

Cabinet

10 July 2019



**Medium Term Financial Plan(10),
2020/21 - 2023/24 and Review of the
Local Council Tax Reduction Scheme for 2020/21**

Key Decision No. CORP/R/19/01

Report of Corporate Management Team

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Councillor Alan Napier, Cabinet Portfolio Holder for Finance

Councillor Simon Henig, Leader of the Council

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To provide an update on the development of the 2020/21 budget and the Medium Term Financial Plan (MTFP(10)) . The report also considers a review of the Local Council Tax Reduction Scheme for 2020/21.

Executive summary

- 2 Local government is operating in a period of significant financial uncertainty brought about by a combination of on-going austerity, significant budget pressures in social care and special educational needs and disability services and other unfunded pressures arising from demographic and pay and price inflation. The financial outlook for the Council will continue to be extremely challenging for the foreseeable future.
- 3 There continues to be significant uncertainty in terms of financial settlements for local government in the future and how available funding will be shared between local authorities. The government was expected to publish a Comprehensive Spending Review (CSR) in summer 2019 covering a three year period. It is now expected however that the CSR

will be delayed until 2020 with another one year settlement for local government in 2020/21. The delay in the CSR is driven by lack of clarity on the outcome of Brexit and the views of the new prime minister.

- 4 It was also expected that the outcome of the Fair Funding Review (FFR) including the move to 75% Business Rate Retention would be published during 2019. In line with the delay in the CSR it is now expected that the outcome of the FFR will not be published until 2020.
- 5 The lack of clarity in relation to the CSR and FFR, are exacerbated by uncertainties in relation to future council tax referendum levels, the Improved Better Care Fund, delays in the publication of the Social Care Green Paper, short term funding provided to local authorities in 2019/20 for adult and children social care pressures and funding for the High Needs Dedicated Schools Grant. This level of uncertainty is making financial planning extremely difficult and requires the council to be flexible and adaptable in its financial planning. The strong financial position of the council will ensure that the council is well placed to react effectively to any outcome, however planning with this level of uncertainty is not conducive to effective long term decision making.
- 6 Planning at this stage is on the basis that the council will lose a further £10 million of government funding over a five year transition period as a result of the FFR implementation in 2021/22. This position primarily reflects ongoing concerns regarding the expected utilisation of the Advisory Council for Resource Allocation (ACRA) methodology for apportioning Public Health Grant which would result in a loss of £18 million of funding. It has been assumed, that the £4.8 million of one off funding received in 2019/20 for Adult and Children's social care pressures will continue on a recurrent basis.
- 7 In line with previous practice the MTFP Model has been reviewed. Savings of £34.2 million are forecast to be required to balance the budget over the 2020/21 to 2023/24 period. Savings are forecast to be required in all years of MTFP(10) as budget pressures and the impact of funding reductions outstrip the council's ability to generate additional income from business rates and council tax.
- 8 The achievement of an additional £34.2 million of savings over the next four years will be extremely challenging – more so given the level of savings already made. The emphasis since 2011/12 has been to minimise savings from front line services by protecting them wherever possible whilst maximising savings in management and support functions. This is becoming much more difficult however, as the scope for further savings in managerial and back office efficiencies is becoming exhausted following the delivery of £234 million of savings up to 31 March 2020.

- 9 The total savings required at this stage for 2020/21 to balance the budget amount to £12.9 million. A sum of £3.7 million of savings were already agreed in MTFP(9) for 2020/21 and it is assumed that £2.8 million of the Budget Support Reserve(BSR) will be utilised to provide short term support to the High Needs Dedicated Schools Grant (HNDSG) budget. This leaves a savings shortfall at this stage of £6.4 million to balance the budget next year. At the present time, additional savings plans are being developed to enable the council to be able to react to the outcome of the 2020/21 local government finance settlement which is expected to be announced in December 2019. If required, the council is able to utilise the Budget Support Reserve (BSR) to balance the budget in 2020/21 as required. The current balance on the BSR, as reported to Council on 21 February 2019 is £24.2 million.
- 10 The council is now the only local authority in the North East to have retained entitlement levels for Council Tax Support within the Local Council Tax Reduction Scheme (LCTRS) in line with that which applied under the national Council Tax Benefit regime prior to 2013/14. The policy has protected vulnerable residents at a time when welfare reform changes have had a significant adverse impact. This report recommends that the current LCTRS is retained for a further year into 2020/21. Should the Cabinet agree, the council will need to formally adopt this policy at Full Council prior to 9 March 2020.

Recommendation(s)

- 11 Cabinet is recommended to:
- (a) note the requirement to identify additional savings of £34.2 million for the period 2020/21 to 2023/24;
 - (b) note the £6.370 million of savings for the period 2020/21 to 2023/24 were previously agreed in MTFP(9);
 - (c) note this leaves a forecast £27.8 million savings shortfall across MTFP(10) although this forecast could change significantly based upon outcomes of the Comprehensive Spending Review, the Fair Funding Review and after addressing future base budget pressures being faced by the council
 - (d) note that at this stage a forecast £6.4 million of savings are required to balance the 2020/21 budget;
 - (e) agree the high level MTFP(10) timetable;
 - (f) agree the approach outlined for consultation;

- (g) agree the proposals to build equalities considerations into decision making;
- (h) agree that Cabinet recommend to Full Council that the Local Council Tax Reduction Scheme should remain unchanged for 2020/21.

