' FMI returns actually suggest a smaller fraction of households in London and the North East are on alternative payment plans (such as deferring payments due in April and May 2020 to February and March 2021).[18]

[18] Answers to questions on the use of alternative payment plans for council tax are missing for a significant number of councils, making calculation of exact figures for the number and proportion of taxpayers on alternative payment plans difficult. Assuming that the LAs that do not provide an answer to this question fail to do so because none of their taxpayers are on such a plan would yield an estimate that the proportion of taxpayers that are on an alternative plan averages 3.2% for London, 2.9% for the North East of England and 3.7% for England as a whole. Assuming that the LAs that do not provide an answer have, on average, the same proportion of taxpayers on such a plan as those LAs that have provided an answer yields estimates of 3.7%, 3.3% and 4.5%, respectively.

Figure 4.7. (1) Change in council tax receipts in first half of year; (2) Increase in cost of working-age LCTS as a proportion of forecast revenue; (3) Estimated full-year council tax losses as a proportion of forecast revenue; all by region



Source: (1) MHCLG, 2020d; (2) MHCLG, 2019a, 2020c and 2020e; (3) MHLCG, 2020a.

The government is compensating LAs for 75% of the losses in council tax collections in the 2020–21 fiscal year, which will mitigate not only the overall impact on LAs' council tax revenues across England, but also the scale of differences in impacts across the country. For the 2021–22 fiscal year, the government is instead providing grant funding to address increases in the cost of LCTS claims, allocated broadly in line with the cost of working-age claims for LCTS in the first half of 2020–21, which will again mitigate both overall and differential effects of revenue falls.[19] However, if differential trends in council tax revenues persist into 2022–23 and beyond, they will matter more as this compensation package is not currently planned to be repeated.

It is also worth noting that the extent to which LAs rely on council tax for their overall funding varies significantly across England, with those regions where shortfalls are forecast to be larger generally relying on council tax for a smaller share of their funding. For example, council tax makes up 51% of core spending power in London and the North East, 54% in the North West and 56% in Yorkshire and the Humber. In contrast, it contributes 74% in the South East and 68% in the East and South West. Measured as a fraction of core spending power, forecast shortfalls in the North East (2.4%), North West (2.5%) and Yorkshire and the Humber (2.4%) look more similar to those in the South East (2.5%) and South West (2.1%). On this measure, London and the East of England have the highest shortfalls (2.9%).

4.2 Have different types of places in England seen different trends?

Employment and pay data are not available at LA level unfortunately, but data on unemployment-related benefit claims, the furlough scheme and, of course, LCTS claims and council tax revenues are. We collate these data for each LA in our online spreadsheet appendix. Here we focus on key differences across LAs with different

[19] As discussed in Ogden and Phillips (2020c), it is important that this COVID-related funding is not added to the figures for non-COVID-related 'core spending power' published by the government to arrive at a figure for total funding. This is because the 'core spending power' figures do not account for the impact of the likely increase in LCTS claims on council tax revenues. Adding the two sets of figures together would therefore be akin to double-counting: counting the compensatory funding for higher LCTS claims, but ignoring the impact of those higher LCTS claims on revenues.

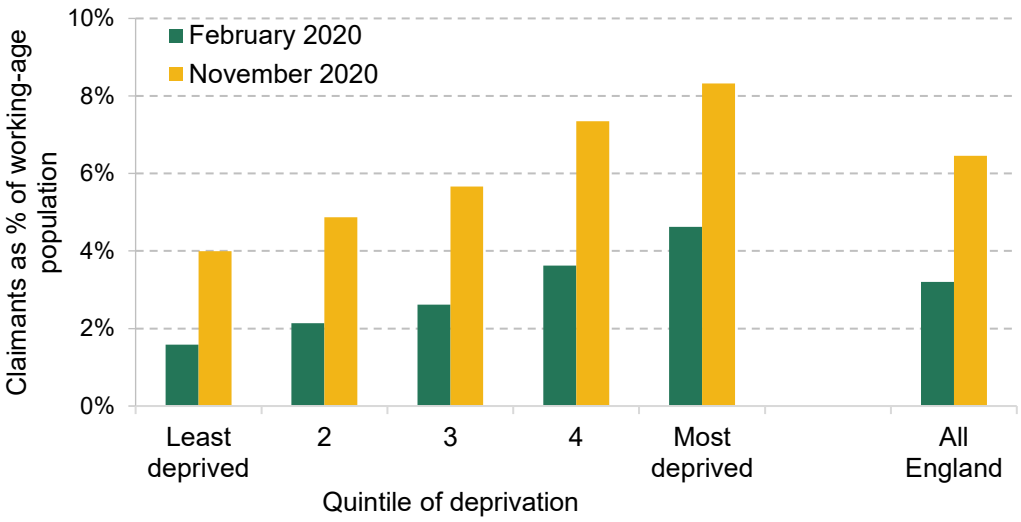
socio-economic characteristics, highlighting individual or clusters of LAs where this helps illuminate these patterns.

Unemployment benefit claims have increased most in deprived and urban areas

Figure 4.8 shows how unemployment-related benefit claim rates changed between February and November 2020 for LAs with different levels of deprivation, as measured by the English Indices of Multiple Deprivation (IMD).

Prior to the COVID-19 crisis, the share of adults aged 16–64 claiming unemployment-related benefits was almost three times higher in the most deprived fifth of LAs (4.6%) than in the least deprived fifth (1.6%). Since then, the largest increases relative to existing claimant numbers have been in the least deprived LAs in England: up 2.5 times between February and November 2020, compared with 1.8 times in the most deprived LAs. This pattern can also be seen in the map shown in Figure A.8 in the appendix, which shows the largest percentage increases in claimant numbers in 'leafy' parts of the Home Counties such as Hart, East Hertfordshire and Surrey Heath (all up over 3-fold), where claims were much lower than average pre-crisis (1.1%, 1.4% and 1.3%, respectively). On the other hand,

Figure 4.8. Alternative claimant count as a proportion of working-age population, in February and November 2020, by quintile of area deprivation



Note: Alternative claimant count per head of population aged 16–64 in mid 2020. Deprivation is based on average score from IMD 2019 at the lower-tier LA level.

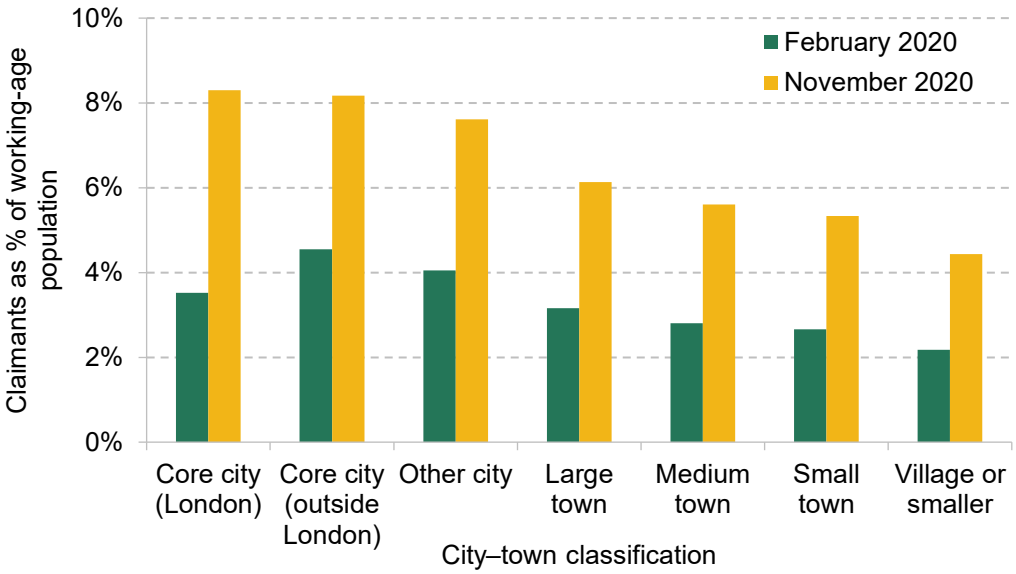
Source: MHCLG, 2019b; DWP, 2021.

some of the smallest percentage increases have been in more deprived parts of the North East such as Hartlepool, Redcar and Cleveland, and South Tyneside (all up less than 1.5-fold), where claims were higher than average pre-crisis (5.8%, 4.9% and 6.0%, respectively).

However, the largest increases as a share of the population aged 16–64 have been in the most deprived areas: an additional 3.7 percentage points (ppts) of the working-age population, compared with 2.4 ppts in the least deprived areas. In other words, the number of people affected by falls in earnings as a result of the COVID-19 crisis and with household income and assets low enough to qualify for unemployment-related benefits is greater in parts of England that were already most deprived.

Figure 4.9 shows that increases in unemployment benefit claims have been higher relative to existing claims levels in LAs covering towns and villages than in LAs

Figure 4.9. Alternative claimant count as a proportion of working-age population, in February and November 2020, by city–town classification



Note: Alternative claimant count per head of population aged 16–64 in mid 2020. Lower-tier LA areas are categorised according to the city–town classification produced by the House of Commons Library, which is based on the type of settlement in which most of an area's population lives. The 'core cities' cover Birmingham, Bristol (and neighbouring South Gloucestershire), Liverpool (and neighbouring Knowsley), Manchester, Newcastle-upon-Tyne, Nottingham and Sheffield.

Source: House of Commons Library, 2018; DWP, 2021.

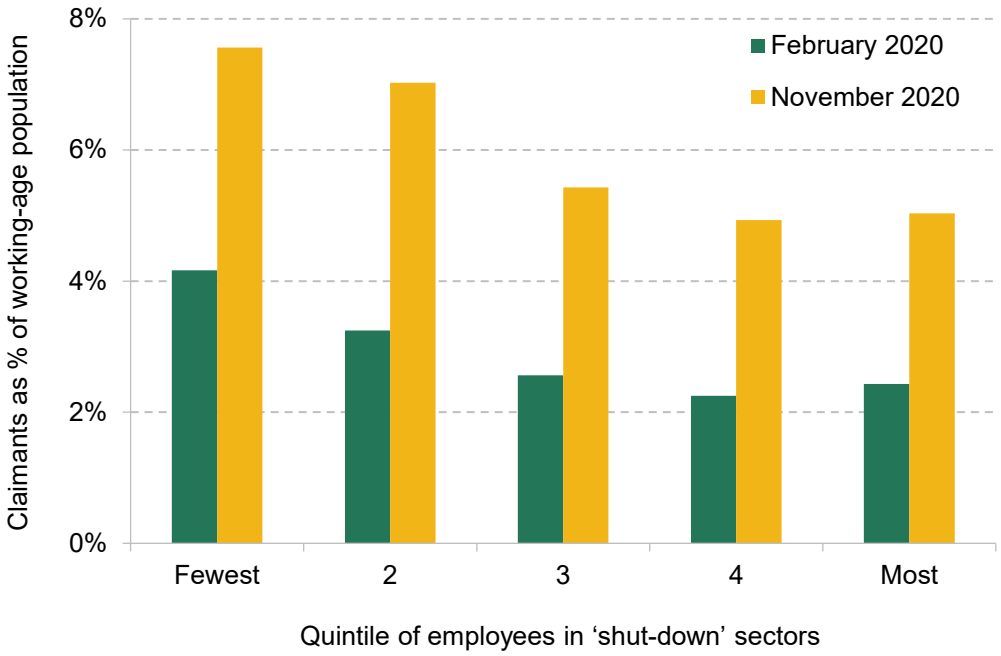
covering cities, with the exception of London. For example, the claimant rate increased by a factor of 2.0 in LAs predominantly covering villages and rural areas, compared with 1.8 for those covering the largest 'core' cities in England other than London. But measured as a fraction of the population aged 16–64, the increase has been greatest in LAs covering cities: up 4.8, 3.6 and 3.6 ppts in London, other core cities and other cities, respectively. This compares with 2.3 and 2.7 ppts in LAs covering villages & rural areas and small towns, respectively.

