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# Understanding the impact of Universal Credit on the Council Tax Reduction Scheme and Rent Arrears in Wales: interim report

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Views expressed in this report are those of the researcher and not necessarily those of the Welsh Government

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## Glossary

Acronym/Key word	Definition
Alternative Payment Arrangements (APAs)	<p>A general term for three non-standard methods for paying Universal Credit to a claimant:</p> <ul style="list-style-type: none"> <li>● Paying the housing element of UC straight to the landlord</li> <li>● Paying UC fortnightly (or occasionally weekly) instead of monthly</li> <li>● Splitting UC payments between a couple, rather than paying to one of them, as standard.</li> </ul>
Applicable Amount	<p>Also known as 'Needs Side' or 'Assessment of Need', or in Universal Credit as 'Universal Credit Maximum Amount'. This is the amount allowed for living expenses in the calculation of benefit entitlement. As such, it is the maximum possible award a person can receive given their circumstances, before accounting for any income they may have. Different personal circumstances – such as a child, a disability, or if the claimant is a carer – add different amounts to the total applicable amount. The applicable amount is one half of the benefit entitlement calculation, see 'Income', for the other.</p>
Assessment of Need	<p>See 'Applicable Amount'.</p>
Benefit and Budgeting Calculator (BBC)	<p>A calculation engine used by Policy in Practice for its analytical modelling.</p>
Benefits Up-rating	<p>The process by which benefit awards are increased annually, normally by a measure of inflation. Currently, benefits up-rating is prevented by the benefits freeze.</p>

Child Element	Part of the calculation of the Universal Credit applicable amount. It is given to families who have a child. The value is £2,780 per annum per child. NB There are limits to this support, see 'Two Child Limit'.
Conditionality	A principle where the payment of benefits is conditional upon the claimant meeting particular obligations. For example, applying for a certain number of jobs in order to receive Jobseeker's Allowance. Conditionality also sets the number of hours a person is expected to work given their circumstances.
Council Tax Benefit (CTB)	A means-tested benefit which provided help with paying council tax before it was abolished in 2013. It was replaced in Wales and Scotland by Council Tax Reduction Schemes, designed by the devolved administrations, and by Local Council Tax Support designed by individual local authorities in England.
Council Tax Reduction Scheme (CTRS/CTR/CTS)	Also known as council tax reduction (CTR) or council tax support (CTS), this is a type of support which provides for council tax to be reduced in certain defined circumstances. It is administered by local authorities separately from the benefit system, but the calculation depends on whether applicants receive legacy benefits (see below) or Universal Credit (see below).
Council Tax Band	Each domestic property in Great Britain (Northern Ireland uses a different system) is placed into a bracket of value, or band, which determines the council tax liability for that property.
CTR Extract	A dataset used by Policy in Practice for this analytical project
Dependant	This is a household member who relies on another person, usually a family member, for financial support and is therefore not expected to contribute to household income. In the benefits system, a dependant is usually a child or a young person in education or

	training.
Disability Benefit	For the purposes of this report, this is a collective term for Disability Living Allowance (DLA), Personal Independence Payment (PIP), Armed Forces Independence Payment (AFIP), and Attendance Allowance (AA).
Disability Premium	An additional benefit component which can be added to certain legacy benefits (see below), but only if the claimant is under pension age, and either blind or receiving DLA (see below), PIP (see below), Attendance Allowance or certain other disability benefits.
DLA	Disability Living Allowance. This is a non means-tested, non-taxable benefit paid to people who need supervision or help with their daily or nightly care, or who have mobility problems. It has now been replaced for most working-age people by Personal Independence Payment (PIP) but is still paid for children.
DWP	Department for Work and Pensions, a UK Government department, responsible for most (though not all) legacy benefits in Great Britain, and leading on the delivery of Universal Credit.
Employment & Support Allowance (ESA)	A benefit paid to working-age people who have an illness, health condition or a disability which makes it difficult or impossible to work. Contribution-based Employment and Support Allowance (aka 'New-Style' ESA) is not means-tested but based on National Insurance contributions. Income-related Employment and Support Allowance (aka 'Old-Style' ESA) is means-tested.
ESA Work-Related Activity Component	Also known as 'WRAG Premium'. This was a part of the applicable amount (see above) in legacy benefits and council tax reduction award. It was a supplementary component of ESA (see above), intended to support those preparing to return to work. It was

	<p>abolished for new claimants by the UK Government in April 2017. NB Whilst this is no longer added to the applicable amount in legacy benefits, in Wales a household's eligibility for WRAG Premium is still included in the CTS applicable amount calculation for applicants receiving legacy benefits. However, it is not included if the CTS applicants are receiving Universal Credit. The result is that CTS applicants receiving legacy benefits are treated more generously than those receiving Universal Credit.</p>
Enhanced Disability Premium	<p>An additional benefit component which can be added to certain legacy benefits, but only if the claimant is under pension age, and receives either DLA (see above), PIP (see above), or Armed Forces Independence Payment.</p>
Extended Payments	<p>Also known as the 'run on', these are additional payments of council tax reduction award. When a claimant moves into work or increases working hours above 16 hours per week, subject to certain qualifying conditions, payments of benefit are made at the out of work rate for a four week period. The Welsh Government allowed Welsh local authorities to extend this grace period if they chose, but none have.</p>
Family Premium	<p>This was an additional component for families with children in the applicable amount for legacy benefits and CTS. It was awarded to families on the birth of their first child (each family could receive only one Family Premium, additional children made no difference). This was abolished by the UK Government in 2016 for all new claims. NB Whilst the premium is no longer added to the applicable amount in legacy benefits, in Wales a household's eligibility for Family Premium is still included in the CTS applicable amount calculations if that household is receiving legacy benefits. However, it is not included if the CTS applicant is receiving Universal Credit. The result is that CTS applicants receiving legacy benefits are</p>

	treated more generously than those receiving Universal Credit.
Flat Rate Non-Dependant Deduction	This is a type of non-dependant deduction. See 'non-dependant deduction' below.
Guaranteed Award	This is a possible policy option modelled in this report. It is a minimum award guaranteed for all households in receipt of means-tested benefits and with income below a set threshold. This allows for easy communication of eligibility: 'if you earn below this much, you will receive at least this much'.
Housing Association	Not-for-profit organisations which own, let and manage rental homes. Homes rented from housing associations are considered 'social housing', along with council-owned properties. Whilst both sorts of social housing offer accommodation at below market rates, housing association rents tend to be higher than council house rents.
Housing Benefit	An income-related (means-tested) benefit paid to tenants on low incomes (either in or out of work) to help pay their rent. The scheme is administered by local authorities in accordance with national legislation and is replaced by the housing element in Universal Credit.
HMRC	Her Majesty's Revenue and Customs, a UK central government department responsible for tax calculation and collection. HMRC tracks information about earnings through the 'pay as you earn' system and this data is used by DWP (see above) in the calculation of Universal Credit.
Income	In the calculation of Universal Credit, all the types of income a claimant receives are taken into account and subtracted from the applicable amount (see above). The remainder following this

	<p>calculation is what the claimant receives as their UC award. The idea is that income that could be used to meet living costs should be subtracted from the applicable amount. Income is essentially divided into four types, which are subtracted from the applicable amount in different ways. Some types of income, which has a specific purpose beyond basic living costs (such as DLA, see above), is not subtracted at all from the Applicable Amount, but most causes at least some subtraction.</p>
Income-Banded Scheme	<p>An alternative way of calculating council tax reduction award for households and is increasingly popular with local authorities in England due to challenges with the current assessment process (see 'Universal Credit Assessment Period'). Schemes vary, but essentially involve placing claimants into one of several income bands in order to calculate their award, instead of making bespoke calculations using each individual's exact income. This makes award amounts more stable for the claimant month-to-month, and means reassessments are needed less frequently, which makes administration easier and less costly.</p>
Income Support (IS)	<p>An income-related (means-tested) benefit paid to working-age people on low income such as carers and lone parents. It is not usually paid to someone receiving Jobseeker's Allowance or Employment and Support Allowance.</p>
Jobseeker's Allowance (JSA)	<p>An income-related benefit paid to working-age people on low income who are out of work and actively seeking work. Contribution-based Jobseeker's Allowance is not means-tested but based on National Insurance contributions. Income-based Jobseeker's Allowance is means-tested.</p>
Legacy System/Benefits	<p>This is a general term for benefits and credits that have been or will be replaced by Universal Credit.</p>

Limited Capability for Work (LCW)	A possible outcome of a work capability assessment (see below) in which a claimant is deemed to be too ill or disabled to work, but capable of undertaking 'work related activity'. These claimants are then placed into a WRAG (see below).
Limited Capability for Work Related Activity (LCWRA)	A possible outcome of a work capability assessment (see below) in which a claimant is deemed not only too ill or disabled to work, but also too ill or disabled to perform 'work-related activity', such as preparing to move into work in the future. Claimants who are deemed to have LCWRA receive increased benefits as a result, and these benefits have no conditionality (see above) attached to them.
Local Housing Allowance (LHA)	A way of calculating Housing Benefit or the housing element of Universal Credit for a claimant who rents property from a private landlord. LHA rates are based on the number of people in the claimant's household, and the area where they live. LHA amounts are based on the 30th percentile of rents in the local area as they were before the benefits freeze in 2016. If the claimant chooses to rent a property which costs less than the appropriate LHA rate, the amount they receive is restricted to the actual rent they pay.
Managed Migration	This is the process of actively moving claimants from legacy benefits to Universal Credit, despite nothing having changed in the claimant's circumstances. Managed Migration began with a pilot from July 2019 and is likely to start fully at the end of 2020. This is distinct from 'Natural Migration' (see below).
Maximum Amount (UNIVERSAL CREDIT)	An amount used in CTS calculations for claimants receiving Universal Credit. It is the theoretical maximum amount a person could receive under Universal Credit if they had no other income and is used as part of the calculation of CTS.
MHCLG	The Ministry of Housing, Communities and Local Government, a

	central UK government department, previously known as Department for Communities and Local Government (DCLG)
Minimum Award	See 'Guaranteed Award'.
Minimum Income Floor (MIF)	A mechanism used in the calculation of Universal Credit for self-employed claimants, and also in the calculation of council tax reduction award for UC claimants. It works by assuming a certain level of income after a year-long grace period. The level of income is calculated using the National Minimum Wage for the applicant's age group, multiplied by the number of hours they are expected to look for and be available for work.
Natural Migration	This is when a benefit claimant moves from legacy benefits (see above) to Universal Credit (see below), triggered by a change in their circumstances (e.g. the birth of a child). This is distinct from 'Managed Migration' (see above).
Non-Dependant	A person living as a member of the claimant's household, but who is not their partner, their child, or a young person for whom the claimant is responsible. There are certain exceptions, such as joint-occupiers, boarders, and paid carers.
Non-Dependant Deduction	A deduction made to benefit payments based on the expected contribution from other adults (i.e. non-dependants) in the household. Usually, the rate of deduction is based on the income and circumstances of the non-dependant, but an alternative approach is the 'flat-rate' non-dependant deduction, where the rate of deduction is the same for everyone deemed due to receive one.
Out-of-Work Benefits	This is a general term for benefits which apply only when the claimant is not in employment. This includes JSA (see above), ESA (see above), and parts of Universal Credit (see below).

PIP	Personal Independence Payment - This is a replacement benefit for DLA (see above), designed to provide help to people over 16 who need care or who have mobility needs. It is not means-tested or taxable.
Run-On	See 'Extended Payments'.
Severe Disability Premium (SDP)	This is an additional benefit component which can be added to certain types of benefit, but only if the claimant receives either DLA (see above), PIP (see above), or Attendance Allowance. The SDP can be applied to IS (see above), JSA (see above), ESA (see above), Housing Benefit (see above), or Pension Credit. It is generally paid where a claimant has no one else living with them.
SHBE	Single Household Benefit Extract. A dataset used by Policy in Practice for this analytical project.
Taper Rate	The rate at which benefits are withdrawn when a claimant has earned income. If a taper rate is 20%, for every £1 income earned, support reduces by 20p. The lower the percentage rate, the more generous the scheme. Taper rates are applied so that people feel the benefit of work and avoid the risk of being worse off when starting work, which could be the case if there was no taper and benefits were withdrawn pound for pound. A taper rate applies for most earned income, but there is an exception in some cases where a 'Work Allowance' applies (see below).
Two-Child Limit	A limit to the support provided by the Child Element of Universal Credit. The limit means the UC applicable amount recognises only the two eldest children in a household so that only the first two children receive the child element and has a knock-on effect on council tax reduction award for UC claimants. This limit only applies to third (or subsequent) children born after 6 April 2017. N.B. This

	limit is not applied to council tax reduction award for those receiving legacy benefits in but is incorporated in the council tax reduction award calculations for Universal Credit claimants.
Universal Credit (UC)	An income-related (means-tested) benefit for people of working-age who are on a low income. It replaces four existing means-tested benefits, including Housing Benefit and two tax credits.
Universal Credit, assessment of	The process determining how much UC claimants will get. This takes a household's applicable amount and subtracts their income from that amount. Whatever remains is the claimant's UC award. N.B UC awards are calculated using exact income amounts. This can be administratively costly, require regular reassessments and result in accidental overpayments, leading to unexpected bills for claimants.
Uprating	See 'Benefits Uprating'.
War Disablement Pensions (WDP)	Types of benefit available to those who were injured or disabled during service in the British Armed Forces. The Welsh Government allows Welsh local authorities to be more generous than the standard £10 disregard of WDP money received by these claimants when calculating their income for the purposes of CTS (see above). All local authorities are as generous as possible; disregarding 100% of these pensions.
War Widow's Pensions	Types of benefit available to the widows, widowers or children of someone killed during service in the British Armed Forces, or from injuries thereafter. The Welsh Government allows local authorities to be more generous than the standard £10 disregard of WDP money received by these claimants when calculating their income for the purposes of CTS (see above). All local authorities have chosen to be as generous as possible; disregarding 100% of these

	pensions.
Work Allowance	The amount of money households in certain circumstances are allowed to earn income without it causing their UC award to reduce. The main circumstances are a household with children, or people with limited capacity for work.
Work Capability Assessment	This is a process where claimants who are ill or disabled are assessed on their capacity to work. There are three possible outcomes: claimants could be deemed fit to work, they could be deemed to have 'limited capability for work' (see above), or they could be deemed to have 'limited capability for work related activity' (see above).
WRAG	This stands for 'Work-Related Activity Group'. The WRAG is a category in which someone is placed after undergoing a Work Capability Assessment and being deemed to have Limited Capability for Work (see above). Until 2016, claimants in the WRAG received the WRAG premium (see below).
WRAG Premium	See 'ESA Work-Related Activity Component'.

## **Executive Summary**

This interim report is part of a year-long research project, commissioned by the Welsh Government, with the aim of understanding the impact of Universal Credit in Wales.

The impetus for this project is the introduction and roll-out of Universal Credit across Wales. Universal Credit is replacing most income-related social security benefits and tax credits for people of working age and is now being rolled-out across the UK. The numbers receiving Universal Credit will increase considerably as the ‘managed migration’ exercise gets underway (starting with a pilot in Harrogate from July 2019) which involves transferring all those still receiving legacy benefits to Universal Credit. This is likely to begin towards the end of 2020, after completion of the pilot stage.

In order to understand the impact of Universal Credit in Wales, the Welsh Government commissioned Policy in Practice in January 2019 to undertake a year-long study on its impacts. The project includes a literature review, surveys with stakeholders and UC claimants, analysis of local authority held administrative data, and analysis of data supplied by social landlords. The research is wide-ranging: all Welsh local authorities, fifteen housing associations, and several private-rented sector representatives have participated to date.

The main focus of the project is a longitudinal analysis of the impact of Universal Credit over the period of the project. This involves tracking local authority and housing association data on household income and arrears over time. Private sector landlords do not hold the household information necessary to participate in this aspect of the research but are participating in a survey that seeks to understand the impact of Universal Credit. The results of this research will be presented in a final report in early 2020 which will include:

- An understanding of the migration rates to Universal Credit
- The impact of Universal Credit on rent and council tax arrears
- The impact of Universal Credit on the council tax reduction caseload
- A view of the impact of Universal Credit on UC claimants and stakeholders, based on qualitative surveys and interviews, with a focus on arrears, accessing support, and alternative payment arrangements.

This interim report focuses solely on one element of the research: the impact of Universal Credit on the Council Tax Reduction Scheme and possible amendments to the CTRS so that the level of support offered to citizens in Wales, and the numbers who are supported are broadly maintained as households move to Universal Credit.

For households, the move to Universal Credit may have a significant impact on council tax reduction awards. This is primarily due to differences in the assessment of support under Universal Credit and under the legacy benefit systems. These differences do not affect those receiving maximum council tax reduction awards who have no income - they continue to receive awards based on 100% of council tax liability. However, for other households the move to Universal Credit can result in significant changes in council tax reduction.

This difference in support between the two benefit regimes is heightened in Wales as the current Welsh scheme for households in receipt of legacy benefits does not include recent welfare reform measures, such as the introduction of the two-child limit or the removal of the family premium. These measures are however included in the assessment of council tax reduction for households in receipt of Universal Credit. This results in certain households in receipt of Universal Credit being entitled to a smaller council tax reduction. The Welsh Government is considering amendments to the Council Tax Reduction Scheme that will increase parity between applicants from the two benefit regimes.

A further concern for the Welsh Government is that CTRS caseload has been reducing. This reduction in caseload started before significant numbers of residents moved to Universal Credit and is therefore related to other factors (such as changes in economic conditions). A longitudinal study of caseload, and qualitative research into the attitude of households to council tax reduction, will be included in the final report in early 2020 and should provide further understanding of this trend. Nevertheless, there is concern that caseload will reduce even further as more households move to Universal Credit, mainly due to the separation of the housing support and council tax reduction application processes. The Welsh Government is considering measures to maintain, or increase, caseload to ensure that council tax reduction reaches more of those who are eligible.

This report presents an analysis both of the current provision of council tax reduction across Wales, and the current scheme as in the financial year 2021-22 when more of the population of Wales will have moved to Universal Credit. Additionally, the total value of

reductions and the social impact of introducing six different amendments to the current Council Tax Reduction Scheme are analysed. These potential amendments have been designed to increase parity between households in receipt of legacy benefits and Universal Credit, and to maintain caseload. The report contains the findings from modelling the following six changes to the CTRS:

1. Introduction of flat-rate non-dependant deductions which will increase scheme generosity
2. The reduction of the taper by which support is gradually withdrawn. This measure is intended to increase work incentives and increase generosity for working households
3. The introduction of a minimum award in order to create a simple message around eligibility and so boost take-up of support
4. The lowering of the Minimum Income Floor in the assessment of household income for council tax reduction purposes. For households receiving Universal Credit, income from self-employment is treated in a different manner in the assessment of council tax reduction than for households receiving legacy benefits. Under legacy benefits, assessment of council tax reduction (and other means-tested benefits) is based on reported self-employed earnings. These will be similar to earnings notified to HMRC for tax purposes. However, if the household is in receipt of Universal Credit, a notional income based on the minimum wage, is used for both Universal Credit and council tax reduction. This is called the Minimum Income Floor. This provision, designed for the assessment of Universal Credit, is currently mirrored in the Welsh Council Tax Reduction Scheme. Amendments to the level of the Minimum Income Floor used for the assessment of council tax reduction are intended to increase greater parity between self-employed households in receipt of legacy benefits and Universal Credit
5. The removal of the two-child limit from the assessment of council tax reduction for households in receipt of Universal Credit to increase parity between households with children in receipt of legacy benefits and those in receipt of Universal Credit
6. The introduction of an income-banded scheme to simplify assessment and contain the number of re-assessment of applications that occurs under Universal Credit

This interim report provides the Welsh Government with initial information on both the impact on the total value of reductions and the social implications of introducing these measures and will inform decisions on further models to be included in the final report.

## Key Findings

### Council Tax Reduction in 2018-19 and 2021-22

In 2018-19, the total value of council tax reductions across Wales based on unaudited live data was £265 million (M). The average support for pension age households in Wales was £18.80 per week, while for all working age households this was slightly lower at £18.00 per week. Households in receipt of Universal Credit in Wales received a lower average council tax reduction award, £16.30 per week, compared to their counterparts receiving legacy benefits who received £18.50 per week. This difference is due to a higher proportion of single-person households being in receipt of Universal Credit and the difference in assessment of council tax reduction for those in receipt of Universal Credit.

Should the current scheme be retained into 2021-22, the projected total value of council tax reductions will increase to £303M due to the increase in council tax liability. The increase of 14% is slightly below the projected average increase in council tax liability, which is expected to be 16%. This is primarily caused by the reduction in support to households in receipt of Universal Credit. While most groups see an increase in support, working households in receipt of Universal Credit and households in which a person has a disability are most likely to see a reduction in their award. This is due to a number of factors:

- The higher retention of earnings and larger work allowance under Universal Credit results in higher household income and so a lower council tax reduction award.
- Differences in the “needs” element of the assessment under Universal Credit. Additional amounts in respect of disability (Disability Premiums) have been removed<sup>1</sup> and other welfare reform provisions, such as the two child limit, the removal of the Employment and Support Allowance Work Related Activity (ESA WRAG) premium, and the removal of the equivalent of the family premium have been introduced.

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<sup>1</sup> Households in receipt of Severe Disability Premium will not move to Universal Credit until managed migration occurs and transitional protection is in place. Households that receive other disability premiums will lose these if they move to Universal Credit prior to managed migration.

- The introduction of the Minimum Income Floor in Universal Credit for self-employed households. This measure presumes a notional income equivalent to the minimum wage multiplied by the hours the claimant is expected to work. For many self-employed households this is higher than declared self-employed income.
- Removal of earnings disregards for assessment of council tax reduction for households in receipt of Universal Credit.

Council tax reductions for employed households in receipt of Universal Credit will reduce by 12% while self-employed households will see a reduction in support of 79%.

