

County Council

18 October 2023

**Local Council Tax Reduction Scheme
Proposal for 2024/25**



Report of Corporate Management Team

Paul Darby, Corporate Director of Resources

**Councillor Richard Bell, Deputy Leader and Cabinet Portfolio
Holder for Finance**

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To seek Council approval for the continuation of the current Local Council Tax Reduction Scheme (LCTRS) for a further year into 2024/25, which would continue the protection afforded to all claimants in line with what their entitlement would have been under the former Council Tax Benefit system.
- 2 These proposals were considered by Cabinet at their meeting on 12 July 2023 and it was resolved to recommend to Council the continuation of the scheme into 2024/25.

Executive summary

- 3 Durham 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.
- 4 This policy has protected vulnerable residents at a time when welfare reform changes, and more recently the pressure on household incomes from cost-of-living increases have had a significant adverse impact. This report recommends that the current LCTRS is again retained and remains unaltered, in the main, for a further year into 2024/25. Should this be agreed, the Council will need to formally adopt this policy at Full Council prior to 11 March 2024.

- 5 Nationally, many Local Authorities have made changes to their schemes since their inception in 2013, with the most common one being a cap on the amount of support an individual can receive. This has meant that each working age claimant has had a minimum Council Tax payment still to make. National research confirms that there is a clear correlation between higher minimum payments in LCTRS and lower council tax collection rates.
- 6 There are currently 54,100 LCTR applicants in County Durham, of which 20,600 (38%) are of pension age and 33,500 (62%) are of working age. Almost 80% of working age claimants currently receive 100% LCTRS discount, with LCTRS support forecast to be circa £63.5m in 2023/24.
- 7 The rollout of Universal Credit (UC) has been delayed and is now due to be complete no earlier than 2028. Managed migration has started for tax credits only claimants in 2023 and it will continue for those who claim housing benefits, Jobseekers allowance and/or income support during 2024. Employment and Support Allowance claimants will not migrate to Universal Credit until 2028. There are circa 20,616 LCTR claimants who receive UC, over 61% of the working age LCTR caseload.
- 8 The Transactional and Customer Services team expect to process over 213,000 LCTR changes in the current financial year 2023/24. The majority of these are changes to a Universal Credit entitlement, due to UC being a real time benefit, and therefore re-calculated by the DWP on a monthly basis. This results in multiple reworking and changes to an individual's LCTRS entitlement throughout the year and multiple bills being issued to individual households. This can delay direct debits being taken and can result in numerous changes to their net liability and instalment plans for any council tax balance they are responsible for. This results in residents not being able to easily track their council tax liability, leading to difficulties for households when managing their finances and personal budgeting and can impact on the amount of council tax we collect.
- 9 The council will need to keep track of the impact of the continuing roll out of UC. After many years of continued improvement, our in-year council tax collection rate is almost one and a half percentage points below the 2017/18 rate, in part reflecting the ongoing impact of the expanding UC rollout on LCTRS and council tax collection.
- 10 The proposal set out in this report is to continue the current scheme and is put forward at a time low-income households across the county are continuing to face issues related to the current cost of living crisis.

- 11 The scheme will continue as it is, with one procedural change for the additional earnings disregard for those Working Age claimants receiving Universal Credit. This will see them qualifying for an additional income disregard they have previously not received. This will increase the cost of the scheme by £115k and provide this additional level of support to over 600 claimants, maintaining the scheme in line with the spirit of the national Council Tax Benefit system.
- 12 Consideration of whether to extend the current scheme into 2024/25 needs to take account of several key factors and changing the scheme at this stage means additional council tax revenues (or pressures) would need to be built into the medium-term financial plan (MTFP) projections. No changes to the scheme were factored into the MTFP (14) projections reported to Cabinet on 12 July 2023.

Recommendation(s)

- 13 Council is recommended to:
 - (a) continue the current Local Council Tax Reduction Scheme into 2024/25, which will retain the same level of support to all working age council taxpayers on low incomes as was the case under the previous Council Tax Benefit Scheme;
 - (b) approve the change to the additional earnings disregard rule for those Working Age Customers in receipt of Universal Credit;
 - (c) agree that the extension to the Scheme be initially for a further year only and be kept under continuous review with a further decision on the scheme to apply in 2025/26 to be considered by Cabinet in summer 2024 and Full Council by March 2025.