These differences between more urban and more rural areas may partly reflect the fact that urban areas have higher levels of deprivation than rural areas, at least as measured by the English IMD. For instance, Figure A.9 in the appendix shows that Manchester, Oldham and Salford in Greater Manchester, and Birmingham, Sandwell and Wolverhampton in the West Midlands – all among the most deprived LAs in England – all saw increases in the claimant count of more than 4 percentage points. It may also reflect the larger reductions in commuting and shopping visits to major urban areas found in previous research and highlighted in our earlier discussion of larger employment falls in Greater Manchester and the West Midlands metropolitan county, as well as Greater London.

One might expect a bigger increase in unemployment-related benefit claims in LAs where a larger share of employments are in sectors directly affected by lockdowns and reduced demand – such as arts, entertainment & recreation, accommodation and food services, non-essential retail and transport services. This is explored in Figure 4.10, which shows that areas with a larger share of employee jobs in 'shut-down' sectors had fewer claimants per population before the crisis, and saw smaller increases relative to their populations than those with the fewest jobs in shut-down sectors. For example, the share of people aged 16–64 who claim unemployment-related benefits increased by 2.6 ppts in the fifth of LAs with the highest proportion of jobs in shut-down sectors, compared with 3.4 ppts in LAs with the lowest share.

This pattern is perhaps unexpected given that we know from data from the ONS (2020a and 2021e) and HMRC (2020a) that falls in job numbers and use of furlough have been concentrated in 'shut-down' sectors such as accommodation and food services and arts, entertainment & recreation at a national level. However, a number of factors may explain this pattern. First, these jobs – which in data covering both location and industrial sector are recorded where the job is based rather than where the employee lives – may have been filled, in part, by people commuting from other LAs (or potentially migrants, a significant proportion of

Figure 4.10. Alternative claimant count as a proportion of working-age population, in February and November 2020, by quintile of employees in 'shut-down' sectors



Note: Alternative claimant count per head of population aged 16–64 in mid 2020. Proportion of employees in 'shut-down' sectors as described in Joyce and Xu (2020), by place of employment.

Source: ONS, 2020c; DWP, 2021.

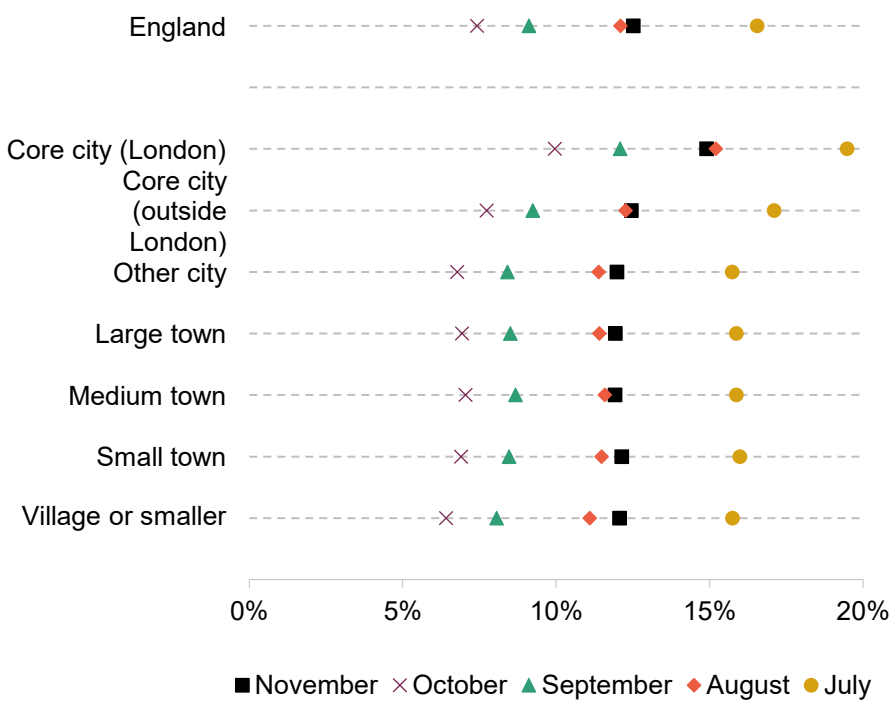
whom may have left the UK). Second, conditional on job or earnings loss, people in these areas may be less likely to claim or be entitled to unemployment-related benefits – for example, due to their partner's earnings or savings. Related to these reasons, areas where more jobs are in shut-down sectors are typically less deprived and less urban than areas where fewer jobs are in shut-down sectors.

However, Figure A.9 shows that there are some exceptions to this pattern. For example, increases in the share of the working-age population claiming unemployment-related benefits have been particularly large in several LAs near major airports – which, although not subject to closure orders, have been impacted by restrictions on travel and more general reductions in demand for travel. These include Crawley (Gatwick, and up 5.3 ppts), Slough (Heathrow, up 5.2 ppts) and Luton (Luton, up 5.0 ppts).

Furlough rates are also higher in major urban areas and in deprived neighbourhoods

Our regional analysis showed how use of the furlough scheme has been consistently higher in London than in the rest of the country since at least the summer. Figure 4.11 shows that this is also true, albeit to a lesser extent, of the other 'core cities' in England. Outside of these areas, use of the furlough scheme has been broadly similar across LAs covering smaller cities, towns and villages. However, Figure A.10 in the appendix shows significant variation within these categories of LAs. For example, rural and coastal LAs that are reliant on tourism had high shares of their workforce furloughed in November. These include South Lakeland (22%), Eden (18%), Blackpool (17%), Torbay (17%), Scarborough (17%) and the Isle of Wight (16%). In contrast, areas more reliant on agriculture and food processing, such as Fenland (8%), Boston (8%) and North Kesteven (9%), had among the lowest rates of furlough.

Figure 4.11. Proportion of eligible employments furloughed each month, by city–town classification



Note: Reported proportions are for the last day of each month and include fully and partially furloughed jobs. City–town classification based on lower-tier LA level.

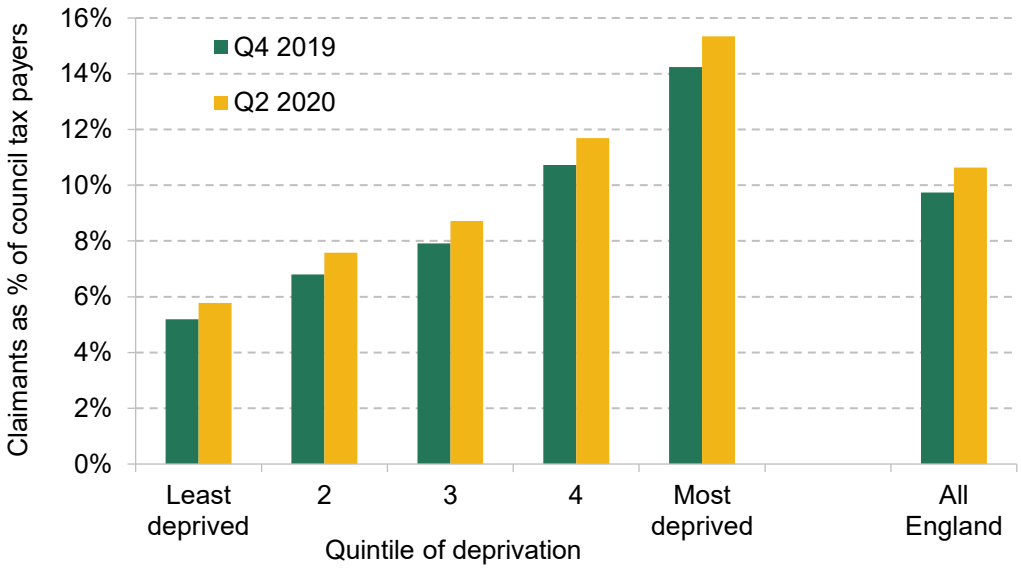
Source: House of Commons Library, 2018; HMRC, 2021.

These complex patterns mean that there is little relationship between deprivation and the share of workers who have been furloughed at the LA level. However, analysis of a specially commissioned survey by Brewer et al. (2020) finds that residents of the most deprived quarter of output areas (effectively neighbourhoods) were more likely to have been fully or partially furloughed in September (8%) than residents of the least deprived quarter of output areas (5%), driven to a significant extent by high rates of furlough and deprivation in parts of London.

LCTS claims up and council tax revenues down most in deprived areas

The increase in the number of LCTS claimants between the fourth quarter of 2019 and the second quarter of 2020 was, like for unemployment-related benefits, slightly larger in percentage terms in less deprived LAs than in more deprived LAs. However, as illustrated in Figure 4.12, this reflects the fact that in late 2019 the proportion of council tax payers who were eligible for working-age LCTS in the most deprived fifth of LAs (14.2%) was around 2.75 times that in the least deprived fifth of LAs (5.2%). A given increase in the number of claimants therefore translates into a much larger percentage increase in claimants in less deprived areas.

Figure 4.12. Number of claimants of working-age LCTS as a proportion of council tax payers, in Q4 2019 and Q2 2020, by quintile of area deprivation



Note: 'Council tax payers' refers to number of chargeable dwellings, the number of properties not exempt from council tax in 2020–21.

Source: MHCLG, 2019b, 2020b and 2020c.

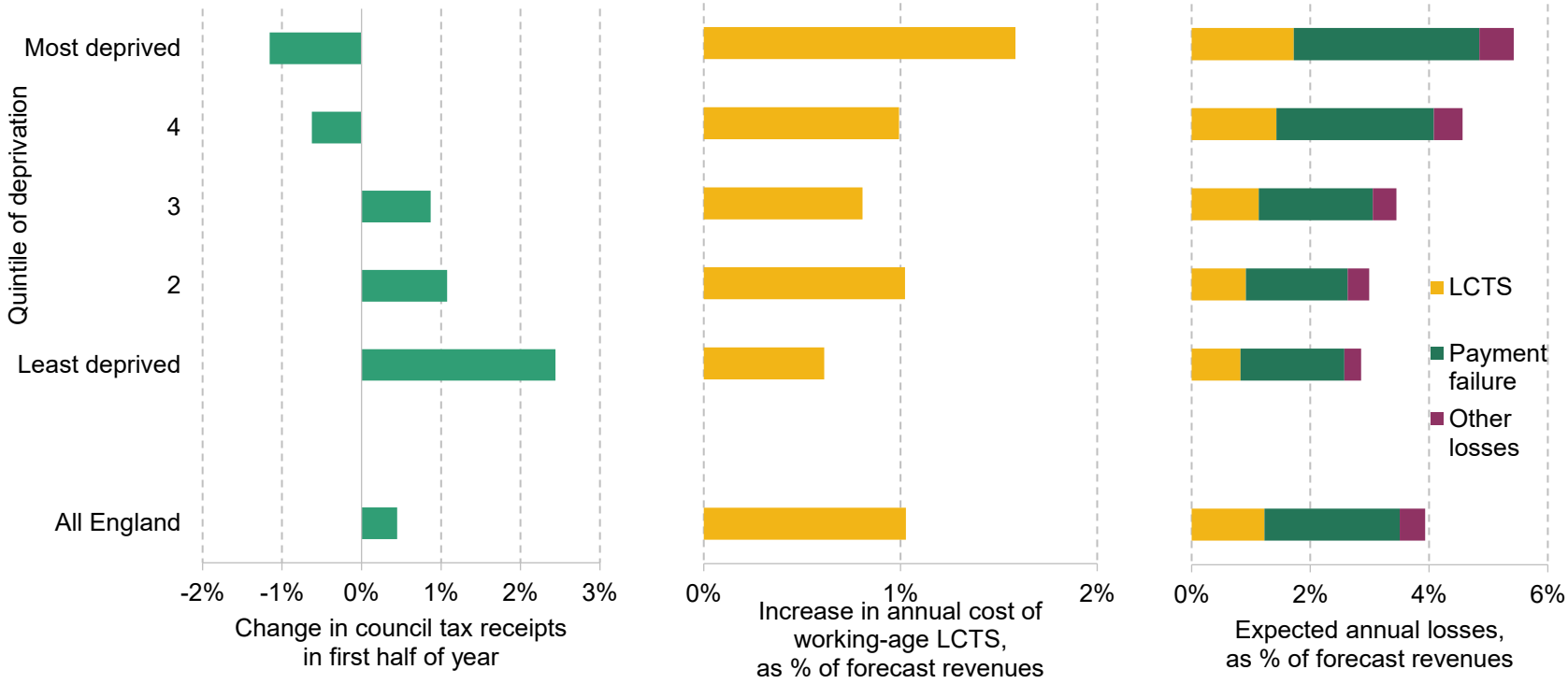
Measuring the increase in claimant numbers relative to the overall number of council tax payers instead shows a substantially larger increase in more deprived LAs. For example, the increase in working-age LCTS claimants was equivalent to 1.1% of all council tax payers in the most deprived fifth of LAs in England, compared with just 0.6% in the least deprived fifth. There have also been larger increases in more urban areas than in less urban areas: equivalent to 1.1% of all council tax payers in LAs covering core and other cities compared with 0.7% for LAs covering largely villages and rural areas, for example. These increases are correlated with increases in the fraction of the working-age population claiming unemployment-related benefits. This correlation is not particularly strong (the correlation coefficient is 0.33), with examples of LAs with large increases in unemployment benefit claims but not LCTS claims (such as Luton and Waltham Forest) and vice versa (such as Plymouth, Barnsley and Teignbridge). This may reflect differences in LCTS policies and/or take-up by claimants.