Background

- 12 To ensure MTFP(10) can be developed effectively and savings targets delivered in time to produce a balanced budget, it is important that a robust plan and timetable is agreed and followed.
- 13 The current MTFP(9) forecast that the Council agreed on 20 February 2019 covers the four year period 2019/20 to 2022/23. It is recommended at this stage that MTFP(10) covers a four year period 2020/21 to 2023/24. Although the maximum period to be covered by the CSR is expected to be three years it is felt prudent for the council to continue to plan across a four year timeframe. During this period the council will continue to face significant budget pressures, especially relating to the National Living Wage and Social Care whilst facing the uncertainty over the impact of the FFR. Planning across the medium term in this way ensures that decisions can be made in the knowledge of the likely financial position of the council and provides a basis for effective decision making taking account of the best estimates of income and expenditure.
- 14 At this stage of the planning cycle for MTFP(10) the following areas are presented for consideration by Cabinet:
 - (a) an update on the development of the 2020/21 budget since the Council agreed its MTFP(9) strategy on 20 February 2019;
 - (b) an update on the MTFP(10) savings forecast for the period 2020/21 to 2023/24;
 - (c) a draft MTFP(10) decision making timetable;
 - (d) proposed approach for consultation of MTFP(10);
 - (e) workforce implications;
 - (f) equality considerations;
 - (g) consideration of the proposed Local Council Tax Reduction Scheme (LCTRS) for 2020/21.

Review of MTFP Model

- 15 As set out earlier in the report, the financial outlook for the council continues to be extremely challenging. The national finances are in a healthier state than for a number of years which has enabled a £20 billion future commitment to the NHS. If, as expected, Education, International Aid and Defence receive future protection there could be difficult years ahead still for unprotected government departments. It is forecast therefore that future settlements for local government are cash

flat, although a further £10 million funding reduction is forecast as a result of the FFR which is now expected to be implemented in 2021/22.

- 16 The council will need to continually review the MTFP(10) projections and savings requirements over the coming months in light of future announcements.
- 17 In line with previous years, a thorough review of the Council's budget has taken place subsequent to the approval of MTFP (9) by the Council on 20 February 2019. This has resulted in a number of changes to the assumptions for 2020/21 and future years. The key adjustments and major areas for consideration are detailed below:

(a) **Revenue Support Grant (RSG) / Fair Funding Review**

It is presently forecast that the CSR and FFR will be delayed and there will be a one year settlement for 2020/21. At this stage assumptions in relation to future local government finance settlements and the outcome of the FFR are unchanged from MTFP(9). The main assumptions being as follows:

- (i) it is forecast that there will be no further core funding reductions announced as part of the CSR process;
- (ii) it is forecast that the council will lose a further £10 million of funding as a result of the FFR and that the impact of this loss will be transitioned over a five year period from 2021/22 i.e. a £2 million loss per annum;
- (iii) the funding the council received in 2019/20 of £4.8 million for adult and children's social care will become recurrent;
- (iv) there will be no increase in the Better Care Fund;
- (v) the council tax referendum level will be 2% over the MTFP(10) period and that additional Adult Social Care Precepts will not be applicable from 2020/21.

At this stage any assumption could change as a result of the CSR, the FFR and the publication on the provisional local government finance , probably in December 2019. It is hoped that clarity will be provided during 2019 in terms of the timing of the CSR and the FFR.

In terms of the FFR, the major concern for the council continues to be public health funding. Consultations to date on the FFR continue to advocate that public health grant will transfer into the Business Rate Retention (BRR) process as part of the move to

75% retention from 50%. As part of this transfer, the intention is to utilise the revised Advisory Committee on Resource Allocation (ACRA) methodology to allocate public health funding. It is forecast that this will result in a loss of £18 million (38%) of the council's public health funding. It is forecast that the council may benefit from other elements of the FFR resulting in the current £10 million forecast loss built into the MTFP. Clearly, the council will continue to lobby throughout the review process and this position will need to continue to be reviewed across the MTFP(10) period.

(b) Council Tax / Business Rate Tax Base Increases

Regular reviews are carried out on tax base increases and at this stage it is forecast that the assumptions, factoring in agreed and anticipated growth through new developments, can be amended as follows which will support MTFP(10):

	£m
2020/21	2.5
2021/22	2.5
2022/23	3.0
2023/24	1.5

(c) National Living Wage (NLW)

Assumptions were based upon the Low Pay Commission's November 2019 report which forecast that the NLW would reach the 60% of median wage target in 2020/21 with a rate of £8.62 per hour. At this stage after 2020/21 it is forecast that the NLW will increase by the forecast increase in median wages which is 3.25% as detailed below;

	£ per hour	% increase
2019/20	8.21	
2020/21	8.62	5.00%
2021/22	8.90	3.25%
2022/23	9.19	3.25%
2023/24	9.49	3.25%

Base budget pressures have been included across the MTFP(10) period for the impact of the NLW based upon the above position. This impact in the main relates to price increases the council will be required to pay to private sector providers to take account of their increased costs across the MTFP(10) period. A 1.5% annual price inflation allowance is included across the MTFP(10) period but this is unlikely to suffice when private sector provider employee costs can be increasing due to 3.25% - 5% increases in

the NLW. The major impact relates to the private sector social care providers.

