

Consultation

Council Tax Reduction: proposal for a banded income scheme

Council Tax Reduction helps residents on a low income to pay the Council Tax, by reducing their Council Tax bill.

Until 2013, Council Tax Reduction was national scheme, and the reductions that people could get were set by central government.

Since then, each council has had the responsibility to specify its own Council Tax Reduction scheme for working-age residents (the scheme for pensioners is still set by central government).

Since 2013, RBKC's working-age Council Tax Reduction scheme has been based on the "Default Scheme", a relatively generous scheme which is equivalent to the old national scheme.

But for some residents, this scheme does not work very well, so the council is proposing to start a new scheme in April 2021.

This proposal is set-out in the paragraphs below.

Why our Council Tax Reduction scheme does not work very well for some residents

Roughly one-third of our working-age residents who get Council Tax Reduction are on Universal Credit, the new welfare benefit administered by the DWP.

Over the next few years, we expect that most our working-age residents who receive Council Tax Reduction will transfer to Universal Credit.

For residents on Universal Credit, the council uses the amount of their Universal Credit, and the amount of any other income, including earnings, according to the DWP, to calculate their Council Tax Reduction.

Because Universal Credit can be recalculated each month, this means that a resident's Council Tax Reduction might also be recalculated each month, and a revised Council Tax bill issued.

This is a problem for workers on Universal Credit, whose earnings might fluctuate each month, due to variable working hours, or other factors.

Each time a new Council Tax bill is issued, a new payment instalment plan is offered, over-riding the previous one. If this happens often, the new instalment plan will start before the first instalment of the previous plan has become due. If this is repeated, then the resident cannot make payments according to their plan, and they will get into Council Tax debt.

How can this problem be solved?

The council is proposing that the Council Tax Reduction for residents on Universal Credit is calculated according to a banded income scheme. This means that the council will place a resident's income within a "band" of income, and that band will determine the percentage by which their Council Tax is reduced. For example, if someone's income is £290 per week, they would be placed in a band of income £289 to £317, which gives 32% off the Council Tax.

If, in the following month, this person's income changed to £300 per week, it would still be in the band £289 to £317, and the Council Tax Reduction would be the same. No revised Council Tax bill would have to be issued, and that person's Council Tax instalment plan would remain the same.

See further examples in Appendix 2 below.

Who does this proposal affect?

It only affects Council Tax payers who are on Universal Credit **and** working.

If someone is on Universal Credit but has **no earnings** in a particular month, that person can claim maximum Council Tax Reduction as at present (ie 100% minus non-dependant deductions if relevant).

If a resident is **not** on Universal Credit, whether pensioner or working-age, they are not affected by this proposal (they will still have their Council Tax Reduction calculated in the same way as the current scheme).

Would people on this banded income scheme get more, or less Council Tax Reduction, compared with now?

We will aim to make the banded income scheme at least as generous as the current scheme.

The indicative rates of reduction are shown in the tables in Appendix 1 below.

Most people will qualify for the same, or slightly more reduction than under the current scheme.

Our work shows that about 30% of people on Universal Credit will get more reduction under the banded income scheme. The average increase in reduction for this group is £160 a year.

The rest of the people will usually get the same reduction as at present.

We recognise that there may be a small number of people with complex situations who might qualify for less under the banded income scheme. They will have their old rate of reduction protected for an indefinite period. This period will only end if there is a change in their circumstances which would give them more reduction under the banded income scheme. This protection can also continue after a gap in their entitlement to Council Tax Reduction.

Overall, the new scheme is slightly more costly than the current scheme.

We expect this extra cost to be absorbed by the general fall in numbers of people on Council Tax Reduction in RBKC, a trend which began a few years ago, and is expected to continue.

Are there any other ways to solve this problem?

We believe that a banded income scheme is the only effective way to solve the problem.

