Further information

South Gloucestershire Council
Delivering for you

Options for reducing the cost of the Local Council Tax Reduction Scheme

In common with every Local Authority across the country, South Gloucestershire Council operates a scheme which reduces the amount which low-income households pay in council tax. Currently, 5,600 working age households qualify for reductions to their bills, with the level of reduction determined by their financial circumstances. As part of our annual budget setting process last year, we consulted with the public on a proposal to change how the scheme works with a view to reducing costs by £400,000. The measure was supported by councillors and incorporated into a programme of savings to be taken forward from the financial year 2024/25.

We sought independent guidance on the best ways to reduce costs and have identified two preferred options.

Option 1: Include Universal Credit in calculations of income. A proportion of the income individuals receive from Universal Credit (UC) payments would be included in the calculations we use to assess what level of reduction a household receives (currently UC income is disregarded). This would be on top of what we already consider including earnings from employment and from a range of benefits including child benefit, child tax credit, income from contributions-based benefits such as employment and support allowance contributions based. This would potentially significantly reduce the level of discount Universal Credit recipients currently get off their council tax bills.

Option 2: An adjusted banded scheme considering earnings only - and not income from benefits (both Universal Credit and legacy benefits*). Under this option, Universal Credit recipients would see smaller percentage reductions to their discounts compared to Option 1, but all low-income households would be impacted. We would also simplify which income sources are included when calculating CTR entitlement; reductions would be determined solely on earnings from employment. The Income bands used to determine discounts would be adjusted accordingly.

Through this consultation, we'll try to explain the pros and cons of each approach to help you make an informed decision about which you think is preferable.

The options explained

The Council Tax Reduction scheme is very complex. It is designed to provide greatest support to those who are least able to afford council tax. Bands are set based on weekly income and each band has a different level of discount applied (currently between 10%-80%). Weekly income is calculated by combining household income including earnings from employment and money received through certain benefits. The cost of the scheme

will be cut by reducing how much of a discount low-income households get off their council tax bill. The options set out how four variables will be adjusted to deliver those cuts. Those variables are:

A. What constitutes income – specifically, which benefit payments are included in the calculation.

B. The income thresholds which are used to determine bandings.

C. The percentage discount applied to each banding.

D. The minimum earnings from employment permitted as part of income calculation.

Option 1 achieves the cost savings by adjusting variable 'A'. Including Universal Credit in the calculation of income pushes Universal Credit recipients into different bandings (or out of the scheme entirely) so they receive a lower discount on their council tax bill (or no discount in the case of those taken out of the scheme).

Option 2 achieves cost savings by adjusting all four variables. Following this approach, income would be determined purely based on earnings from employment. This would include all earnings from employment (after tax and National Insurance deductions), removing the £20 per week disregard we currently include in calculations (variable D). Income boundaries would be adjusted accordingly, and the percentage discounts applied for each banding would be reduced. In this model, all low-income households would be worse off than they are now, but those who receive Universal Credit would be significantly better off than they would if option 1 was adopted.

The relative merits of the two options

Option 1		**Option 2**	
Pros	Cons	Pros	Cons
• Considers a broader range of income in making decisions about council tax reductions • It could be argued that including some level of Universal Credit income provides greater parity between those who receive UC and those who don't • Potentially achieves higher savings for the council	• Universal Credit recipients would face a potentially quite significant increase in their council tax bills • The higher increase could push more people into council tax arrears, potentially reducing council tax collection rates	• Distributes the impact across all low-income households, so most households don't face such a large increase in their council tax liability. This minimises the number of people pushed into council tax arrears	• More people (all low-income households) would be impacted, but Universal Credit recipients would be impacted by less than they would with option 1 • Council tax reductions would be based solely on earnings from employment

Should option 1 be preferred, there is a decision to be made about what proportion of Universal Credit income should be considered in calculations of income. Four options are under consideration: 25%, 50%, 75% or 100% of Universal Credit payments.

The financial impacts of the two options for households

Figures show the weekly change in council tax discount for the average household receiving the different benefits for the different options.

