

Council Tax Reduction and Universal Credit

Winners and losers of the postcode lottery

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Eligibility, entitlement and assessment criteria for Council Tax Reduction (CTR) – a means-tested discount on council tax for low-income, working-age people – has been left to the discretion of local authorities in England since 2013. Introduced to coincide with the roll out of Universal Credit, CTR replaced Council Tax Benefit (CTB), a national scheme designed by the UK government and administered by local authorities. CTR schemes, by contrast, are local authority-designed and delivered, intended to reflect local needs and priorities and help encourage work incentives. In 2025-26, there were 313 separate CTR schemes in operation across England, each with their own eligibility and entitlement rules.

Virtually all working-age people who get CTR are now Universal Credit (UC) claimants. However not all UC claimants are in receipt of CTR. Those with low earnings, or with a low-earning partner, are much less likely to qualify for help. With the pledge of successive governments to ‘make work pay,’ there is renewed policy interest in CTR and the interaction with UC. However, little is

known about how low-earning households are experiencing CTR. To help fill this evidence gap, this study explored how the different elements of CTR scheme design in England¹ are affecting take-up, household finances and work-related decision making among UC claimants.

Conducted between May and October 2025, the research comprised an online survey self-completed by 160 UC claimants in paid work or self-employment; telephone interviews with 30 survey respondents currently or recently in receipt of CTR; and video interviews with five key informants, including local authority officers and specialist advice agencies with in-depth knowledge and experience in the design and delivery of CTR schemes. The research was funded by Aberdeen Group Charitable Trust (registered charity number SC040877) under the Trust’s prior charitable name, abrdn Financial Fairness Trust.

¹ CTR in Scotland and Wales is devolved and remains a nationally designed scheme akin to the former CTB.

Key findings

For many low-income households, the ability to access help with their council tax can mean the difference between keeping up with essential living costs and falling into arrears. For councils, the timely collection of council tax is a vital source of revenue. Getting CTR design right is therefore critical. However, despite examples of localised good practice, there is no strong evidence from this research that CTR schemes in England offer significant benefits over the former CTB. Scheme redesign has largely been driven by funding cuts and budgeting pressures on councils, rather than meeting local needs and priorities or improving work incentives. Households in which no one works generally receive the highest levels of support, but help for those in which someone is earning has become increasingly squeezed. Many councils have increased the rate at which support is withdrawn as people's income rises, while in others, financial support ends soon after earnings increase above a very modest level. Others have frozen their income thresholds, resulting in an effective year-on-year cut in CTR entitlement. All such changes have disproportionately affected households in which someone works, and some have lost entitlement to CTR altogether. Consequently, working claimants are finding it increasingly hard to cover the rising cost of their council tax.

Huge variability in CTR application procedures, eligibility rules and levels of entitlement are also having profoundly different financial impacts, depending on where people live. In some areas, working claimants were entitled to a reduction of up to £125 off their monthly council tax bill. Elsewhere, people with essentially the same income and household circumstances got no reduction at all.

Such discrepancies undermine the long-established principle in UK social security of needs-based entitlement and of fairness and equity between households in similar circumstances. Earning a few more pounds could also create 'cliff edges' – where a small increase in income reduced CTR entitlement by more than the additional earnings, leaving affected people financially worse off. These are precisely the kind of disincentives to work and higher earnings that UC was meant to eliminate.

For local authorities, too, the complexity of having to design and manage what are, in effect, their own local social security schemes, is not only administratively burdensome, but is increasingly opening them to the risk of legal challenge on the grounds of unlawful discrimination.

What can be done to reform CTR?

Retain a localised system but with greater mandating and prescription by central government

The simplest option would be to retain the current localised system of CTR – allowing councils to adapt their schemes according to local needs and priorities – but for the government to mandate them to adhere to certain centrally prescribed policies. These could include having the same earnings disregard, for example, or minimum prescribed levels of support for protected groups such as carers, disabled people and families with dependent children.

Such reforms would protect the most vulnerable from the worst aspects of localisation while retaining the principle of design choice for councils. Nevertheless, addressing the huge variation in the rules applying to the treatment of income and earnings across different CTR schemes remains a major technical hurdle.

Reintroduce a national CTR scheme, designed centrally, updated annually and administered locally, akin to the former CTB

The main alternative to the current, localised system of CTR would be to revert to a scheme designed by central government/the Department for Work and Pensions but locally administered, reflecting the former Council Tax Benefit (and current pension-age council tax support scheme). Having a national scheme would remove the significant discrepancies in eligibility and entitlement arising from the different schemes operating across England, thereby addressing much of the arbitrariness and unfairness that besets the current system. The Scottish and Welsh governments could have the option of joining a new, UK-wide scheme or retaining control of their own national CTR schemes.

Inevitably, there would be winners and losers from such a change. If the generosity of CTR is not to be substantially reduced, nor work incentives adversely affected, then an increase in overall funding levels will be required.

Fully integrate support for council tax within Universal Credit

A further step would be to integrate a redesigned national scheme within Universal Credit. Rather than receiving council tax support separately,

households would have any reduction they were entitled to covered by a new 'council tax element'. The cash equivalent of the discount would be added to their UC award, as is currently the case with any elements received for rent, children, caring and disability. The total UC amount would then be tapered away as their income increased in the usual way.

Gradually reducing support as income rises in a more consistent way than currently could help to mitigate the unfairness and very high marginal tax rates faced by some workers arising from the interaction between local CTR schemes and UC. Another advantage of embedding help with council tax within the UC award is the automatic increase in take up and reduced administrative burden – both for claimants and councils – associated with having a single system, rather than separate schemes. However, the costs and risks associated with full integration – including for the taxpayer (potentially more expensive), for UC claimants (risk of council tax arrears if the additional council tax element was spent on other things) and for councils (risk of lower collection rates and revenues) – may undermine arguments for doing so.

Next steps

Further work is needed to flesh out the administrative, technical and financial issues associated with the different options for reforming CTR. An important area of consideration will be the financial impact on UC claimants, both in relation to the incentive to enter work and to increase earnings.

In the medium term, reverting the funding and design of CTR to central government, while retaining local authority delivery and administration – essentially returning to the model of Council Tax Benefit – may be the best and least risky option. More immediately, a relatively straightforward improvement would be to expand the range of data provided to councils by the DWP, to incorporate existing as well as new UC claimants, for example. This would help to increase take-up of CTR, reduce bureaucracy and improve administrative efficiency.

Locally devolved decision-making regarding cost-of-living help for the most vulnerable, working-age households – which carries a lower risk of legal challenge – could perhaps more effectively be achieved by boosting the funding of discretionary schemes, such as the government's newly launched Crisis and Resilience Fund.

The option of fully integrating CTR into the UC award should be explored as a possible longer-term objective linked to the wider ongoing review of Universal Credit. Ultimately, whatever reforms are made, an effective CTR scheme that protects the most vulnerable, offers decent work incentives to low-earners and is simple and efficient to administer, will require an appropriate level of funding.

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