We also looked-into an “income tolerance” scheme (ignoring small changes in earnings within a specified monetary range), but this would be labour-intensive, and would add unacceptable administrative costs to the scheme.

We would like to hear your opinion about our proposal

Please send your response [to.....] by 13 September 2020

[The easiest way to respond is to use our on-line survey at rbkc.gov.uk/xxxxx]

We would like you to respond to some questions about the proposal

1. About yourself

Please tick any of the boxes which apply to you. You may tick more than one box:

- I am a RBKC resident
- I am working
- I get Universal Credit
- I get Council Tax Reduction
- I am of pension age
- I support or advise RBKC residents

2. Do you agree that council is right to try to address the problem for people with fluctuating Universal Credit?

- YES
- NO

3. If you said YES to Question 2, do you agree that the banded income scheme that we proposed is the best way to do this?

- YES
- NO
- NOT SURE

If you answered NO, or NOT SURE, you may wish to describe why you do not agree here:

4. Overall, do you think that:

- The council should introduce the banded income scheme for Universal Credit recipients in April 2021, or
- The council should continue with the current scheme without changing to a banded income scheme for Universal Credit recipients in April 2021?

5. Is there anything else that you would like to say?

6. If you would like someone to contact you about the proposal, please leave your contact details here:

APPENDIX 1

The indicative rates of reduction under the banded income scheme

The actual amounts may vary slightly from these figures, if the scheme goes ahead.

These amounts only apply to people on Universal Credit.

There are different tables for different sizes of family, to take into account the varying rates of Universal Credit they qualify for. For simplicity, we have only shown tables for families up to two children here. But there will be tables for all sizes of family, if the scheme goes ahead.

In calculating income for this scheme, we will be using the income of the resident, and his/her partner if they have one, as recorded by the Department for Work and Pensions on a Universal Credit calculation for a particular month. However, we will disregard the following amounts from Universal Credit:

- An amount equal to the Housing Costs Element
- An amount equal to the Carer Element
- An amount equal to the Limited Capability for Work Element
- An amount equal to the Limited Capability for Work-related Activity Element
- An amount equal to the Childcare Element
- An amount equal to the Disabled Child Element

The following tables show the percentage reduction of Council Tax, for different levels of weekly income, for different size families.

Table 1 Single person

| Percentage CT reduction -> | 100% | 83% | 66% | 49% | 32% | 15% |
|----------------------------|-------------|------------|-------------|-------------|-------------|-------------|
| CT Band A | Up to £95pw | £95 - £114 | £114 - £133 | £133 - £153 | £153 - £172 | £172 - £191 |
| CT Band B | Up to £95pw | £95 - £117 | £117 - £140 | £140 - £162 | £162 - £185 | £185 - £207 |
| CT Band C | Up to £95pw | £95 - £121 | £121 - £146 | £146 - £172 | £172 - £197 | £197 - £223 |
| CT Band D | Up to £95pw | £95 - £124 | £124 - £153 | £153 - £181 | £181 - £210 | £210 - £239 |
| CT Band E | Up to £95pw | £95 - £130 | £130 - £165 | £165 - £201 | £201 - £236 | £236 - £271 |
| CT Band F | Up to £95pw | £95 - £137 | £137 - £178 | £178 - £220 | £220 - £261 | £261 - £303 |
| CT Band G | Up to £95pw | £95 - £146 | £143 - £191 | £191 - £239 | £239 - £287 | £287 - £335 |
| CT Band H | Up to £95pw | £95 - £153 | £153 - £210 | £210 - £268 | £268 - £325 | £325 - £383 |