	Option 1a. Including 100% of UC income	**Option 1b. Including 75% of UC income**	**Option 1c. Including 50% of UC income**	**Option 1d. Including 25% of UC income**	**Option 2**

Universal Credit	-£10.97	-£6.65	-£5.88	-£4.19	-£1.07
Legacy benefits*	£0	£0	£0	£0	-£1.59

All options have broadly the same administrative burden as the current scheme and so are anticipated to be possible to be delivered within existing council resource.

* Universal Credit was brought in to replace six 'legacy benefits'; Housing Benefit, income-related Employment and Support Allowance (ESA), income-based Jobseeker's Allowance (JSA), Child Tax Credits (CTC), Working Tax Credits (WTC) and Income Support. Universal Credit has been rolled out in phases, so some groups and individuals still receive these legacy benefits.

Questions

I'm a pensioner; would this apply to me?

No. There is a separate, national scheme for council tax reductions which applies to people of state pension age. This scheme is not due to change and is not included in this consultation.

Worked examples showing the implications of the different options for two typical households.

For simplicity, for each of these examples, we have assumed weekly council tax bills of £25.

Example 1

Miss O and Mr R are in receipt of:

- Earnings of £100 per week
- Universal Credit of £200 per week out of a maximum possible award of £260 per week.

Under the current scheme, only earnings are included in the assessment of income. The first £20 of income is also not included in our calculations (this is referred to as an earnings disregard). Therefore, their total weekly income for calculation of Council Tax Reduction is £100 - £20 = £80 per week.

This currently places them in band 1 of the scheme, and so their CTR entitlement will be 80% of their weekly council tax liability of £25.

Therefore, Miss O's and Mr R's entitlement to CTR is 80% of the above liability –
£25 x 80% = **£20** per week reduction in council tax.

How Miss O and Mr R will be affected by the different options:

Option 1: Universal credit income changes

a. Include **100%** of UC income
   Total income: £280 per week. (£80+£200). This would put them in band 5 entitled to a 10% reduction = **£2.50** per week reduction in council tax liability.
b. Include **75%** of UC income
   Total income: £230 per week. (£80+£150). This would put them in band 4 entitled to a 20% reduction = **£5** per week reduction in council tax liability.
c. Include **50%** of UC income
   Total income: £180 per week. (£80+£100). This would put them in band 3 entitled to 30% reduction =**£7.50** per week reduction in council tax liability.
d. Include **25%** of UC income

Total income: £130 per week. (£80+£50). This would put them in band 2 entitled to 50% reduction =**£12.50** per week reduction in council tax liability.

Option 2: Only include earnings (removing £20 earnings disregard)
Total income: £100 per week.
Falls into band 3 of the proposed scheme so entitled to 40%
£25 x 40% = **£10** per week reduction in council tax liability.

Example 2
Mr and Mrs P are in receipt of:

- Employment and Support Allowance (ESA), contributions based on £84.80 per week
- Earnings of £150 per week

Under the current scheme, earnings and ESA are included in the assessment of income. The first £20 of income is also not included in our calculations (this is referred to as an earnings disregard). Therefore, their total weekly income for calculation of CTR entitlement is £84.80 + £150 - £20 = £214.80 per week.

This currently places them in band 4 of the scheme, and so their CTR entitlement will be 20% of their weekly council tax liability of £25.

Therefore, Mr and Mrs P's entitlement to CTR is 20% of the above liability –
£25 x 20% = **£5** per week reduction in council tax.

How Mr and Mrs P will be affected by the options:

Option 1: Universal credit income changes

a. Include **100%** of UC income
No universal credit to include so no change to entitlement. **£5** per week in CTR entitlement
b. Include **75%** of UC income
No universal credit to include so no change to entitlement. **£5** per week in CTR entitlement
c. Include **50%** of UC income
No universal credit to include so no change to entitlement. **£5** per week in CTR entitlement
d. Include **25%** of UC income
No universal credit to include so no change to entitlement. **£5** per week in CTR entitlement

Option 2: Only include earnings (without £20 earnings disregard)
Total income: £150 per week.
Falls into band 5 of the proposed scheme so entitled to 15%
£25 x 15% = **£3.75** per week reduction in council tax liability.