Working households in receipt of Disability Living Allowance (DLA) or Personal Independence Payments (PIP) who are migrating into Universal Credit will see average support reduced by 22% due to the removal of disability premiums.

## Models

The key findings from the models explored as part of the research are set out below:

- **Introduction of flat-rate non-dependant deductions (Model 1)** with the rate set at the lowest current rate would affect 1,520 households across Wales in 2021-22. These households would see an average increase of £5.70 per week compared to retention of the current scheme into 2021-22. Households without dependent children would see the greatest increase in support. The total value of council tax reductions in 2021-22 would increase by £0.4M.
- **Amending the taper rate to 10% (Model 2)** is estimated to have an impact on 26,400 households across Wales in 2021-22. These households see an average increase of £6.00 per week compared to retention of the current scheme into 2021-22. Households gaining most from this measure would be working households in receipt of Universal Credit. Self-employed households would see the greatest increase in support (225%). The total value of council tax reductions in 2021-22 will increase by £8M.
- **Introducing a minimum award set at 15% of liability (Model 3)** is estimated to have an impact on 2,620 households across Wales in 2021-22. These households would gain an average of £1.60 per week compared to retention of the current scheme into 2021-22. Those most likely to gain would be working families in receipt of Universal Credit. Of these, self-employed households in receipt of Universal Credit

would see the greatest increase in support (9%). The impact on the total value of council tax reductions in 2021-22 would be an increase of less than 1%.

- **Reducing the Minimum Income Floor in the CTRS to be based on 16 hours per week (Model 4)** would affect 510 households across Wales in 2021-22. These households would see an increase of £6.00 per week compared to retention of the current scheme into 2021-22. Self-employed households in receipt of Universal Credit would see support increase by 328%. The impact on the total value of council tax reductions in 2021-22 would be an increase of less than 1%.
- **Removal of the two-child limit in the CTRS (Model 5)** is estimated to have an impact on 343 households across Wales. However, this number would be likely to grow as more households have children born after the policy implementation date of April 2017. Households affected would see an increase in awards of £9.40 per week compared to retention of the current scheme into 2021-22. Households most likely to gain would be couples with children (2% increase). The impact on the total value of council tax reductions in 2021-22 would be an increase of less than 1%.
- **Introduction of an Income-banded scheme based on Newcastle City Council's scheme (Model 6)** would be highly redistributive and 13,900 households would no longer be eligible for support. This model would mean that the total value of council tax reductions will be £7M less than if the current scheme was retained into 2021-22.

## Methodology and Limitations

Modelling for 2021-22 includes probable changes to welfare support rates, the national minimum wage, tax allowances, Local Housing Allowance (LHA) rates, rent costs, and known regulatory change<sup>2</sup>.

Modelling of future years cannot take account of macro-economic conditions or changes in policy resulting from a change of UK Government. In particular the modelling does not take into account of any economic impacts of exiting the European Union or any policy changes that may result from a change of Government between 2019 and 2022.

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<sup>2</sup> Benefit rates are in line with the inflation measure currently used for benefit uprating (the annual uplift applied to benefit rates, typically in April). Other changes are informed by the Office of Budget Responsibility annually published predictions of inflation rates. LHA rates are modelled presuming that any uprating is from the current base level rather than from a return to alignment with the third decile of rental the total value of council tax reductions.

Modelling can only take account of households represented in the datasets used for this research. It therefore cannot model the impact on caseload, and therefore cost, of measures resulting in increased caseload.

A level of migration to Universal Credit is included. Modelling will include an expected migration of an additional 15.5% of households to Universal Credit by 2021-22<sup>3</sup>.

To enable comparison of modelled schemes against the current scheme in 2021-22, an agreed annual increase in council tax has been included<sup>4</sup>.

While all local authorities are participating in this research, at the time of analysis Policy in Practice had only received March 2019 SHBE and CTRS extracts from 16 of the local authorities in Wales. For this reason, an equalisation factor is applied to households to better represent the total value of reductions across all of Wales.

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<sup>3</sup> This level has been agreed with the Welsh Government and is based on current observed levels of 10% per annum carried through to 2021-22 and an assumption of falling migration levels to 5% per annum by 2021-22.

<sup>4</sup> See Appendix A

## 1. Introduction and Background

- 1.1 This interim report is part of a year-long research project, commissioned by the Welsh Government, with the aim of further understanding the impact of Universal Credit in Wales.
- 1.2 The impetus for the project is to further understand the impact of the introduction and roll-out of Universal Credit across Wales. Universal Credit is replacing most income-related social security benefits and tax credits for people of working age and is now being rolled-out across the UK. Universal Credit full service has been available in all areas of Wales since January 2019, which means that all new means-tested benefit claimants and those on 'legacy' benefits whose circumstances change significantly, may only claim Universal Credit. The numbers receiving Universal Credit will increase considerably as the 'managed migration' exercise gets underway (starting with a pilot from July 2019) which involves transferring all those still on legacy benefits to Universal Credit. This is likely to begin towards the end of 2020, after completion of the pilot stage.
- 1.3 Support for council tax is not included in Universal Credit and, since 2013, the Council Tax Reduction Scheme (CTRS) in Wales has provided help for those in financial need. However, Universal Credit can have a significant impact on council tax reduction awards, and potentially CTRS caseload, and this impact needs to be fully understood. The Welsh Government also wishes to consider amendments to the CTRS and requires impact assessments of possible alternative models in order to reach an informed decision.
- 1.4 In addition, various reports across Great Britain<sup>5</sup> indicate that the design of Universal Credit is also having an adverse impact on arrears of both council tax and rents, and the position in Wales merits further investigation.

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<sup>5</sup> For example: J Millar and F Bennett, [Universal Credit: Assumptions, Contradictions and Virtual reality](#). (Cambridge Core: Social Policy and Society, 16(2), 169-182, 2017) and P Williams, A Clarke and C Whitehead, [Intended and unintended consequences? A case study survey of housing associations and welfare reforms](#). (Cambridge: Cambridge Centre for Housing & Planning Research, 2013)

- 1.5 The Welsh Government also wishes to have a better understanding of the impact of Universal Credit on residents and whether alternative payment arrangements could assist residents as they move to the new benefit.
- 1.6 In order to understand these issues, the Welsh Government commissioned Policy in Practice in January 2019 to undertake a comprehensive year-long study on impacts. The project includes a literature review, surveys with stakeholders and Universal Credit claimants, analysis of local authority held administrative data, and analysis of data supplied by social landlords. Participants in the research to date include Welsh local authorities, housing associations, private-rented sector representatives, and UC claimants.

### **The Final Report 2020**

- 1.7 The main focus of the project is a longitudinal analysis of the impact of Universal Credit over the period of the project. This involves tracking of local authority and housing association data on household income and arrears over time. The results of all the research in the project will be presented in a report in early 2020. This will include:
- An understanding of the migration rates to Universal Credit
  - The impact of Universal Credit on rent and council tax arrears
  - The impact of Universal Credit on council tax reduction caseload and potential changes to the CTRS scheme
  - A view of the impact of Universal Credit on applicants and stakeholders, based on qualitative surveys and interviews, with focus on arrears, accessing support, and alternative payment arrangements

### **The Interim Report**

- 1.8 This interim report focuses solely on one element of research: the impact of making amendments to the CTRS so that the level of support offered to citizens in Wales, and the numbers supported, are broadly maintained as households move to Universal Credit.

1.9 It looks at the current provision of council tax reduction across Wales, the current scheme as in 2021-22 when more of the population of Wales will have moved to Universal Credit, and the impact of introducing six different adjustments to the Council Tax Reduction Scheme. This will provide the Welsh Government with information on the impact of adjustments on the total value of council tax reductions and social implications of changing the Council Tax Reduction Scheme, and will inform decisions on further models to be included in the final report.

### **Background**

1.10 Universal Credit is a new benefit which replaces a range of existing income-related benefits and tax credits for working-age households. The UK Government's Department for Work and Pensions refers to the benefits and tax credits which Universal Credit is replacing as 'legacy benefits'. When it is fully rolled out, around 7 million households in the UK will receive Universal Credit and payments will total around £60 billion a year.<sup>6</sup>

1.11 As of May 2019, there were 91,674 households in receipt of Universal Credit in Wales. Now that Universal Credit full service has been rolled out to all Jobcentres, it is likely that this number will increase steadily as households migrate naturally through changes in circumstances. It is projected that the number will increase to 400,000 households by the end of managed migration, currently due to complete in 2023.<sup>7</sup>

1.12 This project examines how this roll-out of Universal Credit affects residents in Wales. The impact is expected to be wide-ranging, affecting council tax reduction awards, council tax arrears levels, council tax reduction caseload and rent arrears.

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<sup>6</sup> [Universal Credit roll-out: 2018-19](#) (House of Commons Library Briefing Paper Number 8299, 14 June 2018)

<sup>7</sup> [Analysis of the impact of the UK welfare reforms on households in Wales](#) (Welsh Government, January 2019)

## **Council Tax Reduction in Wales**

### *The Background to the Welsh Scheme*

- 1.13 In 2012, the UK Government decided to abolish Council Tax Benefit and instead facilitate local Council Tax Reduction Schemes to support those households in financial need in England. The UK Government explained the rationale for localising assistance with council tax as giving English local authorities a greater stake in the economic future of their local area. A 10% cut in the budget was also made simultaneously, as a contribution to the UK budget deficit. The UK Government's aim was for English authorities to work on growing their local economies in order to reduce residents' receipt of council tax reduction. The 10% funding shortfall was also applied to a fixed transfer of funding to the Welsh and Scottish Governments which resulted in the transfer of £222 million to Wales rather than meeting the full cost of Council Tax Benefit at the point of transfer of £244 million per annum.
- 1.14 Welsh Ministers took powers to make regulations which both required each billing authority in Wales to adopt a reduction scheme and prescribed what must or must not be included in a scheme. It is important to note that the Council Tax Reduction Scheme is not part of the benefits system – it forms an integral part of the council tax system.
- 1.15 Accordingly, Welsh Ministers set out their own priorities for Council Tax Reduction Schemes. The key principles are:
- Consistency and equity of treatment across Wales
  - Affordability
  - Minimising the risk of not having a replacement scheme in time
  - Avoiding sudden shifts in the level of support provided
  - Simplifying and improving on the previous Council Tax Benefit system where possible
- 1.16 The design of the current Council Tax Reduction Scheme in Wales follows these principles in several ways.

- 1.17 Firstly, the Welsh Government decided that the current Council Tax Reduction Scheme in Wales would be closely aligned with the former Council Tax Benefit. The regulations therefore follow closely those governing the former Council Tax Benefit, and amendments since 2013 have mainly been technical or related to uprating benefit rates.
- 1.18 Secondly, the Welsh Government provided an extra £22 million in 2013-14 “to support local authorities in providing all eligible households with their full entitlement to support, despite the shortfall in funding transferred from the UK Government.” This additional funding was calculated to meet the full amount of the Council Tax Benefit system at the point of its abolition (£244 million) and the same level of support for councils has been maintained since then. Local authorities in Wales are expected to plan for any additional increase in the total value of council tax reductions arising from local increases in council tax. The Welsh Government states that this arrangement reflects the shared responsibility for the scheme.
- 1.19 Thirdly, the Welsh Government simplified the scheme by abolishing the Second Adult Rebate for all applicants including pensioners and making other administrative improvements (unlike English local authorities, Welsh Ministers have the authority to decide how its centrally determined scheme operates for pensioners as well as working-age households).
- 1.20 Finally, the Welsh Government decided to create a national framework scheme with minimal local discretions. Each Welsh local authority is required to adopt its own Council Tax Reduction Scheme based on the prescribed requirements regulations, with only limited areas of discretion to enable them to “take account of the needs and priorities within their local areas”. The areas of discretion are:
- Extended payments - increase the period during which applicants are entitled to continue to receive a reduction in certain circumstances (the ‘run-on’), beyond the standard four-week period
  - War Disablement Pensions and War Widow's Pensions - disregard more than the statutorily prescribed £10 of the money received in respect of these pensions when calculating income

- Backdating of applications - backdate applications for reductions beyond the standard three-month period
- Notifications of decision - provide more than the minimum information prescribed as part of their notification of decision procedures.

1.21 All authorities have disregarded 100% of war pensions (such as War Widows Pension and War Disablement Pension), no authority has changed extended payments, and one authority (Vale of Glamorgan) has increased backdating from 3 to 6 months.

1.22 Welsh Ministers have also provided for a default scheme which would apply if a local authority failed to set its own scheme, but this has not proved necessary to date. The default scheme regulations also closely follow the former Council Tax Benefit regulations.

### **The Impact of Universal Credit on Council Tax Reduction**

1.23 When a household receives Universal Credit, entitlement to council tax reduction is calculated differently from other households on a low income. The council tax reduction applicable amount for a household receiving Universal Credit is the maximum amount of Universal Credit that can be awarded in that household's circumstances. And the income and capital of the applicant are the amounts used in the calculation of Universal Credit by the Department for Work and Pensions (DWP), plus the amount of Universal Credit award. The purpose of these provisions is to ensure that the calculation of council tax reduction mirrors the calculation of Universal Credit as far as possible and that work incentives are protected.

1.24 These provisions are important in understanding the impact of Universal Credit on the Welsh Council Tax Reduction Scheme. The Welsh Government decided not to incorporate wider welfare reforms such as the two-child limit and the abolition of the family premium in its Council Tax Reduction Scheme. Therefore, these reforms are not in the prescribed regulations, and are not applied to the calculation of council tax reduction for applicants who receive legacy benefits. However, the Welsh Government has not yet made changes to the prescribed regulations which set out how council tax reduction should be calculated when someone is receiving

Universal Credit (though it could do so). As described above, the calculation involves using the maximum Universal Credit amount, together with the income and Universal Credit award determined by DWP. This means that any welfare reforms affecting Universal Credit (including the two-child limit) will automatically be applied in calculating council tax reduction for Universal Credit claimants.

- 1.25 Unless the Welsh Government makes changes to the Universal Credit sections of the prescribed regulations, some households receiving Universal Credit will be entitled to less council tax reduction as a result of welfare reforms which reduce the applicable amount (such as the two-child limit and the abolition of the family premium). Less generous Universal Credit rules, such as the Minimum Income Floor will have the same effect. In short, households who lose under Universal Credit due to these welfare reforms will generally lose council tax reduction (because council tax reduction is calculated using Universal Credit rules) and some may lose council tax reduction altogether.
- 1.26 On the other hand, some households will gain significantly under Universal Credit, particularly those with more generous work allowances, and their *overall* income will increase, even if their council tax reduction goes down. It is important to identify which households are affected by these various outcomes.

### **The Impact of Universal Credit on Council Tax Reduction Caseload**

- 1.27 There is evidence that the council tax reduction caseloads are falling across the United Kingdom, coinciding with the roll-out of Universal Credit. The Institute for Fiscal Studies (IFS) states that caseloads have fallen 17% between 2012–13 and 2017–18.<sup>8</sup>
- 1.28 In Wales, CTRS caseload has also been reducing, although given the relatively small numbers receiving Universal Credit so far, this trend may be for other reasons (e.g. economic conditions). The Welsh Government publishes an annual report on the Council Tax Reduction Scheme in Wales which contains detailed information about caseloads and the total value of council tax reduction. The latest report, for

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<sup>8</sup> Adam, Joyce & Pope, [The impacts of localised Council Tax Reduction Schemes](#) (IFS, 2019)

2018-19, shows that 277,989 households in Wales received a council tax reduction in 2018-19, compared to 284,581 in 2017-18, a fall of 6,592 cases (2.4%).

**Table 1.1: Change in Council Tax Reduction Caseload 2013 – 2019**

CTRS caseload	March 2013	March 2014	March 2015	March 2016	March 2017	March 2018	March 2019	% reduction 2014-19
Total	329,000*	316,732	307,137	299,185	291,891	284,581	277,989	12.2%
Pensioners	-	133,000	127,098	124,065	119,930	116,823	113,966	14.3%
Working Age	-	183,732	180,039	175,120	171,961	167,758	165,118	10.1%

\*Caseload in March 2013 at the point of CTB abolition

1.29 The 2018-19 Annual Report<sup>9</sup> by the Welsh Government suggests that the working-age caseload has reduced because of people exiting the benefits system altogether as a result of an improvement in the general economic situation and/or the cumulative effects of welfare reforms. It suggests that pensioner caseload reductions are caused by a combination of recent changes to the state pension age for women, and the fact that new cohorts of pensioners tend to have higher incomes, are more likely to be owner-occupiers, and are less likely to take up council tax reduction. These explanations are supported by the fact that there have been reductions in caseload among Jobseeker Allowance and Income Support households and increases in Employment and Support Allowance and non-passported (mainly in-work) households. Policy in Practice analysed 2019 administrative data from all but one Welsh local authority to provide a further breakdown of current caseload and the results are provided in this report.

### **Take Up and Awareness of Council Tax Reduction in Wales**

1.30 A recent Wales Centre for Public Policy report<sup>10</sup> quotes a Welsh Government assessment of its Council Tax Reduction Scheme which suggests that uptake of

<sup>9</sup> [Council Tax Reduction Scheme, Annual Report 2018-9](#) (Welsh Government, page 10-11 para 3.3, July 2019)

<sup>10</sup> [Responding to citizens in debt to public services](#) (Wales Centre for Public Policy, February 2019)

council tax reduction for low-income households in Wales could be between 55% and 65%. This is consistent with historic trends in Council Tax Benefit take-up<sup>11</sup> and means that a significant number of low-income households are not receiving the financial support to which they are entitled.

- 1.31 Universal Credit could make this relatively low take-up rate even worse. Firstly, Council Tax Benefit was very often claimed at the same time as Housing Benefit, but council tax reduction must be applied for separately. So, some households simply may not apply. Secondly, potential Universal Credit claimants may get lost in the process. This is because local authorities depend entirely on receiving data about Universal Credit from DWP in order to calculate council tax reduction entitlement. As part of the Universal Credit claim, where liability for council tax is indicated, the claimant will be asked if they are already receiving, intend to apply for, or do not want to apply for, council tax reduction from their local authority. If a Universal Credit claimant states that they are claiming, or intend to claim, council tax reduction, an interest marker is set which triggers the transfer of data from DWP. If any of these arrangements break down, some households may not be told that they need to apply for council tax reduction separately.
- 1.32 To address low take-up of the CTRS, the Welsh Government has raised awareness of the various different council tax reduction award and discounts available to households – an ongoing campaign that includes posters, content through the Welsh Government’s digital channels and targeted social media. One of the aims of the campaign is to encourage households to refer to information on the Welsh Government’s website, including a council tax reduction award eligibility checker. The Wales Centre for Public Policy report<sup>12</sup> argues that personal targeted contact works better than non-targeted advertising (such as leaflets or radio adverts), and that local partnership working (e.g. local authorities working with community groups and GPs) is vitally important. The Welsh Government campaign will be reviewed.

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<sup>11</sup> [Income-related benefits: Estimates of take-up in 2009-10: National Statistics First Release](#), DWP (National Statistics), June 2013, page 2 (take-up of CTB by caseload estimated to be between 62% and 69%).

<sup>12</sup> [Responding to citizens in debt to public services](#) (Wales Centre for Public Policy, February 2019).

1.33 One area reviewed as part of this project (in March 2019) is the information about the Council Tax Reduction Scheme on each Welsh local authority website. We found that most websites contained basic details of the scheme and specifically, at March 2019:

- 5 authorities (23%) did not offer an online council tax reduction application service, though all authorities had some online services
- On 7 websites (32%), there was no link to council tax reduction via 'Council Tax' – the only link was via 'Housing Benefit' or 'Benefits'. The most easily accessible websites combine 'Council Tax and Benefits'
- There were only 2 websites where there was any easily accessible detailed information about the role of the Welsh Government, and where the discretionary elements to the scheme were fully explained
- One authority had no information about council tax reduction at all
- Council tax reduction was listed in 11 A-Z of services, but it was not listed in 5. In addition, there were 5 websites that did not have an A-Z of services and one that didn't work at the time
- 17 websites (77%) had benefit calculators but there was much variation and only 4 linked to the three calculators available on the government website

1.34 Our analysis of these websites suggests that clearer information and signposting on websites may be helpful in terms of take-up of council tax reduction. Navigation should be easy and online applications the norm.

### **The Impact of Universal Credit on Council Tax Arrears**

1.35 In England, a report by the Institute for Fiscal Studies (IFS)<sup>13</sup> concludes that reducing a household's council tax reduction entitlement has led to sizeable increases in the amount of council tax going uncollected. IFS estimate that about a quarter of the additional council tax liability arising from cuts in support is not collected in the year it is due. This is around 10 times higher than the typical rate of non-collection of council tax. However, because cuts to council tax reduction are small relative to total council tax, the effect on the aggregate rate of non-collection is

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<sup>13</sup> Adam, Joyce & Pope, [The impacts of localised Council Tax Reduction Schemes](#) (IFS, 2019)

still relatively modest – increasing it from 2.5% to 2.7% on average. Introducing a minimum payment in a given authority also caused a significant increase (15–20%) in the number of people in that authority contacting Citizens Advice for advice or help relating to council tax or CTR. The main issue giving rise to the increase seems to be requiring households to pay some council tax when they would otherwise have had no bill, rather than the size of those bills.

- 1.36 In Wales, there are no households who are faced with a council tax bill for the first time directly as a result of cuts in the level of support. Council tax arrears levels have remained steady over time or reduced<sup>14</sup>. In this respect, the decision of the Welsh Government to make up the shortfall related to the 10% funding cut (rather than risk local authorities passing it on to low-income households) appears to have had other positive implications.
- 1.37 The three-year review of Council Tax Reduction Schemes<sup>15</sup>, which covered Wales as well as England, states that the arrangements in Wales have meant that local authorities had fewer administrative burdens, collection rates have held up, and the number of appeals are low compared to England.
- 1.38 However, data from Citizens Advice<sup>16</sup> indicates that the numbers of households in Wales seeking advice about council tax arrears increased from around 100,000 - 115,000 between 2011-12 to 2013-14 to 150,000 -160,000 in 2014-15 and 2015-16. This is in the context of rising collection of council tax across Wales which could in some cases lead to increased debt and financial hardship.