(d) Employer Pension Contributions

The results of the triennial review of the Pension Fund will be applied from April 2020. This will set the employers pension contribution rate for the next three years as well as determining the annual contribution to eliminate the pension fund deficit. Originally, it was forecast that an increase of £1 million would be required in 2020/21. At this early stage of the review process it is forecast that the worst outcome would be for the total annual budget contribution for the council to reduce by £2 million due to improved performance of the Pension Fund and a slow down in life expectancy increases.

(e) Children's High Needs DSG Short Term Support

The council supported the High Needs DSG budget in 2019/20 from the BSR. The £5.6 million contribution was made on the basis of a thorough review of the High Needs DSG budget would identify efficiencies and budget reductions to bring the budget back into balance from 2020/21. In addition, it was hoped that extensive lobbying of the government would result in a significant increase in the High Needs DSG budget.

Although progress is being made in terms of the development recovery plan and although an increase in the budget is forecast for 2020/21 it is forecast that this will not fully recover the full £5.6 million in 2020/21. It is assumed therefore that £2.8 million will be recovered in 2020/21 with the remaining £2.8 million in 2021/22. At this stage it is assumed that the BSR will be utilised in 2020/21 to cover the £2.8 million. This position will be kept under review.

(f) Children's High Needs DSG – Budget Review

Home to school transport for all Durham pupils (funded by the by the Local Authority) is the responsibility of the School Places and Admissions within Children and Young Peoples Service (CYPS) which is financed via the general fund. The exception to this has been home to school transport related to young people educated at The Woodlands (pupil referral unit) which has been funded by the High Needs DSG. It is proposed that to reduce the pressure on the High Needs DSG and ensure a consistent approach, that Home to School transport for pupils at the Woodlands be funded by the general fund. The additional budget pressure being £0.6 million.

As part of the ongoing evaluation of the cost born by the High Needs DSG a review has been carried out into how overhead costs are charged from the general fund into the High Needs DSG. This review has highlighted that the recharges should be reduced by £0.7 million resulting in a general fund base budget pressure.

(g) Culture and Museums

A review of support to the council's support the culture and museums is being undertaken and the latest MTPF includes estimates of the council's financial support requirements. This will be reviewed as the review concludes and prior to the budget being finalised.

2020/21 Savings Forecast

- 18 Based upon the revised assumptions detailed in this report, the savings requirement for 2020/21 is forecast to be £12.9 million, in line with the forecast in MTFP(9). The 2020/21 £12.9 million saving figure is inflated due to the need to recover the £5.487 million of the BSR utilised in 2019/20 to balance the budget and delay the impact of savings upon front line services.
- 19 In MTFP(9) savings of £3.345 million were approved which would be achieved in 2020/21. This forecast has now been increased by £0.4 million to £3.745 million, to reflect the latest savings forecast. The MTFP(9) approved savings of £3.745 million and the forecast £2.8 million use of the BSR to support the HNDSG reduce the savings shortfall in 2020/21 from £12.9 million to £6.4 million.
- 20 It is recognised that this savings figure could significantly change before Full Council sets the budget on 26 February 2020. The council continues to face significant additional budget pressures at the present time particularly in CYPS which could impact upon the savings requirement.
- 21 With this uncertainty in mind, work will continue in the coming months to identify additional savings to address any future shortfall. If there is still a shortfall in savings at the time Full Council agree the budget in February 2020, then the Budget Support Reserve (BSR) will need to be utilised. The current balance on the BSR is £24.2 million although this will reduce to £21.4 million based upon the use of £2.8 million to support the HNDSG.

MTFP(10) – 2020/21 to 2023/24 Update

- 22 The adjustments to MTFP(10) planning detailed in this report have impacted upon the forecast savings requirements for the 2020/21 to 2023/24 period.
- 23 The current forecast of savings required for the period 2020/21 to 2023/24 are detailed below:

	Savings Requirement	Less Savings Approved	Adj. for use of BSR	Savings Shortfall
	£m	£m	£m	£m
2020/21	12.900	(3.745)	(2,800)	6.355
2021/22	4.586	(1.850)	2.800	5.536
2022/23	7.593	(0.775)		6.818
2023/24	9.140	0		9.140
TOTAL	34.219	(6.370)	0	27.849

- 24 The table above highlights that it is forecast that additional savings of £27.849 million will be required across MTFP(10) to balance the budget. This must also be considered alongside the considerable uncertainty facing local government at this time especially in relation to the outcome of the CSR, the Fair Funding Review and the implementation of the next stage of BRR.
- 25 It is likely that savings plans in the future will become more complex and as such will require significant planning and consultation. It will be vital that timeframes for delivery are planned effectively to ensure the Council continues to balance the budget across the MTFP(10) period.
- 26 The realisation of additional £34.2 million of savings will have resulted in the Council being required to save £269 million from 2011/12. The MTFP(10) Model is attached at **Appendix 2**.