Background

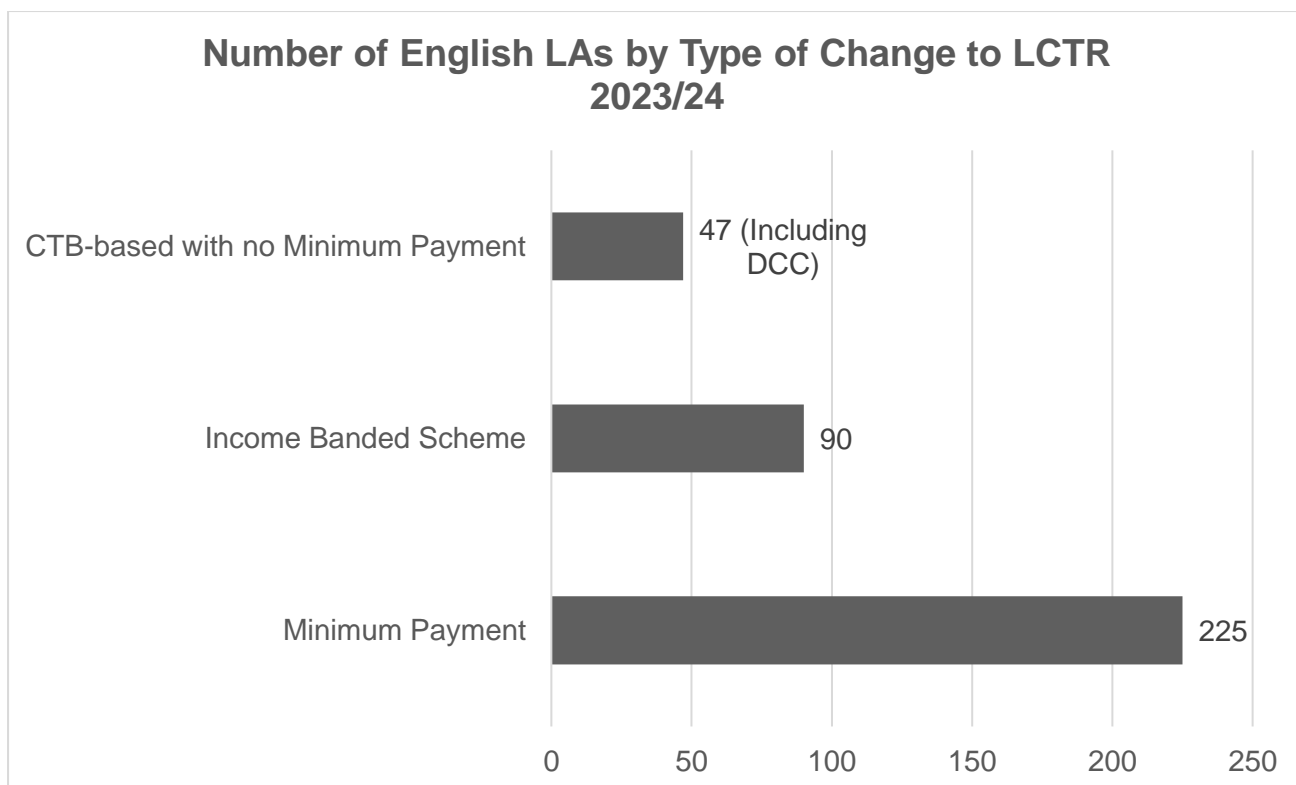
- 14 Following the abolition of the national Council Tax Benefit (CTB) system on 31 March 2013, Local Authorities have been required to work with their precepting bodies to establish a Local Council Tax Reduction scheme (LCTRS); reviewed on an annual basis. The LCTRS provides a 'discount' against the council tax charge, rather than a benefit entitlement.
- 15 The Council Tax Reduction Scheme Grant is paid directly to the council and the major precepting bodies (Police and Fire) and forms part of the council's formula funding arrangements.
- 16 As this Government grant is a fixed amount, when there is growth in the numbers of council taxpayers becoming eligible for support with their council tax, there is a resulting risk to the Local Authority; this was seen in the early months of the pandemic in April/May 2020.
- 17 The council's formula grant includes an element relating to Town and Parish (T&P) Councils and whilst the council has previously passed the notional LCTRS grant on to the Town and Parish Councils, there is no statutory requirement to do so, with most other councils not doing so now.
- 18 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.
- 19 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 the former national CTB regime. The pension age scheme can only be altered locally in ways which make it more generous to applicants.
- 20 There are no such restrictions on the level of support that can be given via working age LCTR schemes.

