

# UNIVERSAL CREDIT AND COUNCIL TAX SUPPORT SCHEMES

A white paper detailing what Universal Credit means for Council Tax Support schemes



Policy in Practice

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# The hidden impact of Universal Credit on Council Tax Support

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## Introduction

Most low income households have had less help to pay their council tax bill since 2013 as changes to the support schemes have been made and funding cuts have been passed on. Policy in Practice's research commissioned by the Local Government Association, finds that the average low income household in Britain is £3.33 per week worse off as a result of replacing Council Tax Benefit with localised Council Tax Reduction schemes.

The roll out of Universal Credit full service, which ramps up significantly this Autumn, will change how much Council Tax Support households receive. This is because the method used to calculate how much support someone can get differs depending on whether that person is receiving legacy benefits or Universal Credit.

To best support all vulnerable households councils must understand the full impact moving on to Universal Credit full service will have in their area.

In this white paper, we explain the detail of how Universal Credit affects the Council Tax Support that households receive, offer some rules of thumb on typical winners or losers, and suggest who may need support.

## Small change, big impact

Most analysis that looks at the impact of Universal Credit generally compares income from legacy benefits with income from Universal Credit.

Yet, because Council Tax Support sits outside Universal Credit and is still given by local authorities under local schemes, it's often omitted from this income comparison. See Figure 1.

When a household moves to Universal Credit, corresponding changes in the level of Council Tax Support can have a small but significant effect on household income. This change in support is important because a large number of low-income households will be hit.

By analysing the combined impact of Universal Credit and Council Tax Support local authorities can understand the full impact that moving to Universal Credit will have on low income households and get important information to help create the best Council Tax Support scheme possible.



# The 'default' scheme and Universal Credit

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Fig. 1: Household support: Council Tax Support sits outside Universal Credit

## The 'default' scheme and Universal Credit

Analysing the impact Universal Credit has on Council Tax Support is complex because of the infinite number of schemes possible both for people who get Council Tax Support and for those moving to Universal Credit. Nevertheless, to understand the combined effect on household incomes, a good place to start is with the commonly used 'default' scheme.

Under the default scheme, Council Tax Support is different for households who get Universal Credit compared to those on legacy benefits. Although the assessment process is generally the same, the calculation of income and needs isn't. However, this has little impact on Council Tax Support for non-working households because their income will usually be below their 'needs'.

So, whether their income is higher or lower under Universal Credit, non-working households will continue to get maximum Council Tax Support set at the local scheme rate. The impact of Universal Credit has on levels of Council Tax Support will, for the most part, be on working households.

For working households, changes in income under Universal Credit will mean that a different level of income is taken into account for the assessment of Council Tax Support. Higher income under Universal Credit will generally result in lower Council Tax Support, and lower income under Universal Credit will generally result in higher Council Tax Support.



# Rule of thumb: how households fare

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That said, there are exceptions because of changes in the rules around the assessment of need or income. Outcomes can broadly be divided into three categories:

1. households with reduced income under Universal Credit and lower Council Tax Support – lose
2. households with higher income under Universal Credit and higher Council Tax Support – win
3. households where income changes under Universal Credit are partially offset by corresponding changes in Council Tax Support – no change



### Why some households lose

Some working households that lose money under Universal Credit will not see this translate into higher Council Tax Support. This situation occurs if the *needs* side of the assessment is lower under Universal Credit or when income that was previously ignored for legacy benefits assessment is now taken into account for Universal Credit assessment.

The groups of households primarily affected by this are working households with a person with a disability, some households previously in receipt of ESA, and the self-employed.

By way of explanation, legacy benefits and Council Tax Support include *premiums* for those in receipt of DLA or PIP which increase the *needs* element against which income is compared.

These do not exist under Universal Credit or the related default Council Tax Support scheme. For affected households who are also working, decreased income under Universal Credit will not result in increased Council Tax Support.