Increases in LCTS claimant numbers are one of the factors driving shortfalls in council tax revenues. The left-hand panel of Figure 4.13 shows that the relationship between deprivation and the change in council tax revenues in the first half of 2020–21 is even more striking. Whereas the amount collected by the least deprived fifth of LAs increased by 2.4% in cash terms compared with the first half of 2019–20, it fell by 1.2% in the most deprived fifth of LAs.

The middle panel of Figure 4.13 shows that larger increases in the cost of working-age LCTS claims – forecast to amount to 1.6% of council tax revenues in the most deprived fifth of LAs, compared with 0.6% in the least deprived fifth of LAs – can explain part, but not all, of this 3.6 percentage point difference in performance.

The right-hand panel, using forecasts for full-year council tax shortfalls from LAs' FMI returns, suggests that the larger fall in actual collections in the first half of 2020–21 is also likely to reflect higher rates of payment failure. Increases in the number of taxpayers failing to pay their bills due are forecast to cost the equivalent of 3.1% of council tax revenues in the most deprived fifth of LAs, compared with 1.8% of council tax revenues in the least deprived fifth of LAs. Overall, the most deprived fifth of LAs forecast a shortfall in council tax revenues of 5.4% for the year as a whole, compared with 2.9% for the least deprived fifth of LAs.

Figure 4.13. (1) Change in council tax receipts in first half of year; (2) Increase in cost of working-age LCTS as a proportion of forecast revenues; (3) Estimated full-year council tax losses as a proportion of forecast revenues; all by deprivation quintile



Note: Deprivation is based on average score from IMD 2019 at the lower-tier LA level, MHCLG (2019b).

Source: (1) MHCLG, 2020d; (2) MHCLG, 2019a, 2020c and 2020e; (3) MHLCG, 2020a.

When looking at the impact on LAs' overall funding situations across England, there are three important considerations though:

- First, the extent to which different LAs rely on council tax for their overall revenue differs significantly. In particular, the most deprived fifth of LAs rely on council tax for just over three-fifths of the share of their core funding (47.2%) that the least deprived fifth of LAs do (75.5%).[20] This means, measured as a fraction of all funding, expected shortfalls in council tax revenue are more similar across deprivation levels: 2.5% for the most deprived and 2.3% for the least deprived fifth of LAs, as illustrated in Figure A.11 in the appendix.[21]
- Second, the impact on funding also depends on any compensation measures put in place by the government.
  - As discussed earlier, the government is compensating councils for 75% of the shortfall in revenues collected in 2020–21. This will not only reduce overall impacts but also reduce the scale of differences between LAs, including between LAs serving more and less deprived areas.
  - For 2021–22, the government proposes to take a different approach, and will instead allocate additional grant funding up front to LAs to help pay for increases in LCTS costs (and potentially generosity). The allocations of this funding will be broadly in line with each LA's share of working-age LCTS expenditure in the first half of 2020–21. This is a practical and reasonable approach. But it means that if, as was the case in the first half of 2020–21, LCTS claims increase by more in percentage terms in less deprived areas, then it is these areas that may be most likely to still see costs exceed this additional funding. This is because their share of the increase in costs would exceed their share of the funding. However, the trends seen in the first half of 2020–21 may not necessarily continue, and

[20] Council tax requirement as a proportion of core spending power in 2020–21, from MHCLG (2020f). Revenues of shire county councils are apportioned to shire district councils on a population basis, and deprivation is based on the average score from IMD 2019 at the lower-tier LA level. If revenues are instead aggregated up in shire areas and deprivation at the upper-tier LA level is used, the equivalent percentages are 43.0% and 75.4%.

[21] This includes only the share of shortfalls in council tax revenues that fall on the local authority (including both shire district and shire county council in two-tier areas), as a share of the core spending power of those same authorities in 2020–21, from MHCLG (2020f). We include any losses relating to parish councils, but exclude the share of losses that will be borne by police and fire authorities, combined authorities or the Greater London Authority.

alternative schemes (for example, based on the change in LCTS claimants) would be more complex to design and administer.

- For 2022–23 and beyond, plans have not seen set out. Without compensation for increases in LCTS costs in these later years, more deprived areas are likely to lose more as a fraction of their council tax revenues. However, losses are likely to be more even when measured as a fraction of overall funding, given more deprived LAs' aforementioned lesser reliance on council tax.

- Third, for the proportion of shortfalls in revenue that relate to increased rates of payment failure, the ultimate impact on LAs' revenues will depend on their success at collecting these revenues later via late payments and/or enforcement action. LAs have historically written off just 6% of unpaid bills each year according to analysis by LG Futures (2020). It is possible that LAs will have to write off more or less of bills that go unpaid in 2020–21. This may depend to some extent on the circumstances of those who have failed to pay their council tax bill, an issue to which we turn in the next section of this briefing note.

5. Exploring council tax non-payment further

Administrative data allow us to explore differences in council tax performance across local areas, but tell us very little about the individuals who have stopped paying council tax during 2020. There is no centrally collected administrative data on the characteristics of people who claim LCTS or who have council tax arrears.

A survey commissioned by Citizens Advice in May 2020[22] suggests some systematic differences between those who did and did not fall behind on their council tax bills as a result of the first few months of the COVID-19 crisis. Nearly two-thirds (63%) were key workers, compared with 26% of those who had not fallen behind and 29% of everyone. Two-thirds (65%) were shielding or at increased risk of coronavirus compared with 32% of those not behind, and those falling behind were also disproportionately likely to be caring for an older person or to be disabled.

While not providing this nature of information, data from Money Dashboard allow us to observe the number and value of council tax payments individuals make each month, and detailed information on their other financial transactions. They also contain some basic demographic information such as age and location of residence.

5.1 Sample representativeness

We use the same sample selection criteria described in Section 2 of this briefing note, which is in turn based on those used in Bourquin et al. (2020). That briefing note examined the representativeness of the resulting Money Dashboard user sample. Younger people and those living in London are somewhat over-represented, and the income distribution is also shifted somewhat to the right, with

[22] Nationally representative polling of 2,009 UK adults, conducted by Opinium between 13 and 19 May 2020 (Citizens Advice, 2020a).

more higher earners. Of potentially more concern is that users of the Money Dashboard app may differ in their ability to manage their budgets – reflecting their interest in and use of such a financial management tool. There is little that we can do to test or correct for this, but we can look at findings from household surveys which should not suffer from this problem (although these surveys do not provide such detailed data on income and spending as Money Dashboard).

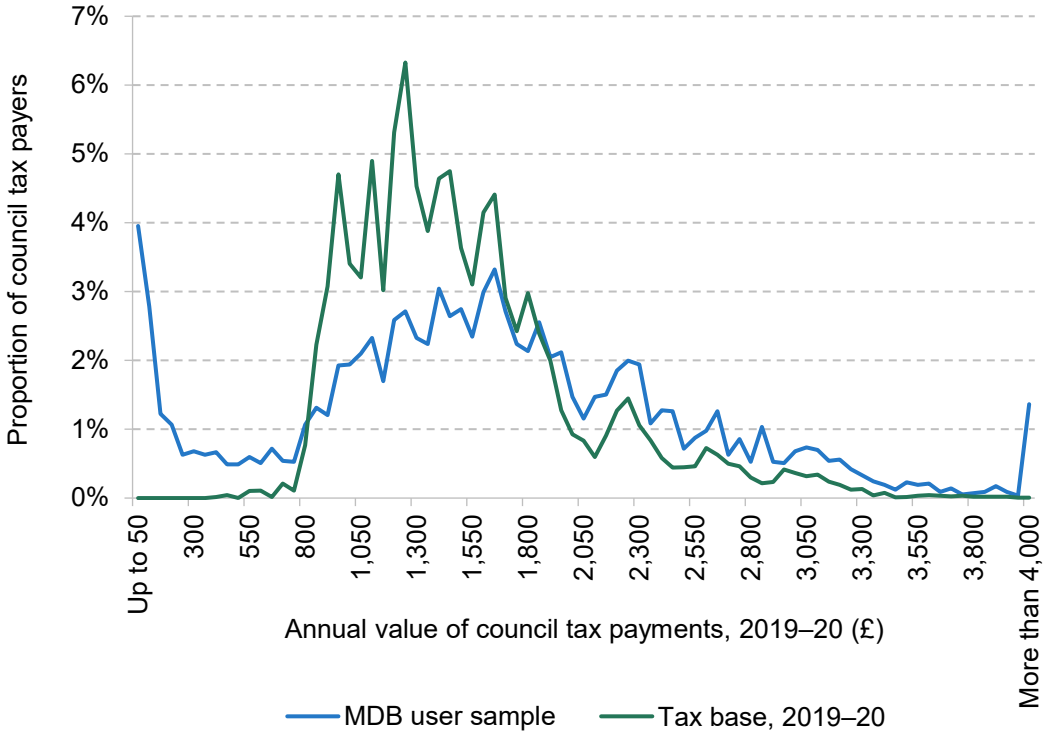
Our sample does look reasonably representative in their council tax payment behaviour in financial year 2019–20, before the COVID-19 crisis. In particular:

- 24% made no tagged council tax payments in 2019–20. This is not especially concerning as a minority of properties are not liable for council tax anyway, some households will be eligible for 100% LCTS, and we may not observe payments if the user is not the individual within a household who makes any payment to the council;
- 32% made a council tax payment in 10 months of the year – the 'typical' payment schedule – and a further 17% in all 12 months;
- 26% have some kind of 'messy' payment schedule, where they stop or start paying during the year, or appear to 'miss' a payment in some months.

Even in a normal year, many people will stop or start paying council tax for reasons unrelated to financial hardship, particularly when forming a new household or joining an existing household. The person within a household who makes a payment to the council may also change, which we may miss if, for instance, not all the partner's accounts are linked into the MDB app. An individual may also gain or lose entitlement to 100% LCTS. They may also choose to not, or be unable to, make a payment in a month despite being liable for some council tax. In a normal year, councils collect around 97% of council tax due within the same financial year, and enforcement action to collect arrears often begins within a few weeks of a missed payment (MHCLG, 2020g).