Review of the Local Council Tax Reduction Scheme for 2024/25

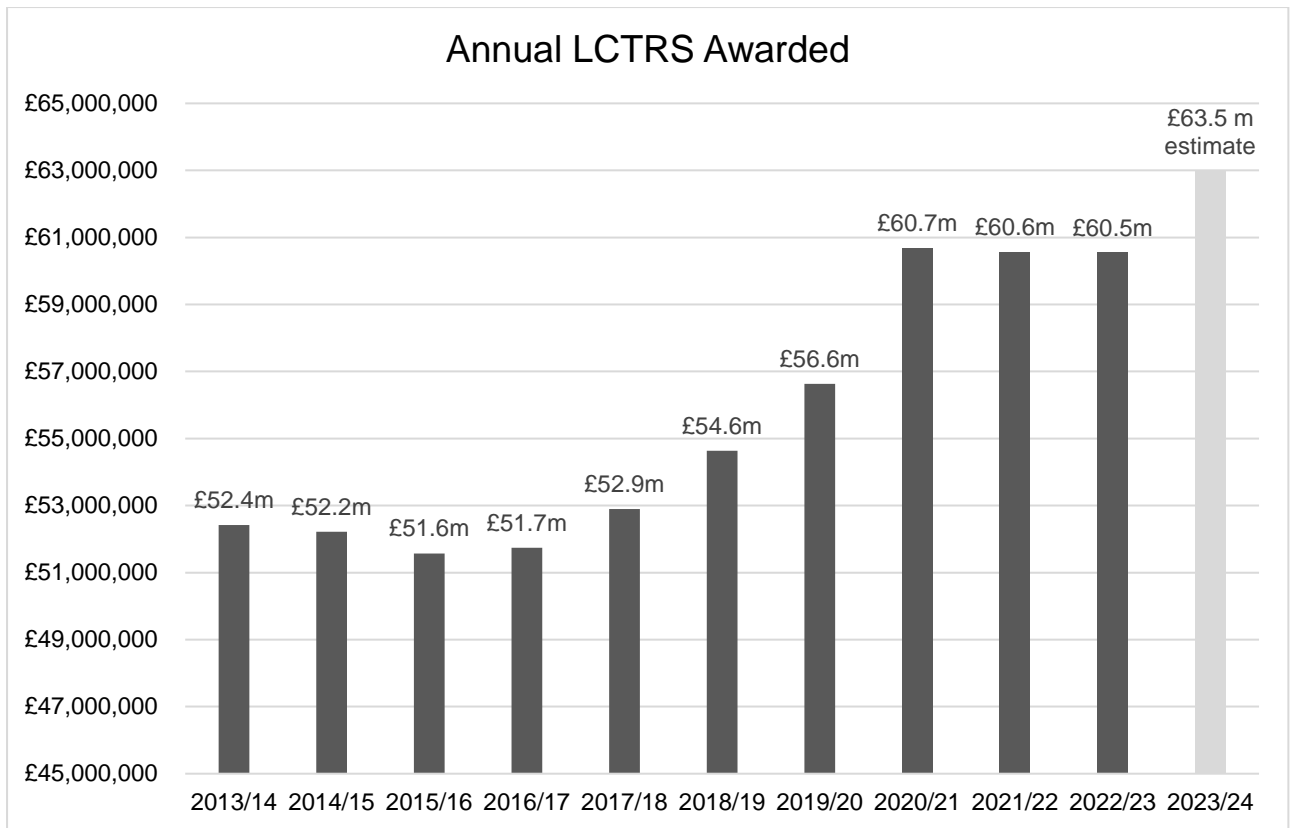
- 21 In the North East region, Durham is now the only authority whose scheme continues to mirror entitlement under the former CTB system for all claimants. The other eleven councils have schemes which offer an overall lower level of support to working age claimants.
- 22 The majority of councils who 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 and the overall cost of the scheme to the Local Authority.