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<sup>14</sup> [Arrears of council tax, by billing authority \(£ thousand\)](#) (Source: Stats Wales)

<sup>15</sup> Eric Ollerenshaw, [Three years on: an independent review of local council tax support schemes](#) (Pages 88-90, March 2016)

<sup>16</sup> [Fairness for All: Improving Council Tax Debt collection in Wales](#) (Citizens Advice Bureau, pages 13 and 15, 2016)

1.39 In the same report, Citizens Advice also provided a profile of those seeking help in relation to council tax arrears across England and Wales:

- Almost 90% were of working-age
- Almost 3 in 10 were living with a disability or long-term health condition
- 1 in 5 were employed
- 6 in 10 rented their homes, either a private or social landlord
- 2 in 5 had dependent children in the household

### **The Impact of Universal Credit on Rent Arrears**

1.40 The potential for Universal Credit to lead claimants to accumulate rent arrears, or to fall into debt more broadly, has been noted consistently in research on the subject. There are several features of UC which are argued to make such arrears likely:

- The five-week wait before an initial Universal Credit payment is made
- The direct payment of any housing element of a Universal Credit award to tenants rather than paying this to landlords. Under Housing Benefit, payments were made to social rented landlords by default and to private sector landlords on request
- The monthly payment structure of Universal Credit, which is longer than the budgeting periods of many claimants and which may also intensify budget pressures

1.41 Existing research reports<sup>17</sup> consistently show that Universal Credit is associated with higher rates of rent arrears than both tenants who are not receiving Universal Credit, or amongst Housing Benefit recipients. For example, research by the Smith Institute<sup>18</sup> found that rent arrears were a greater problem under Universal Credit than the Housing Benefit system. They found that 'whilst Universal Credit tenants were no more likely to underpay than Housing Benefit tenants the level of

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<sup>17</sup> For example: J Millar and F Bennett, [Universal Credit: Assumptions, Contradictions and Virtual reality](#). (Cambridge Core: Social Policy and Society, 16(2), 169-182, 2017) and P Williams, A Clarke and C Whitehead, [Intended and unintended consequences? A case study survey of housing associations and welfare reforms](#). (Cambridge: Cambridge Centre for Housing & Planning Research, 2013).

<sup>18</sup> P Hunter, [Safe as houses: the impact of Universal Credit on tenants and their rent payment behaviour in the London boroughs of Southwark and Croydon, and Peabody, London](#) (The Smith Institute, 2017)  
[Safe as Houses 2: A follow-on report into the impact of Universal Credit on Southwark Council's housing tenants rent payment behaviour](#) (The Smith Institute, 2018)

underpayment varied widely. 39% of cases of underpayment [in Universal Credit] were by more than 75% of the rent due. The Housing Benefit figure was just 8%.' They note that arrears built up quickly, and then stabilise, with the effect that 'arrears accumulating quickly within the space of three months.'

- 1.42 A follow-up report by the Smith Institute<sup>19</sup> found that while arrears were generated in the initial weeks of a claim, a pattern of underpayment re-emerged over the longer term. They note: 'At week 20 overall tenants are paying the rent owed. However, as time progresses, a pattern of underpayment re-emerges. The findings suggest that those with multiple claims for Universal Credit have higher arrears and that multiple claims could be a cause of persistent arrears'.
- 1.43 A survey of 174 social landlords in England, Scotland and Wales, published by Sheffield Hallam University in February 2015<sup>20</sup> found that 'on average, 26 per cent of tenants will need support with the move to direct payment or struggle with direct payment even with support' and that landlords believed that they would struggle in advance to identify households at risk of falling into rent arrears. Of those surveyed, nearly all (98%) of landlords expected direct payment of Housing Benefit to increase rent arrears.
- 1.44 Thus, existing research does tend to point towards a spike in rent arrears, especially at the point of transition onto Universal Credit. There is less agreement on what happens after the initial five-week period, with different studies (and sometimes different landlords within the same study) reporting different results.
- 1.45 In June 2019, the then DWP Minister Alok Sharma, stated that DWP were investigating the link between Universal Credit and rent arrears.<sup>21</sup> He went on to quote a July 2018 report by the National Federation of ALMOs that 75% of claimants with rent arrears were already in arrears before their Universal Credit claim started and mentioned DWP findings in early research<sup>22</sup> that after 4 months

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<sup>19</sup> [Safe as Houses 2: A follow-on report into the impact of Universal Credit on Southwark Council's housing tenants rent payment behaviour](#) (The Smith Institute, 2018)

<sup>20</sup> S Green, K Reeve, D Robinson and E Sanderson, [Direct Payment of Housing Benefit: Are Social Landlords Ready?](#) (Sheffield: CRESR, Sheffield Hallam University, 2015)

<sup>21</sup> [Universal Credit and debt](#) (Debate in the House of Commons, 5 June 2019)

<sup>22</sup> [Universal Credit: test and learn evaluation - families](#) (DWP, September 2017)

the number of claimants in arrears had fallen by a third. A similar response to a Parliamentary question was given in 2017.<sup>23</sup>

1.46 If a claimant is recognised to be vulnerable, there can be exceptions to the way that UC is paid, by using Alternative Payment Arrangements (APAs). APAs can come in three forms:

- Having the housing element of Universal Credit paid directly to the claimant's landlord. This is known as 'Managed Payment to Landlord'
- A more frequent payment structure – principally, moving to fortnightly payments. Weekly payments are also considered in exceptional circumstances
- Splitting payments so that both individuals in a couple receive an award

1.47 In terms of the prevalence of Alternative Payment Arrangements, the latest Universal Credit statistics from the UK Government at the time of writing (May 2019)<sup>24</sup> show that 20% of UK awards (210,000) which include a housing element have a Managed Payment to Landlord APA. This includes 11,500 awards in Wales. Managed payments to landlords are much more common in the social-rented sector than for claimants living in the private-rented sector.

1.48 In August 2018, Community Housing Cymru<sup>25</sup> reported the results of a survey of 23 housing associations. Of 6,892 tenants receiving Universal Credit, DWP switched 1,029 (14%) to a managed payment because of a vulnerability. In addition, 280 of the 6,892 tenants (4%) were having third-party deductions for rent arrears. The total rent arrears for these 6,892 tenants was £2.82 million, an average of £409 per tenant.

1.49 DWP UC Analysts are currently undertaking research on rent arrears with a number of housing providers and hope to be in a position in early 2020 to publish its findings.

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<sup>23</sup> [Rent arrears and Universal Credit](#) (Response to a Parliamentary Question, 13 November 2017)

<sup>24</sup> [Universal Credit statistics](#) (DWP, 13 August 2019)

<sup>25</sup> Sharon Collard, Helen Hodges and Paul Worthington, [Responding to citizens in debt to public services: A rapid evidence review](#) (Wales Centre for Public Policy: page 18 for Community Housing Cymru research, February 2019)

1.50 The final report for the Welsh Government will include further analysis of the impact of Universal Credit on rent arrears through longitudinal data analysis, surveys and interviews.

## 2. Methodology

- 2.1 The modelling in this report was undertaken at household level. Household data on current council tax reduction recipients has been supplied to Policy in Practice in the form of the Housing Benefit data extract (SHBE)<sup>26</sup> and the CTR extract<sup>27</sup> by participating local authorities. Data on households in receipt of Universal Credit is represented solely in the CTR extract. Personal data has been excluded. Policy in Practice converts this data to a format that can be used by their software, the Benefits and Budgeting Calculator (BBC). The calculation engine enables global changes in benefit formulations, and modelled changes, to be applied to each household within the dataset. These are then summed up to arrive at aggregate values for council tax reduction and impact.
- 2.2 To enable comparison of modelled schemes against the current scheme in 2021-22, agreed annual rises in council tax have been included. The rate of council tax rises used are the same as the average for each council over the last three years. This is applied separately to each council's council tax charge prior to data analysis. The council tax increases used in the modelling are given at Appendix A.
- 2.3 An agreed level of migration to Universal Credit is also included. Modelling will include an expected migration of an additional 15.5% of claimants to Universal Credit by 2021-22. This level has been agreed with the Welsh Government and is based on current observed levels of 10% per annum carried through to 2021-22 and an assumption of falling migration levels to 5% per annum by 2021-22.
- 2.4 Modelling for 2021-22 includes probable changes to welfare support rates, the national minimum wage, tax allowances, Local Housing Allowance (LHA) rates, rent costs, and known regulatory change. Benefit rates are in line with the inflation measure currently used for benefit uprating (the annual uplift applied to benefit rates, typically in April). Other changes are informed by Office of Budget Responsibility annually published predictions of inflation rates<sup>28</sup>. LHA rates are

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<sup>26</sup> The Single Housing Benefit Extract (SHBE) is a monthly electronic scan of claimant level data direct from local authority computer systems for the Department of Work and Pensions (DWP)

<sup>27</sup> The CTR extract is the electronic scan of council tax reduction data supplied to the Ministry of Housing Communities and Local Government (MHCLG)

<sup>28</sup> [The economy forecast: Inflation](#) (Office for Budget Responsibility)

modelled presuming that any uprating is from the current base level rather than from a return to alignment with the third decile of rental charges.

- 2.5 It is worth noting that modelling of future years cannot take account of macro-economic conditions or changes in policy resulting from a change of UK Government. In particular the modelling does not take into account any economic impacts of exiting the European Union or any policy changes that may result from a change of Government between 2019 and 2022.
- 2.6 In addition, modelling can only take account of households currently represented in the datasets. It therefore cannot anticipate behavioural change in response to scheme adjustment. Specific measures that result in wider eligibility cannot model increases in caseload or the resulting increase in the total value of council tax reductions. Where this occurs, modelling may result in an underestimation of cost. However, where an adjustment may result in increased caseload this is noted in the text of this report.
- 2.7 Policy in Practice used population data from 16 of the 22 Welsh local authorities. In order to provide the total value of council tax reductions and caseload figures across Wales, a multiplier was used based on caseloads from the remaining authorities drawn from the Council Tax Reduction Scheme, Annual Report 2018-2019.<sup>29</sup>
- 2.8 All modelling for future years is based on the current year's caseload (2018-19). As such, modelling does not consider any change in the proportional representation of different household types.
- 2.9 Further information on data sources, data processing, modelling assumptions, and analytical process is supplied in Appendix C to this report.

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<sup>29</sup> [Council Tax Reduction Scheme, Annual Report 2018-19](#) (Welsh Government, July 2019)

### **3. Analysis of the Council Tax Reduction Scheme in Wales**

- 3.1 Under the current Welsh Council Tax Reduction Scheme, the assessment to ascertain the level of council tax reduction for households in receipt of Universal Credit differs from the assessment process for households in receipt of legacy benefits. This means that a move to Universal Credit often triggers a change in the amount of council tax reduction for households. Although this is the case for most Council Tax Reduction Schemes within the United Kingdom, the difference in the level of council tax reduction between the two benefit regimes may be greater in Wales than in other parts of the UK. This is because the Welsh scheme for households in receipt of legacy benefits does not incorporate wider UK Government welfare reforms such as the two-child limit, the abolition of the Employment and Support Allowance Work Related Activity Group (ESA WRAG) additional component, and the abolition of the family premium. For households in receipt of Universal Credit these changes are incorporated into both the “needs” and income side of the assessment for council tax reduction.
- 3.2 The Welsh Government is considering adjusting the current scheme to ensure fairness between households under the two benefit regimes. An additional objective is to ensure that any revised scheme maintains, or increases, the number of households receiving support. This is of particular concern given the possible impact of Universal Credit on caseload.
- 3.3 This section of the report provides an examination of the current Council Tax Reduction Scheme in Wales and the impact of retaining the current scheme into 2021-22, when more households will have migrated over to Universal Credit. Part 3 of this report provides the social and financial impact of a number of models for scheme adjustment. The impact of these models will inform the design of further models for inclusion in the final report to be produced by Policy in Practice for the Welsh Government in 2020.

## **Current Council Tax Reduction Scheme**

- 3.4 Since the abolition of Council Tax Benefit in 2013, the Council Tax Reduction Scheme in Wales has been closely aligned with the UK Government's centrally-designed predecessor. Since 2013, amendments have been minor and either of a technical nature or relating to the uprating of benefit rates. The scheme allows for minimal local discretion to the prescribed regulations.
- 3.5 All households in receipt of means-tested legacy benefits (such as income-based JSA, IS and income-related ESA) and households in receipt of maximum Universal Credit receive support based on 100% of their liability. For these households, the level of support is only reduced below 100% of liability to take account of the expected contributions of other adults in the household (non-dependant deductions).
- 3.6 Assessment of support for households not receiving means-tested legacy benefit or full Universal Credit differs by benefit regime.
- For households in receipt of legacy benefits, earned income is compared to an assessment of needs. The total needs amount for a household is called the *Applicable Amount*. This consists of set amounts for the households and set additions (premiums and components) based on circumstances such as disability, illness, or caring responsibilities. The Welsh Government chose not to include UK Government welfare reform measures such as the two-child limit, the abolition of the Family Premium, and the abolition of the Employment and Support Allowance Work-Related Activity Group (ESA WRAG) premium, in the measure of need. Any income above the Applicable Amount is reduced by set earnings disregards. The remainder reduces the maximum council tax reduction award by 20%. The amount of any award is further reduced by any non-dependant deduction.
  - For households in receipt of Universal Credit, including those who will be governed by transitional protection arrangements under managed migration, income is compared to the maximum Universal Credit award for that household. This maximum award incorporates UK Government welfare benefit changes such as the two-child limit, the abolition of the ESA WRAG

premium, the abolition of the equivalent of the family premium (an additional award for the first child), and the introduction of a notional income for self-employed households (the Minimum Income Floor). The calculation of maximum Universal Credit consists of an amount for each person in the household, plus additional amounts for housing, illness, childcare costs, and caring (these are termed elements). There is no equivalent of the legacy disability premiums in the assessment of need. Income is compared to the maximum Universal Credit and any excess income above the level of maximum Universal Credit reduces the maximum council tax reduction award by 20%. Non-dependant deductions are applied in the same way as under legacy benefits assessment.

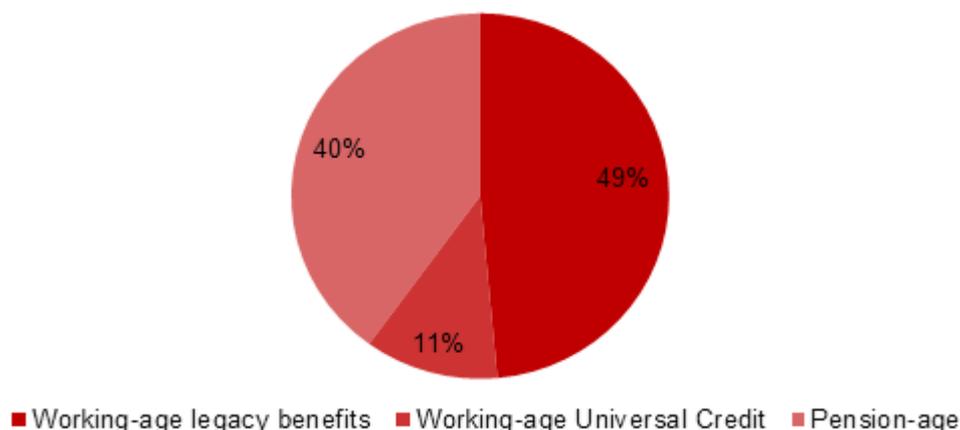
- 3.7 These assessment differences result in some households losing council tax reduction as they move to Universal Credit. Only a relatively small number of households see their council tax reduction awards increase following the move to Universal Credit. This is because the measure of need under Universal Credit is typically the same, or lower, than under legacy benefits, whereas income taken into account for assessment purposes is typically the same or higher than under legacy benefits.
- 3.8 For some of the households losing council tax reduction, the loss will be due to higher income under Universal Credit so they may not see reduced overall household income. This is particularly the case for those with earnings who benefit from both Universal Credit work allowances and the higher retention of earned income under Universal Credit compared to legacy benefits. Work allowances allow households to retain a certain level of earnings before Universal Credit is reduced and apply to those with children or those that are too ill to work.
- 3.9 However, other households could see a reduction in both Universal Credit and council tax reduction. This occurs when changes reduce both the needs side of the assessment and the Universal Credit award. This particularly affects self-employed households (due to the application of the Minimum Income Floor), and households in which a person has a disability (due to the removal of disability premiums).

## Current Caseload and Total Value of Council Tax Reductions

- 3.10 The caseload count for the CTRS in Wales in 2018-19 uses the actual caseload data received from 16 local authorities in Wales. In order to provide the total value of council tax reductions and caseload figures across Wales, a multiplier was used based on caseloads from the remaining authorities drawn from the Council Tax Reduction Scheme, Annual Report 2018 to 2019.<sup>30</sup> In 2018-19, 277,600 households received a council tax reduction in Wales.
- 3.11 Amendments to the CTRS being considered by the Welsh Government as part of this research are only applied to the 166,600 working-age households as the focus of the research is on those households affected by Universal Credit<sup>31</sup>. The 111,000 pension-age households are not affected by Universal Credit and so are modelled throughout this report under the current Council Tax Reduction Scheme.
- 3.12 Of the working-age households currently receiving support, 31,800 are in receipt of Universal Credit and 134,800 are in receipt of legacy benefits.

**Figure 3.1: Proportion of Total Caseload in Wales by Age Group**

Council tax reduction awards by age group



<sup>30</sup> [Council Tax Reduction Scheme, Annual Report 2018-19](#) (Welsh Government, July 2019)

<sup>31</sup> Couples that consist of one person of pension-age and one of working-age (generally referred to as Mixed Age Couples) remain in receipt of legacy benefits until a change of circumstances and so will mostly be included as pension-age for this report. However, any claims from mixed age couples made after 15 May are counted as working-age in line with the Universal Credit regulations.

3.13 The total value of council tax reductions was £265M in 2018-19. £109M of this amount is for pension-age support and £156M for working-age support. The average council tax reduction award for working-age households in 2018-19 is £18.00 per week. Pension-age households receive a slightly higher average award of £18.80 per week.

3.14 Working-age households in receipt of Universal Credit receive lower weekly awards at £16.30 per week than households in receipt of legacy benefits (£18.50 per week). This is due to a number of factors:

- **Taper rate and work allowances:** Under Universal Credit working households generally retain a higher proportion of earned income. This is due to support being removed at 63p for each pound earned. Under legacy benefits, support is removed at a faster rate (the rate depends on the benefit being received). In addition, Universal Credit includes work allowances for households with children and for those that are too ill to work. These are amounts that the household can earn without any reduction in Universal Credit award. This higher retention of earned income under Universal Credit due to the taper rate and work allowances means that household income for some earners is higher, resulting in a lower council tax reduction. This is not offset by those with reduced household income due to the ceiling of support which is 100% of liability.
- **Demographic Differences:** The demographics of council tax reduction households in receipt of Universal Credit are currently different to those in receipt of legacy benefits. There is a noticeably higher proportion of those in receipt of Carers Allowance and those that are in the Employment and Support Allowance (ESA) Support group or deemed to have limited capability for work related activity (LCWRA) in receipt of legacy benefits. 14% of households receiving council tax reduction and in receipt of legacy benefits are carers and 47% are in the ESA support group (or equivalent). This compares to 4% and 12% respectively under Universal Credit. This is due to the nature of the rollout of Universal Credit with early rollout focused on a narrow range of claimants. Since then, movement to Universal Credit is

reliant on a change of circumstances and this disproportionately affects single jobseekers.

**Table 3.1: Total Value of Council Tax Reductions and Caseload: Current Scheme in Wales by Age Group**

Age group	Number of households	Council tax reduction £per week	Total value of council tax reductions £per annum
All working age	166,600	£18.00	£156M
UC households	31,800	£16.30	£27M
Non-UC households	134,800	£18.50	£129M
Pension age	111,100	£18.80	£109M
Total	277,600	£18.40	£265M

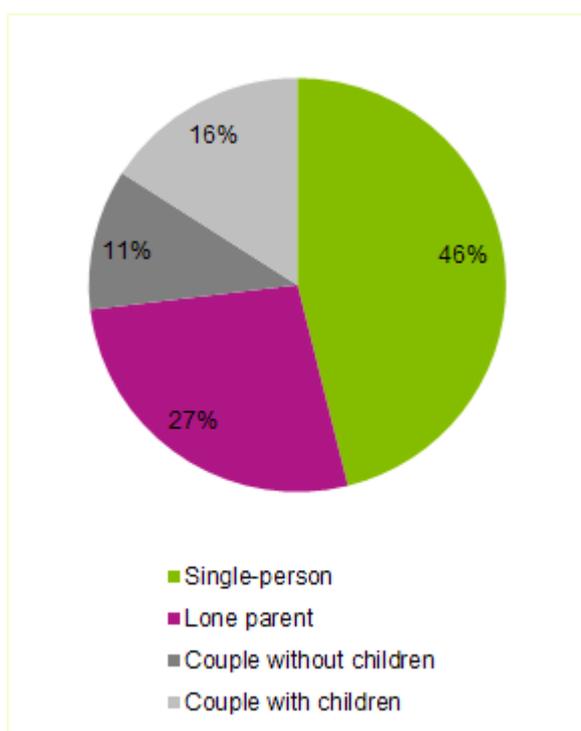
### **Demographic Analysis of Current Total Value of Council Tax Reductions and Award Levels (Working-Age Households)**

#### *Household composition*

- 3.15 Single person households make up 49% of working-age households in receipt of council tax reduction, while 42% have children in the household. The remaining 9% are couples with no children. The proportion of households with children is broken down into lone parent households (31%) and households with two parents (11%). Figures for the proportion of the total value of council tax reduction awarded to these subsets are similar, though naturally vary a little, as the monetary value of support will vary between households.
- 3.16 Average weekly council tax reduction is highest for couples without children at £22.90 per week, with lone parents receiving the lowest level of average council tax reduction. These differences can be explained by the circumstances of these households. Amongst the low-income households represented in the data set, households with children are more likely to be in work. Lone parents are therefore more likely to be in work than single-person households and consequently receive

lower council tax reduction. The higher council tax reduction for couples without children is because many of these households consist of a person who is too ill to work, with the partner being a carer.