We also observe the value of council tax payments a user makes, and consider the total value of payments they make in the 2019–20 financial year. Figure 5.1 shows the distribution of payment values amongst the 76% of users who made at least one payment that year. The median value was £1,575, with 50% of users making payments between £1,069 and £2,173.

Figure 5.1. Distribution of total value of council tax payments made in 2019–20 in our sample of MDB users, and illustrative liabilities (before some discounts and premiums) across properties in England in 2019–20



Note: Money Dashboard user sample figures are total value of council tax paid by a user between April 2019 and March 2020. Tax base figures relate to the distribution of council tax liabilities by property in England, based on numbers of properties in different tax bands, accounting for differences in council tax levels between areas and in the proportion of households in each band receiving 25% single person's discount in each area. This does not account for LCTS or other discounts and premiums, and is per property rather than per household.

Source: Authors' calculations using Money Dashboard data and MHCLG (2019a).

We can compare this with the distribution of council tax liabilities in England, based on the level of council tax, the number of council tax payers in each property band, and the proportion within each band entitled to the 25% single person's discount across different areas in 2019–20. This suggests the median council tax liability across all properties in England is £1,392. This does not account for households being in receipt of less than 100% LCTS or other discounts which may lower their liabilities, or for some premiums, such as on empty properties.

The lining-up of peaks and troughs between our sample and the distribution in the tax base is reassuring, and linked to the clustering of properties in council tax

bands. Especially high values (above £4,000) are likely to relate to individuals making council tax payments for more than one property (for example, a second home or an untenanted rental property); this affects 1.4% of users paying positive amounts of council tax in 2019–20. Especially small annual values largely relate to people who did not pay in all months. Some small payment values – in 2.6% of cases where the user made a positive council tax payment, this was below £50 – may relate to individuals receiving less than 100% LCTS so facing much reduced bills, or to the repayment of council tax arrears.[23]

5.2 What happened to council tax payment behaviour in 2020?

As discussed in Section 3.3 of this briefing note, there was a decline in the proportion of users who made a council tax payment in the early months of the COVID-19 crisis, especially in May 2020.

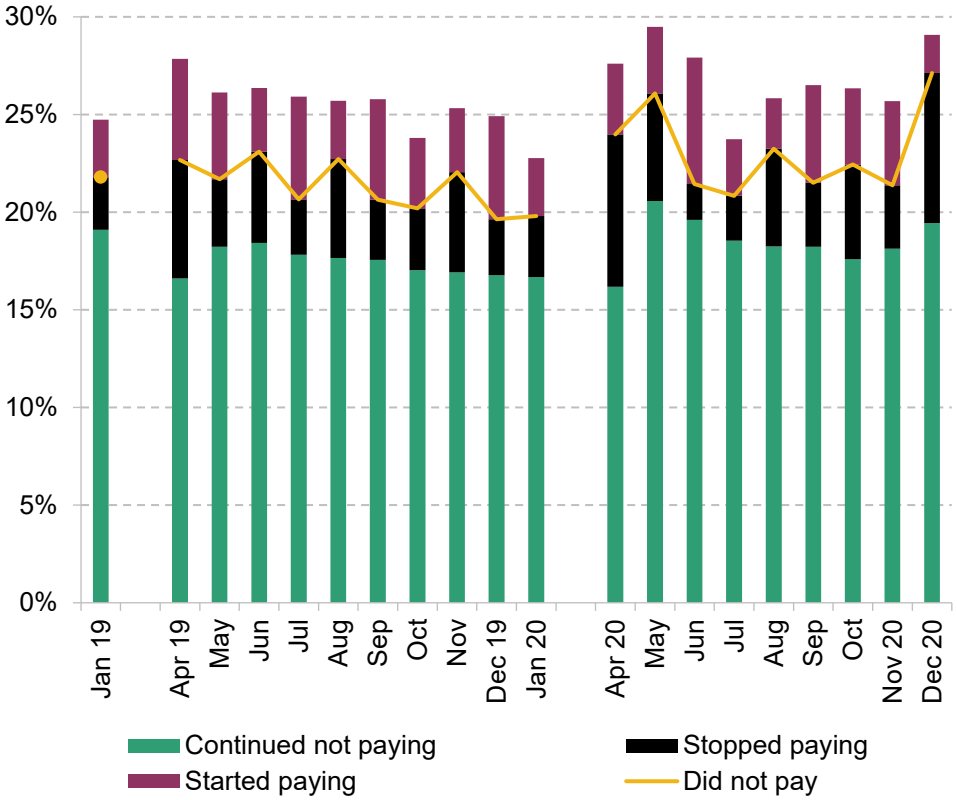
To further understand changes in the proportion of users making payments each month, we compare each user's payment status (whether or not they made any payments) month-on-month, and categorise users into those who:

- did not pay that month or the previous ('continued not paying');
- did not make a payment but did the previous month ('stopped paying');
- made a payment but did not the previous month ('started paying');
- paid that month and the previous month ('continued paying').

Given the typical payment profile is for council tax payers to be billed only in the months April to January, whether a user started or stopped paying council tax in April is determined in relation to the same user's payment status in January, so a user who 'stopped paying' in April made a payment in January and did not in April.

[23] The average value of council tax arrears amongst people that Citizens Advice helped with debt advice between April and July 2020 was £761 (Citizens Advice, 2020b). Amongst those clients repaying council tax arrears, the average monthly repayment was £21, and half were paying between £16 and £50 a month. Some low-value transactions in the data tagged as council tax payments appear to relate to fees for car parking or the payment of parking penalty charge notices, but our findings are robust to removing these transactions.

Figure 5.2. Month-on-month changes in Money Dashboard users' payment status, and the proportion who did not pay council tax each month



Note: Excludes 1,662 users (19.6%) who made no council tax payments between January 2019 and November 2020. Payment status each April is compared with that in the previous January.

Source: Authors' calculations based on Money Dashboard data.

Figure 5.2 shows the share of Money Dashboard users in our sample that were in each of the first three of these categories in 2019–20 and 2020–21 (up until November).

There is a notable jump (4.2 percentage points) in the proportion of our sample that did not pay council tax in the month in question between January 2020 and April 2020. While household circumstances may be more likely to change over a three-month period than between consecutive months in a normal year, no equivalent jump is seen in 2019 (when the proportion paying rose by less than 1 percentage point between January and April). This jump in 2020 appears to be driven by both an increase in the proportion of users who stopped paying council tax between January and April compared with 2019 (7.8% versus 6.1% of the sample) and a fall

in the proportion of users who started paying council tax between these months compared with 2019 (3.6% versus 5.2%).

The proportion of people not paying council tax increased into May, as many continued not to pay and a further group stopped paying. The proportion not paying fell sharply in June, as 6.5% of users made a payment in June and had not done so in May. No similar fall is observed in 2019. This suggests many users took advantage of councils' offers of deferred payment plans, which most often involved rescheduling payments from April and May to the end of the financial year.

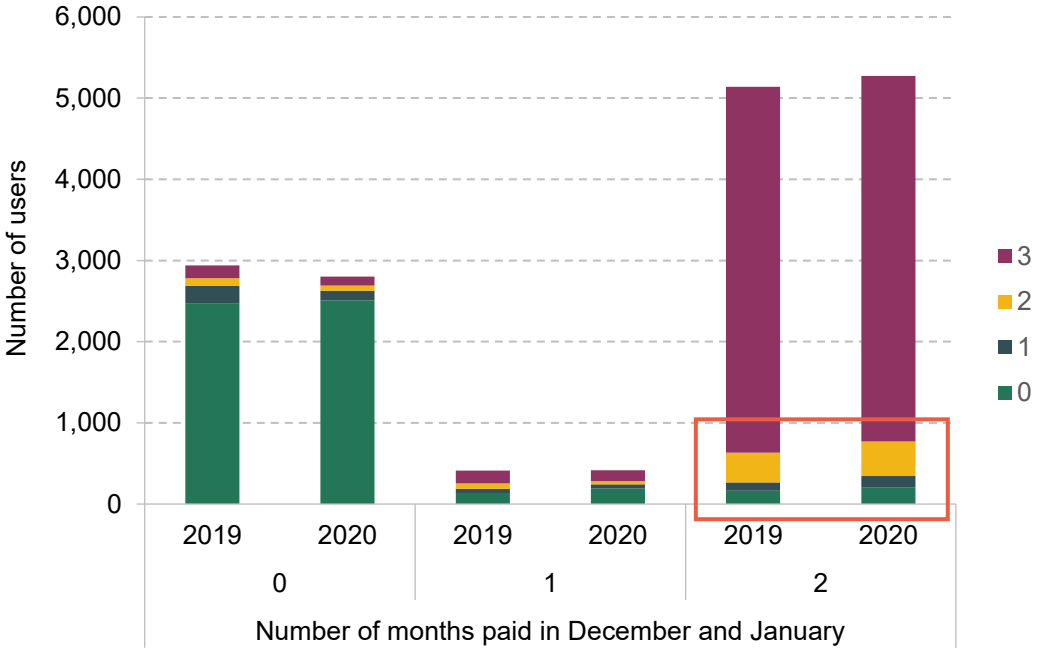
5.3 The characteristics and incomes of non-payers

We will now consider the demographic and other characteristics of users who did not make a payment in at least one of the three months April to June 2020. This first quarter, early in the crisis, is when other data show the largest fall in employment and earnings and the highest numbers of employees furloughed. We restrict our focus to those users who we would have expected, on the basis of their previous council tax payment record, to be highly likely to have made all three payments in a normal year.

In general, whether or not a user made council tax payments consistently over a few months is a strong predictor of whether or not they will make a payment in the subsequent few months. As only a minority of users make payments in February and March each year, we focus only on those who made a payment in both the previous December and January. This gives us an effective sample size of 5,273 when looking at April–June 2020, and 5,139 in 2019, our 'baseline' year.

Amongst this group, the proportion missing at least one payment between April and June increased from 12.3% in 2019 to 14.7% in 2020, as shown in Figure 5.3.

Figure 5.3. Number of users by the number of months in which they paid council tax between April and June and by the number of months in which they paid in the previous December and January



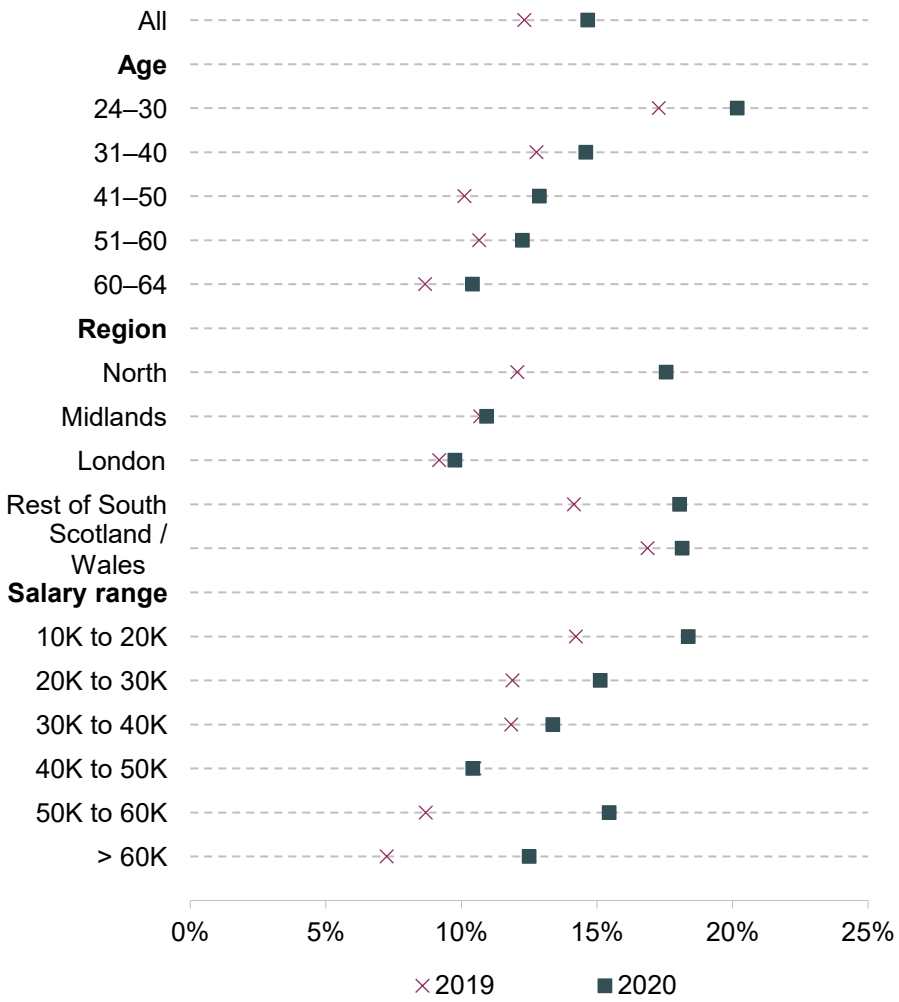
Source: Authors' calculations based on Money Dashboard data.