# Some households lose, some win

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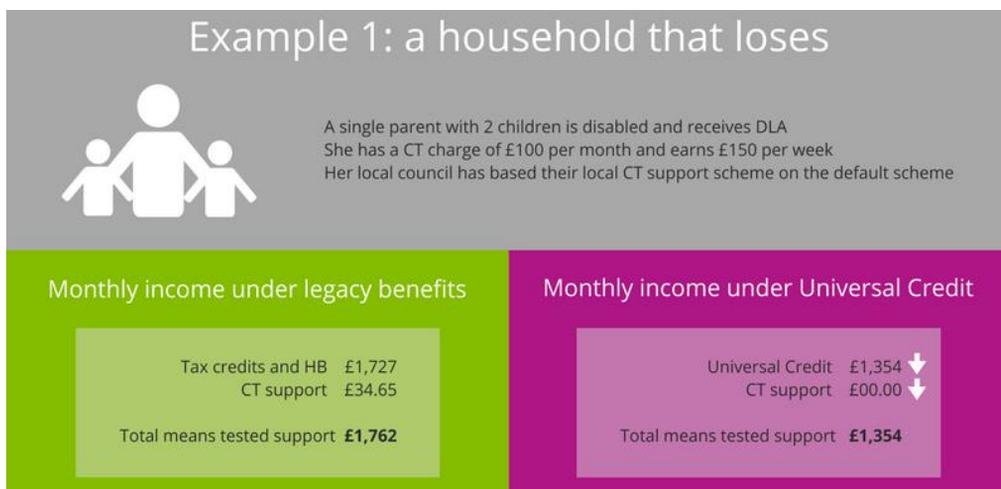
Many working single-person households in receipt of ESA also lose out. For these households, work allowances will be lower under Universal Credit than the equivalent earnings disregard (known as permitted work) under legacy benefits.

This means income is taken into account under Universal Credit that is ignored for assessment of legacy benefits, resulting in both lower Universal Credit and lower Council Tax Support.

For working households in the ESA support group, this increased income sits alongside a reduction in the needs level, leading to an even more significant loss of income.

For self-employed households, assessment of income under Universal Credit uses a notional income based on the minimum wage.

For many low-income households, this is higher than actual income. Because assessment is based on a higher income than that used for legacy benefits, the reduction in Universal Credit is accompanied by lower Council Tax Support.



### Why some households win

A minority of households will see increased income under Universal Credit that doesn't translate into loss of Council Tax Support. This will occur where the needs element is higher under Universal Credit, for example when lower non-dependant deductions apply.

This may also happen where income is excluded from Universal Credit but included for assessment of legacy benefits. For example, income from boarders is ignored for Universal Credit assessment purposes but partially taken into account for legacy benefit assessment.



# Some households see no change

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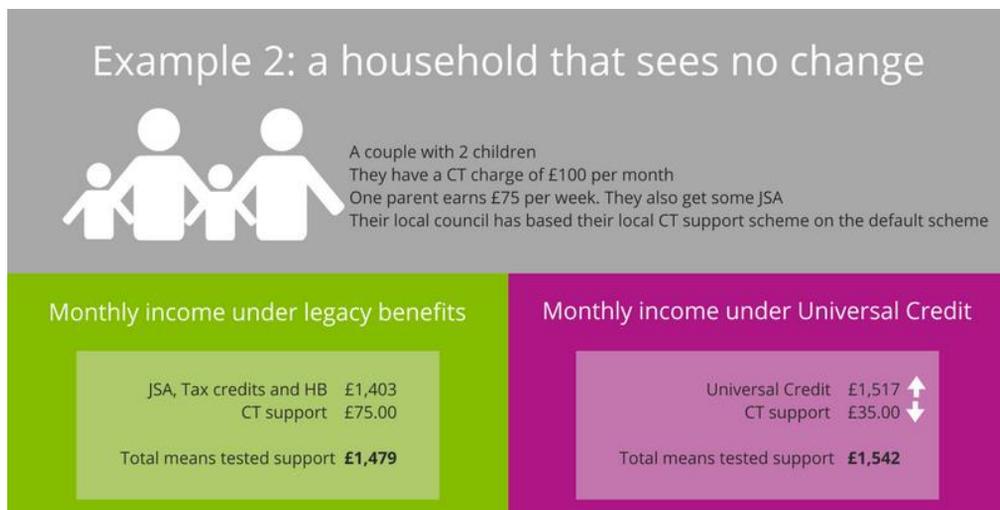
## Why some households see no change

For most working households, the amount of Universal Credit will affect how much Council Tax Support is awarded; higher Universal Credit will result in lower Council Tax Support and vice versa.