Table 2 Lone parent with 1 child

| Percentage CT reduction -> | 100% | 83% | 66% | 49% | 32% | 15% |
|----------------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| CT Band A | Up to £160 pw | £160 - £179 | £179 - £198 | £198 - £218 | £218 - £237 | £237 - £256 |
| CT Band B | Up to £160 pw | £160 - £182 | £182 - £205 | £205 - £227 | £227 - £250 | £250 - £272 |
| CT Band C | Up to £160 pw | £160 - £186 | £186 - £211 | £211 - £237 | £237 - £262 | £262 - £288 |
| CT Band D | Up to £160 pw | £160 - £189 | £189 - £218 | £218 - £246 | £246 - £275 | £275 - £304 |
| CT Band E | Up to £160 pw | £160 - £195 | £195 - £230 | £230 - £266 | £266 - £301 | £301 - £336 |
| CT Band F | Up to £160 pw | £160 - £202 | £202 - £243 | £243 - £285 | £285 - £326 | £326 - £368 |
| CT Band G | Up to £160 pw | £160 - £208 | £208 - £256 | £256 - £304 | £304 - £352 | £352 - £400 |
| CT Band H | Up to £160 pw | £160 - £218 | £218 - £275 | £275 - £333 | £333 - £390 | £390 - £448 |

Table 3 Lone parent with 2 children

| Percentage CT reduction -> | 100% | 83% | 66% | 49% | 32% | 15% |
|----------------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| CT Band A | Up to £215 pw | £215 - £234 | £234 - £253 | £253 - £273 | £273 - £291 | £292 - £311 |
| CT Band B | Up to £215 pw | £215 - £237 | £237 - £260 | £260 - £282 | £282 - £305 | £305 - £327 |
| CT Band C | Up to £215 pw | £215 - £241 | £241 - £266 | £266 - £292 | £292 - £317 | £317 - £343 |
| CT Band D | Up to £215 pw | £215 - £244 | £244 - £273 | £273 - £301 | £301 - £330 | £330 - £359 |
| CT Band E | Up to £215 pw | £215 - £250 | £250 - £285 | £285 - £321 | £321 - £356 | £356 - £391 |
| CT Band F | Up to £215 pw | £215 - £257 | £257 - £298 | £298 - £340 | £340 - £381 | £381 - £423 |
| CT Band G | Up to £215 pw | £215 - £263 | £263 - £311 | £311 - £359 | £359 - £407 | £407 - £455 |
| CT Band H | Up to £215 pw | £215 - £273 | £273 - £330 | £330 - £384 | £384 - £445 | £445 - £503 |

Table 4 Couple with no children

| Percentage CT reduction -> | 100% | 83% | 66% | 49% | 32% | 15% |
|----------------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| CT Band A | Up to £140 pw | £140 - £159 | £159 - £178 | £178 - £198 | £198 - £217 | £217 - £236 |
| CT Band B | Up to £140 pw | £140 - £162 | £162 - £185 | £185 - £207 | £207 - £230 | £230 - £252 |
| CT Band C | Up to £140 pw | £140 - £166 | £166 - £191 | £191 - £217 | £217 - £242 | £242 - £268 |
| CT Band D | Up to £140 pw | £140 - £169 | £169 - £198 | £198 - £226 | £226 - £255 | £255 - £284 |
| CT Band E | Up to £140 pw | £140 - £175 | £175 - £210 | £210 - £246 | £246 - £281 | £281 - £316 |
| CT Band F | Up to £140 pw | £140 - £182 | £182 - £223 | £223 - £265 | £265 - £306 | £306 - £348 |
| CT Band G | Up to £140 pw | £140 - £188 | £188 - £236 | £236 - £284 | £284 - £332 | £332 - £380 |
| CT Band H | Up to £140 pw | £140 - £198 | £198 - £255 | £255 - £313 | £313 - £370 | £370 - £428 |