Figure 5.4 shows that among those who were paying council tax in December and January:

- The likelihood of going on to miss a payment varies systematically by age, and is higher amongst those aged under 30, who are perhaps more likely to move or to see changes in their household make-up. The proportion missing at least one payment increased between 2019 and 2020 across all age groups, with slightly larger increases amongst those aged under 30.
- The greatest increase in non-payment was observed amongst users in the North of England. Interestingly, we do not observe a statistically significant increase in non-payment between 2019 and 2020 amongst users in London, despite worse council tax performance in London than in other regions according to administrative data.
- In 2019, the proportion not paying in all three months April to June declined with self-reported salary, ranging from 14% amongst those earning less than £20,000 to half this rate (7%) amongst those earning more than £60,000. While this pattern is still evident to some degree in 2020, with those earning less than

£20,000 seeing the highest rate of non-payment (18%), the largest increases were seen amongst those reporting salaries above £50,000. This suggests the increase in non-payment of council tax in 2020 was not restricted to low-income households.

Figure 5.4. Proportion missing at least one month's council tax payment April–June, conditional on having made a payment in both December and January, by demographic characteristics



Note: Salary range is provided by users when they register for the Money Dashboard app, and for some users may not have been updated for several years. Regions are grouped as in Figure 4.6 to improve sample sizes. Location information is based on the postcode a user provided when they first registered for the MDB app, which may no longer correspond to their residential address in 2020.

Source: Authors' calculations based on Money Dashboard data.

However, the salary range used in Figure 5.4 is based on users' self-reported salary when they first registered for the MDB app. This information may be out of date for some users, and may be a poor proxy for people's financial circumstances in 2020. For instance, some reporting relatively high salaries in previous years may be self-employed, and have seen significant falls in income in April before receiving any SEISS payments.

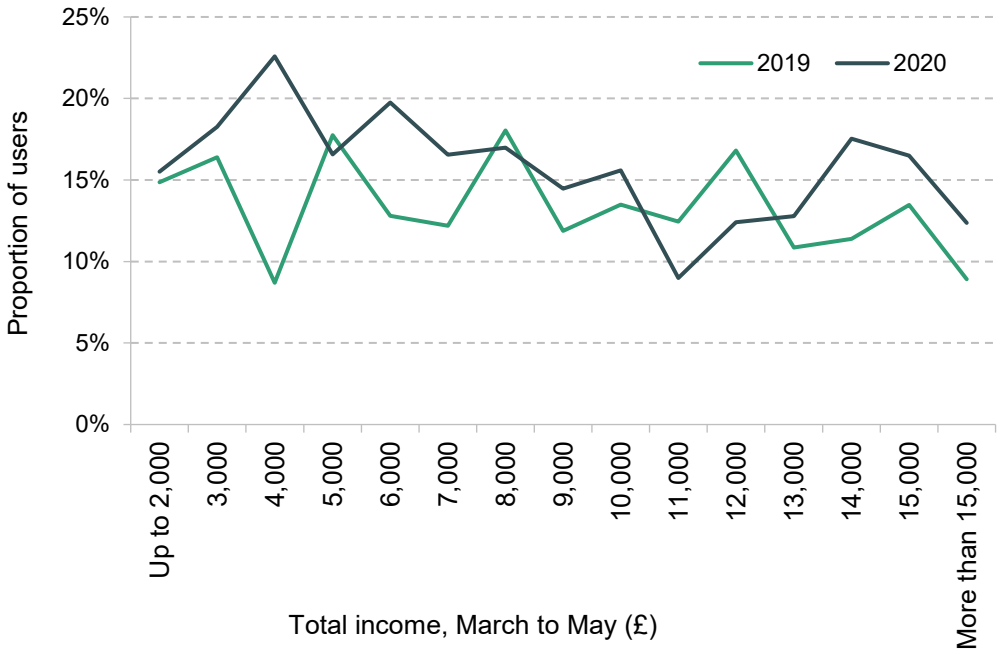
To improve on self-reported salary band, we utilise the same transactions-based measure of income described in Section 2. This is net of payments to/from HMRC and therefore should include any SEISS payments. Given income is volatile month-on-month, we consider a measure of a Money Dashboard user's total income in the three-month periods December to February (which in 2019–20 was prior to the impact of the COVID crisis) and March to May (which in 2020 we would expect to be affected by the COVID crisis). When considering falls in income, we compare a user's total income between these two quarters.

The median income of those who made payments in December 2019 and January 2020 but did not make at least one payment between April and June 2020 was around 12% lower between December 2019 and February 2020 than amongst those who went on to make all three payments: £9,131 compared with £10,322. Their median income between March and May 2020 was also lower: £9,105 compared with £10,416. In both cases, these differences are similar to the differences seen in 2018–19, consistent with those with lower incomes being more generally likely to stop making council tax payments in a given year.

As shown in Figure 5.5, the probability of not paying at least one council tax bill rose for most income groups in 2020.[24] The largest increase in non-payment relative to 2019 is seen amongst those with a quarterly income of £3,000–£4,000 (and so monthly income of £1,000–£1,333) between March and May 2020. Amongst users with incomes in this range, the proportion who did not make all three council tax payments (conditional on them having paid in both December and January) increased from 8.7% in 2019 to 22.6% in 2020.

[24] For context, the median disposable household income in the UK in financial year 2019–20 is estimated to be £29,900 (ONS, 2021d), which would be equivalent to £7,475 over three months.

Figure 5.5. Proportion missing at least one council tax payment April–June, conditional on having made a payment in both December and January, by total income between March and May



Source: Authors' calculations based on Money Dashboard data.

We may also expect those who saw a greater fall in income between December to February and March to May to be more likely to have missed at least one council tax payment between April and June. However, there is no systematic relationship between missed payments and changes in income during either 2019 or 2020.

Other evidence suggests that those who have fallen into arrears on their council tax bills were especially likely to have seen large falls in their income during the early phase of the COVID crisis though.

A survey commissioned by Citizens Advice and carried out in May 2020[25] found that more than half (56%) of people who reported having fallen into council tax arrears due to the COVID-19 crisis had seen their monthly income fall by 40% or more, compared with 10% of those who had not fallen behind, while 79% of those

[25] Nationally representative polling of 2,009 UK adults, conducted by Opinium between 13 and 19 May 2020 (Citizens Advice, 2020a).

who had fallen behind had seen their income fall by 20% or more, compared with 18% of those who had not.

The reasons for the striking difference between patterns for respondents to this survey and our findings based on Money Dashboard app users are unclear. One possibility is that our findings largely reflect the characteristics of and outcomes for people on alternative payment plans allowing them to delay payments to June, rather than those who have fallen into arrears – the bounce-back in payment rates in June supports this interpretation. However, another survey of 5,825 households, commissioned by the Standard Life Foundation (2020) and carried out in July, found that rates of deferral were significantly higher (8%) for those deemed to be in 'serious financial difficulties' than for those deemed to be 'financially secure' (just 1%).[26] While these qualitative measures of financial circumstances do not align perfectly with changes in income, they are correlated. This suggests that the particular characteristics of Money Dashboard users – notably the fact that they have downloaded and used a budgeting app – may mean that they are better able to manage large falls in their income without affecting their ability to pay council tax bills.

5.4 Bill payments and spending by non-payers

One may also expect Money Dashboard users who stopped paying council tax to be more likely to stop paying other bills or cut back their expenditure.

Looking first at bills, this is true for both utility bills[27] and mortgage payments. For example, the proportion of users paying at least one utility bill decreased from 85% in March 2020 to 80% in May 2020 amongst those who missed a council tax payment between April and June, while no similar decrease was observed for those who made all three council tax payments. However, a very similar fall (from 84%

[26] Based on their own qualitative assessment of their financial circumstances and difficulties in paying for necessities and bills, their ability to cover unexpected bills and their ability to cope with a loss of income, as well as arrears and savings levels. In addition, of those in 'serious financial difficulties', 26% had missed a council tax payment and 5% had had their bill reduced (for example, via LCTS). The figures for those deemed to be 'financially secure' were just 1% in each case.

[27] Includes electricity, gas, water and telecoms bills.

to 80%) was observed in 2019. While this is suggestive of some relationship between council tax and utility bill payments, this cannot necessarily be attributed to household financial distress. We may expect someone who moves house, perhaps to join an existing household, to stop paying council tax and utility bills for their previous property at around the same time.

The proportion of Money Dashboard users making a mortgage payment fell between March and May 2020 amongst both those who did and those who did not miss a council tax payment between April and June, falling from 31.3% to 26.5% among those who missed and from 37.0% to 32.4% among those who did not. While the percentage point falls are similar for these two groups, the percentage fall is about 1.2 times larger for those who missed at least one council tax payment. In contrast to utility bills, no similar falls in mortgage payments are observed in 2019, suggesting that mortgage holders who missed at least one council tax payment were more likely to have taken out a mortgage holiday (or otherwise missed a mortgage payment).

Turning to other spending, the first thing to note is the large falls that took place during the initial phases of the COVID-19 crisis, which have been documented by Davenport et al. (2020b). Amongst our sample of Money Dashboard users, median total spending fell by £885 (33%) between December 2019 to February 2020 and March to May 2020. 46% of users experienced a significant decline in their three-monthly spending, of more than £1,000 (or £333 a month). In contrast, in 2019, median spending increased by £151 (6%) between these quarters, and only 10% experienced such large falls in spending.

Some users who saw their earnings fall during the early months of the COVID-19 crisis may have reduced their discretionary spending as a result. However, much of this decline will have taken the form of forced saving amongst those who did not see their incomes fall.[28] The 'shutdown' of many sectors during the first national lockdown in England meant less opportunity to spend on things such as restaurants, clothes and holidays, while many who switched to working from home will have seen a sudden fall in spending on travel to/from work.

[28] Davenport et al. (2020b) provide further analysis.

As with income, previous council tax payers who missed at least one payment between April and June 2020 had lower median spending both before and during the COVID-19 crisis than those who made all payments, as shown in Table 5.1. On the other hand, they were less likely to have reduced their spending by more than £1,000; 45.4% had done so, compared with 52.6% amongst those who did not miss a payment. This is the reverse of the pattern seen in 2019, when the equivalent proportions were 13.4% and 10.7%. Taken as a proportion of pre-crisis spending, there is very little difference between groups; on average, both saw their spending fall by around a third.