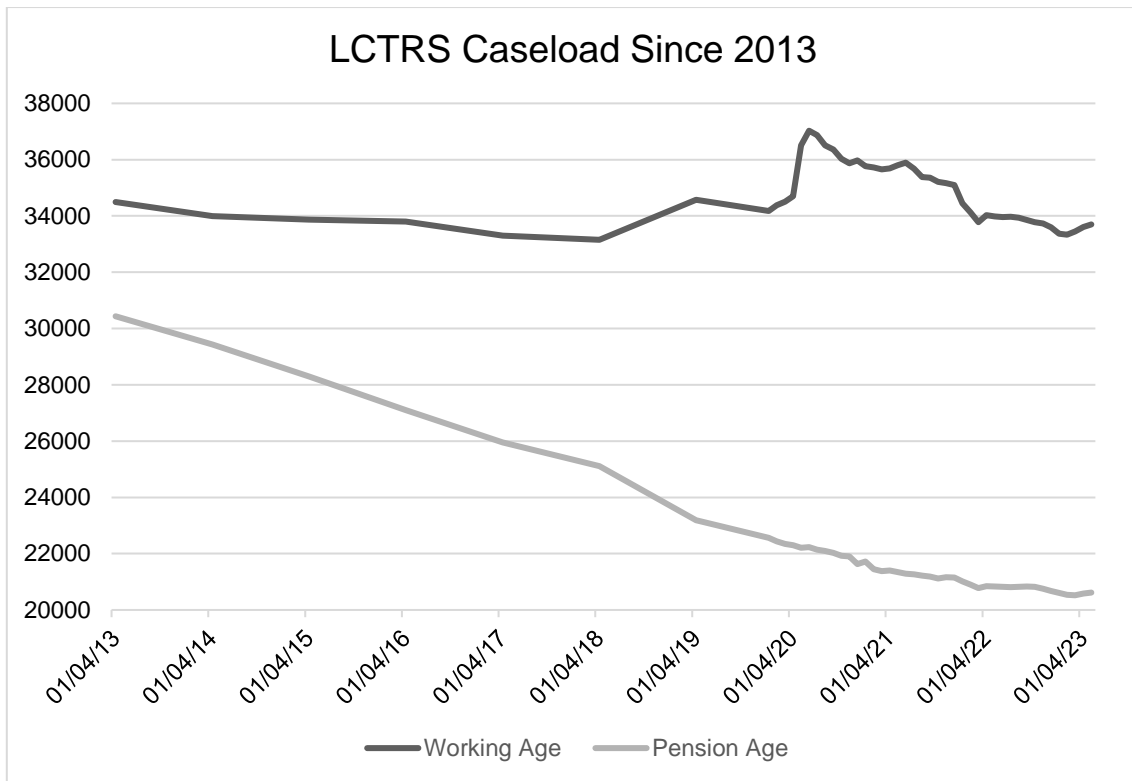
- 23 The most recent comprehensive national data was published in 2018/19 by the Joseph Rowntree Foundation, although some basic national data was recently published by Entitled To concerning 2023/24 schemes.
- 24 Over 80% of councils have made at least one significant change to their scheme since the original schemes were adopted in 2013/14.
- 25 Different councils have set their schemes at very different levels across the country. Combined with different choices about other aspects of scheme design, this means that similar households are treated very differently according to where they live.
- 26 More recently, local authorities have started to focus on making changes to simplify administration and reduce the number of award changes for in-work Universal Credit (UC) claimants, while maintaining a cap on the total amount that an applicant can receive.
- 27 The council will continue to track the impact of UC and consider how LCTR can best support residents who claim the benefit. Analysis of cases in Durham show that, on average, in-work households receiving UC and LCTR receive up to twelve council tax bills each year, as their UC is continually reassessed and LCTR revised in response. This results in delayed direct debits, reminders not being issued, and residents delaying payments as they are unsure what to pay. Evidence suggests approximately only 35% of in-work UC households receiving LCTR manage to pay all of their council tax in-year.
- 28 The cost-of-living crisis has prompted some local authorities to restore higher levels of maximum support for their poorest households. In 2023/24, 29 of 39 councils who changed the way their schemes were calculated increased this maximum level of support.
- 29 In England, 225 of 296 local authorities (76%) do not offer 100% reductions (source <https://www.entitledto.co.uk/blog/2023/may/council-tax-reduction-schemes-in-england-202324/>) in liability to any working age residents and require a minimum payment instead regardless of the personal circumstances of the claimant:



- 30 The roll-out of Universal Credit is currently scheduled to be completed by the end of 2028. There are circa 20,150 LCTR applicants in County Durham receiving UC, around 60% of the current working age LCTR caseload.
- 31 There are currently 54,100 LCTR cases in County Durham, of which 20,600 (38%) are of pension age and 33,500 (62%) are of working age. Just over 80% of all working age applicants currently receive maximum LCTR, leaving them with no council tax to pay. Approximately 85% of working age LCTR applicants live in rented accommodation and 88% occupy Band A properties. LCTRS support is forecast to be circa £63.5 million in 2023/24.
- 32 The table below shows the year-on-year differences in LCTR scheme costs over the last ten years. Whilst it is important to note that the council tax charges have increased across this period also, there was a significant increase in both caseload and costs in 2020/21 that continued into 2021/22.

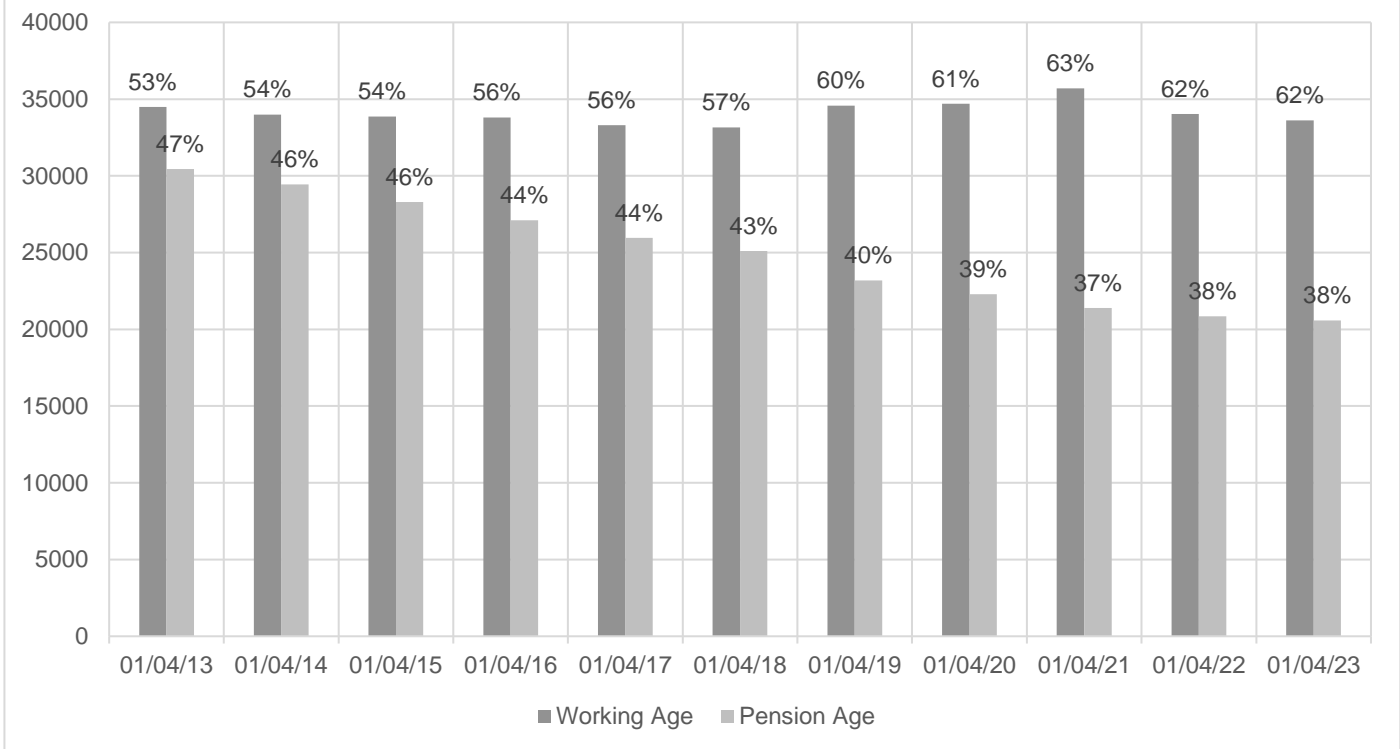


33 The council's LCTR scheme saw a significant increase in demand as a result of the Covid-19 pandemic. The pension age caseload has continued a trend of year-on-year reductions, although this rate of reduction has started to slow. The working age caseload, increased dramatically in the first quarter of 2020/21 as an unprecedented number of new claims were received by customers adversely affected by Covid-19. At the peak, in May 2020, the working age LCTRS caseload was almost 3,000 higher than in January of the same year. By March 2022, the number of working age LCTR claims had returned to pre-pandemic levels and have remained quite stable since:



- 34 In Durham, there are now over 6,100 LCTR claimants currently classed as working age that would have been treated as pensionable age claimants prior to 2010, when the process of moving eligibility to state pension credit age from 60 to 66 began. There will then be a further move up to 67 between 2026 and 2028, then to 68 between 2044 and 2046.
- 35 Over the last ten years there has been a nine-percentage point increase in the proportion of working age caseload in County 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 claimants, particularly those on UC, carry a much greater administrative burden as they have more frequent changes in their circumstances that need to be processed, producing multiple bills across the year.