MTFP(10) Timetable

- 27 A high level timetable up to Budget setting is detailed overleaf:

Date	Action
10 July	MTFP report to Cabinet
13 September	Corporate Overview and Scrutiny Management Board consider 10 July Cabinet Report
11 December	MTFP report to Cabinet – outcome of Comprehensive Spending Review and Autumn Statement
16 December	Corporate Overview and Scrutiny Management Board consider 11 December Cabinet Report
15 January	MTFP report to Cabinet – analysis of provisional local government settlement
27 January	Corporate Overview and Scrutiny Management Board consider 15 January Cabinet Report
12 February	Budget Report to Cabinet
14 February	Corporate Overview and Scrutiny Management Board consider 12 February Cabinet Report
26 February	Council Budget and MTFP report

Proposed Consultation Programme

- 28 Based on the best practice that has developed over previous consultations, we will consult using our existing County Durham Partnership networks during October and November. This will include the 14 Area Action Partnerships (AAPs) and the thematic partnerships that support the County Durham Partnership. Additional work will be undertaken with special interest groups and there will be an opportunity for residents to respond electronically via the council's website which will be promoted through the council's presence on various social media platforms.

Workforce Implications

- 29 The council originally estimated 1,950 reductions to full time equivalent posts by the end of 2014/15. By 31 March 2020, it is forecast that there will have been a reduction of 2,955 posts, of which 704 will have been via the deletion of vacant posts. It is forecast that the number of post reductions will increase over the coming years as savings plans are developed and agreed to achieve the MTFP(10) required saving of £38.2 million.

- 30 The council will continue to take all possible steps to avoid compulsory redundancies and minimise the impact upon the workforce. This will require a continued focus on forward planning, careful monitoring of employee turnover, only undertaking recruitment where absolutely necessary and retaining vacant posts in anticipation of any required service changes, seeking volunteers for early retirement and/or voluntary redundancy and maximising redeployment opportunities for the workforce wherever possible.
- 31 In addition, the way that work is organised and jobs designed will continue to be reviewed by service groupings, with the support of Human Resources, to ensure that changes that are made to maximise the use of the workforce numbers and skills and introduce flexibility into the way work is organised to maximise the capacity of the remaining workforce.
- 32 These actions will ensure that, wherever possible, service reductions continue to be planned in advance. Employees are able to consider their personal positions and volunteer for ER/VR prior to the start of the exercise should they wish to, thereby enabling, in a number of situations, the retention of sustainable employment in the County for those who wish to remain in the workplace.

Equality Impact Assessment of the Medium Term Financial Plan

- 33 Consideration of equality analysis and impacts is an essential element that members must consider in their decision making. As in previous years, equality impact assessments will be key to capturing and utilising equality analysis throughout decision making processes, alongside the development of MTFP(10).
- 34 The aim of the equality impact assessment process is to:
- (a) identify any disproportionate impact on service users or staff based on the protected characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation;
 - (b) identify any mitigating actions which can be taken to reduce negative impact where possible;
 - (c) ensure that we avoid unlawful discrimination as a result of MTFP decisions;
 - (d) ensure the effective discharge of the public sector equality duty.
- 35 As in previous years, equality analysis is considered throughout the decision-making process, alongside the development of MTFP(10). This

is required to ensure MTFP decisions are both fair and lawful. The process is in line with the Equality Act 2010 which, amongst other things, makes discrimination unlawful in relation to the protected characteristics listed above and requires us to make reasonable adjustments for disabled people.

- 36 In addition, the public sector equality duty (PSED), contained at section 149 of the Equality Act, requires us to pay 'due regard' to the need to:
- (a) eliminate discrimination, harassment and victimisation and any other conduct that is prohibited under the Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 37 A number of successful judicial reviews have reinforced the need for robust consideration of the public sector equality duty and the impact on protected characteristics in the decision making process. Members must take full account of the duty and accompanying evidence when considering the MTFP proposals.
- 38 Throughout the period of MTFP planning through to setting the MTFP (10) budget in February 2020, the equality analysis for all savings proposals will be developed alongside emerging savings proposals. Any relevant consultation activity and/or feedback will be fed into assessments. Equality analysis and impact assessments will be considered in decision-making processes and at budget setting.
- 39 In terms of the ongoing programme of budget decisions the council has taken steps to ensure that impact assessments:
- (a) are built in at the formative stages so that they form an integral part of developing proposals with sufficient time for completion ahead of decision-making;
 - (b) are based on relevant evidence, including consultation where appropriate, to provide a robust assessment;
 - (c) objectively consider any negative impacts and alternatives or mitigation actions so that they support fair and lawful decision making;
 - (d) are closely linked to the wider MTFP decision-making process;
 - (e) build on previous assessments to provide an ongoing picture of cumulative impact.