Crucially, though, a higher proportion of the spending of lower-income households is on essentials such as groceries, while higher-income households will tend to spend more on average on more 'discretionary' categories such as holidays and meals out. Davenport et al. (2020b) show that the latter saw their spending fall most in both absolute and relative terms during the early months of the COVID-19 crisis, as these categories of spending were especially depressed. The unusual nature of changes in spending during 2020 means that we cannot infer from a fall in spending that a household was in financial distress over these three months. And we therefore cannot conclude from their smaller falls in spending that those missing council tax payments were less affected by the crisis, as their lower pre-COVID-crisis incomes and spending mean we would expect them to have seen a smaller fall in expenditure.

Table 5.1. Summary statistics for spending between December and February, and between March and May, amongst those who made council tax payments in every month April–June and those who missed at least one payment, in 2019 and 2020

	Council tax payments in April to June	Median spending in Dec to Feb	Median spending in Mar to May	Proportion with a fall in spending of more than £1,000	Median change in spending	Median % change in spending	Number of users
2019	Made all three payments	£3,323	£3,600	10.7%	+£186	+6.4%	4,506
	Missed at least one payment	£3,039	£3,168	13.4%	+£132	+5.6%	633
2020	Made all three payments	£3,595	£2,346	52.6%	–£1,092	–33.6%	4,500
	Missed at least one payment	£3,071	£2,091	45.4%	–£881	–31.0%	773

Note: Spending excludes spending on bills (including mortgages, rent, utilities and council tax).

Source: Authors' calculations based on Money Dashboard data.

6. Discussion and conclusions

The COVID-19 crisis has had a profound effect on the labour market and, as a result, on households' financial circumstances. These effects have significant implications for local government, most directly as a result of a fall in the amount of council tax they can collect. Alongside falls in other income streams resulting from public health restrictions and increases in costs, this has made the crisis a 'perfect storm' for local authorities' (LAs') as well as many households' circumstances, and comes on the back of a decade of austerity for local government and sluggish growth in household incomes.

Across the UK as a whole, the number of employees on payrolls fell by 3% between February and November 2020, prompting a doubling in the number of people claiming unemployment-related benefits. This is in spite of the furlough scheme, which supported around 30% of jobs last April and May and still around 8–9% last October, when most sectors of the economy were able to operate, albeit in many cases with still-reduced demand. Falls in employment and hours of work have led to a fall in household earnings and incomes – even after accounting for furlough payments, grants for the self-employed and the benefit system – that persisted into the autumn of last year.

However, it is striking that for the country as a whole, falls in payrolls and increases in claims for unemployment-related benefits and local council tax support (LCTS) were very much concentrated in the first lockdown last spring. England's second national lockdown in November was associated with a more muted impact on the labour market than the first lockdown. In particular, employment, earnings and claims for unemployment-related benefits broadly continued previous trends. The share of workers furloughed did increase to around 15%, but this was only around half of the level during the first lockdown. This may reflect the shorter and less stringent nature of the second lockdown though, and the current third lockdown may have a bigger effect on the labour market and households' finances. Moreover, the planned ending of the furlough scheme at the end of April is forecast by the

Office for Budget Responsibility to lead to a further significant fall in payrolls and increase in unemployment.

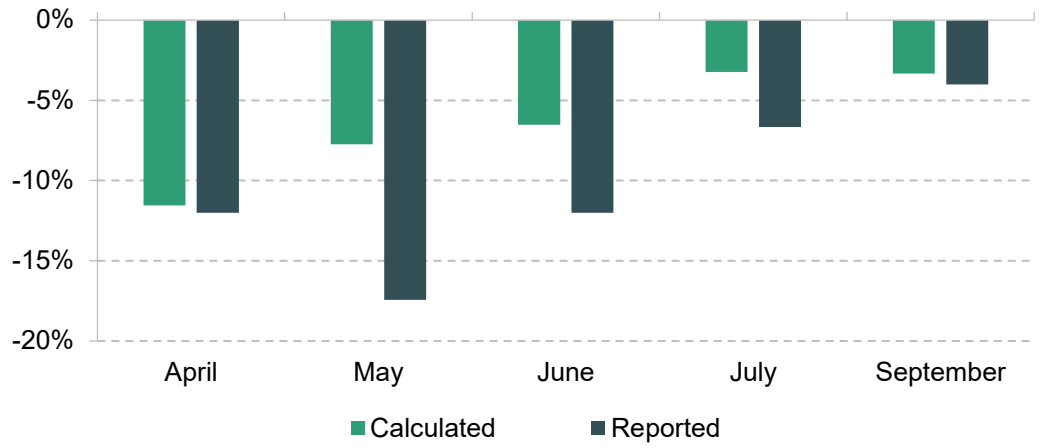
Also striking is how the impact of the COVID-19 crisis on the labour market has varied around the country. London, in particular, stands out as seeing larger falls in employment – which, unlike in the rest of the country, were not largely confined to the first lockdown – increases in unemployment-related benefit claims and greater use of the furlough scheme. This may partly explain the particularly large impact of the COVID-19 crisis on council tax revenues in the capital – both in terms of the amount actually collected in the first half of the 2020–21 fiscal year, and as forecast for the full year by councils.

Impacts have also been greater in other cities and in more deprived areas. Council tax revenues fell 1.2% year-on-year in the first half of 2020–21 in the most deprived fifth of LAs, compared with an increase of 2.4% in the least deprived fifth, for example. This is driven by both larger increases in LCTS costs and more payment failures for more deprived LAs. Thus, even though LAs covering more deprived areas rely on council tax for much less of their overall revenues than LAs covering less deprived areas, council tax losses this year are forecast to amount to slightly more of their core funding: 2.5% versus 2.3%.

The implications for households and local government in different parts of the country will depend on the extent to which these trends persist – and indeed are exacerbated when the furlough scheme ends and unemployment likely increases. Expectations are that changes in shopping and commuting behaviour are unlikely to fully reverse, which could have particular implications for the labour market in major cities. This in turn could impact councils' revenues not only via council tax but, as discussed in Ogden and Phillips (2020b), via their commercial and investment activities as well. It will therefore be important to track how consumer and commuter behaviour and the labour market evolve across the country, considering the implications for different types of households, businesses and LAs.

Appendix

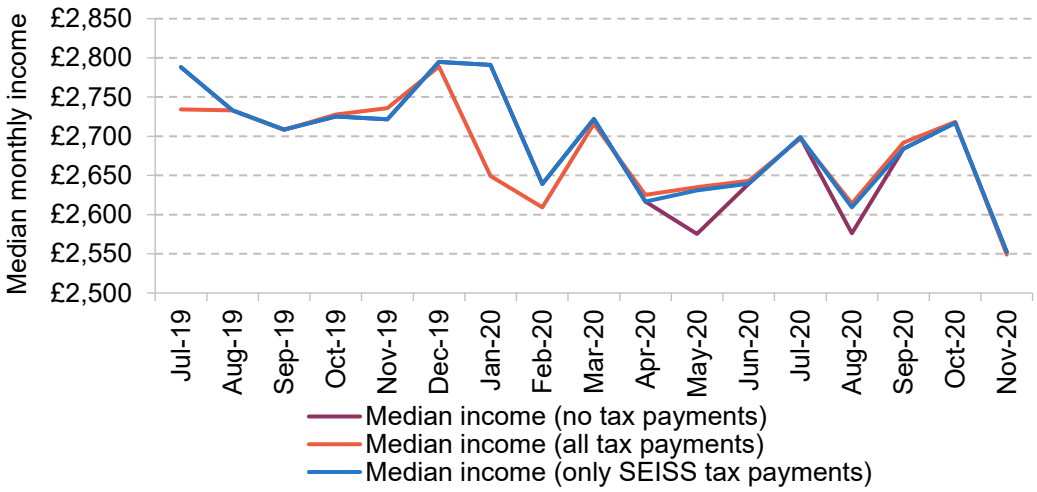
Figure A.1. Change in household median earnings since January/February 2020 according to different UKHLS earnings measures



Note: Calculated household earnings is calculated by summing individual earnings within a household where all adults respond. Reported household earnings is the household earnings figure reported directly by respondents.

Source: UKHLS COVID-19 waves 1–5, weighted using longitudinal weights.

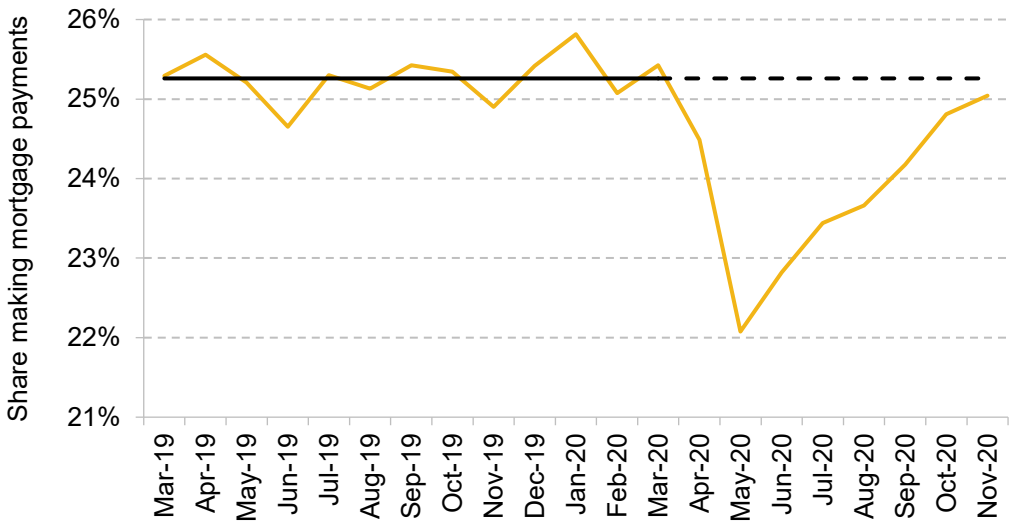
Figure A.2. Median monthly income under different treatments of transactions with HMRC



Note: Figures are in nominal terms.

Source: Authors' calculations based on Money Dashboard data.

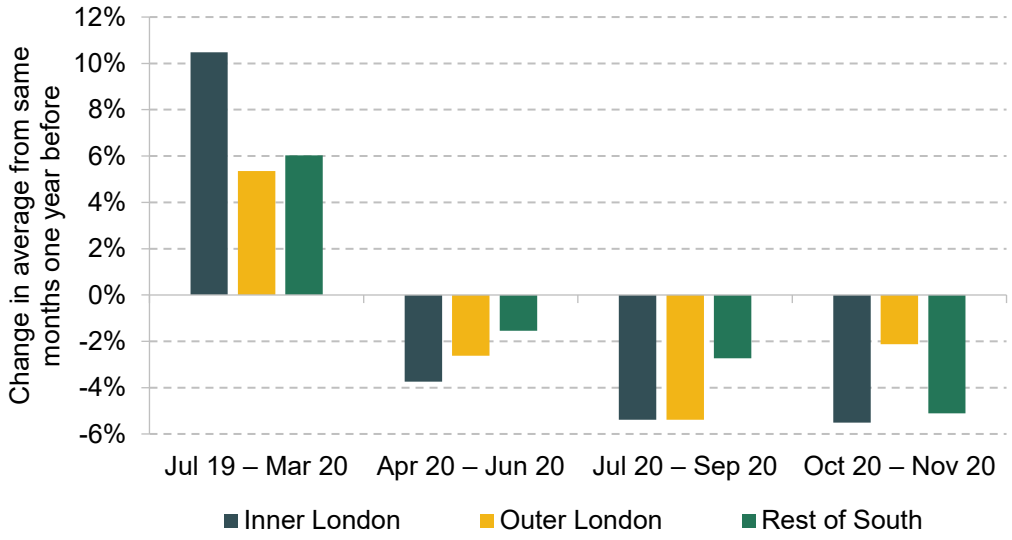
Figure A.3. Share of Money Dashboard users making mortgage payments each month



Note: A user is classified as making mortgage payments when there are positive amounts spent on transactions tagged as mortgages. Black line shows average share between March 2019 and February 2020.