**Figure 3.2: Proportion of the Total Value of Council Tax Reductions in 2018-19, by Household Composition**



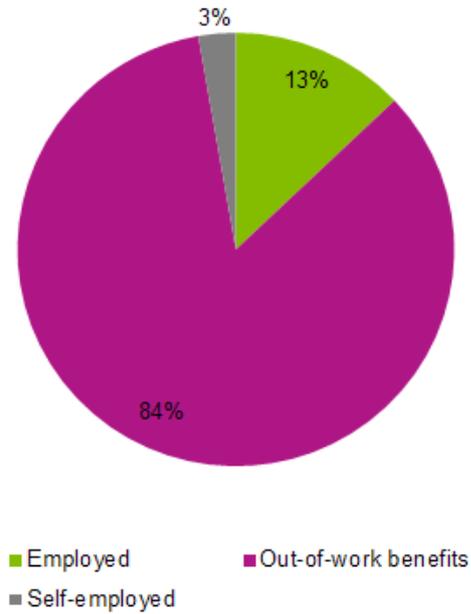
**Figure 3.3: Average Weekly Council Tax Reduction 2018-19, by Household Composition**



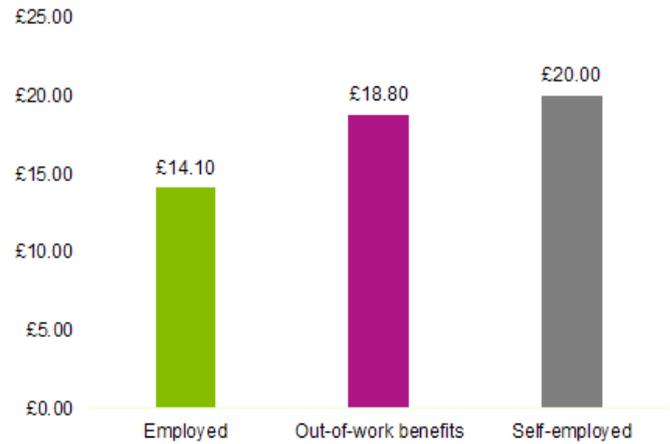
### *Economic status*

- 3.17 The majority of council tax reduction for working-age households assists those who are not in work. 84% of the total value of working-age council tax reductions is for households in receipt of out-of-work benefits. 13% of support is for low-income employed households and 3% for low-income self-employed households.
- 3.18 Average working-age weekly support is highest for self-employed households at £20.00 per week. This compares to an average of £14.10 per week for employed households. This is primarily due to lower earnings of self-employed households than employed households.

**Figure 3.4: Proportion of the Total Value of Council Tax Reductions 2018-19, by Economic Status**



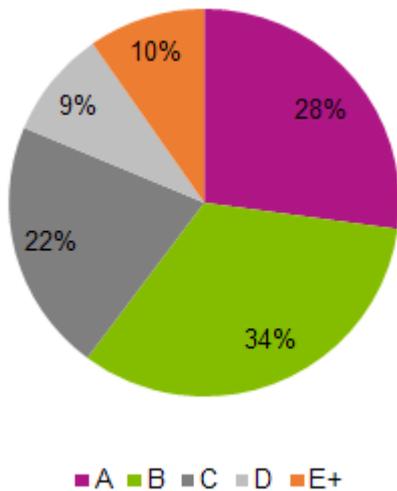
**Figure 3.5: Average Weekly Council Tax Reduction 2018-19, by Economic Status**



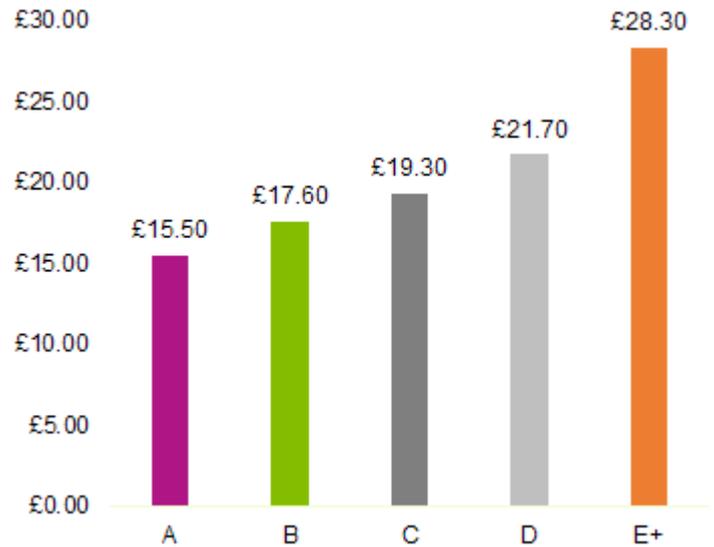
*Council Tax Band*

3.19 The majority of the total value of working-age council tax reductions is for households in the lower council tax bands, with 62% of spend going to households in band A and B. This is due to these bands being the most represented in the datasets with the modal council tax in the dataset being Council Tax band B. Even so, whilst the majority of council tax reductions payments goes to lower band households, the level of average weekly award for individual households increases with council tax band. This is due to awards being based on liability so those in higher bands, and hence with a higher council tax liability, receive greater weekly support.

**Figure 3.6: Proportion of the Total Value of Council Tax Reductions 2018-19, by Council Tax Band**



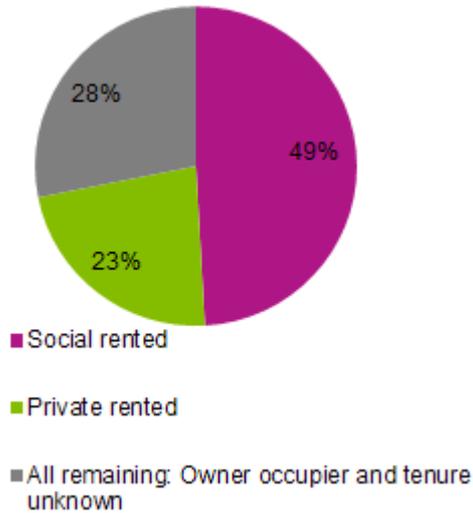
**Figure 3.7: Average Weekly Council Tax Reduction 2018-19, by Council Tax Band**



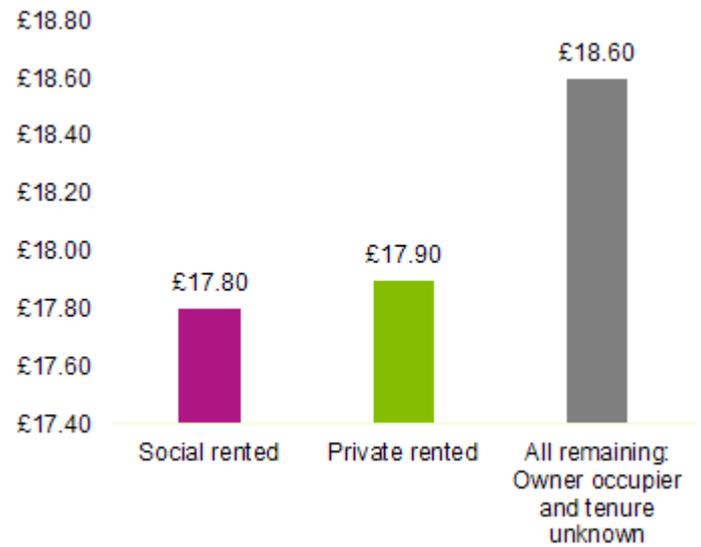
*Tenure*

- 3.20 The greatest proportion of working-age council tax reductions is for supporting households renting properties. Within this group, households in the social rented sector receive 49% of all support and those in the private rented sector receive 23% of all support.
- 3.21 28% of all support goes to owner-occupiers and households whose tenure is unknown. Nevertheless, average weekly awards are slightly higher for owner-occupiers, with an average weekly award of £19 per week compared to average awards of £18 per week for tenants. This reflects the greater likelihood of owner-occupiers being in properties in the higher council tax bands.

**Figure 3.8: Proportion of the Total Value of Council Tax Reductions 2018-19, by Tenure**



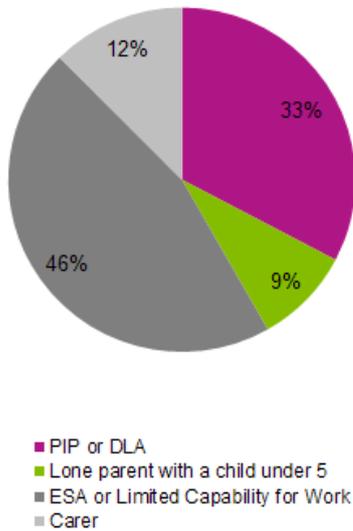
**Figure 3.9: Average Weekly Council Tax Reduction 2018-19, by Tenure**



*Vulnerable Households*

- 3.22 Households in which a working-age person is living with a disability or illness, or in which a person has care of an infant under five years old, are disproportionately represented among low-income households. This is likely to be due to challenges in accessing work. 66% of current council tax reduction for working-age households is for households falling within these categories.
- 3.23 Lone parents with a child under 5 receive lower weekly council tax awards, with an average award of £16 per week. This is lower than council tax awards to those who are ill, live with a disability, or have caring responsibilities. This is due to the higher likelihood of lone parents being in work than other vulnerable groups. In addition, the assessment of needs for other vulnerable groups is higher than for lone parents as it incorporates specific additional amounts due to illness or caring.

**Figure 3.10: Proportion of the Total Value of Council Tax Reductions 2018-19 for Vulnerable Households, by Vulnerable Household Type**



**Figure 3.11: Average Weekly Council Tax Reduction 2018-19, by Vulnerable Household Type**



### **Maintaining the Current Scheme into 2021-22**

- 3.24 Maintaining the current scheme into 2021-22 would increase the total value of council tax reductions for working-age and pension-age households from £265M in 2018-19 to £303M in 2021-22 due to increases in council tax liability. This is an increase in the total value of council tax reductions of £38M or 14%.
- 3.25 If the Welsh Government were to retain the current scheme into 2021-22, the number of working-age households receiving a council tax reduction would reduce slightly compared to 2018-19, with 1,350 households losing support altogether. Loss of support results from a combination of factors, including the increase in the national minimum wage and the reduction in support for households as they migrate to Universal Credit.

**Table 3.2: Maintaining Current System into 2021-22: Annual Total Value of Council Tax Reductions**

Total value of council tax reductions if the current scheme was retained into 2021-22		Comparison to current scheme's total value of council tax reductions	
Group	£ per annum	Change (£ per annum)	Change (%)
All working age	£176M	£20M	13%
Pension age	£127M	£18M	17%
Total	£303M	£38M	14%

3.26 The total value of council tax reductions would increase by 13% for working-age households compared to 17% for pension-age households. The difference in increase between working-age and pension-age households is primarily due to the reduced council tax reduction for working households under Universal Credit, reflecting the higher retention of earned income in the Universal Credit system. In addition, the planned increases in the national minimum wage and personal tax allowance by 2021-22 will increase earnings and so reduce the number of working-age households receiving council tax reduction awards.

3.27 Average weekly council tax reduction for working-age households in 2021-22 is £2.30 per week more than 2018-19 levels. This does not necessarily mean households will be better off in terms of council tax reduction, primarily due to council tax rises (this is explored below).

**Table 3.3: Maintaining Current System into 2021-22: Weekly Reduction Levels**

Group	Council tax reduction under the current scheme in 2021-22 (£ per week)	Change compared to 2018-19 (£ per week)	Change (%)
All working age	£20.40	£2.30	13%
Universal Credit	£18.90	£1.80	10%
Legacy benefits	£21.00	£2.60	14%
Pension age	£22.00	£3.10	17%
Total	£21.00	£2.70	14%

3.28 Households in receipt of legacy benefits see an average 14% rise in council tax reduction (£2.60 per week). By comparison, households in receipt of Universal Credit see their council tax reduction increase by an average of 10% (£1.80 per week). The increase for legacy benefit households is in line with the increase in council tax rise between 2018-19 and 2020-21 (an average of 16% across all local authorities). However, households in receipt of Universal Credit see an increase 4% below that of the council tax rise. This difference is due to many of these households being modelled as migrating to Universal Credit from legacy benefits, and therefore being assessed under the Universal Credit provisions, for the first time.

3.29 An average decrease in council tax reduction is expected as households move to Universal Credit due to:

- The higher retention of earnings and more generous work allowance under Universal Credit, which results in more of the council tax reduction being reduced by the taper rate
- Differences in the 'needs' element of the assessment under Universal Credit. Disability premiums have been removed and other welfare reform provisions,

such as the two-child limit, the removal of the Employment and Support Allowance Work Related Activity Group (WRAG) premium, and the removal of the equivalent of the family premium have been introduced

- The introduction of the Minimum Income Floor for self-employed households
- Removal of earnings disregards for assessment of council tax reduction for households in receipt of Universal Credit

3.30 However, it is worth noting that for some households, particularly those who are earning and also not affected by other welfare reforms, the increased retention of earnings under Universal Credit means that these households may not be worse off overall.

### **Social and Political Impacts of Maintaining the Current Scheme into 2021-22**

3.31 If the current scheme were maintained into 2021-22, working-age households would see an increase in council tax reduction of 13%. This takes account of the expected council tax increases in each local authority by 2021-22.<sup>32</sup> The overall average council tax increase across Wales is 5% per year and 16% over the three years. Compared to this average council tax rise of 16%, the working-age average increase of council tax award of 13% therefore represents a small real reduction in average support.

3.32 The difference between expected increases in council tax reduction and council tax liability is marginal for those in receipt of legacy benefits (-1%) and insignificant for those already in receipt of Universal Credit (-0.4%). However, households migrating to Universal Credit from legacy benefits between 2018-19 and 2021-22 will see an increase in support that is 11% below the rate of liability increase.

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<sup>32</sup> Council tax rises for 2019 to 2021 are calculated for each local authority based on the previous 3 year CT rise.

**Table 3.4: Comparison of Council Tax Reduction (£/week) from 2018-19 to 2021-22 and Relative Change to Council Tax Liability Increase**

	Current scheme 2018-19	Current scheme 2021-22	Change relative to Council Tax increase
All working age	£18.00	£20.40	-2%
Legacy claimants	£18.50	£21.00	-1%
Migrated Universal Credit Claimants	£18.40	£19.20	-11%
Current Universal Credit Claimants	£16.30	£18.70	-0.04%

3.33 In general, a decrease in council tax reduction awards is expected due to the increase in the minimum wage and personal tax allowances which will increase earnings by 2021-22. In addition, a decrease in council tax reduction awards is expected as households move to Universal Credit due to the higher retention of earned income and differences in the assessment of support.

3.34 Breaking down the impacts of maintaining the current scheme into 2021-22, there are notable differences between groups.

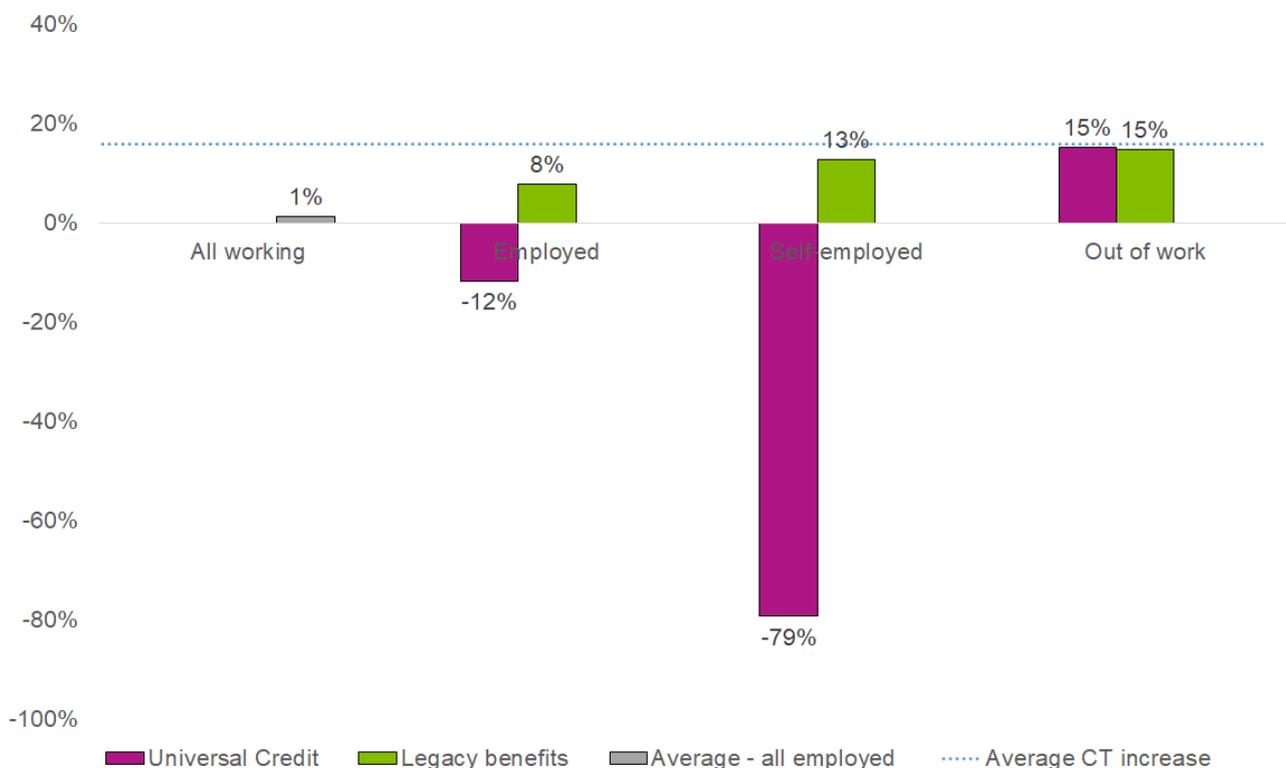
*Differences in impact by economic status*

3.35 Working-age households across Wales in employment or self-employment would see an average increase in council tax reduction of 2% which is significantly lower than the expected average council tax increase of 16%, however the average council tax reduction for working households in receipt of Universal Credit will reduce compared to current levels. Employed households in receipt of Universal Credit would see a decrease of £1.40 per week, or 12%. In comparison, employed households in receipt of legacy benefits see an increase of £1.20 per week or 8%. The reason that the overall average for working households in Wales shows as an increase is because those receiving legacy benefits greatly outnumber those

receiving Universal Credit. This difference is due to the different assessment of both needs and income between the two benefit regimes.

- 3.36 Self-employed households in receipt of Universal Credit see an average decrease in council tax reduction of £15.20 per week or 79%. This is because 98% of the self-employed households modelled as being in receipt of Universal Credit in 2021-22 have migrated across to the benefit between 2018-19 and 2021-22. As a result, self-employed households that are expected to be in work are subject to the Minimum Income Floor for the first time. For these households, income is based on a notional amount derived from the national minimum wage which is higher than reported self-employed earnings which are used for the assessment of legacy benefits. Self-employed households who receive of legacy benefits, and are thus not subject to the Minimum Income Floor, see an average increase in council tax reduction of £2.60 per week or 13%.
- 3.37 Working-age households in receipt of out-of-work benefits, whether in receipt of legacy benefits or Universal Credit, see an increase in council tax reduction awards roughly in line with council tax liability increases. These households will retain council tax reduction based on 100% of their council tax liability, minus any non-dependant deductions.
- 3.38 The large proportion of out-of-work households in the working-age dataset means that, on average, working-age households see an increase in council tax reduction awards by 2021-22, despite the decrease experienced by those who are employed and self-employed and on Universal Credit, as discussed above.

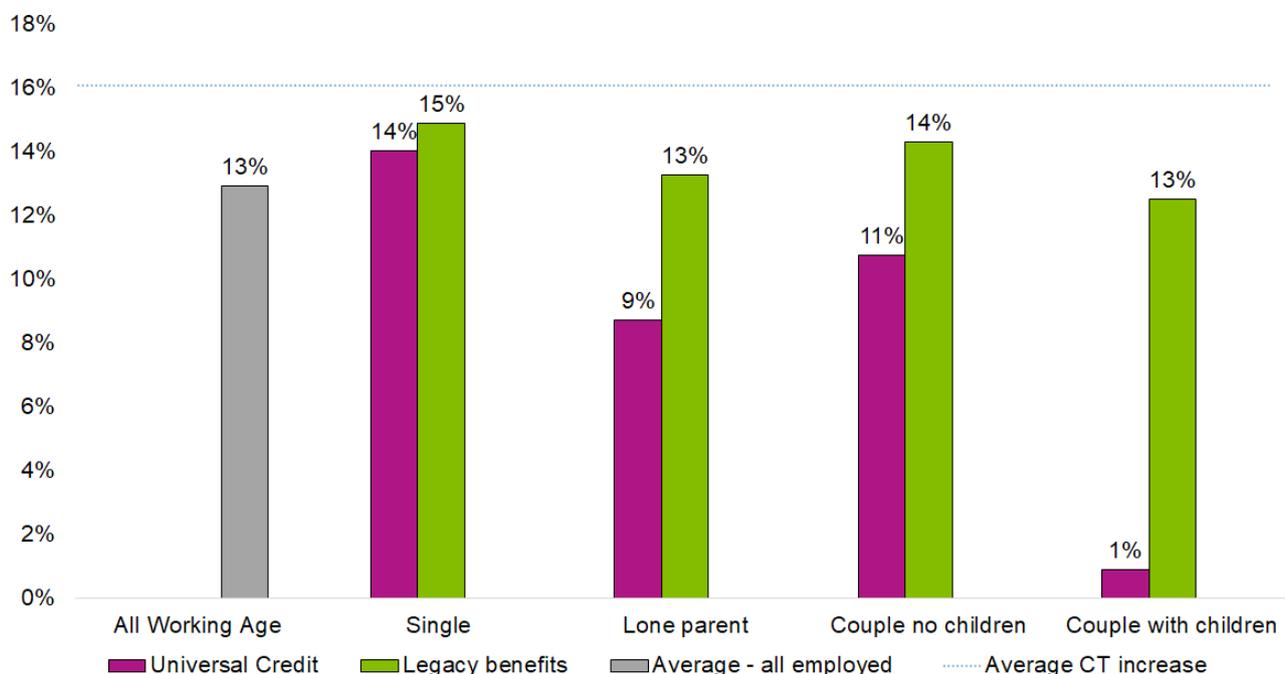
**Figure 3.12: Percentage Change in Council Tax Reduction Awards from Current to 2021-22, by Economic Status for Working Age Households**



*Differences by household composition*

3.39 Working-age households in employment (this includes both those who are employed and self-employed together) see the greatest loss of support as they move to Universal Credit. Amongst low-income households in receipt of council tax reduction represented in the available data, households with children are more likely to work than households without children. Therefore, couples with children are more likely to see an average loss of support as they move to Universal Credit. For many of these households, the loss in council tax reduction will be offset by higher income from Universal Credit.