Local Council Tax Reduction Scheme for 2020-21

- 40 The government abolished the national Council Tax Benefits System (CTB) on 31 March 2013, replacing it with a requirement for local authorities to work with their precepting bodies to establish a Local Council Tax Reduction Scheme (LCTRS) with effect from 1 April 2013. The LCTRS provides a 'discount' against the Council Tax charge, rather than a benefit entitlement.
- 41 The Council Tax Reduction Scheme Grant replaced Council Tax Benefit subsidy and from April 2013 is paid directly to the Council and the major precepting bodies (Police and Fire).
- 42 Government funding towards council tax support was reduced by 10% nationally in 2013/14. By so doing, the government also transferred the risk of any growth in the system through more council taxpayers becoming eligible for support with their council tax to local authorities as the government grant was a fixed amount.
- 43 The funding made available to support the Local Council Tax Support Schemes in 2013/14 (90% of the previous funding available under the Council Tax Benefit System) now forms part of the council's formula funding arrangements. Whilst separate figures were published for this in 2013/14, there is no longer any visibility over what level of funding is actually contained within the formula now for Council Tax Reduction Schemes.
- 44 The council's formula grant includes an element relating to Town and Parish (T&P) Councils and whilst the council has passed the grant on to the Town and Parish Councils, there is no statutory requirement to do so.
- 45 Following discussions with the Town and Parish Councils' Working Group, and in the spirit of partnership working, recognising the important role Town and Parish Councils play in providing local services to communities, it is proposed to continue to pass on the Town and Parish element of the formula grant in 2020/21.
- 46 Given the uncertainties around the outcome of the Comprehensive Spending Review and the Fair Funding Review it is proposed that the Council Tax Support Grant paid to Town and Parish Councils 2020/21 is the same as 2019/20, to provide some certainty to Town and Parish Councils. Local Council Tax Support Grant payments to Town and Parish Councils is therefore forecast to be £1.311 million in 2020/21.
- 47 LCTR provides a 'discount' against the council tax charge, rather than crediting the account with a benefit payment and as such impacts on

the council tax base and therefore the tax raising capacity of the council and its precepting bodies.

- 48 All local authorities are required to follow a national LCTR scheme for pension age applicants, which protects their entitlement at the same level as under former CTB. The pension age scheme can only be altered locally in ways which make it more generous to applicants.
- 49 There are no such restrictions on the level of support that can be given by working age LCTR schemes.
- 50 Information collated by the Institute for Fiscal Studies (IFS) shows that in 2018/19 Durham was one of only 34 councils in England, out of 326, whose LCTR scheme continued to offer the same level of support to working age households as CTB.
- 51 In the North East the only other authority to do so was Northumberland County Council, however, for 2019/20 they have made changes to their scheme and now limit working age LCTR to a maximum of 92% of any council tax bill. All working age council taxpayers in Northumberland now make a minimum 8% contribution to their council tax, regardless of their circumstances.
- 52 The majority of councils who made changes to their schemes in the first few years of LCTR, did so to cap the overall amount that could be paid to working age households – 80% of councils had one in 2018-19 – but different councils have set them at very different levels. Combined with different choices about other aspects of scheme design, this means that otherwise similar households are treated very differently according to where they live. However, more recently, local authorities have started to focus on making changes to better support applicants receiving Universal Credit (UC), while maintaining a cap on the total amount that an applicant can receive.
- 53 The roll-out of Universal Credit was originally intended to be completed by 2017, but after repeated rescheduling the current target date is December 2023. Despite the extended roll-out, UC is already in payment to a significant number of people in Durham. As of 1 May 2019 there were circa 11,000 LCTR applicants receiving UC, around 32% of the working age LCTR caseload.
- 54 The LCTR scheme in Durham, based on CTB, is a complex scheme, designed to reflect and interact with the Department for Work and Pensions' (DWP) long-standing range of legacy benefits. All of which are calculated weekly, are based on the same premiums and allowances, have identical income and capital assessment rules and an established history of common case law.

- 55 UC is a complete departure from the legacy benefits it replaces. It is calculated monthly, with new rules and new allowances, and for in-work claims is subject to regular monthly changes.
- 56 When compared to the legacy benefits schemes it replaces, UC produces more losers than winners, with prominent losers being disabled claimants, due to the loss of substantial disability allowances. Going forward, to offer effective support to applicants who receive UC, local authorities need to rethink their LCTR schemes.
- 57 Durham County Council took an early decision to accept electronic notifications of a new UC claim from the DWP as an application for LCTR. This measure has helped Durham maintain its working age caseload. Other local authorities have seen large drops in the number of LCTR applications received, due to residents no longer being required to come to the council to make joint HB and LCTR claims. This will have resulted in increases in council tax arrears and impacted on collection performance.
- 58 In terms of impact on LCTRS workload, we are around four times more likely to receive a report of a change in circumstances when a working age LCTR claim is based on UC, than when they are not.
- 59 Regular monthly recalculations of UC and LCTR, most frequently caused by changes in earnings, lead to multiple bills being issued to the household and significant difficulties for residents trying to maintain their council tax payments. Net council tax charges are repeatedly being recalculated and instalment dates pushed back to later in the year. This is further complicated by the need to give customers paying by direct debit 14 days' notice when making a change in their payments. These changing instalments can cause considerable budgeting difficulties for residents, as well as a knock-on impact for the council in terms of increased call traffic and council tax collection work.
- 60 The Institute for Fiscal Studies (IFS) estimate that a quarter of the additional council tax liability created by cuts to LCTR since 2013 is not being collected in year. The table below summarises the key features of the schemes in place across the North East in 2019/20 and how their in-year council tax collection rates have changed between 2012/13 and 2018/19 (which is the latest published data available):