Many non-disabled employed households will have increased income under Universal Credit due to retention of a greater proportion of earnings. This increased income will be taken into account for Council Tax Support resulting in a lower award.

This means that a significant proportion of the households that lose Council Tax Support under Universal Credit are being compensated for this loss through a higher Universal Credit award.

All of this is good news for local authorities as, effectively, a greater proportion of support for these households comes from central government funds rather than through locally funded Council Tax Support schemes.



**Luton**

"Policy in Practice's detailed and powerful analysis pointed us in the right direction and has been the main driver of the changes we've made to our Council Tax Reduction scheme, and the levels of support we've been able to build into it." Clive Jones, Luton Borough Council

# Implications for local support

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## **What this means for support agencies and residents**

Keeping a Council Tax Support scheme that's based on the default scheme won't maintain the status quo. Changes to the assessment of Council Tax for those in receipt of Universal Credit will mean a change in Council Tax Support for most working households. Therefore, any assessment of household income under Universal Credit also needs to reassess Council Tax Support.

## **What this means for local authorities**

A complete picture of how Universal Credit affects Council Tax Support can only be achieved by household level analysis that takes account of the specifics of a localised support scheme. Only this detailed level of analysis can give the necessary demographics to fully understand which households will gain or lose Council Tax Support under Universal Credit.

## **How Policy in Practice is helping local authorities**

Policy in Practice has assessed the impact of welfare reforms, combined with modelling of proposed Council Tax Support schemes, for different local authorities. We've found that, in general, keeping the default scheme as residents move to Universal Credit, results in a small cost saving in Council Tax Support to the authority.

The income for some non-disabled working households who lose Council Tax Support remains much the same because the lost income is offset by retention of earnings under Universal Credit. It's therefore tempting for local authorities to retain a scheme that resembles the default scheme. However, there are still vulnerable households that councils should worry about.

Through our work with local authorities we have identified certain types of households that will lose, or be doubly hit, and these include households with someone with a disability. Local authorities may want greater visibility of these households and consider a Council Tax Support scheme that protects them.

In practice, many local authorities know that retention of the default scheme will come with high, and unfunded, administration costs, and they want to introduce schemes that are both socially fair and easy to administer.

Local authorities who are planning to change their Council Tax Support schemes as full service Universal Credit comes in have a real opportunity to give the best possible holistic support to their residents in most need.



# Council Tax Support data analysis

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## Local authorities are losing track of their residents on Universal Credit

Local authorities that Policy in Practice work with are greatly concerned with the lack of visibility over their most vulnerable residents, brought about by the roll out of Universal Credit.

Under the current legacy benefit system local authorities have the ability to access detailed information on the economic circumstances of their low-income residents through their Housing Benefit data, which is collected and updated by councils' departments in charge of administering this benefit.

In recent years, Policy in Practice has helped local authorities to get insights from this data well beyond its primary administrative purposes in order. Our data analysis has helped to:

- Understand the combined impact of welfare reform on their residents
- Identify households most in need of support to target Discretionary Housing Payments and other support measures in an effective way
- Monitor and assess the effectiveness of local interventions to improve the way welfare support is delivered.

However, as Universal Credit gradually replaces Housing Benefit, the data, and therefore the information, will become increasingly less available. This will inevitably undermine some of the invaluable preventative work that local councils carry out in supporting their most vulnerable residents.