Source: Authors' calculations using Money Dashboard data.

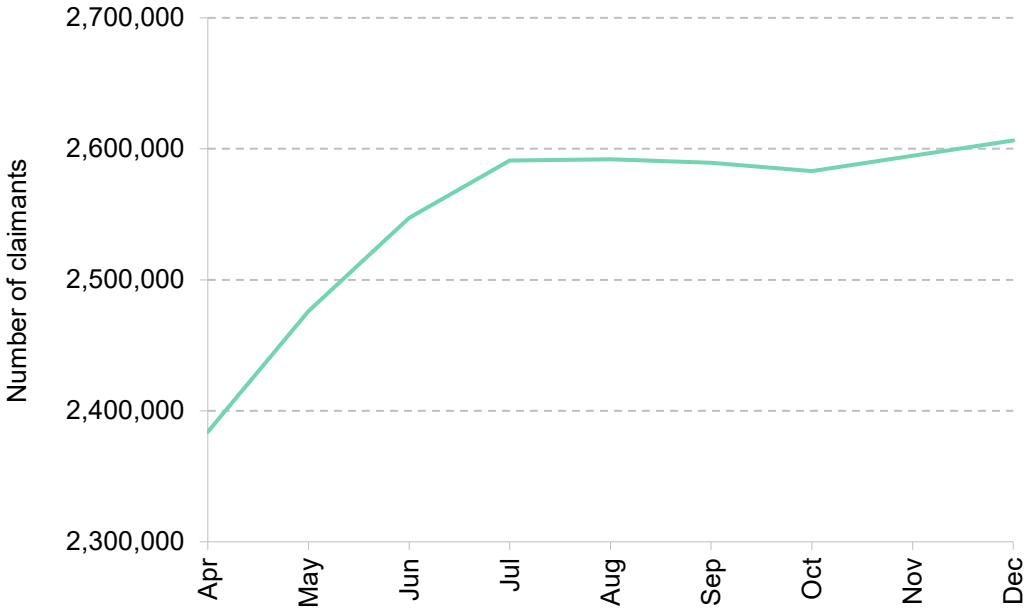
Figure A.4. Annual change in median income of Money Dashboard users, by sub-region of residence in London and the South of England



Note: Inner and outer London as defined by NUTS3 classifications. Rest of South includes East of England, South East and South West.

Source: Authors' calculations using Money Dashboard data.

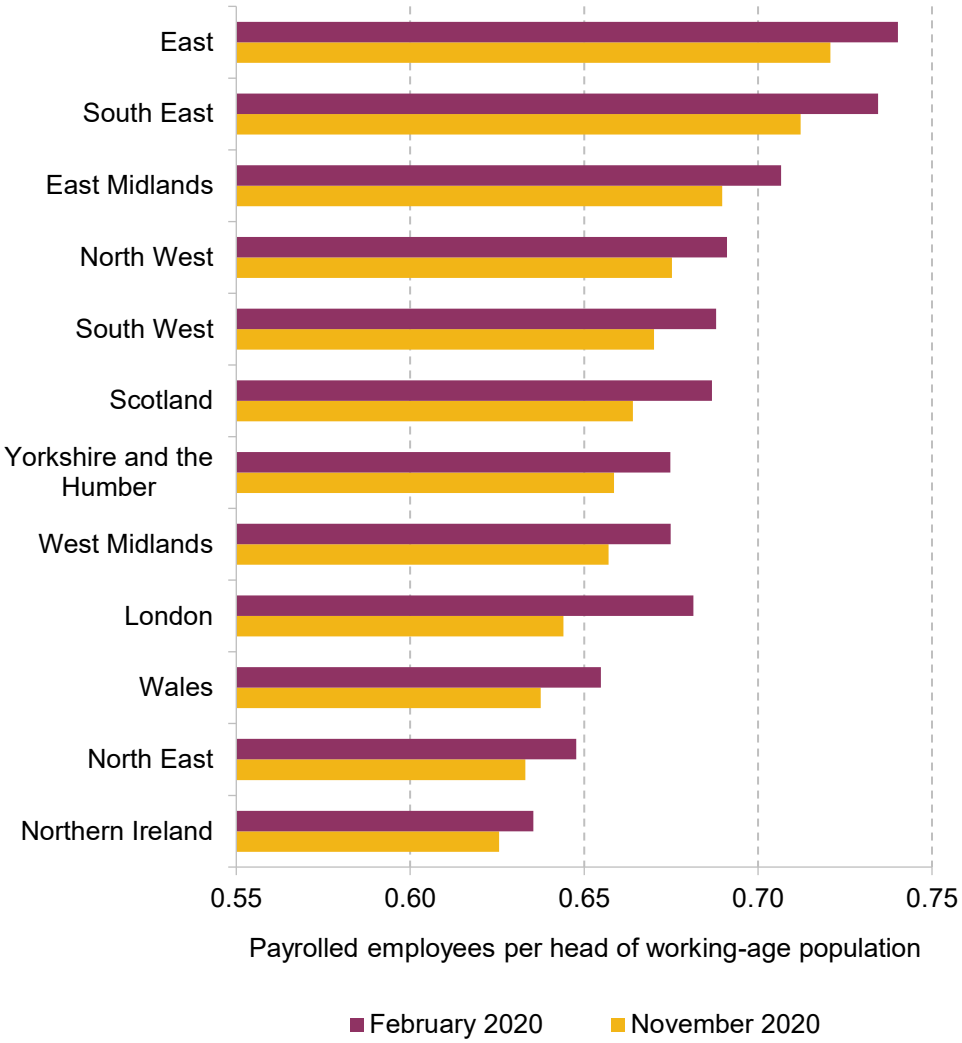
Figure A.5. Number of working-age claimants of LCTS in England each month from councils' FMI returns



Note: Out-turn data have been used where available, and a small number of missing returns have been imputed using other survey waves and quarterly statistics.

Source: Authors' calculations based on councils' monthly FMI returns to MHCLG (2020a).

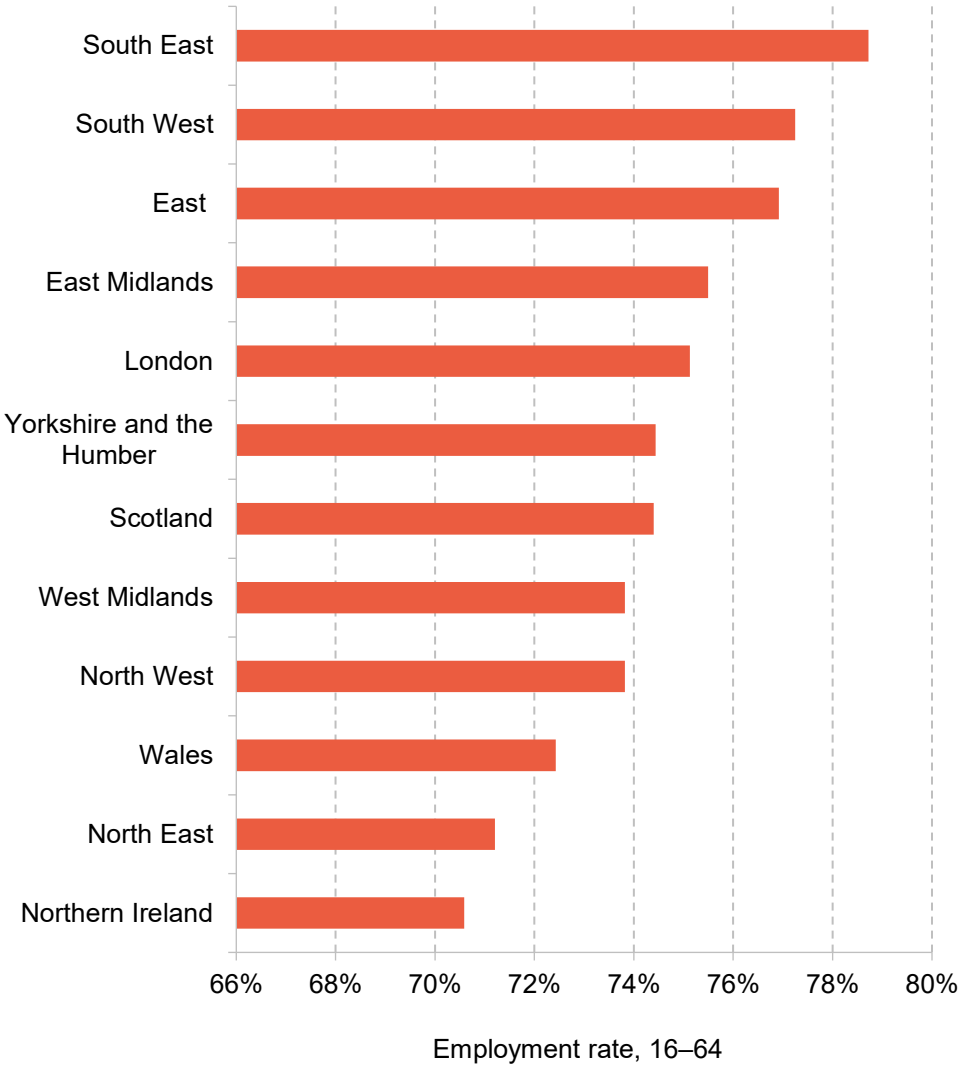
Figure A.6. Number of employees on payroll per head of working-age population in selected months, by region



Note: Working-age population is number of residents aged 16–64 in mid 2020, based on ONS mid-2018 population projections.

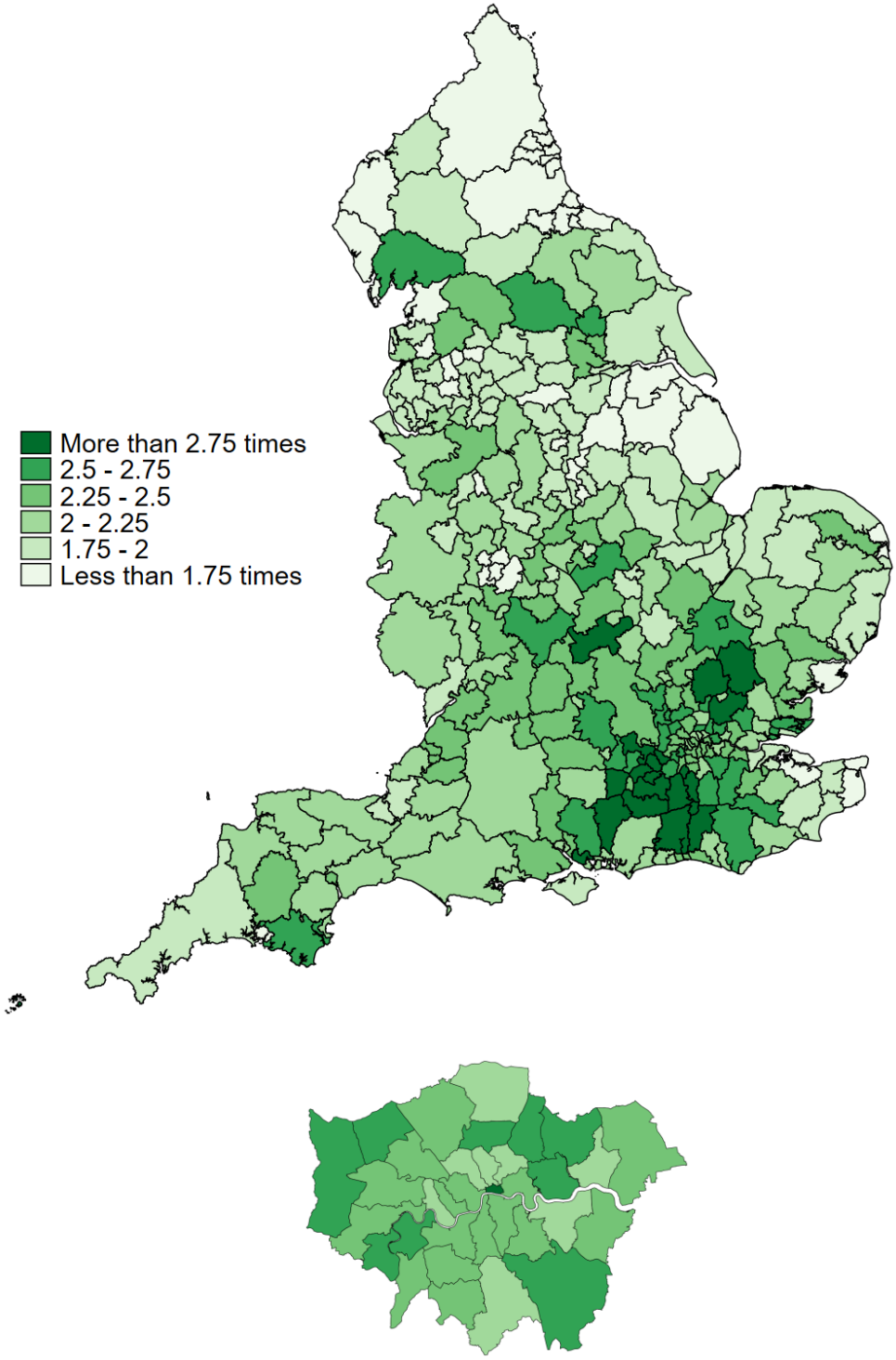
Source: ONS, 2021a.