Working Age and Pension Age Caseload



36 It is important to consider any impact on the collection rate for council tax, which changes to the LCTRS can have. The Institute for Fiscal Studies (IFS) estimate that a quarter of the additional council tax liability created by cuts to LCTR since 2013 has not been collected in year.

37 More significantly however, UC changes result 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, the councils in-year council tax collection rate reduced slightly in 2018/19 to 96.65%, and further still in 2019/20 to 96.37%. Performance in 2020/21 (93.43%) was impacted significantly by the pandemic with recovery action largely suspended for the whole of the year. By 2022/23 the in-year recovery rate had improved to 95.91%, however this is still almost one percentage point below the 2017/18 rate of 96.83%, in part reflecting the ongoing impact of the expanding UC rollout on LCTRS and council tax collection.

38 The regional picture in terms of the schemes currently in operation and comparison of in-year collection rates with that which existed pre LCTRS is shown below for the position to 31 March 2023. It is notable that until April 2022, Durham was the only authority which did not

require a minimum payment from all working age LCTR applicants and has improved its collection rate more than any other regional authority since council tax support was localised:

Local Authority	Basis of Scheme	Minimum Payment	Second Adult Reduction Offered?	Change in in-year council tax collection rate between 2012/13 and 2022/23
Durham	CTB	No	Yes	+0.91%points
Darlington	CTB	20%	No	+0.19%points
Gateshead	CTB	8.5%	No	-3.41%points
Hartlepool	CTB	12%	No	-4.86%points
Middlesbrough	Income Banded – since 2022/23	10%	No	-4.48%points
Newcastle	Income Banded – since 2018/19	No (was 15% but removed for 2022/23)	No	-0.02%points
North Tyneside	CTB	15%	No	-2.25%points
Northumberland	CTB	8%	Yes	-0.44%points
Redcar and Cleveland	CTB	17.5%	No	Not Available
South Tyneside	CTB	30% or 15% if vulnerable	Yes	-3.16%points
Stockton	Income Banded – since 2022/23	No (was 20% but removed for 2022/23)	No	-3.77%points
Sunderland	CTB	8.5%	No	-4.76%points

39 Since the introduction of HB and CTB, standard weekly amounts have been disregarded from customers' earned income at the following weekly rates:

- £5.00 for single people
- £10.00 for couples
- £25.00 for lone parents and
- £20.00 for disabled people.