**Figure 3.13: Percentage Change in Council Tax Reduction Awards from Current to 2021-22, by Household Type**



*Differences in impact by illness or disability status*

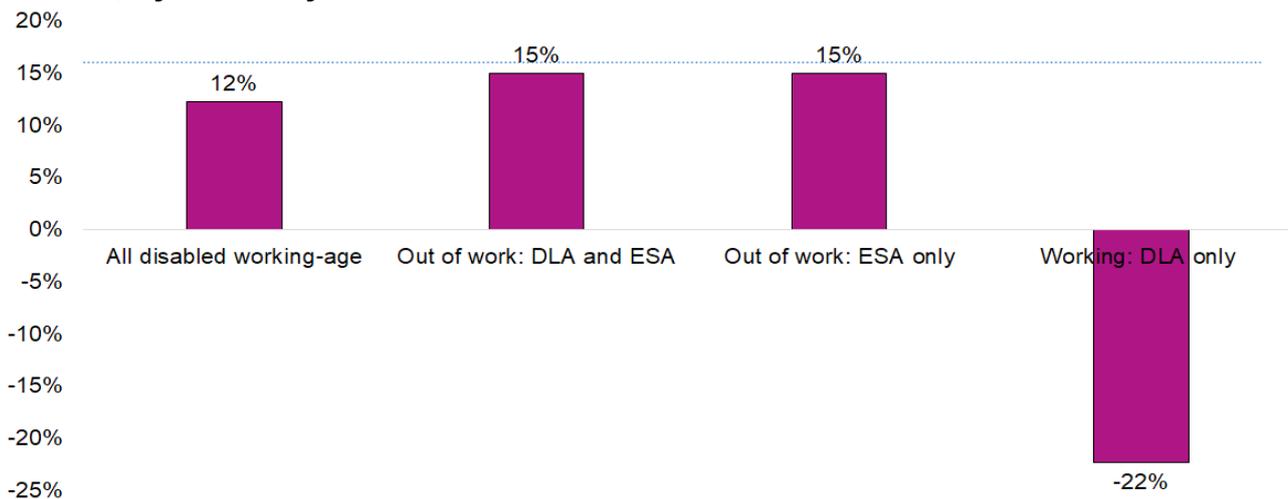
3.40 In 2021-22, the average change for all working-age households receiving Universal Credit in which a person is too ill to work, or is in receipt of a disability benefit, will be an increase of 12% on current council tax reduction levels. This is slightly higher than the working-age average for Universal Credit households (10%). Note, working-age households include those who are employed, self-employed, and out of work.

3.41 By 2021-22, most households in which a person is classed as too ill to either work or to prepare for work (i.e. households in the ESA Support group or under Universal Credit deemed to have Limited Capability for Work Related Activity), will also see their average level of council tax reduction increase. However, households in work and in receipt of PIP or DLA will often face a decrease in council tax reduction. This is because assessment of need under Universal Credit does not replicate additional amounts (disability premiums) that are included in the assessment for those in receipt of legacy benefits. Those in receipt of disability benefits who are working will not be classified as having Limited Capability for Work, and so will not benefit from

the LCWRA component within Universal Credit that will offset the loss of disability premiums for other households. This results in households in receipt of a disability benefit seeing council tax reduction awards decrease by 22%.

3.42 Currently, there is provision in place to ensure that those who are both in receipt of a disability benefit and for whom nobody provides care are not moved to Universal Credit until transitional protection is in place. This provides protection for those currently in receipt of the Severe Disability Premium. However, this protection is not extended to those that are in receipt of other disability premiums (such as the disability premium, the disabled child premium or the enhanced disability premium) under legacy benefits.

**Figure 3.14: Percentage Change in Council Tax Reduction Awards from Current to 2021-22, by Disability Status**



### Current Council Tax Reduction Scheme: Supporting Tables

3.43 Summary data tables on the current scheme (2018-19) and the current scheme retained into 2021-22 are provided below. The tables show:

- Table 3.5:** average weekly levels of council tax reduction award for working-age households, broken down by household type, together with the weekly council tax reduction award in 2021-22 and the percentage increase. Note the \* in column 7 denotes a small population size of 474 households.

- **Table 3.6:** the take home income<sup>33</sup> of working-age households in 2018-19 and 2021-22, broken down by household type, together with the percentage change. Take-home income consists of all income represented in the dataset. Universal Credit households show only those migrating to Universal Credit from 2018-19 to 2021-22. Households already in receipt of Universal Credit are excluded as these are overwhelmingly jobseekers and so do not represent the whole low-income population.
- **Table 3.7:** the take home income of working-age households in 2018-19 and 2021-22, broken down by benefit type.

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<sup>33</sup> Take-home income consists of all income represented in the dataset. This includes means-tested benefit income (such as income-based JSA, income-related ESA, IS, Universal Credit), council tax reduction, earnings, self-employed income, child benefit, maintenance, student grant income and other benefit income (such as child benefit, Carers Allowance, DLA, PIP, contribution-based ESA or JSA).

**Table 3.5: Comparison of Council Tax Reduction Awards (£ per week)**

		Current scheme 2018-19	Current scheme 2021-22	Legacy claimants 2021-22	Migrated UC claimants 2021-22	Current UC claimants 2021-22
Council Tax Band	CT Band A	£15.51	£17.50	£17.84	£17.14	£16.59
	CT Band B	£17.56	£19.84	£20.46	£18.77	£18.31
	CT Band C	£19.31	£21.87	£22.72	£19.87	£20.02
	CT Band D	£21.72	£24.50	£25.28	£22.33	£22.68
	CT Band E+	£28.40	£32.04	£33.32	£28.39	£29.22
Tenure type	Social rented	£17.02	£19.42	£19.65	£18.39	£16.54
	Private rented	£18.14	£20.36	£20.59	£19.96	£19.72
	All remaining: Owner occupier, tenure unknown	£15.86	£18.37	£19.74	£19.74	£18.37
Household type	Single	£17.01	£19.50	£19.91	£19.61	£18.07
	Lone Parent	£16.52	£18.47	£19.02	£16.34	£17.97
	Couple no children	£22.86	£25.93	£26.58	£25.19	£22.99
	Couple with children	£22.15	£24.28	£25.53	£19.89	£21.82
Economic status	Employed	£14.11	£14.38	£16.69	£8.06	£11.53
	Self-employed	£20.02	£19.87	£22.75	£3.90	£12.07*
	Out-of-work benefits	£18.78	£21.61	£21.80	£21.93	£20.69
Barriers to work	DLA or similar	£19.57	£22.32	£22.53	£21.87	£21.18
	LP child under 5	£16.42	£18.51	£18.99	£17.27	£17.78
	ESA or similar	£18.56	£21.27	£21.33	£21.11	£19.13
	Carer	£21.39	£24.40	£24.80	£23.78	£21.12

**Table 3.6: Comparison of Take Home Income (£/month) by Household Type**

		Current scheme 2018-19	Current scheme 2021-22	Legacy claimants 2021-22	Migrated UC claimants 2021-22
Council Tax Band	A	£1,324	£1,393	£1,395	£1,378
	B	£1,493	£1,571	£1,572	£1,567
	C	£1,604	£1,691	£1,695	£1,670
	D	£1,662	£1,753	£1,752	£1,761
	E+	£1,666	£1,766	£1,769	£1,746
Tenure type	Social rented	£1,554	£1,639	£1,637	£1,648
	Private rented	£1,532	£1,603	£1,602	£1,581
	All remaining: Owner occupier, tenure unknown	£962	£1,210	£1,642	£1,642
Household type	Single	£1,199	£1,263	£1,266	£1,244
	Lone Parent	£1,654	£1,737	£1,736	£1,740
	Couple no children	£1,503	£1,587	£1,587	£1,587
	Couple with children	£2,180	£2,229	£2,231	£2,220
Economic status	Employed	£1,751	£1,858	£1,859	£1,855
	Self-employed	£1,667	£1,771	£1,782	£1,710
	Out-of-work benefits	£1,426	£1,499	£1,501	£1,489
Barriers to work	DLA or similar	£1,592	£1,692	£1,699	£1,655
	LP child under 5	£1,597	£1,674	£1,673	£1,681
	ESA or similar	£1,155	£1,218	£1,222	£1,195
	Carer	£1,898	£1,999	£2,003	£1,979

**Table 3.7: Comparison of Take Home Income (£/month) by Benefit Type in 2021-22**

	Current scheme 2018-19	Current scheme 2021-22
All working age	£1,380.52	£1,444.02
Legacy claimants	£1,484.98	£1,563.96
Migrated Universal Credit Claimants	£1,475.01	£1,553.25
Current Universal Credit Claimants	£944.00	£942.28

## 4. Impact Analysis of Scheme Adjustments

- 4.1 The Welsh Government is considering amending the current Council Tax Reduction Scheme. In order to inform scheme design, the Welsh Government has requested an impact analysis of six different scheme amendments. The six models were selected to meet one or both of the objectives of the Welsh Government. The objectives are to ensure fairness of support and to maintain council tax reduction caseload for low-income households. The Welsh Government will consider the findings of these models in order to design three further models for inclusion in the final research report, due in Spring 2020. These further models may be amendments to the models included in this report, an amalgamation of some of the measures of the models within this report, or new models.
- 4.2 The Welsh Government is considering scheme changes primarily in response to the impact of Universal Credit in Wales. It wishes to ensure fairness between households in receipt of Universal Credit and legacy benefits, as well as to ensure that caseload is maintained. This is of particular concern given the expected impact of Universal Credit on caseload.
- 4.3 This section of the interim report examines possible amendments to the Welsh scheme. Modelling is for the year 2021-22. The Welsh Government has selected this year in order to provide the best estimate of the total value of council tax reductions and to take account of the impact of migration to Universal Credit.
- 4.4 For all models, income, benefit rates, rents, council tax liability and Universal Credit migration have been updated in the same manner as with modelling of the current scheme into 2021-22)<sup>34</sup>:
- To enable comparison of modelled schemes against the current scheme in 2021-22, an agreed annual increase in council tax has been included. The rate of council tax rises used is the same as the average for each council

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<sup>34</sup> All modelling for future years is based on the current year's caseload (2018/19). As such, modelling does not consider any change in the proportional representation of different household types or households that may become entitled to support between 2019/20 and 2021/22. While all local authorities are participating in this research, at the time of analysis Policy in Practice had only received March 2019 SHBE and CTRS extracts from 16 of the local authorities in Wales. For this reason, an equalisation factor is applied to households to better represent the total value of reductions across all of Wales. Further notes on limitations and methodology can be found at Appendix C.

over the last three years. This is applied separately to each council's council tax charge prior to data analysis. The CT increases used in the modelling are given at Appendix A.

- An agreed level of migration to Universal Credit is also included. Modelling will include an expected migration of an additional 15.5% of households to Universal Credit by 2021-22. This level has been agreed with the Welsh Government and is based on current observed levels of 10% per annum carried through to 2021-22 and an assumption of falling migration levels to 5% per annum by 2021-22.
- Modelling for 2021-22 includes probable changes to welfare support rates, the national minimum wage, tax allowances, LHA rates, rent costs, and known regulatory change. Benefit rates are in line with the inflation measure currently used for benefit uprating (the annual uplift applied to benefit rates, typically in April). Other changes are informed by Office of Budget Responsibility annually published predictions of inflation rates<sup>35</sup>. LHA rates are modelled presuming that any uprating is from the current base level rather than from a return to alignment with the third decile of rental charges.

4.5 For each model, the following types of analysis is provided in this report;

- The total value of council tax reductions
- Impact Analysis
  - Caseload
  - The impact on weekly Council Tax Reduction
  - The impact on vulnerable households
  - The impact of Universal Credit
  - The impact across all working-age households

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<sup>35</sup> [The economy forecast: Inflation](#) (Office for Budget Responsibility)

### **Model 1: Flat Rate Non-Dependant Deductions**

- 4.6 The current Welsh Council Tax Reduction Scheme includes deductions from council tax reduction awards that reflect the expected contribution from other adults in the household (non-dependant deductions). The amount of the deduction is based on the rates set in the pre-2013 Council Tax Benefit regulations, which are, in general, based on the income and circumstances of the non-dependant. The Welsh Government has increased these rates annually since 2013 in line with inflation.
- 4.7 This model introduces one flat-rate non-dependant deduction into the working-age Council Tax Reduction Scheme. This is applicable to all non-dependants to whom a charge currently applies. Under the current regulations, non-dependant deductions are not applied in certain circumstances where the household, or their partner, is living with a disability or is blind. These exemptions are continued into this model.
- 4.8 The model applies both to working-age households in receipt of legacy benefits and those in receipt of Universal Credit. The Welsh Government is specifically interested in the impact of this model on vulnerable groups; those living with disability or illness, carers, and lone parents with a child under five years of age. This model will use the lowest current deduction to ensure that no household is worse off. This level is set at £4.83 per week in 2021-22.<sup>36</sup>
- 4.9 Introduction of flat-rate non-dependant deductions will increase scheme generosity. In addition, it will simplify administration as assessment will no longer need to consider the income of the non-dependant.
- 4.10 Analysis applies to working-age households only as this research focuses on the impact of Universal Credit which only affects the council tax reduction for working-age households. The Welsh Government could consider extending changes in non-dependant deductions to pension-age households but this is outside the scope of this report.

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<sup>36</sup> This is calculated by uprating the current lowest non-dependant deduction in 2019/20 and applying the inflation measure used by the UK Government for annual benefit uprating.

## *The Total Value of Council Tax Reductions*

**Table 4.1: Model 1: Total Value of Council Tax Reductions of Model (£per annum)**

Group <sup>37</sup>	Model 1 total value of council tax reductions	Comparison to the total value of council tax reductions of current scheme		Comparison to current scheme in 2021-22	
	£per annum	Change (£per annum)	Change (%)	Change (£per annum)	Change (%)
All working age	£177M	£21M	13%	£0.4M	0.3%
Total	£304M	£39M	15%	£0.4M	0.1%

4.11 Introducing flat-rate non-dependant deductions set at the lowest rate will mean that the total value of council tax reductions for working-age and pension-age households will be £304M per annum by 2021-22. This is £0.4M more than if no changes were made to the scheme by 2021-22.

### *Impact Analysis: Amendment to Non-Dependant Deduction*

#### **Caseload**

4.12 This model increases support for households who are currently subjected to a non-dependant deduction that is above the lowest rate of deduction.

4.13 The introduction of a flat-rate non-dependant deduction set at the lowest current rate of deduction increases support for 1,520 households compared to if the current scheme was retained into 2021-22.

4.14 The introduction of a flat-rate non-dependant deduction increases scheme generosity. Some households not currently eligible for council tax reduction due to non-dependant deductions may become eligible for support under this measure.<sup>38</sup>

<sup>37</sup> Scheme amendments apply to working-age households only as the research focuses on the impact of Universal Credit. All models produce a 17% (£18M) increase in the total value of council tax reductions for pension age households compared to the current scheme. However, there is no difference when the current scheme is updated to 2021/22.

<sup>38</sup> Modelling is carried out on those households that are already represented in the SHBE and CTS datasets held by local authorities in Wales. Modelling cannot therefore take account of any additional caseload that may result from a scheme amendment.

### The Impact on Weekly Council Tax Reduction Awards for those Affected by this Measure

- 4.15 The introduction of flat-rate non-dependant deductions only has an impact on those working-age households with an adult relative living in the home and for whom a current deduction applies.
- 4.16 Affected households see an average increase in support of £5.70 per week (37%) compared to retention of the current scheme into 2021-22.

**Table 4.2: Model 1: Average Weekly Council Tax Reduction Awards £ per week for Households Affected**

Group	Number of households impacted	Average household reduction £/week	Comparison to current scheme retained into 2020-21	
			Change (£/week)	Change (%)
Universal Credit	470	£21.10	£6.80	48%
Legacy benefits	1,060	£21.30	£5.20	33%
All working age	1,520	£21.30	£5.70	37%

- 4.17 This measure affects households in receipt of Universal Credit and those in receipt of legacy benefits equally. However, analysis of current households in receipt of council tax reduction shows that those in receipt of Universal Credit gain more (£6.80 per week) than those in receipt of legacy benefits (£5.20 per week). This is due to earnings of non-dependants being slightly higher in the Universal Credit households used for this analysis. The impact on households in receipt of Universal Credit and those in receipt of legacy benefits is likely to equal out once all households have moved to Universal Credit.

## **The Impact on Vulnerable Households**

4.18 Introducing flat-rate non-dependant deductions for working-age households, set at the lowest current rate (uprated to 2021-22), increases support for vulnerable households less than the average for all working-age households. This is due to many households living with disability, or having limited capacity for work related activity, already being exempt from non-dependant charges. This measure is therefore likely to affect a lower proportion of households in these groups than in the general population. However, for those vulnerable households affected by this measure, support increases at similar levels to non-vulnerable households (37% increase).

## **The Impact of Universal Credit on Households Affected by this Measure**

4.19 This measure maintains the current equal treatment of non-dependants when calculating council tax reduction for households in receipt of Universal Credit *and* those in receipt of legacy benefits. However, due to the different assessment of non-dependants under Universal Credit and legacy benefits (Housing Benefit), the overall impact of non-dependants on household income will differ.

4.20 Under Universal Credit a flat-rate non-dependant deduction of £73.89 per month is applied to the housing element of Universal Credit. Under legacy benefits, deductions range from £67.60 per month to £436.15<sup>39</sup> per month from Housing Benefit, with the deduction determined by the income of the non-dependant. Households with higher earning non-dependants may therefore gain support as they move to Universal Credit. If this measure were introduced to the Welsh Council Tax Reduction Scheme, these households would gain income through both Universal Credit and council tax reduction.

## **The Impact across all Working Age Households**

4.21 Across all working-age households in Wales, this measure results in households without dependent children seeing slightly higher increases in support than those with dependent children. This may reflect the need for additional bedrooms to

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<sup>39</sup> [UK Government 2019/20 benefit rates](#)

accommodate non-dependants. However, the differences are marginal with all types of household composition seeing less than a 0.5% rise in support.

**Table 4.3: Model 1: Households Affected by Change in Non-Dependant Deductions – Key Findings**

Number of households	1,520 households
Who is affected?	Universal Credit and legacy benefit households with higher earning non-dependants
Average change in award for affected households	<ul style="list-style-type: none"> <li>• Universal Credit households see an increase of £6.80 per week compared to current scheme in 2021-22</li> <li>• Legacy benefit households see an increase of £5.20 per week compared to current scheme in 2021-22</li> </ul> <p>Note: these increases are likely to be similar once all households have migrated to Universal Credit</p>
Change in total value of reductions	Increase of £0.4M per annum in 2021-22
Caseload	The council tax reduction caseload may increase. <sup>40</sup> Households with higher earning non-dependants who are currently ineligible for support due to the high rate of non-dependant deduction, may become eligible for support.
Universal Credit and legacy households	<ul style="list-style-type: none"> <li>• This measure has a similar impact on council tax reduction for Universal Credit and legacy benefit households.</li> <li>• Households moving to Universal Credit affected by this measure may also see an increase in support through Universal Credit.</li> </ul>

### **Model 2: Amended Taper**

4.22 Currently, maximum council tax reduction for households in Wales is reduced using a taper set at 20%. In other words, for every pound that income is above needs, support reduces by £0.20. This reduction in council tax reduction sits alongside other tapers applied to other means-tested benefits:

<sup>40</sup> Analysis is undertaken on those households for which local authorities currently hold data. The analysis cannot predict households that may become eligible for support following introduction of change as these households are not represented within the dataset.

- **Legacy Benefits:** Households in receipt of Housing Benefit will see their Housing Benefit reduced by £0.65 for every additional pound. Households that are also in receipt of tax credits would see their tax credits reduced by £0.41 for every additional pound. These work alongside various protective thresholds and disregards but even so, some households in receipt of legacy benefits will see no increase in household income with increased earnings.
- **Universal Credit:** Households in receipt of Universal Credit see Universal Credit reduced by £0.63 for every additional pound. This only applies if earnings are above work allowances (these are amounts that can be earned before benefit is reduced and are applicable to households with children or those that are not expected to work due to illness).

- 4.23 The Welsh Government wants to increase scheme generosity and ensure that low-income working families retain more of their income. This model amends the taper by which council tax reduction is withdrawn from the current 20% to 10%. This model will increase work incentives.
- 4.24 This model applies to working-age households in receipt of both Universal Credit and legacy benefits. It will only affect those with income above needs (i.e. almost exclusively working households) and will have no impact on the level of council tax reduction for households in receipt of out-of-work benefits.
- 4.25 Analysis applies to working-age households only as the research focuses on the impact of Universal Credit which only affects the council tax reduction of working-age households. The Welsh Government could consider extending changes in taper rates to pension-age households but this is outside the scope of this report.