Figure A.7. Estimated employment rate, three months to November 2020, by region



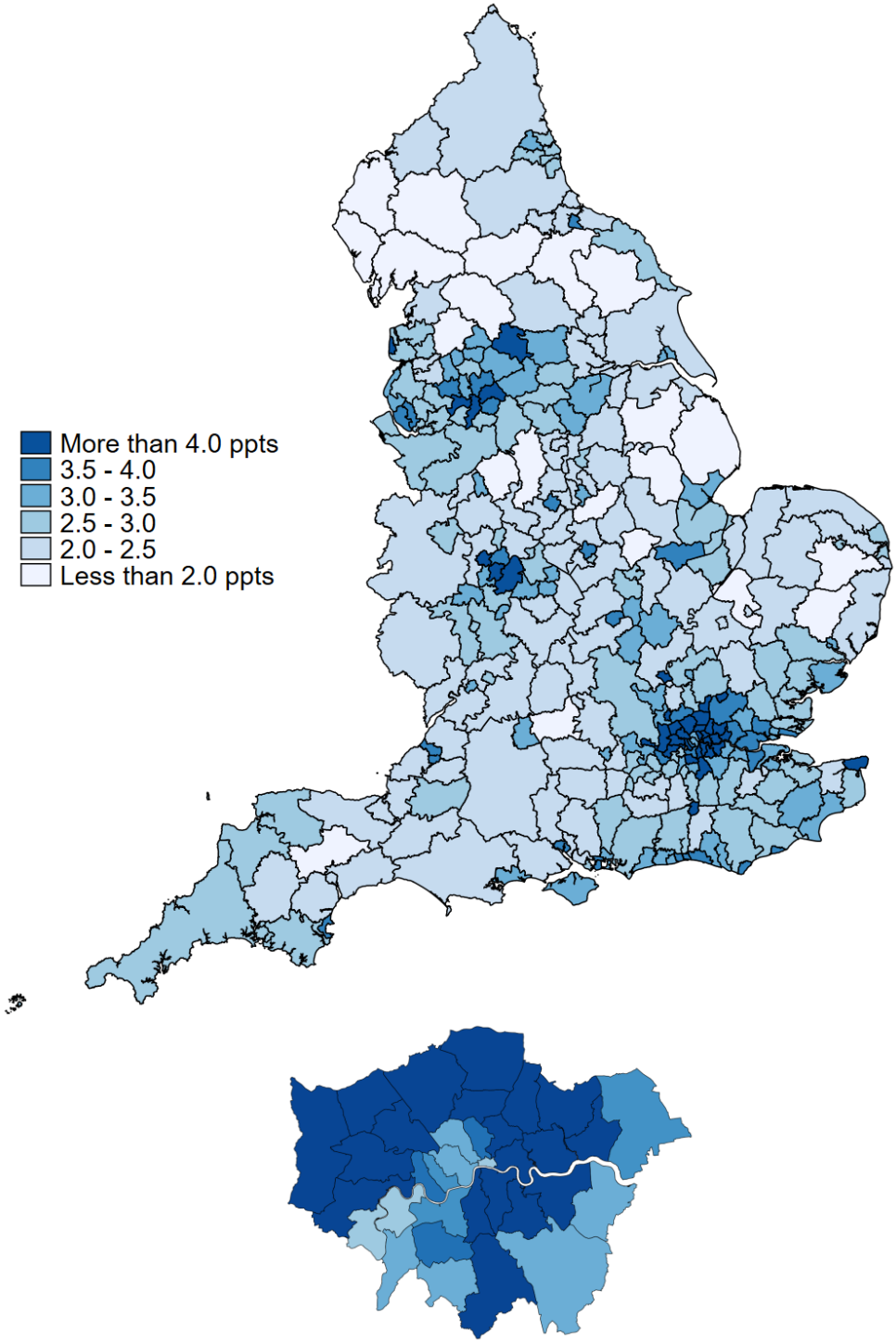
Source: ONS, 2021b.

Figure A.8. Increase in the alternative claimant count in November 2020 relative to February 2020 levels, by LA



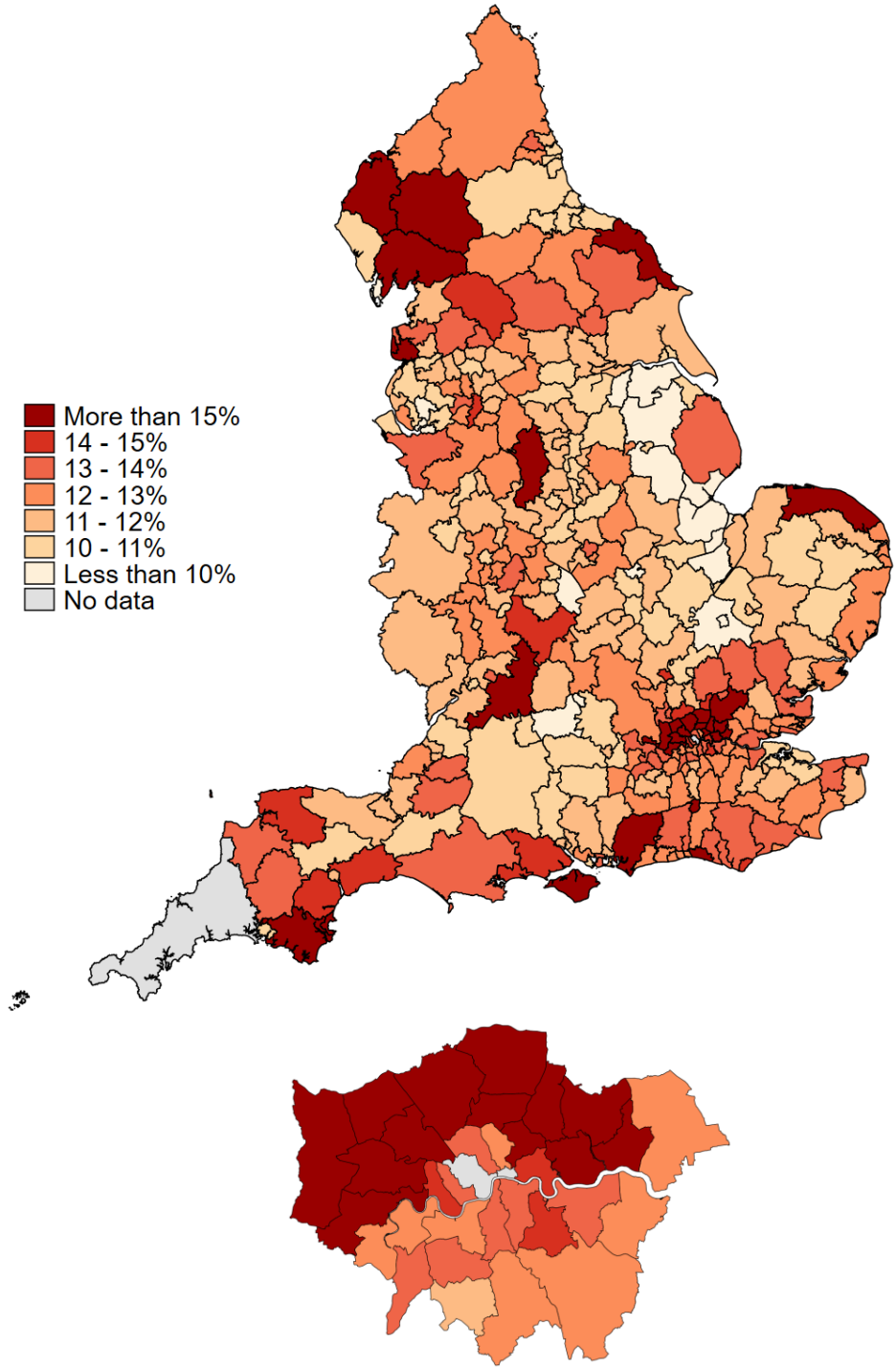
Source: DWP, 2021.

Figure A.9. Percentage point change in the alternative claimant count, February to November 2020, by LA



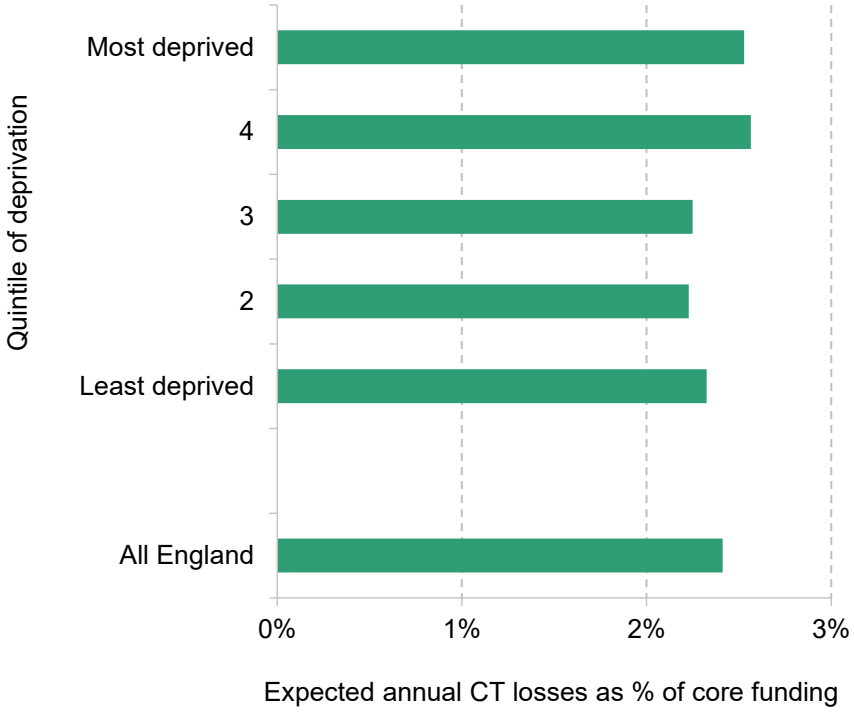
Source: DWP, 2021.

Figure A.10. Share of jobs furloughed at 30 November 2020, by LA



Source: HMRC, 2021.

Figure A.11. Forecast shortfall in council tax as a share of core spending power, by deprivation



Source: MHCLG, 2020a and 2020f.

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