This issue could have long-term consequences for the way local support is designed and delivered, yet little consideration has been given to this matter outside of the more technical policy circles.

To date, no formal arrangement exists for the sharing of Universal Credit data between JCPs and local authorities, and councils are worried about their capacity to fulfil some of their statutory duties without an adequate evidence-base.



"At North Hertfordshire District Council we wanted to spend more of our budget on council tax support whilst making sure we factored in the effects of welfare reforms. Policy in Practice helped us to accurately model our best CTRS scheme and establish the ideal level of support."  
Howard Crompton, North Hertfordshire District Council

# Learn the true living standards of residents

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## Analyse Council Tax Support data to learn about people on Universal Credit

Policy in Practice has developed an answer to the challenge facing local authorities around the lack of visibility over Universal Credit claimants. Through the analysis of Council Tax Support data we have been able to identify and capture detailed information at the household-level on the living standards of families claiming Universal Credit. The cohort captured by this approach represents a proportion ranging between 30% and 45% of all UC claimants in the area, and we expect this figure to increase consistently.

This data allows councils to access precious information on their households' demographic characteristics, their levels and different type of income including their UC award, earnings and employment information, and the presence of any disability in the household.

In addition, by matching these records with historical housing benefit data, we are able to accurately derive details around the tenure and housing circumstances of approximately 60% of claimants.

In Croydon we saw a 32% increase in take up rates of Council Tax Support among Universal Credit claimants over the last 12 months. Our new approach offers a unique opportunity for local authorities to gain visibility over a cohort of households otherwise left out of sight.

## Target support to households on UC using household-level data

The implications of this approach are far reaching in helping local authorities to deliver support to their residents in receipt of Universal Credit. We can help local authorities to identify:

- Residents on UC living in poverty or identified as in financial risk
- Residents on UC living in council's property who have fallen into rent arrears
- Households on UC affected by the benefit cap and other welfare reforms
- Households on UC facing housing costs but not receiving support via the UC housing element

In addition, we can help identify households in need who have recently moved on to Universal Credit but aren't claiming Council Tax Support. Armed with this information councils can allocate resources for a targeted take-up campaign, offering immediate financial relief to these residents, reducing the risk of arrears and the costs of backdating the claim.



One district council in SE England who wants to remain anonymous went live with Universal Credit full service in December 2016. Since then they've seen a 10% increase in reassessments for CTS as a result and are currently carrying out 100 reassessments a day.

# About Policy in Practice

UNDERSTAND THE WELFARE SYSTEM

## Policy in Practice believes the welfare system can work better

Policy in Practice was founded to help people towards independence by making the welfare system simple for people and organisations to understand.

The benefit system is complicated. Different government departments administer a range of different benefits, each of which have their own rules which can change at different times.

We're a policy-led software and consulting business and we've developed three core services to help make the welfare system simpler to understand.

SOFTWARE	ANALYTICS	MODELLING
<p>Our Benefit and Budgeting Calculator software is so comprehensive, fast and easy to use that advisors and customers don't have to be experts to explain the welfare system.</p> <p>We model over 4,000 pieces of legislation across four government departments to show how policy affects people on low incomes.</p> <p>Our clean user interface, visual charts and use of plain English empowers your advisors to help your residents to achieve outcomes.</p>	<p>We help organisations see how individual households are impacted by each change in policy, and all changes combined, both now and in the future.</p> <p>Our Low Income Family Tracker (LIFT) combines local authority data with our powerful modelling engine to help you to proactively get the right support to the right people at the right time.</p> <p>Choose a one off analysis, or access self service analytics that allow you to see trends, track the impact of interventions and reach people in danger of crisis.</p>	<p>Local priorities differ and local council support schemes must too.</p> <p>We help councils model different council tax support options, taking into account uprating and future changes in policy.</p> <p>Our experience working with over forty local authorities, and modelling the impact on each household helps to inform your ideas, to develop policy that best meet local needs.</p> <p>This service is stand-alone but is more detailed when done together alongside our Policy Impact Analysis.</p>

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