An additional earnings disregard (AED) of £17.10 each week, is allowed where hours worked exceed 30 hours, or 16 hours if the resident is disabled or there are children in the household.

40 In Durham we have retained these earning disregards at the same rates within our LCTR Scheme.

41 If a resident receives Universal Credit (UC), their LCTR is based on the assessment of income and needs already made by the DWP for their UC decision. For residents who are in-work, UC is calculated monthly in arrears based on the earnings their employer has declared to the His Majesty's Revenue and Customs. As most residents find their monthly pay fluctuates, UC and in turn LCTR is recalculated regularly, in some cases 12 times a year.

42 If there is a live LCTR claim the DWP notify the council of changes in UC electronically. In UC there is no additional allowance based on hours worked and so the DWP do not hold or share hours worked information with local authorities. Determining the number of hours worked to assess whether an AED can be awarded, adds an extra layer of complexity and administration for UC cases where recalculations are so frequent.

43 The current LCTR procedure when there is a change in earnings in the UC assessment, is to telephone customers to confirm the average number of weekly hours they work. If contact cannot be made over the telephone, rather than delay recalculating the LCTR award, a decision is made to calculate the LCTR on less than 16 hours to ensure no AED is awarded. Residents are advised on their new award letter to get in touch with the council to confirm how many hours they work, as they may be entitled to some more help.

44 There are around 20,500 households in Durham claiming LCTR based on an UC award, circa 4,000 (19.5%) of which were in-work. Of these in-work households only 258 were receiving an AED. Analysis of our caseload shows that residents are losing out on the AED because of current practices.

- 45 The Civica Open Revenues IT system, which is used to calculate and manage LCTR decisions, has an option to automatically estimate the number of hours worked for residents in receipt of UC based on their pay and the National Living Wage rate. It is estimated that using this method would lead to circa 900 in-work UC households receiving an AED. A significant increase from the 258 currently receiving this help.
- 46 It is proposed therefore that, subject to satisfactory testing on the Civica system, a small clarification is made to the wording of the LCTR scheme regarding UC claimants, to allow for the number of hours worked to be estimated by the local authority based on national minimum wage levels.
- 47 The annual cost of implementing this adjustment to the scheme, to ensure support is awarded in line with the scheme's original intention, is estimated at £115k. Each in-work household that benefits will receive up to £178.33 more help with their council tax each year. This change in procedure would significantly reduce administration for the council allowing UC-based LCTR claims to be processed with less need to contact the customer for additional information. This clarification in the scheme around the calculation of hours worked, is not considered such a significant change as to require a consultation as described in the next paragraph.
- 48 If any changes are to be made to the council's LCTRS 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 Full Council meeting before 11 March each year. In reality, decisions are needed much earlier than this given the impact on tax base calculations and the need to firm up the tax base forecasts much earlier in the budget planning cycle.
- 49 Pensioners must be protected from any changes, with any reductions applied to working age claimants only.
- 50 Eleven years after the government abolished the national CTB system the council continues to have a LCTR scheme which mirrors the previous entitlement under the CTB system for all claimants. No LCTR claimants have therefore been financially worse off in the last eleven years (including the current year) than they would have been under the previous national scheme.
- 51 The council has been mindful of the continuing impacts of the wider welfare reforms and from the squeeze on household incomes from cost-of-living increases which are having a detrimental impact on many low-income households. Additional council tax liabilities for working

age households could have a significant impact on low-income household budgets by around £100 to £350 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.

- 52 In approving the scheme for 2023/24, the council 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.
- 53 The reduction in Government Grant support towards maintaining these schemes in the first year (2013/14) was £5.1 million, after which the Local Council Tax Support Grant was subsumed into general formula grant, which was and subject to annual reductions up to 2019/20. To recover the full initial £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 85.5% based on current caseloads.
- 54 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 £3.5 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 85.5% with a prudent collection rate of 80%). This would impact circa 33,800 working age households across County Durham, where 6,000 (17.8%) are actually in low paid jobs rather than being unemployed.