Local Authority	Basis of Scheme	Minimum Payment	Second Adult Reduction Offered?	Change in in-year council tax collection rate between 2012-13 and 2018-19
Durham	CTB	No	Yes	+1.62%points
Darlington	CTB	20%	No	+0.12%points
Gateshead	CTB	8.5%	No	-0.86%points
Hartlepool	CTB	12%	No	-1.30%points
Middlesbrough	CTB	15%	No	-3.41%points
Newcastle	Income Banded	10%	No	+0.06%points
North Tyneside	CTB	15%	No	-1.46%points
Northumberland	CTB	8%	Yes	+0.33%points
South Tyneside	CTB	30% or 15% if vulnerable	Yes	-1.99%points
Stockton	CTB	20%	No	-2.44%points
Sunderland	CTB	8.5%	Yes	-1.38%points

- 61 In some local authorities, like Durham, low-income households continue to be exempt from paying Council Tax whilst in others they are required pay up to 50% of their bill. There is therefore a wide disparity of support available across the Country.
- 62 Nationally, LCTR schemes provided 24% less support to working-age households in 2018/19 than if the national council tax benefit (CTB) system had been retained.
- 63 There are now 1.4 million households who have to pay some council tax who would not have had to pay it if the pre-2013 system had been maintained. A further 1.6 million households are billed for more than they otherwise would have been – around one-quarter (0.4 million) due to the mirroring of national benefits changes in LCTR schemes and the remaining three-quarters (1.2 million) due to the additional cuts to LCTR schemes that councils have made – most commonly to introduce a cap on the overall level of support a working age claimant can receive.

- 64 Overall, only around 500,000 – barely a quarter – of the households that would have had their council tax bills entirely covered by the old CTB system still have it fully covered by LCTR. The other three-quarters have to pay at least some council tax in 2018–19; 63% must pay more than £100, a third must pay more than £200 and almost one in ten must pay more than £300.
- 65 There are currently 57,600 LCTR applicants in County Durham, of which 23,000 (40%) are pension age and 34,600 (60%) are working age. Almost 80% of all working age applicants receive maximum LCTR, leaving them with no council tax to pay. Over 85 % of working age LCTR applicants live in rented accommodation and almost 90% occupy Band A properties. LCTRS support is forecast to be circa £58 million in 2019/20.
- 66 Overall, the LCTRS caseload in Durham has reduced by 9.85% between 2013/14 and 2018/19, reflecting a national trend which is in part attributed to improved economic conditions (reduced unemployment) across this period and the increase in the state pension age. The reduction in LCTRS caseloads nationally has been 17% over the same period, which will reflect the fact that many local authorities have made their schemes less accessible, meaning fewer applicants now qualify for support.
- 67 In Durham, there are now over 2,800 claimants currently classed as working age that would have been treated as pensionable age claimants prior to 2010, when the process of moving state pension credit age from 60 to 66 began. This process is expected to be completed in 2020 with a further move up to 67 between 2026 and 2028, then to 68 between 2044 and 2046.
- 68 Over the last six years there has been a seven percentage point increase in the proportion of working age applicants within Durham. This means a higher proportion of our caseload is coming under the part of the LCTRS scheme that the Council has control over. Working age customers also carry a greater administrative burden as they have more frequent changes in their circumstances.
- 69 As Members will be aware, if any changes are made to the scheme, these must be consulted on and be subject to an equality impact assessment. Councils are required to review and approve their schemes annually and have this agreed by a Council Meeting before 11 March each year.
- 70 Pensioners, have to be protected from any changes, with any reductions applied to working age claimants only.
- 71 Seven years after the government abolished the national Council Tax Benefits System the council continues to have a Local Council Tax

Reduction Scheme which mirrors the previous entitlement under the Council Tax Benefit System for all claimants. No LCTRS claimants have therefore been financially worse off in the last seven years (including the current year) than they would have been under the previous national scheme.

- 72 The council has been mindful of the continuing impacts of the wider welfare reforms which are having a detrimental impact on many low income households and the fact that the additional Council Tax liabilities for working age households could have a significant impact on affected household budgets by around £100 to £130 a year based on a scheme whereby entitlement for working age claimants is set at a maximum of 90% entitlement. This would make collection of council tax more difficult and costly to recover from these low income households.
- 73 In approving the scheme for 2019/20, the council (31 October 2018) gave a commitment to review the scheme on the grounds of medium term financial plan (MTFP) affordability and on-going austerity causing further MTFP pressures.
- 74 Based on Taxbase assumptions, the estimated net cost of retaining the scheme is circa £5.1 million – this reflects the reduction in Government Grant support towards maintaining these schemes in the first year. To recover the full £5.1 million cost by reducing the benefit awarded to working age claimants, and factoring in a prudent collection rate of 80%, would require the maximum entitlement to be reduced from 100% to 79.8%.
- 75 Should the Council review its scheme and reduce maximum entitlement to working age claimants, depending on the forecasted council tax collection from affected low income households, there would be scope to increase Council Tax revenues by between £2.52 million (based on a scheme that awarded maximum entitlement to working age households of 90% with a prudent collection rate of 80%) and £5.1 million (based on a scheme that awarded maximum entitlement of 79.8% with a prudent collection rate of 80%). This would impact circa 34,600 working age households across County Durham, where 9,450 (27%) are actually in low paid jobs rather than being unemployed.
- 76 Following careful consideration of the current financial position of the council and in light of further cuts to the Welfare Budget planned by government, including the continued roll out of Universal Credit Full Service, which commenced in October 2017 in County Durham; it is proposed that Cabinet recommend to Council that the current scheme should be extended for a further year into 2020/21 and, therefore, that no additional council tax revenues or pressures are built into the MTFP projections from a review of the LCTRS at this stage.