### The Total Value of Council Tax Reductions

**Table 4.4: Model 2: Total Value of Council Tax Reductions of Model (£ per annum) with Taper Reduced to 10%**

Group <sup>41</sup>	Model 2 Total value of council tax reductions	Comparison to the total value of council tax reductions of current scheme		Comparison to current scheme in 2021-22	
	£ per annum	Change £ per annum	Change %	Change £ per annum	Change %
All working age	£185M	£28M	18%	£8M	5%
Total	£311M	£47M	18%	£8M	3%

4.26 Reducing the taper rate to 10% will mean that the total value of council tax reductions for working-age and pension-age households would be £311M per annum by 2021-22. This is £8M per annum more than if the taper was kept at the current level.

4.27 The Welsh Government also wanted to examine the impact of 15% taper. If the taper was reduced to 15%, the total value of council tax reductions for working-age and pension-age households would be £4M per annum more than retaining the taper at the current rate.

<sup>41</sup> Scheme amendments apply to working-age households only as the research focuses on the impact of Universal Credit. All models produce a 17% (£18M) increase in the total value of council tax reductions for pension age households compared to the current scheme. However, there is no difference when the current scheme is updated to 2021/22.

**Table 4.5: Model 2: Total Value of Council Tax Reductions of Model (£ per annum) with Taper Reduced to 15%**

Group	Model 2 Total value of council tax reductions	Comparison to the total value of council tax reductions of current scheme		Comparison to current scheme in 2021-22	
	£ per annum	Change £per annum	Change %	Change £per annum	Change %
All working age	£180M	£24M	15%	£4M	2%
Pension age	£127M	£18M	17%	£0	0%
Total	£307M	£42M	16%	£4M	1%

*Impact Analysis – Amendments to the Taper Rate*

**Caseload**

4.28 Changes to the taper rate affect working-age households in receipt of both legacy benefits and Universal Credit with income above their assessed needs. This measure is estimated to affect 26,400 working-age households across Wales.

4.29 This measure increases scheme generosity and it is probable that caseload will increase<sup>42</sup>. Working households with income that is too high for current support, may be eligible for support with a reduced taper rate.

**The Impact on Weekly Council Tax Reduction Awards for those Affected by this Measure**

4.30 Reducing the taper rate affects working-age households in receipt of both legacy benefits and Universal Credit with income above assessed needs.

4.31 If the taper rate was reduced to 10%, affected households would see an average increase of £6.00 per week (51%) compared to retention of the current scheme into 2021-22.

<sup>42</sup> Modelling is carried out on those households that are already represented in the SHBE and CTS datasets held by local authorities in Wales. Modelling cannot therefore take account of any additional caseload that may result from a scheme amendment.

**Table 4.6: Model 2: Average Weekly Council Tax Reduction £ per week with Taper at 10% (Affected Households Only)**

Group	Number of households impacted	Average household reduction £/week	Comparison to current scheme retained into 2020-21	
			Change £/week	Change %
Universal Credit	11,870	£16.90	£6.50	62%
Legacy benefits	14,500	£18.50	£5.70	45%
All working age	26,400	£17.80	£6.00	51%

4.32 Universal Credit households affected by this change see a slightly higher proportional increase in council tax reduction (62%) than those in receipt of legacy benefits (45%). This differential is because households in receipt of Universal Credit retain a higher proportion of their earnings so will have more income above assessed needs, and so subject to the taper. Even with this redistribution of council tax reduction towards households in receipt of Universal Credit, households in receipt of legacy benefits affected by this measure have higher council tax reduction awards at an average of £18.50 per week compared to an average of £16.90 per week for households in receipt of Universal Credit.

4.33 As changes to the taper rate only affect households with income above needs, these are overwhelmingly working households. Self-employed households in receipt of Universal Credit see a significant rise in support of 225%. This is due to the very low council tax reduction awards these households receive if the current scheme is retained into 2021-22 (due to the application of the Minimum Income Floor). The increase in council tax reduction as a result of the reduced taper is therefore proportionally greater than for other working households. Even with this increase, council tax reduction for self-employed households in receipt of Universal Credit (an average of £13.10 per week) remains substantially lower than for self-employed households in receipt of legacy benefits (an average of £24.60 per week).

- 4.34 Employed households in receipt of Universal Credit also see a significant average increase in council tax reduction of 63% compared to an average increase of 23% for employed households in receipt of legacy benefits. Again, this differential is due to the proportional impact of the increase on lower starting awards.

### **The Impact on Vulnerable Households**

- 4.35 Households in which a person is ill, disabled or have caring responsibilities are less likely to be in work and so council tax reduction for these groups is less likely to be affected by the change in taper rate. However, for those vulnerable households that are working, and so affected by this measure, increases in council tax reduction awards are significant. Affected households in which a person is ill or disabled see average increases of 35% and those in which a person is a carer see an average increase of 29%. Even so, these increases are lower than that across all households affected by this measure. In contrast, lone parents with a child under the age of 5 see greater increases (65%) than the average for all affected households (51%).

### **The Impact of Universal Credit on Households Affected by this Measure**

- 4.36 This measure applies equally to working-age households in receipt of Universal Credit and households in receipt of legacy benefits. It will increase council tax reduction awards, and therefore household income, for all working households in receipt of Universal Credit and the majority of working households in receipt of legacy benefits.
- 4.37 Employed households are likely to gain benefit support as they move to Universal Credit due to the higher retention of earned income. If this measure were introduced, these households will gain income through both Universal Credit and council tax reduction.
- 4.38 Self-employed households may be subject to the Minimum Income Floor when they move to Universal Credit and could see reduced council tax reduction and Universal Credit. A reduced taper rate will offset some of this loss in council tax reduction.

### **The Impact Across all Working Age Households**

- 4.39 Across all working-age households council tax reduction increases by 5%. This measure does not affect households in receipt of out-of-work benefits and so the average increase across all working-age households is significantly lower than that for households affected by this measure (an average increase of 51%).
- 4.40 Amongst the low-income households represented in the dataset, households with children are more likely to be in work than households without children. As a reduction in taper rate increases support for working households, it therefore has a secondary impact of increasing the average award to working-age households with children. Across all working-age households, couples with children see an increase of 7% and lone parents see an average increase of 8%.

**Table 4.7: Model 2: Households Affected by the Change in Taper Rate – Key Findings**

Number of households	26,400 households
Who is affected?	Universal Credit and legacy benefit households with income above assessed needs. Primarily working households.
Average change in award for affected households	<ul style="list-style-type: none"> <li>• Universal Credit households see an increase of £6.50 per week compared to retention of the current scheme into 2021-22</li> <li>• Legacy benefit households see an increase of £5.70 per week compared to retention of the current scheme into 2021-22</li> </ul>
Change in total value of reductions	Increase of £8M per annum in 2021-22
Caseload	Households with earnings above the level for current eligibility may become eligible for support and the caseload may increase <sup>43</sup>
Universal Credit and legacy households	<ul style="list-style-type: none"> <li>• This measure applies to Universal Credit and legacy benefit households equally.</li> <li>• Households in receipt of Universal Credit gain more (£6.50 per week) than those in receipt of legacy benefits (£5.70 per week).</li> </ul> <p>This differential is due to households in receipt of Universal Credit retaining higher levels of earned income and so having more income affected by the taper rate.</p> <p>Universal Credit households in employment may see higher household income through both Universal Credit and council tax reduction if this measure is introduced.</p> <p>Universal Credit households that are self-employed are likely to see lower household income under Universal Credit and council tax reduction. This measure will offset some of this loss.</p>

<sup>43</sup> Analysis is undertaken on those households for which local authorities currently hold data. The analysis cannot predict households that may become eligible for support following introduction of change as these households are not represented within the dataset.

### **Model 3: Introduction of a Guaranteed Award**

- 4.41 This model introduces a guaranteed minimum council tax reduction award for all working-age households in receipt of means-tested benefits. The advantage of introducing a minimum award is that it allows for a simple message on eligibility. At the moment, the complexity of assessment for council tax reduction means that it is difficult for a household to ascertain whether they qualify or not and this may deter applications. As part of this research project, surveys and interviews will attempt to provide a view on the importance of certainty of award, and the results will be included in the final report in Spring 2020.
- 4.42 For this model, it is assumed that an income threshold has been set and that this is at a level whereby all current households will continue to be eligible for support. If the Welsh Government were to introduce a minimum award, an eligibility income threshold would need careful consideration to ensure that it is high enough to ensure no household loses support, but low enough to ensure that the caseload does not increase unexpectedly. Once all households have migrated to Universal Credit, the calculation of an earnings threshold could be based on the earnings that a household in receipt of Universal Credit would need to taper away all council tax reduction for the modal council tax band.
- 4.43 Under this model, all households with council tax reduction awards below 15% of council tax liability will receive awards set at 15% of liability. This model will therefore increase awards for these households. Households with current support above 15% of liability will see no change in council tax reduction.

### The Total Value of Council Tax Reductions

**Table 4.8: Model 3: Total Value of Council Tax Reductions of Model (£ per annum)**

	Model 3	Comparison to the total value of council tax reductions of current scheme		Comparison to current scheme in 2021-22	
	Total value of council tax reductions	Change £ per annum	Change %	Change £ per annum	Change %
Group <sup>44</sup>	£ per annum				
All working age	£177M	£20M	13%	£0.2M	0.1%
Total	£303M	£39M	15%	£0.2M	0.1%

4.44 This model suggests the total value of council tax reductions for working-age and pension-age households would be £303M per annum in 2021-22, this is £0.2M per annum more than if no change was made to the scheme for 2021-22.

#### *Impact Analysis – Guaranteed Minimum Award*

#### **Caseload**

4.45 This measure increases support for working-age households with council tax reduction awards in 2021-22 that are less than 15% of liability. It affects 2,620 working-age households. These households are likely to be those in the dataset with the highest incomes and so receiving the lowest levels of council tax reduction.

4.46 Introduction of a guaranteed minimum award will not have an impact on the number of households eligible for awards as the assessment criteria remains the same. However, a guaranteed minimum council tax reduction award may make applying for a council tax reduction more enticing to those who are not currently receiving but eligible for support. It is likely that this measure will simplify messages on eligibility,

<sup>44</sup> Scheme amendments apply to working-age households only as the research focuses on the impact of Universal Credit. All models produce a 17% (£18M) increase in the total value of council tax reductions for pension age households compared to the current scheme. However, there is no difference when the current scheme is updated to 2021/22.

as well as offer an attractive guaranteed council tax reduction award to those eligible. This is likely to increase caseload.<sup>45</sup>

### **The Impact on Weekly Council Tax Reduction for those Affected by this Measure**

- 4.47 Introduction of a minimum award affects working-age households in receipt of both Universal Credit and households in receipt of legacy benefits. Those gaining council tax reduction will be households who currently receive awards at less than 15% of their council tax liability. No household would see a loss in council tax reduction under this measure.
- 4.48 Weekly council tax reduction for those affected by this measure will increase by an average £1.60 per week (86%) compared to retention of the current scheme into 2021-22.

**Table 4.9: Model 3: Average Weekly Council Tax Reduction £ per week for Affected Households**

Group	Number of households impacted	Average household reduction £/week	Comparison to current scheme retained into 2020-21	
			Change £/week	Change %
Universal Credit	1,580	£3.50	£1.60	88%
Legacy benefits	1,040	£3.40	£1.50	82%
All working age	2,620	£3.40	£1.60	86%

<sup>45</sup> Modelling is carried out on those households that are already represented in the SHBE and CTS datasets held by local authorities in Wales. Modelling cannot therefore take account of any additional caseload that may result from a scheme amendment.

- 4.49 Working-age households in receipt of Universal Credit and those in receipt of legacy benefits see similar increases in awards.
- 4.50 Self-employed households affected by this measure see significant increases in council tax reduction. This group is the most likely to have low levels of council tax reduction and so most likely to benefit from the introduction of a minimum award. Affected self-employed households see an average increase in awards of 102% compared to retention of the current scheme into 2021-22.

### **The Impact on Vulnerable Households**

- 4.51 Working-age households that are ill, disabled or have caring responsibilities are less likely to be in work and so unlikely to be receiving levels of council tax reduction that fall below 15% of council tax liability. These groups are therefore unlikely to be affected by the introduction of a minimum award. Council tax reduction for all vulnerable groups remains the same as if the current scheme was retained into 2021-22.

### **The Impact of Universal Credit on Households Affected by this Measure**

- 4.52 Self-employed households see reduction in support through both reduced Universal Credit and reduced council tax reduction as they move to Universal Credit due to the introduction of the Minimum Income Floor. This group is the most likely to have low levels of council tax reduction and so most likely to benefit from the introduction of a minimum award. Self-employed households affected by this measure will see an average increase in awards of 102% compared to retention of the current scheme into 2021-22. For all self-employed in receipt of Universal Credit (including those not affected by this measure) there is an average increase of 9%.
- 4.53 The introduction of a minimum council tax reduction award will offset some of the losses faced by self-employed households as they move to Universal Credit. Even so, this measure has significantly less impact on self-employed households in receipt of Universal Credit than the reduction in the taper rate to 10% (Model 2, above) under which council tax reduction for this group increases by 225%.

- 4.54 Employed households are likely to gain support as they move to Universal Credit due to the higher retention of earned income. If this measure were introduced, households receiving council tax reduction at less than 15% of liability will gain income through both Universal Credit and council tax reduction.

**The Impact of this Measure Across all Working Age Households**

- 4.55 Across all working-age households in Wales, council tax reduction awards will increase by an average of less than 1%.
- 4.56 This measure has the greatest impact on self-employed households in receipt of Universal Credit. Self-employed households in receipt of Universal Credit affected by this measure see an increase of 102% in average awards compared to retention of the current scheme into 2021-22. For all self-employed households in receipt of Universal Credit (including those not affected by this measure) awards increase by 9%. The higher increase for those affected is due to the proportional increase to the low council tax reduction awards these households would receive if the current scheme was retained into 2021-22.

## *The Total Value of Council Tax Reductions*

**Table 4.10: Model 3: Households Affected by a Guaranteed Award – Key Findings**

Number of households	2,620 households
Who is affected?	Universal Credit and legacy benefit households with awards in 2021-22 that are less than 15% of CT liability. This is primarily working households.
Average change in award for those affected	<ul style="list-style-type: none"> <li>• Universal Credit households see an increase of £1.60 per week compared to current scheme in 2021-22</li> <li>• Legacy benefit households see an increase of £1.50 per week compared to current scheme in 2021-22</li> </ul>
Change in total value of reductions	Increase of £0.2M per annum in 2021-22
Caseload	A guaranteed award for those above a threshold income level may increase take-up of support. Caseload may therefore increase.
Impact of UC on affected households	<ul style="list-style-type: none"> <li>• Universal Credit households gain more (£1.60 per week) than legacy benefit households (£1.50 per week), compared to the current scheme in 2021-22.</li> <li>• Universal Credit employed households affected by this measure are likely to see increased household income as they move to Universal Credit.</li> <li>• Universal Credit self-employed households affected by this measure are likely to see a reduction in household income as they move to Universal Credit due to the Minimum Income Floor. This measure provides an average additional 102% in council tax reduction for these households compared to retaining the current scheme into 2021-22.</li> </ul>

### **Model 4: Reduce the Minimum Income Floor for Council Tax Reduction purposes for Self Employed Households**

4.57 For households receiving Universal Credit, income from self-employment is treated in a different manner in the assessment of council tax reduction than for households receiving legacy benefits. Under legacy benefits, assessment of council tax reduction (and other means-tested benefits) is based on reported self-employed earnings. These will be similar to earnings notified to HMRC for tax purposes.

However, if the household is in receipt of Universal Credit, a notional income based on the minimum wage, is used for both Universal Credit and council tax reduction. This is called the Minimum Income Floor.

- 4.58 The Minimum Income Floor is calculated by multiplying the age-appropriate minimum wage by the hours that the person is expected to work. The expected hours of work are set by the Universal Credit conditionality regime. For Universal Credit claimants without any caring responsibilities or barriers to work, this is usually 35 hours per week. Therefore, for a claimant over 25, the Minimum Income Floor will be set at 35 x £8.21 (the National Living Wage in 2019-20 for those aged over 25). This equates to gross earnings of about £1,245 per month. For households with caring responsibilities, or barriers to work, the Minimum Income Floor may not apply, or may be based on 16 or 24 hours per week. A “grace” period of 12 months, during which assessment is based on actual self-employed earnings, applies to those that started self-employment whilst in receipt of Universal Credit, those that have been self-employed for less than a year, and those that move to Universal Credit through managed migration. From July 2020, all self-employed households will have a grace period of 12 months from the date of their Universal Credit claim. At the end of the grace period, assessment for all these groups will be based on the Minimum Income Floor.
- 4.59 As many self-employed households have actual income significantly lower than the Minimum Income Floor, the level of benefit support drops significantly as they move to Universal Credit, or when any grace period ends. As the Minimum Income Floor applies to the assessment of both Universal Credit and council tax reduction, many self-employed households will see a decrease in council tax reduction alongside a significant reduction in overall household income.
- 4.60 The Welsh Government may wish to support self-employed households moving to Universal Credit whilst retaining the simplicity of assessment that is introduced through application of the Minimum Income Floor. In addition, the Welsh Government may want to retain the principle of the Minimum Income Floor to ensure that those that could move out of poverty through employment do so, and to ensure that council tax reduction is not more generous to self-employed than to

employed households. However, there is concern that for some households to which the Minimum Income Floor applies, there may be hidden barriers to work and so moving from self-employment to employment may not be an option.

- 4.61 This model therefore introduces a lower Minimum Income Floor in the assessment of council tax reduction. It is worth noting that a similar amendment cannot be made for the assessment of Universal Credit as this power is not devolved.
- 4.62 This model examines the impact of assessing self-employed income as the highest of either actual income, or a Minimum Income Floor set at 16 hours per week. As this is the level applicable to many self-employed households with caring responsibilities, this reduced Minimum Income Floor provides greater protection than is currently the case to those with hidden caring responsibilities or health issues. Actual self-employed earnings continue to be used for households to which the Minimum Income Floor does not apply, and households in receipt of legacy benefits. Modelling does not apply exemption from the Minimum Income Floor to those Universal Credit households that have started self-employment within the last 12 months as the data for this is not available. For these households modelling presumes the grace period is not applicable, or has ended.
- 4.63 Introduction of a reduced Minimum Income Floor is likely to be administratively complex and use of a different Minimum Income Floor to that applied to Universal Credit may be confusing for some applicants. Currently, for Universal Credit households, the DWP does not notify the local authority of self-employed status although this can usually be discerned by comparison of earned income with the resulting Universal Credit award. If a reduced Minimum Income Floor were to be introduced local authorities could not rely on Universal Credit notifications for income information. They would need to contact the household directly and assess self-employed earnings. This may increase administration costs for local authorities. Nevertheless, a number of local authorities in England do not apply the Minimum Income Floor to self-employed households and successfully request this information from applicants in order to administer their Council Tax Reduction Schemes.

## *The Total Value of Council Tax Reductions*

**Table 4.11: Model 4: Total Value of Council Tax Reductions of Model (£per annum)**

	Model 4 Total value of council tax reductions	Comparison to the total value of council tax reductions of current scheme		Comparison to current scheme in 2021-22	
		Change £per annum	Change %	Change £per annum	Change %
Group <sup>46</sup>	£per annum	Change £per annum	Change %	Change £per annum	Change %
All working age	£177M	£21M	13%	£0.4M	0.3%
Total	£304M	£39M	15%	£0.4M	0.2%

4.64 Reducing the Minimum Income Floor for council tax reduction purposes for working-age households in receipt of Universal Credit will mean that the total value of council tax reductions (for working-age and pension-age households) is £304M per annum. This is £0.4M per annum more than if no changes were made to the Welsh Council Tax Reduction Scheme by 2021-22.

### *Impact Analysis – Reduction in Minimum Income Floor in the CTRS*

#### **Caseload**

4.65 Analysis of the impact of a change in the Minimum Income Floor in the CTRS only takes account of those households currently represented in the dataset and assumes that self-employed households remain in self-employment. However, the introduction of the Minimum Income Floor has been shown to have a behavioural impact<sup>47</sup> with the majority of those affected by the measure moving to unemployment or to employment. This behavioural change cannot be accurately predicted. Assuming that those in self-employment maintain their self-employed

<sup>46</sup> Scheme amendments apply to working-age households only as the research focuses on the impact of Universal Credit. All models produce a 17% (£18M) increase in the total value of council tax reductions for pension age households compared to the current scheme. However, there is no difference when the current scheme is updated to 2021/22.

<sup>47</sup> [Evidence to the London Assembly: The impact of Universal Credit on low income self-employed households](#) (Policy in Practice, November 2018)

status, a reduction in the Minimum Income Floor will increase council tax awards for 510 households in 2021-22. The introduction of a reduced Minimum Income Floor increases scheme generosity. Some self-employed households in receipt of Universal Credit that are not currently eligible for council tax reduction due to higher assessed income under the current Minimum Income Floor, may become eligible for support under this measure, and so caseload may increase.<sup>48</sup>

### The Impact on Weekly Council Tax Reduction for Those Affected by this Measure

- 4.66 Reducing the Minimum Income Floor for working-age self-employed households will only affect self-employed households in receipt of Universal Credit who are subject to a Minimum Income Floor based on more than 16 hours per week.
- 4.67 Affected households will see significant increases in average council tax reduction of £16.60 per week (or 696%) compared to retention of the current scheme into 2021-22.

**Table 4.12: Model 4: Average Weekly Council Tax Reduction £ per week for Affected Households**

	Number of households impacted	Average household reduction	Comparison to current scheme retained into 2021-22	
Group		£/week	Change £/week	Change %
Universal Credit	510	£19.00	£16.60	696%
Legacy benefits	No impact on legacy benefit households			
All working age	510	£19.00	£16.60	696%

<sup>48</sup> Modelling is carried out on those households that are already represented in the SHBE and CTS datasets held by local authorities in Wales. Modelling cannot therefore take account of any additional caseload that may result from a scheme amendment.