Table 5 Couple with 1 child

| Percentage CT reduction -> | 100% | 83% | 66% | 49% | 32% | 15% |
|----------------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| CT Band A | Up to £202 pw | £202 - £221 | £221 - £240 | £240 - £260 | £260 - £279 | £279 - £298 |
| CT Band B | Up to £202 pw | £202 - £224 | £224 - £247 | £247 - £269 | £269 - £292 | £292 - £314 |
| CT Band C | Up to £202 pw | £202 - £228 | £228 - £253 | £253 - £279 | £279 - £304 | £304 - £330 |
| CT Band D | Up to £202 pw | £202 - £231 | £231 - £260 | £260 - £289 | £289 - £317 | £317 - £346 |
| CT Band E | Up to £202 pw | £202 - £237 | £237 - £272 | £272 - £308 | £308 - £343 | £343 - £378 |
| CT Band F | Up to £202 pw | £202 - £244 | £244 - £285 | £285 - £327 | £327 - £368 | £368 - £410 |
| CT Band G | Up to £202 pw | £202 - £250 | £250 - £298 | £298 - £346 | £346 - £394 | £394 - £442 |
| CT Band H | Up to £202 pw | £202 - £260 | £260 - £317 | £317 - £375 | £375 - £432 | £432 - £490 |

Table 6 Couple with 2 children

| | | | | | | |
|----------------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| Percentage CT reduction -> | 100% | 83% | 66% | 49% | 32% | 15% |
| CT Band A | Up to £257 pw | £257 - £276 | £276 - £295 | £295 - £315 | £315 - £334 | £334 - £353 |
| CT Band B | Up to £257 pw | £257 - £279 | £279 - £302 | £302 - £324 | £324 - £347 | £347 - £369 |
| CT Band C | Up to £257 pw | £257 - £283 | £283 - £308 | £308 - £334 | £334 - £359 | £359 - £385 |
| CT Band D | Up to £257 pw | £257 - £286 | £286 - £315 | £315 - £343 | £343 - £372 | £372 - £401 |
| CT Band E | Up to £257 pw | £257 - £292 | £292 - £327 | £327 - £363 | £363 - £398 | £398 - £433 |
| CT Band F | Up to £257 pw | £257 - £299 | £299 - £340 | £340 - £382 | £382 - £423 | £423 - £465 |
| CT Band G | Up to £257 pw | £257 - £305 | £305 - £353 | £353 - £401 | £401 - £449 | £449 - £479 |
| CT Band H | Up to £257 pw | £257 - £315 | £315 - £372 | £372 - £430 | £430 - £487 | £487 - £545 |

APPENDIX 2

Examples

Rachel

Rachel is a lone parent with two children. They live in a property which is in Band E for Council Tax. She is not working, and she receives Universal Credit of £363.91 per week.

Under the banded income scheme, the council will disregard the Housing Element of Universal Credit, which in her case is £150 per week:

£363.91 Universal Credit
~~-150.00~~ Housing Element
 £213.91 per week for the purpose of the banded income scheme.

Table 3, above, applies. She is in the income band 0 - £215, so she qualifies for 100% reduction under the banded income scheme.

This is the same as she receives in the current scheme.

Ammar and Nadia

Ammar and Nadia have two children. They live in a property which is in Band D for Council Tax. Ammar works and gets £150 per week net. They receive Universal Credit of £570.28 per week.

Under the banded income scheme, the council will disregard the Housing Element of Universal Credit, which in their case is £365.92 per week:

£150.00 earnings
 570.28 Universal Credit
~~-365.92~~ Housing Element
 £354.36 per week for the purpose of the banded income scheme.

Table 6, above, applies. They are in the income band £343 - £372, so they qualify for a 32% reduction under the banded income scheme.

Under the current scheme, they would get a reduction of 18% from the Council Tax.

Ammar and Nadia, the following month

Looking at the same family a month later, Ammar has had a decrease in his pay. He now earns £140, and their Universal Credit has changed to £576.58 per week.

Their income under the banded scheme is now:

£140.00 earnings
576.58 Universal Credit
-365.92 Housing Element
£350.66 per week

They are still in the income band £343 - £372, so they still qualify for a 32% reduction under the banded income scheme.

Under the current scheme, they would get a reduction of 22% from the Council Tax.