- 77 The reasons for extending the current scheme are due to the current scheme remaining within existing cost parameters for the Council. In addition, whilst the full impacts of the government's Welfare Reforms are complex and difficult to track, demand for Discretionary Housing Payments; Social Fund Applications and Rent Arrears statistics in County Durham compared to others across the region, would suggest that the council tax benefit protection afforded to working age claimants, in addition to the wide ranging proactive support that has been put in place, is continuing to have a positive impact on these households.
- 78 The council will need to continue to review the national situation and track what is happening in local authorities that have introduced Local Council Tax Reduction Schemes that have reduced entitlement to their working age claimants in terms of impacts and performance in terms of recovery of the council tax due.
- 79 The council will also need to keep track of the continuing impact of the roll out of Universal Credit (UC). This presents continuing challenges for the administration of LCTRS as it results in a much higher number of changes in circumstances and removes the administrative economies of scale currently achieved by administering Housing Benefit and LCTRS claims side by side.
- 80 More significantly however, UC changes results in multiple reworking and changes to LCTRS entitlement throughout the year and multiple bills being issued to individual households resulting in numerous changes to their net liability and instalment plans for any Council Tax balance they are responsible for. After many years of continued improvement, our in-year council tax collection rate reduced slightly in 2018/19 to 96.65%.

Background papers

- Welfare Reform Act 2012.
- Local Council Tax Reduction Scheme 2019/20 – report to Council 31 October 2018
- The impacts of localised council tax support schemes – Institute for Fiscal Studies Report January 2019
- Review of the Council Tax Discretionary Discounts (Hardship Relief) Policy
- Council Tax Discretionary Discounts – Council Tax Exemption for Care

- Discretionary Rate Relief - Review of Local Discretionary Rate Relief Policy

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Appendix 1: Implications

Legal Implications

There is a statutory requirement for the council to adopt a local council tax support scheme for the ensuing financial year by 11 March. Where the council is proposing any changes to its scheme, there is a statutory requirement to consult on these proposals in advance of making any changes.

Finance

The report highlights that at this stage £6.4 million of savings are required to balance the 2020/21 budget with £34.2 million across the next four years. Work will continue over the coming months to identify savings to balance the budget across the MTFP(10) period.

The funding made available to support the Local Council Tax Reduction Schemes in 2013/14 (90% of the previous funding available under the Council Tax Benefit System) now forms part of the Council's formula funding arrangements.

The council has continued to pass on the Town and Parish element of its formula grant over the last seven years but in doing so continue to apply pro-rata reductions in the Council Tax Support Grant paid to Town and Parish Councils. In 2020/21, due to uncertainties over the Comprehensive Spending Review and Fair Funding Review it is proposed to retain Local Council Tax Support Grant payments to Town and Parish Councils at the 2019/20 levels and make payments of £1.311 million in 2020/21.

The council is now responsible for the costs of any increase in caseload as the level of Government support is fixed within formula grant.

Prudent estimates and provisions were built into the tax base forecasts at budget setting, and whilst the council is subject to greater financial risk now, the current scheme remains within the budget provisions.

Should the council review its scheme and reduce maximum entitlement to working age claimants, depending on the forecasted council tax collection from affected low income households, there would be scope to increase Council Tax revenues by between £2.52 million (based on a scheme that awarded maximum entitlement to working age households of 90% with a prudent collection rate of 80%) and £5.1 million (based on a scheme that awarded maximum entitlement of 79.8% with a prudent collection rate of 80%). This would impact circa 34,600 working age households across County Durham, where 9,450 (27%) are actually in low paid jobs rather than being unemployed.

Consultation

The approach to consultation on MTFP(10) is detailed in the report.

Towns and Parish Councils have been consulted on the proposals to continue to passport an element of the Councils formula grant, equivalent to the Town and Parish share of the Local Council Tax Reduction Scheme grant funding.

Equality and Diversity / Public Sector Equality Duty

Equality considerations are built into the proposed approach to developing MTFP(10).

Seven years after the government abolished the national Council Tax Benefits System the council continues to have a Local Council Tax Reduction Scheme which mirrors the previous entitlement under the Council Tax Benefit System for all claimants. No council tax benefit claimants have therefore been financially worse off in the last seven years than they would have been under the previous national scheme and if the proposals set out in this report and ultimately agreed by Council in the autumn this will continue to be the case.

The Government EIA on the Local Council Tax Reduction Scheme was published in January 2012 and is relatively brief. It considered equality impacts in relation to age and disability, concluding that protection for pensioners would be a positive impact and the effects on disabled people would depend on how each local authority responded to the reduction in council tax support. No impacts were identified in relation to gender or ethnicity and no other protected characteristics were considered and it was left to individual councils to identify full local impacts, based on local implementation.

Given the proposals to extend the current LCTRS into 2020/21, thereby continuing to protect current entitlement, then there will be no negative equalities impact, with the financial position of claimants protected in 2020/21.

Should the council decide against extending the current scheme into 2020/21, and elect instead to pass on reductions to working age claimants, there would be a range of potential negative equalities impacts. These include financial impact for working age claimants and possible additional impacts in relation to health and wellbeing, housing and the consequences of debt or legal action. These impacts are most likely in relation to gender, age and disability with limited impacts for race and sexual orientation and no evidence of impact on transgender status, religion or belief.