Conclusion

- 55 Following careful consideration of the current financial position of the council and in light of the continuing impact of the coronavirus pandemic, welfare reforms including the continued roll out of Universal Credit, which commenced in October 2017 in County Durham; and the cost of living impacts Cabinet are recommending that the current scheme should be extended for a further year into 2024/25 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.
- 56 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.

- 57 The council will need to continue to review the national situation and track what is happening in local authorities that have introduced LCTR 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.
- 58 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 the 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 LCTR claims side by side.
- 59 More significantly however, UC changes results in multiple reworking and changes to LCTR 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.

Background papers

- None

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Appendix 1: Implications

Legal Implications

The Welfare Reform Act 2012 abolished the national council tax benefits system (CTB), paving the way for new Local Council Tax Reduction Schemes (LCTRS) to be introduced under the auspices of the Local Government Finance Act 1992. Section 13A of the Local Government Finance Act 1992 (“the 1992 Act”) requires each billing authority in England to make a scheme specifying the reductions which are to apply to amounts of council tax payable by persons, or classes of person, whom the authority considers are in financial need (“a council tax reduction scheme”). The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012 (“the 2012 Regulations”) prescribe matters which must be included in such a scheme in addition to matters set out in paragraph 2 of Schedule 1A to the 1992 Act. Each year regulations amending the 2012 Regulations are made in November/December. Most of the amendments are to ensure consistency with changes to social security legislation and these are subsequently included in our local scheme. The LCTRS provides a ‘discount’ against the council tax charge, rather than a benefit entitlement and as such impacts on the council’s tax base. Regulations made under the Local Government Finance Act 1992 (The Local Authorities (Calculation of Council Tax Base) Regulations 1992 (as amended) the council to calculate a council tax base for each financial year. The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 which came into force on 30 November 2012 and applies to the financial years beginning 1 April 2013 onwards contains the rules which require the council to calculate the Council Tax Base. A key element of the tax base calculation is the council’s policy in terms of its LCTRS. There is a statutory requirement for the Council to adopt a local council tax support scheme for the ensuing financial year by 11 March each year. 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. Pensioners must be protected from any changes, with any reductions applied to working age claimants only.

Finance

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 £3.5 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 85.5% with a prudent collection rate of 80%). This would impact circa 33,800 working age households across County Durham, where 6,000 (17.8%) are actually in low paid jobs rather than being unemployed.

Consultation and Engagement

Town and parish councils were consulted on the proposals to continue to passport an element of the council's formula grant, equivalent to the town and parish share of the Local Council Tax Reduction Scheme grant funding within formula grant for 2022/23. This coincided with a review of payments made to Town and Parish Councils previously linked to pre-existing and inconsistent arrangements in the former district councils for services that had been devolved to them. Subject to Cabinet and Council consideration of the proposals outlined in this report, no further consultation will be required. The proposals are to extend and continue the current LCTRS into 2023/24, thereby retaining the same level of support to all working age council taxpayers as the previous Council Tax Benefit Scheme, which was abolished on 1 April 2013.

Equality and Diversity / Public Sector Equality Duty

Eleven years after the Government abolished the national Council Tax Benefits System the council continues to have a LCTRS 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 eleven 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.

Climate Change

None.

Human Rights

None.

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 2023/24 and as such have no implications, though the impact of the wider welfare reforms agenda will need to be kept under constant review.

Staffing

None.

Accommodation

None.

Risk

More significantly however, UC changes result 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%, and further still in 2019/20 to 96.37%. Performance in 2020/21 (93.43%) was impacted significantly by the pandemic with recovery action largely suspended for the whole of the year. By 2022/23 the in-year recovery rate had improved to 95.91%, however this is still almost one percentage point below the 2017/18 rate of 96.83%, in part reflecting the ongoing impact of the expanding UC rollout on LCTRS and council tax collection.

Procurement

None.