4.68 This measure does not affect the council tax reduction of households in receipt of legacy benefits. If this measure were to be introduced, average awards for self-employed households in receipt of Universal Credit (£19.00 per week) would remain below the £22.80 per week average award for those in receipt of legacy benefits.

### **The Impact on Vulnerable Households**

4.69 This measure has little impact on all types of working-age households that may be vulnerable. All vulnerable groups (households in which someone is disabled, too ill to work, a carer, or in which there is a child under five years of age), see similar council tax reduction awards in 2021-22 to those that would be received if no change was made. This reflects the low likelihood of conditionality being set by the DWP at over 16 hours work per week for these households.

#### *Social and distributional impact across all working-age households*

4.70 Across all working-age households that are in receipt of council tax reduction, the modelled reduction in the minimum income floor increases average awards by less than 1%.

4.71 This measure only affects working-age self-employed households in receipt of Universal Credit with a Minimum Income Floor that is higher than 16 hours per week at the National Living Wage. These households see a significant average increase in council tax reduction awards of 696%. When calculated as an average across the entire self-employed Welsh council tax reduction caseload, council tax reduction for self-employed households in receipt of Universal Credit increases by an average 328%. This measure does not affect council tax reduction for working-age employed households or households in receipt of out-of-work benefits.

4.72 Introduction of a measure to increase council tax reduction for working-age self-employed households in receipt of Universal Credit will also cause a slight increase in average council tax reduction awards for households with children in receipt of Universal Credit. This is because work is more likely in households with children that are represented in the datasets used for this research. Across all working-age council tax reduction households in Wales, couples with children in receipt of Universal Credit see council tax reduction increase by an average of 3%, whilst lone parents in receipt of Universal Credit see awards increase by an average of 1%.

## **The Impact of Universal Credit on Households Affected by this Measure**

- 4.73 Self-employed households that are assessed as being capable of work by the DWP will see significant reductions in income as they move to Universal Credit due to the application of the Minimum Income Floor. The application of the Minimum Income Floor is mirrored in the assessment of income for council tax reduction. This means that these households will see loss of income through both Universal Credit and through council tax reduction. Previous analysis by Policy in Practice for the London Assembly<sup>49</sup> showed that the average loss in household income as the self-employed move to Universal Credit is around £220 per month.
- 4.74 The introduction of a reduced Minimum Income Floor in the assessment of council tax reduction will offset some of this loss. Self-employed households in receipt of Universal Credit who are affected by this measure see council tax reduction increase by £16.60 per week on average (696%).
- 4.75 It is worth noting that other amendments considered within this report also increase council tax reduction for self-employed households in receipt of Universal Credit. For comparison purposes, this measure increases support across all self-employed households in receipt of Universal Credit by an average of 328%. The reduction in the taper rate to 10% increases council tax reduction by an average of 225% and the introduction of a guaranteed minimum award set at 15% of liability increases council tax reduction for all self-employed households by an average of 9%. Both these amendments result in lower increases in support than if the Minimum Income Floor were to reduce but have the advantage of being administratively simpler.

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<sup>49</sup> [Evidence to the London Assembly: The impact of Universal Credit on low income self-employed households](#) (Policy in Practice, November 2018)

**Table 4.13: Model 4: Households Affected by a Reduction in the Minimum Income Floor - Key Findings**

Number of households	510 households
Who is affected?	Self-employed households in receipt of Universal Credit with a Minimum Income Floor based on more than 16 hours per week
Average change in award for affected households	Affected Universal Credit households see an increase of £16.60 per week compared to current scheme in 2021-22  Legacy benefit households see no change in support.
Change in total value of reductions	Increase of £0.4M per annum in 2021-22
Caseload	The council tax reduction caseload may increase <sup>50</sup> . Self-employed households in receipt of Universal Credit who are not currently eligible for council tax reduction due to high notional earnings under the Minimum Income Floor may become eligible. This is because the income side of the calculation would reduce resulting in less council tax reduction being tapered away.
Impact of Universal Credit on affected households	Self-employed households see significant loss in support through both Universal Credit and council tax reduction when they move to Universal Credit. According to some evidence, this loss in support results in the majority of self-employed households giving up self-employment. <sup>51</sup> This measure will offset some of that loss.

<sup>50</sup> Analysis is undertaken on those households for which local authorities currently hold data. The analysis cannot predict households that may become eligible for support following introduction of change as these households are not represented within the dataset.

<sup>51</sup> [Evidence to the London Assembly: The impact of Universal Credit on low income self-employed households](#) (Policy in Practice, November 2018)

### **Model 5: Removal of the Two Child Limit (UC households)**

- 4.76 The assessment of needs under Universal Credit consists of a personal allowance for the claimant and their partner and additional amounts for each child. However, a two-child limit applies to children born after 6 April 2017. If a third or subsequent child is born after this date then the child element of Universal Credit (£2,780 per child), is included for the first two children only. In effect, this means that for many families with more than two children, no support is provided for any third or subsequent child. Statistics from the DWP and HMRC<sup>52</sup> show that in February 2019, 161,000 households across the UK, including 8,000 in Wales, were affected by this policy. This represents 19% of all households with a third or subsequent child claiming either tax credits or Universal Credit. This proportion will grow over time as more households with three or more children will include a child born on or after 6 April 2017.
- 4.77 For households in receipt of Universal Credit, assessment of needs for council tax reduction purposes mirrors the Universal Credit assessment of need. This means that the needs element of the council tax reduction assessment is also limited to two children and, like Universal Credit, does not reflect the needs of any additional children born after April 2017.
- 4.78 Under the current Welsh CTRS regulations, the two-child limit has not been extended to council tax reductions for households in receipt of legacy benefits even though the measure has been applied to Child Tax Credit. This leads to a degree of unfairness in the level of council tax reduction for households with more than two children as it is determined by the benefit regime applicable to the household.
- 4.79 The Welsh Government wishes to promote consistency between legacy benefits and Universal Credit households and to support families. This model removes the two-child limit in the assessment of council tax reduction for households in receipt of Universal Credit. This amendment cannot be applied to the assessment of Universal Credit as this is not within the power of the devolved Government.

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<sup>52</sup> [Child Tax Credit and Universal Credit claimants: statistics related to the policy to provide support for a maximum of 2 children, April 2019](#) (Gov.uk, July 2019)

4.80 This amendment to the assessment of council tax reduction will only have an impact on the support for working-age households with three or more children in receipt of Universal Credit and will not affect the level of award for households in receipt of legacy benefits.

*The Total Value of Council Tax Reductions*

**Table 4.14: Model 5: Value of Council Tax Reductions of Model (£per annum)**

	Model 5	Comparison to the total value of council tax reductions of current scheme		Comparison to current scheme in 2021-22	
	The total value of council tax reductions	Change	Change	Change	Change %
Group <sup>53</sup>	£ per annum	£ per annum	%	£ per annum	
All working age	£177M	£20M	13%	£0.2M	0.1%
Total	£303M	£38M	15%	£0.2M	0.0%

4.81 Removing the two-child limit for households in receipt of Universal Credit will mean that the total value of council tax reductions for working-age and pension-age households will be £303M per annum in 2021-22. This is £0.2M per annum more than if no changes were made to the scheme by 2021-22.

*Impact Analysis – Removing the Two-Child Limit in CTRS*

**Caseload**

4.82 This measure will only affect working-age employed or self-employed households in receipt of Universal Credit with a third (or subsequent) child born after April 2017. The number of households affected is therefore currently small with only 343 households affected. However, the number of households affected will increase over time as more families have a third, or subsequent, child born after April 2017.

<sup>53</sup> Scheme amendments apply to working-age households only as the research focuses on the impact of Universal Credit. All models produce a 17% (£18M) increase in the total value of council tax reductions for pension age households compared to the current scheme. However, there is no difference when the current scheme is uprated to 2021/22.

4.83 This measure increases scheme generosity. Working households in receipt of Universal Credit with a third or subsequent child born after April 2017, who may not currently be eligible for council tax reduction, may become eligible for support and caseload could increase.<sup>54</sup>

**The Impact on Weekly Council Tax Reduction Awards for Those Affected by this Measure**

4.84 This measure will increase council tax reduction for households in receipt of Universal Credit with a third (or subsequent) child born after April 2017. It will not have an impact on non-working households as these households receive maximum support at 100% of council tax liability.

4.85 For households affected by this change, average weekly council tax reduction increases by £9.41 per week (109%) compared to retention of the current scheme into 2021-22.

**Table 4.15: Model 5: Average Weekly Council Tax Reduction £ per week, Affected Households Only**

	Number of households impacted	Average household reduction	Comparison to current scheme retained into 2020-21	
Group		£/week	Change £/week	Change %
Universal Credit	343	£18.05	£9.41	109%
Legacy benefits	No impact on legacy benefit households			
All working age	343	£18.05	£9.41	109%

<sup>54</sup> Analysis is undertaken on those households for which local authorities currently hold data. The analysis cannot predict households that may become eligible for support following introduction of change as these households are not represented within the dataset.

- 4.86 This measure does not affect households in receipt of legacy benefits.
- 4.87 This measure only affects households with children in receipt of Universal Credit with a third child born after April 2017. For households with children affected by this measure the increase in council tax reduction is substantial. Lone parents affected by this measure see average council tax reduction increase by 146% and couples with children see average council tax reduction increase by 96%.

### **The Impact on Households That May be Vulnerable**

- 4.88 Removing the two-child limit for households in receipt of Universal Credit has little impact on vulnerable households as these households are likely to receive maximum awards based on 100% of liability. Average council tax reduction awards for those with illness, disability, or caring responsibilities is similar to the level that would be received if the current Council Tax Reduction Scheme was retained. Amongst vulnerable groups, only lone parents with a child under 5 see a slight increase in average award (0.2%).

### **The Impact of Universal Credit on Households Affected by this Measure**

- 4.89 Households with a third or subsequent child born after April 2017 will not receive benefit support for that child under UK Government regulations for Universal Credit and legacy benefits. This will result in a loss of up to £231 per month<sup>55</sup> in respect of each child born after this date. The current Welsh Council Tax Reduction Scheme applies the two-child limit for households in receipt of Universal Credit but not for households in receipt of legacy benefits. Affected households in receipt of Universal Credit will therefore lose support through both Universal Credit and council tax reduction. Households in receipt of legacy benefits will lose support through tax credits only.
- 4.90 The removal of the two-child limit in the assessment of council tax reduction for Universal Credit households will offset some of the loss in support for these households and ensure parity with households in receipt of legacy benefits.

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<sup>55</sup> [Universal Credit rates 2019/20](#)

4.91 This measure would add some administrative complexity. This is because currently council tax reduction uses the maximum Universal Credit award as a measure of need and this includes any limitation on the number of children supported. Local authorities would need to use the data supplied by the DWP to understand if the maximum Universal Credit amount had applied a two child limit, and if so, to add any additional child element to the notified amount.

### **The Impact of this Measure Spread Across all Working Age Households**

4.92 Across all working-age households in receipt of council tax reduction average awards increase by less than 1%. This is because this measure only affects working households with a third child born after April 2017. It is likely that more households will be affected by this measure over time as more children are born after this date.

4.93 Across the entire working-age caseload in Wales, couples with children in receipt of Universal Credit see an average increase of 2% compared to retention of the current scheme into 2021-22 and lone parents see an average increase of 0.4%. All other groups are unaffected by this measure.

4.94 This measure increases fairness between those in receipt of legacy benefits and those in receipt of Universal Credit. Even so, council tax reduction for households with children in receipt of Universal Credit remain about £4 per week on average lower than for similar households in receipt of legacy benefits. This is due to other measures affecting council tax reduction for those in receipt of Universal Credit including the greater retention of earned income and the different assessment of needs (for example, the removal of disability premiums).

**Table 4.16: Model 5: Households Affected by the Removal of the Two-Child Limit - Key Findings**

Number of households	343 households (this would be expected to increase over time).
Who is affected?	Universal Credit households in work with a child born after April 2017.
Average change in award for those affected.	On average Universal Credit households affected by this measure would see an increase of £9.41 per week compared to retention of the current scheme in 2021-22.  This measure does not affect legacy benefit households.
Change in total value of reductions	Increase of £0.2M per annum in 2021-22
Caseload	The council tax reduction caseload may increase. <sup>56</sup> Working households in receipt of Universal Credit with a third child born after April 2017 not currently eligible for council tax reduction due to earned income may become eligible for support. This is because the needs side of the calculation would increase resulting in less council tax reduction being tapered away.
The impact of Universal Credit on affected households	Households affected by the two-child limit will lose up to £231 per month, per child, from Universal Credit or tax credits. Affected households in receipt of Universal Credit currently see additional loss from council tax reduction. This measure will ensure parity of treatment in council tax reduction between households in receipt of Universal Credit and legacy benefits and will offset some of the loss in support for Universal Credit households.

<sup>56</sup> Analysis is undertaken on those households for which local authorities currently hold data. The analysis cannot predict households that may become eligible for support following introduction of change as these households are not represented within the dataset.

## **Model 6: Income Banded Scheme**

4.95 Many local authorities in England are considering the introduction of a radical change to their local schemes. Income-banded Council Tax Reduction Schemes are the most popular option for reform. These changes are of interest to councils for the following reasons:

- Assessment under the current Council Tax Reduction Scheme is similar to assessment of Housing Benefit and, for tenants, both are assessed together. As both schemes require similar complex assessment of income and needs, the cost of administration is partially cross-subsidised by Housing Benefit administration subsidy. Over time, as households move to Universal Credit, Housing Benefit will cease to exist for working-age households, and Housing Benefit subsidy will stop. The cost of administering a standalone council tax reduction case will therefore increase.
- Under Universal Credit, council tax reduction awards can change each month depending on income received by the household in that month. These income changes are passed automatically to the local authority from HMRC, via the DWP, for council tax reduction reassessment. This leads to a significant increase in the number of council tax reduction reassessments and related additional administration costs for the council.
- Under Universal Credit, there is an increase in bill production caused by increased re-assessments. This causes confusion amongst households and risks leading to non-payment of any residual council tax net of council tax reduction.

4.96 Income-banded schemes are varied across the UK. They typically have between 3 – 8 income-bands each with an associated discount from council tax liability. The schemes vary in the types of income taken into account, disregards, treatment of capital, and treatment of non-dependants. Some are very simple, and some as complex as the current scheme. Therefore, any model will only represent the impact of that particular scheme. All income-banded models can easily be made more or less generous or designed to support specific groups.

4.97 In order to meet the needs of the Welsh Government, modelling is based on the income-banded scheme currently used by Newcastle Council.<sup>57</sup> This scheme has been selected as Newcastle Council previously operated a scheme similar to the Welsh scheme (based on 100% of liability) and designed their income-band scheme to retain generous support for residents. The objective for Newcastle Council in scheme design thus mirrors the objective of the Welsh Government.

### **Key Features of Newcastle City Council's Council Tax Reduction Scheme**

4.98 Newcastle City Council operate an income-banded scheme which assesses the maximum level of council tax reduction based on the net income of the applicant and their partner.

- Where the applicant (or their partner) is in receipt of passported benefits (IS, income-based JSA, income-related ESA or Maximum Universal Credit) they are automatically placed in the highest band of the scheme
- Anyone with savings of £6,000 or more will not qualify
- A childcare disregard is applied to earnings of up to £175.00 for one child and £300.00 for two or more
- Earnings disregards are applied of £7.50 for single people, £12.50 for couples and £27.50 for lone parents
- Some income is disregarded, eg disability benefits, Child Benefit and Child maintenance payments
- The housing cost element of Universal Credit is ignored
- A flat rate charge of £2.50 per week is applied for each non-dependant member of the household
- There is a minimum award of £1 per week

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<sup>57</sup> [Key features of Newcastle City Council's scheme.](#) [Full details of Newcastle City Council's scheme](#)

**Table 4.17: Income Bands for Newcastle City Council’s Council Tax Reduction Scheme**

Discount	Passported	Single £/week	Couples £/week	Family 1 child £/week	Family 2+ children £/week
Band A - 90%	Relevant Benefit	<£110	<£160	<£210	<£260
Band B - 85%	N/A	£110.01 to £150	£160.01 to £200	£210.01 to £250	£260.01 to £300
Band C - 50%	N/A	£150.01 to £230	£200.01 to £270	£250.01 to £330	£300.01 to £370
Band D - 25%	N/A	£230.01 to £300	£270.01 to £350	£330.01 to £400	£370.01 to £450

4.99 Modelling applies the income-banded scheme to working-age households only as this research is focused on the impact of Universal Credit which only affects these households. If the Welsh Government were to introduce a type of income-banded scheme it could also be extended to pension-age households.

## *The Total Value of Council Tax Reductions*

**Table 4.18: Model 6: Total Value of Council Tax Reductions of Model (£ per annum)**

Group <sup>58</sup>	Model 6 Total value of council tax reductions	Comparison to the total value of council tax reductions of current scheme		Comparison to current scheme in 2021-22	
	£ per annum	Change £ per annum	Change %	Change £ per annum	Change %
All working age	£170M	£14M	9%	-£7M	-4%
Total	£297M	£32M	12%	-7M	-2%

4.100 Introducing the Newcastle income-banded scheme for working-age households will mean that the total value of council tax reductions for working-age and pension-age households will be £297M per annum in 2021-22. This is £7M less than if the current scheme was retained into 2021-22.

### *Impact Analysis – Income Banded Model*

#### **Caseload**

4.101 Introduction of an income-banded scheme would affect all working-age households in receipt of council tax reduction in Wales.

4.102 13,900 households would lose all council tax reduction under this model. This is approximately 11% of the working-age caseload. These are primarily working families.

4.103 It is likely that working households that currently have low assessment of needs but are currently not eligible for council tax reduction may become eligible.<sup>59</sup> This is because under the current scheme, income is compared to assessed need and any

<sup>58</sup> Scheme amendments apply to working-age households only as the research focuses on the impact of Universal Credit. All models produce a 17% (£18M) increase in the total value of council tax reductions for pension age households compared to the current scheme. However, there is no difference when the current scheme is updated to 2021/22.

<sup>59</sup> Analysis is undertaken on those households for which local authorities currently hold data. The analysis cannot predict households that may become eligible for support following introduction of change as these households are not represented within the dataset.

income above needs results in a decrease in council tax reduction. Income-banded schemes rely solely on income, and do not include an assessment of needs.

### **The Impact on Weekly Council Tax Reduction for Those Affected by this Measure**

4.104 This model affects all working-age households in receipt of council tax reduction.

4.105 The introduction of an income-banded scheme similar to the Newcastle scheme will see average weekly council tax reduction for working-age households reduce by £0.80 per week (-4%).

**Table 4.19: Model 6: Average Weekly Council Tax Reduction £ per week across all Households**

Group	Number of households impacted	Average household reduction £/week	Comparison to current scheme retained into 2020-21	
			Change £/week	Change %
Universal Credit	51,160	£18.50	-£0.90	-5%
Legacy benefits	113,730	£20.40	-£0.70	-3%
All working age	164,880	£19.80	-£0.80	-4%

4.106 An income-banded scheme affects households in receipt of Universal Credit and those in receipt of legacy benefits in a similar manner.

### **Households That May Be Vulnerable**

4.107 Income-banded schemes tend to have the greatest impact on working households. Therefore, households that may be vulnerable see lower reductions in council tax reduction than the average across all working-age households. Households in which a person is ill, in receipt of disability benefits, or a carer see average levels of support similar to if the current scheme was retained into 2021-22. Lone parents with a child under five years of age see average council tax reduction reduce by 2%.

### **The Impact of Universal Credit on Households Affected by this Measure**

4.108 Many households will see a change in benefit support as they move from legacy benefits to Universal Credit. Income-banded Council Tax Reduction Schemes can mitigate the impact of changes in benefit support by awarding council tax reduction based on income from all sources, including benefits. This means that those losing support under Universal Credit could see higher council tax reduction and those gaining support from Universal Credit could see lower council tax reduction.

### **The Impact of this Measure Spread Across all Working Age Households**

4.109 Under income-banded schemes, working households with lower amounts of assessed need tend to gain support, and working households with higher assessed needs (for example, due to children or disability) tend to lose support. Couples without children in receipt of Universal Credit are therefore the only group, by household composition, gaining council tax reduction under this model (average increase of 2%).

4.110 This model continues to provide high levels of council tax reduction to households in receipt of out of work benefits but reduces council tax reduction to working households. Employed households in receipt of Universal Credit see a significant average decrease in council tax reduction of 45% compared to retention of the current scheme into 2021-22, and self-employed households see an average reduction of over 30%.

4.111 Households in receipt of out-of-work benefits see levels of council tax reduction maintained at levels similar to if the current scheme was retained into 2021-22.