Human Rights

Any human rights issues will be considered for any detailed MTFP(9) and Council Plan proposals as they are developed and decisions made to take these forward.

Crime and Disorder

Any reduction in Council Tax support, alongside other welfare changes could see an increase in crime if customers seek to increase their income to make up for the benefits lost. The proposals set out in this seek to protect current entitlement in 2020/21 and as such have no implications, though the impact of the wider welfare reforms agenda will need to be kept under constant review.

Staffing

The savings proposals in MTFP(10) will impact upon employees. HR processes will be followed at all times. It is now expected that the forecast reduction in full time equivalent posts in the 2011/12 to 2019/20 period will be 2,955 with more reductions expected over the next four years. In terms of the reviews of Council Tax Discounts and Business Rates Hardship Relief Policies, there are no additional implications associated with this report. Processing applications under both policies is managed from within existing resources within the Assessments and Awards Team within Financial and Support Services, Resources.

Accommodation

None specific within this report.

Risk

There continues to be significant risk in terms of planning across the MTFP(10) period. The uncertainty faced by local government at the present time is unprecedented and local authorities have already delivered the vast majority of all possible efficiency savings. Any additional funding reductions or unfunded budget pressures will leave all local authority with difficult choices.

The council will continue to plan effectively in this regard working up savings plans to assist in balancing future savings requirements. As required the BSR is in place to provide short term cover for budget shortfalls.

The report outlines a range of financial risks surrounding the Local Council Tax Reduction Scheme. These are being effectively managed at this time. Given that the proposal is to extend the current arrangements into 2019/20 there are no system development issues or risk associated with these proposals as the systems were amended in advance of 2013/14.

The council will need to keep track of the impact of continuing impact of the roll out of Universal Credit (UC). This presents continuing challenges for the administration of LCTRS as it results in a much higher number of changes in circumstances (experience is that the UC earned income element changes frequently as the person moves through the claimant commitment with their Job Coach) and removes the administrative economies of scale currently achieved by administering Housing Benefit and LCTRS claims side by side.

More significantly however, UC changes results in multiple reworking and changes to LCTRS entitlement throughout the year and multiple bills being issued to individual households resulting in numerous changes to their net liability and instalment plans for any Council Tax balance they are responsible for. After many years of continued improvement, our in-year council tax collection rate reduced slightly in 2018/19 to 96.65%.

Procurement

None specific within this report.

Appendix 2: Medium Term Financial Plan - MTFP(10) 2020/21 - 2023/24 Model

	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000
Government Funding				
Reduction in Funding due to Fair Funding Review	0	2,000	2,000	2,000
Reduction in Benefit Admin Grant	150	150	150	0
Bus. Rates/Sec. 31 - CPI increase (1.5%/1.5%/1.5%/1.5%)	-1,000	-1,000	-1,000	-1,050
Top Up - CPI increase (1.5%/1.5%/1.5%/1.5%)	-1,050	-1,000	-1,000	-1,000
Improved Better Care Fund	4,000	0	0	0
Adult Social Care Winter Pressures	2,820	0	0	0
New Homes Bonus	800	250	250	0
Other Funding Sources				
Council Tax Increase - 1.99%	-4,400	-4,500	-4,600	-4,700
Council Tax/Business Rate Tax Base increase	-2,500	-2,500	-3,000	-1,500
Estimated Variance in Resource Base	-1,180	-6,600	-7,200	-6,250
Pay inflation (2% - 2% - 2% - 2%)	4,400	4,500	4,600	4,700
Price Inflation (1.5% - 1.5% - 1.5% - 1.5%)	3,400	3,500	3,600	3,700
Base Budget Pressures				
Costs Associated with National Living Wage	4,000	2,500	2,400	2,400
Additional Employer Pension Contributions	-2,000	0	0	1,000
Energy Price Increases	250	250	250	250
Pension Fund Auto Enrolment - Employer Contributions	0	0	500	0
SSID Replacement Licences	0	100	100	0
Adults Demographic Pressures	1,000	1,000	1,000	1,000
Adult Social Care Winter Pressure	-2,820	0	0	0
Adults - Winterbourne	472	0	0	0
Childrens - Demographics	500	500	500	500
Childrens Social Care - One Off Pressures	-393	0	0	0
Childrens High Needs DSG Short Term Support	-2,800	-2,800	0	0
Childrens High Needs Pressures - H2ST and Recharges	1,300	0	0	0
REAL - HWRC Contract Inflation	500	0	0	0
REAL - Empty Homes	0	-103	0	0
Culture and Museum Review	184	-111	-7	-10
Unfunded Superannuation	-150	-150	-150	-150
Prudential Borrowing to fund new Capital Projects	750	2,000	2,000	2,000
TOTAL PRESSURES	8,593	11,186	14,793	15,390
Use of One Off funds				
Adjustment for use of BSR in previous year	5,487	2,800	0	0
Savings				
Savings Agreed in MTFP(9)	-1,495	0	-275	0
Transformation Savings	-2,250	-1,850	-500	0
Use of BSR - utilised to finance HNDSG shortfall	-2,800	0	0	0
SAVINGS SHORTFALL	6,355	5,536	6,818	9,140
TOTAL SHORTFALL				27,849