**Table 4.20: Model 6: Households Affected by the Introduction of the Newcastle Income-Banded Scheme - Key Findings**

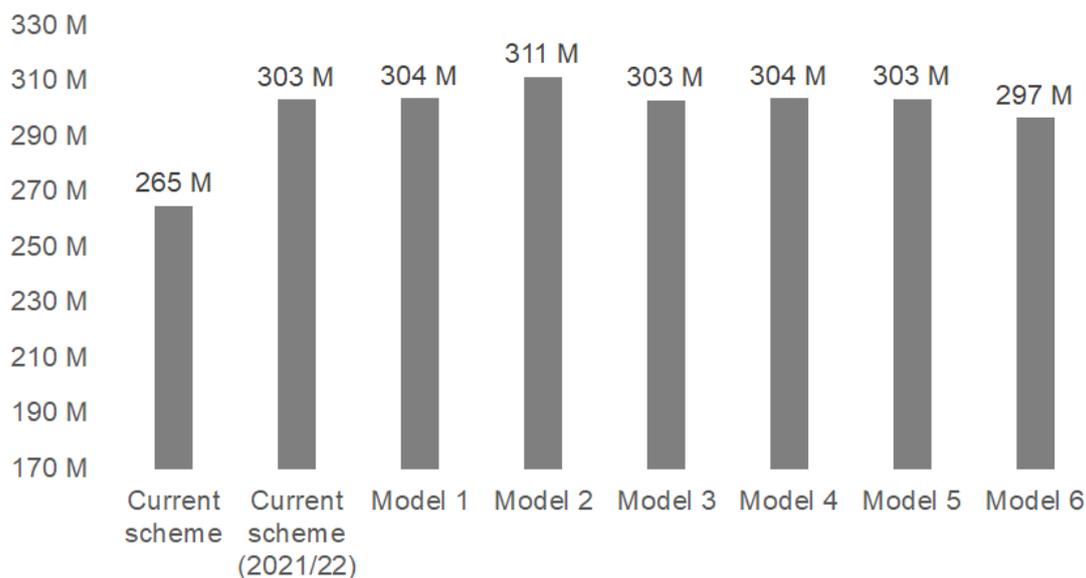
Number of households	All working households
Who is affected?	This model is highly re-distributive and will affect awards of most working households. Out of work households will see support remain at similar levels to the current scheme in 2021-22.
Average change in award for those affected	Average decrease of £0.80 per week compared to retention of the current scheme into 2021-22.
Change in total value of reductions	Decrease of £7M per annum in 2021-22.
Caseload	13,900 households will lose all council tax reduction. Some working households that are not eligible for support under the current scheme may become eligible for support. These will predominantly be households with a low assessment of need under the current scheme.
The impact of Universal Credit on affected households	Many households will see a change in DWP benefit support as they move to Universal Credit. Income-banded schemes award council tax reduction based on all household income, including benefit income. This means that those losing support under Universal Credit may gain council tax reduction under an income-banded scheme and those gaining support under Universal Credit may see lower council tax reduction.

## Comparison of Models

### *The Total Value of Council Tax Reductions*

4.112 The total value of council tax reductions for all models, with the exception of Model 5 (the removal of the two-child limit), should be seen as illustrative only as models can be made more, or less, generous. The parameters for the models were selected to best meet the objectives of the Welsh Government. The total value of council tax reductions of all models is shown below.

**Figure 4.13: Total Value of Council Tax Reductions of Current Scheme, Current Scheme in 2021-22 and All Models**



The total value of council tax reductions of the models can be adjusted to be made more, or less generous, in the following manner:

- **Model 1 (Flat-rate non-dependant deductions):** changing the level of deduction.
- **Model 2 (Reduced taper rate):** changing the percentage taper
- **Model 3 (Guaranteed award):** changing the minimum award OR changing the cut-off income thresholds
- **Model 4 (Amended Minimum Income Floor – UC households):** amending the number of hours on which the Minimum Income Floor is based or removing the Minimum Income Floor
- **Model 5: (Remove two-child limit – UC households):** this model shows the absolute impact of removing the two-child limit and so the total value of council tax reductions cannot be increased or decreased
- **Model 6: (income-banded):** amending income bands, discounts or introducing (or removing) disregards

## **Comparison of Models: Key Findings**

- 4.113 Most of the measures under consideration have an impact on a particular narrow group of households receiving council tax reduction. Only Model 6, the introduction of an income-banded scheme, has a broad impact being applicable across all working-age households.
- 4.114 Two of the measures under consideration; the removal of the two-child limit (Model 5) and the reduction in the Minimum Income Floor (Model 4), only affect households in receipt of Universal Credit. Both these are expected to affect fewer than 1,000 households across Wales in 2021-22. The number of households affected by these measures will increase as more of the population of Wales moves to Universal Credit. Both of these measures create greater parity in the treatment of households in receipt of legacy benefits and those in receipt of Universal Credit, and both measures restore some of the loss in benefit support as households move to Universal Credit. Although the spread of both these measures is currently limited, the increase in council tax reduction to those affected will be significant and partially offset loss of other benefit support as affected households move to Universal Credit. Compared to retention of the current scheme into 2021-22, the removal of the two-child limit (Model 5) increases council tax reduction for affected households by £9.41 per week and the reduction in the Minimum Income Floor (Model 4) increases council tax reduction for affected households by £16.60 per week.
- 4.115 The introduction of flat-rate non-dependant deductions (Model 1) is the only measure that will affect households in receipt of out-of-work benefits as well as working households. All other measures under consideration affect working households only. The reduction in the taper rate to 10% (Model 2) has a significant impact on nearly all working households with average awards rising by over £5 per week.
- 4.116 Two of the models; the reduction in the taper (Model 2) and the guaranteed minimum award (Model 4), have most effect on council tax reduction levels for self-employed households in receipt of Universal Credit. The impact of these measures can be compared to the reduction in the Minimum Income Floor (Model 4) which is designed specifically to support self-employed households in receipt of Universal

Credit. The increase in council tax reduction across all self-employed households in receipt of Universal Credit (not just those affected by a measure), compared to retention of the current scheme in 2021-22 is:

- Reduction in the taper (Model 2): average 225% increase
- Guaranteed minimum award (Model 4): average 102% increase
- Reduction in the minimum income floor (Model 5): average 328% increase

4.117 Even with these significant rises in support, it is worth noting that the average council tax reduction award for self-employed households in receipt of Universal Credit remains below the level of self-employed households in receipt of legacy benefits under all models.

4.118 All models that increase council tax reduction to working households will also increase average council tax reduction to households with children. Amongst the low-income population examined for this research, households with children have a greater likelihood of being in work. The removal of the two-child limit (Model 5) and the Income-banded scheme (Model 6) provide an average increase in council tax reduction to couples with children by 2%.

4.119 Council tax reduction awards for vulnerable households (those living with disability or illness, carers and lone parents with a child under 5 years of age), are on average little affected by the measures examined in this report. This is because these households currently tend to receive maximum awards (based on 100% of council tax liability) and this does not change under any of these measures.

4.120 All measures under consideration, with the exception of the income-banded scheme (Model 6), are likely to increase caseload.

4.121 Table 4.21 indicates the likely impact of each model on caseload. Please note that all modelling for future years is based on the current year's caseload (2018-19).

4.122 In Table 4.21 the breakdown of household types most likely to be impacted by a scheme is an average across the entire cohort type, not simply those impacted by each model.

**Table 4.21: Comparison of Models: Key Findings**

	<b>Model 1:</b> Flat-rate non-dependant deduction	<b>Model 2:</b> Taper change to 10%	<b>Model 3:</b> Guaranteed award	<b>Model 4:</b> Minimum Income Floor in CTRS based on 16 hrs	<b>Model 5:</b> Removal of two child limit in CTRS	<b>Model 6:</b> Income-banded
Group affected	Legacy & UC with working non-dependants	Legacy & UC with earnings above needs (working households)	Legacy & UC with award less than 15% of liability (working households)	UC self-employed households expected to work more than 16 hours per week	UC working households with 2 children + and a child born after April 2017	All working-age
Number households affected	1,520	26,400	2,620	510	343	All working age
Change in award (£/week) for affected households: UC	+£6.80 (+48%)	+£6.50 (+62%)	+£1.60 (+88%)	+£16.60 (+696%)	+£9.41 (+109%)	-£0.90 (-5%)
Change in award (£/week) for affected households: Legacy	+£5.10 (+33%)	+£5.70 (+45%)	+£1.50 (+82%)	No impact	No impact	-£0.80 (-3%)
Impact on total CTR (£/annum)	+£0.4M (+0.1%)	+£8M (+3%)	+£0.2M (+0.1%)	+£0.4M (0.2%)	+ £0.2M (+0.0%)	-£7M (-2%)
Impact on caseload	Likely to increase Some households with non-dependants may become eligible	Likely to increase Some households with income in excess of needs may become eligible	Likely to increase due to simple eligibility criteria	Likely to increase Some self-employed households in receipt of UC may become eligible	Likely to increase Households in receipt of UC with a child born after April 2017 may become eligible	13,900 households are no longer eligible Some households may become eligible
Household types most likely to gain compared to retention of the current scheme into 2021-22*	Fairly even spread across different demographic groups	UC self-employed +225% UC employed + 63% Legacy employed + 23%	UC self-employed + 9%	UC self-employed +328%	Couple with children + 2% Impact will increase over time as more children are born after April 2017	Couple with children + 2% All other household groups lose support

## **5. Conclusions and Next Steps**

- 5.1 For many households, the move to Universal Credit may have a significant impact on council tax reduction awards. This is primarily due to differences in the assessment of support under Universal Credit and under legacy benefit systems. These differences do not affect those receiving maximum council tax reduction awards who have no income: they continue to receive awards based on 100% of council tax liability under Universal Credit. However, for other households the move to Universal Credit can result in significant reductions in council tax reduction.
- 5.2 This difference in council tax reduction awards between the two benefit regimes is heightened in Wales as the current Welsh scheme for households in receipt of legacy benefits does not include recent UK Government welfare reform measures, such as the introduction of the two-child limit or the removal of the family premium. These measures are however included in the assessment of council tax reduction for households in receipt of Universal Credit. This results in many households in receipt of Universal Credit being entitled to less council tax reduction. The Welsh Government is considering amendments to the Council Tax Reduction Scheme that will increase parity between the two benefit regimes.
- 5.3 A further concern for the Welsh Government is that council tax reduction caseloads have been reducing. This reduction in caseload started before significant numbers of residents moved to Universal Credit and is therefore related to other factors (such as economic conditions). A study of caseload and qualitative research into the attitude of households to council tax reduction will both be included in the final report in 2020 and should provide further understanding of this trend. Nevertheless, there is concern that caseload will reduce even further as more households move to Universal Credit due to the separation of the housing support and council tax reduction application processes. If this proves to be the case, the Welsh Government is likely to consider measures to maintain, or increase, caseload to ensure that council tax reduction awards reach more of those who are eligible.
- 5.4 In 2018-19, the total value of council tax reductions in Wales was £265M per annum and awards were made to 271,600 households. This report examines the impact of

amendments to council tax reduction for working-age households as it focuses on the impact of Universal Credit. The Welsh Government could extend many of the measures to pension-age households and this will be considered for inclusion in the final report. For legacy benefit purposes, couples fall under the working age rules if both members of the couple are below pension age. For households in receipt of Universal Credit, couples are considered working age if one person in the couple is below pension age. The 111,070 pension-age households will continue to be provided with maximum protection offered by Council Tax Benefit.

- 5.5 Currently, working-age households in receipt of Universal Credit receive lower average weekly council tax reduction at £16.30 per week than households in receipt of legacy benefits at an average of £18.50 per week.
- 5.6 If the current scheme was maintained into 2021-22 the total value of council tax reductions would increase by 14% to £303M per annum. However, council tax reduction levels would not increase evenly across the population. The move to Universal Credit will have differing impacts with some groups seeing a significant average reduction in council tax reduction:
- On average, self-employed households will see a significant reduction in support of 79% in average weekly council tax reduction. This is due to the migration of households from legacy benefits to Universal Credit and the change to assessment of council tax reduction based on the Minimum Income Floor, rather than on actual self-employed income. The average council tax reduction for a self-employed household in receipt of legacy benefits will be £22.75 per week, compared to an average of £4.04 per week for households in receipt of Universal Credit.
  - Working households in which a person is living with disability will see an average 22.24% reduction in council tax reduction. This is caused by different assessment of needs for households in receipt of Universal Credit. The assessment of council tax reduction for those in receipt of legacy benefits includes additional amounts (disability premiums) for those living with disability. There is no equivalent to these in the assessment of council tax reduction for those in receipt of Universal Credit. Those in receipt of Severe Disability Premium in legacy benefits will be transitionally protected by not moving to Universal Credit until managed migration occurs. However, these

households will lose any transitional protection if a change of circumstances occurs. Households currently receiving other disability premiums (the Disability Premium and the Enhanced Disability Premium) are not protected in the same manner. Average council tax reduction awards for those falling under Universal Credit, and in receipt of PIP or DLA and not ESA, is £11.52 per week. This compares to an average of £21.35 per week for similar households in receipt of legacy benefits.

- Employed working-age households see an average decrease in council tax reduction of 11.6% by 2021-22. Although this is partially caused by increased household income due to rises in the National Minimum Wage, it is primarily due to reduced council tax reduction as households move to Universal Credit. Employed households in receipt of legacy benefits see average council tax reduction awards of £16.69 per week compared to an average of £10.42 per week for households in receipt of Universal Credit. One of the reasons for this disparity is the higher retention of earnings under Universal Credit resulting in less council tax reduction. In effect, these households are unlikely to see reductions in overall household income. However, the second key reason for this disparity is that those in receipt of Universal Credit are affected by less generous welfare reform measures, which have been excluded from the assessment of council tax reduction for those in receipt of legacy benefits. This causes disparity in council tax reduction awards across households receiving different benefit types.

5.7 The Welsh Government wishes to understand how parity between households that fall under the different benefit systems as well as caseload could be maintained.

5.8 The final report will consider if caseload reduction is due to Universal Credit. If this is the case, the Welsh Government is considering making the Council Tax Reduction Scheme more generous and introducing a simple message around eligibility in order to maintain caseloads. This report provides both the impact and the total value of council tax reductions to achieve these objectives: the introduction of flat-rate non-dependant deductions and a reduced taper to increase generosity; and the introduction of a minimum council tax reduction award to allow for a simple eligibility message.

- 5.9 The scheme amendments outlined in this report include two that are designed specifically to increase parity between the two benefit regimes: the introduction of a lower Minimum Income Floor and the removal of the two-child limit as part of the assessment for council tax reduction. Both measures only apply to households in receipt of Universal Credit. The first affects council tax reduction awards for self-employed households, the second affects council tax reduction for working households with children. Both measures are expected to affect less than 1,000 households in 2021-22 but will have a significant effect on council tax reduction levels and so offset some of the loss of benefit income as these households move to Universal Credit.
- 5.10 A brief summary of the main findings for scheme amendments is given below:
- **Introduction of flat-rate non-dependant deductions (Model 1)** set at the lowest current rate would affect 1,520 households across Wales in 2021-22. These households would see a significant change in support with an average increase of £5.70 per week compared to retention of the current scheme into 2021-22. Households without dependent children would see the greatest average increase in council tax reduction. The total value of council tax reductions in 2021-22 would increase by £0.4M.
  - **Amending the taper rate to 10% (Model 2)** is estimated to have an impact on 26,400 households across Wales in 2021-22. These households see an average increase of £6.00 per week compared to retention of the current scheme into 2021-22. Households gaining most from this measure would be working households in receipt of Universal Credit. Self-employed households would see the greatest average increase in council tax reduction (225%). The total value of council tax reductions in 2021-22 will increase by £8M.
  - **Introducing a minimum award set at 15% of liability (Model 3)** is estimated to have an impact on 2,620 households across Wales in 2021-22. These households would gain an average of £1.60 per week compared to retention of the current scheme into 2021-22. Those most likely to gain would be working families in receipt of Universal Credit. Self-employed households in receipt of Universal Credit would see the greatest average increase in council tax reduction (9%). The impact on the total value of council tax reductions in 2021-22 would be an increase of less than 1%.

- **Reducing the Minimum Income Floor (Model 4)** as part of the assessment for a council tax reduction to 16 hours per week would affect 510 households across Wales in 2021-22. These households would see an average increase of £6.00 per week compared to retention of the current scheme into 2021-22. Self-employed households in receipt of Universal Credit would see council tax reduction increase by 328%. The impact on the total value of council tax reductions in 2021-22 would be an increase of less than 1%.
- **Removal of the two-child limit (Model 5)** as part of the assessment for a council tax reduction is estimated to have an impact on 343 households. However, this number would be likely to grow as more households have children born after the policy implementation date of April 2017. Households affected would see an average increase in council tax reduction awards of £9.40 per week compared to retention of the current scheme into 2021-22. Households most likely to gain would be couples with children (an average 2% increase). The impact on the total value of council tax reductions in 2021-22 would be an average increase of less than 1%.
- **Introduction of an Income-banded scheme (Model 6)** based on the scheme introduced by Newcastle City Council would be highly redistributive and 13,900 households would no longer be eligible for support. This model would mean that the total value of council tax reductions will be £7M less than if the current scheme was retained into 2021-22.

5.11 The impact and total value of council tax reductions modelled in this report will be used by the Welsh Government to determine further models for inclusion in the final report in 2020. The Welsh Government may wish to amalgamate some of these measures to understand the interaction of measures, or to introduce new measures.

## **6. Appendices**

### **Appendix A: Participating Councils**

6.1 Administrative data from the following local authorities has been used for the purposes of the data analysis as part of this interim report:

Blaenau Gwent

Bridgend

Caerphilly

Cardiff

Carmarthenshire

Ceredigion

Conwy

Denbighshire

Gwynedd

Isle of Anglesey

Merthyr Tydfil

Neath Port Talbot

Newport

Pembrokeshire

Swansea

Wrexham

## Appendix B: Council Tax Rises used in Modelling

**Table 6.1: Council Tax Rises Used in Modelling**

Yearly Council Tax rise used for modelling council tax reductions in 2021-22, by local authority<sup>60</sup>

Local Authority	Council Tax Rise Average %
<b>Average</b>	<b>5.01</b>
Blaenau Gwent	4.39
Bridgend	4.84
Caerphilly	4.33
Cardiff	5.02
Carmarthenshire	4.48
Ceredigion	5.65
Conwy	6.12
Denbighshire	4.68
Flintshire	5.87
Gwynedd	4.63
Isle of Anglesey	5.49
Merthyr Tydfil	4.75
Monmouthshire	5.05
Neath Port Talbot	3.88
Newport	4.85
Pembrokeshire	8.76
Powys	6.56
Rhondda Cynon Taf	3.67
Swansea	5.10
Torfaen	4.87
Vale of Glamorgan	4.44
Wrexham	4.18

<sup>60</sup> Council tax increase is calculated as the average of the last three years per LA (Source: [StatsWales](#))

## **Appendix C: Methodology Notes**

### *Data sources*

- 6.2 The analysis and modelling found within this report is at a household level. Policy in Practice utilises administrative level Housing Benefit and council tax reduction caseload data, which has been provided by participating local authorities, to carry out this research.
- 6.3 The first of these datasets is the Single Household Benefit Extract (SHBE), which is recorded monthly by local authorities for the DWP. This data contains the administrative data for each household in receipt of Housing Benefit. The second dataset is the CTRS extract and holds very similar information to the SHBE, however this data is not transferred to the DWP monthly. It is therefore possible, though rare, that a local authority is unable to retrospectively access the CTRS extract.
- 6.4 The CTRS extract holds data on all households that have received council tax reduction. This extract covers those in receipt of both Housing Benefit and Universal Credit.
- 6.5 These datasets contain all the household-level data that is needed to calculate CTR awards, such as information on individual households' incomes, family circumstances and disability status. Prior to being transferred to Policy in Practice, all personal information except postcode is redacted. These datasets allowed Policy in Practice to comprehensively model the impact of Universal Credit and CTRS alternatives on real recipients.
- 6.6 As personal information has been redacted, Policy in Practice uses housing benefit reference numbers as a unique identifier for a household. This allows Policy in Practice to track a household's circumstances over time and to combine SHBE and CTRS with additional datasets such as council tax arrears or social rent arrears data.

### *Data Processing*

- 6.7 Policy in Practice clean, process and convert this SHBE and CTRS extract into a format that can be used in our comprehensive policy modelling software, the Benefits and Budgeting Calculator (BBC). The BBC extracts the relevant variables from the SHBE and CTRS extracts and calculates household-level benefit awards (including entitlement to CTR) to a high degree of accuracy. When doing so, the calculator factors in wider policy changes (such as a household's transition onto Universal Credit) and can process the results under a range of CTRS designs.
- 6.8 After the data has been run through the BBC, a 'matching' procedure occurs to ensure that the engine calculations are accurate. This procedure is required as every local authority stores their CTRS data in slightly different formats which can lead to inaccurate results should each local authority be treated identically. When this matching process is complete the total value of reductions per local authority is within 1% of the raw data and weekly council tax reduction awards match the raw for over 90% of households.

### *Modelling assumptions and analytical process*

- 6.9 Modelling for 2021-22 includes probable changes to welfare support rates, the national minimum wage, tax allowances, Local Housing Allowance (LHA) rates, rent costs, and known regulatory change. Benefit rates are in line with the inflation measure currently used for benefit uprating (the annual uplift applied to benefit rates, typically in April). Other changes are informed by the Office of Budget Responsibility annually published predictions of inflation rates. LHA rates are modelled presuming that any uprating is from the current base level rather than from a return to alignment with the third decile of rental the total value of council tax reductions.
- 6.10 It is worth noting that modelling of future years cannot take account of macro-economic conditions or changes in policy resulting from a change of UK Government. In particular the modelling does not take into account of any economic impacts of exiting the European Union or any policy changes that may result from a change of Government between 2019 and 2022.

- 6.11 Modelling can only take account of households represented in the datasets used for this research. It therefore cannot model the impact on caseload, and therefore cost, of measures resulting in increased caseload.
- 6.12 A level of migration to Universal Credit is also included. Modelling will include an expected migration of an additional 15.5% of households to Universal Credit by 2021-22. This level has been agreed with the Welsh Government and is based on current observed levels of 10% per annum carried through to 2021-22 and an assumption of falling migration levels to 5% per annum by 2021-22.
- 6.13 To enable comparison of modelled schemes against the current scheme in 2021-22, an agreed annual increase in council tax has been included. The rate of council tax increase used is the same as the average for each council over the last three years. This is applied separately to each council's council tax charge prior to data analysis. The CT increases used in the modelling are given at Appendix A.
- 6.14 While all local authorities are participating in this research, at the time of analysis Policy in Practice had only received March 2019 SHBE and CTRS extracts from 16 of the local authorities in Wales. For this reason, an equivalisation factor is applied to households to better represent the total value of reductions across all of Wales.
- 6.15 All modelling for future years is based on the current year's caseload (2018-19). As such, modelling does not consider any change in the proportional representation of different household types.

All figures throughout are rounded to an appropriate degree to reflect the accuracy of the analysis.