

**County Council**

**25 September 2024**



**Local Council Tax Reduction  
Scheme 2025/26**

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## **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 2025/26, 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 18 September 2024 and it was resolved to recommend to Council the continuation of the scheme into 2025/26.

### **Executive Summary**

- 3 Durham County Council is 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 working age 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.
- 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 to make regardless of their personal circumstances. National research confirms that there is a clear correlation between higher minimum payments in LCTRS and lower in-year council tax collection rates.

- 6 There are currently 53,800 LCTR applicants in County Durham, of which 20,350 (38%) are of pension age and 33,450 (62%) are of working age. Almost 83% of all working age applicants (circa 27,700 households) currently receive maximum LCTR, leaving them with no council tax to pay.
- 7 Approximately 85% of working age LCTR applicants live in rented accommodation and 88% occupy Band A properties. Total LCTRS support, including that provided to pension age claimants who are fully protected in any event, is forecast to be circa £67 million in 2024/25.
- 8 The roll-out of Universal Credit (UC) is currently scheduled to be completed by March 2026. As at May 2024, there were circa 20,700 LCTR applicants in County Durham receiving UC, around 62% of the current working age LCTR caseload. Throughout 2024/25 legacy benefit claimants will migrate to Universal Credit, including Employment and Support Allowance claimants, who's migration date has moved from 2028 to September 2024.
- 9 The Transactional and Customer Services team expect to process over 273,000 LCTR claim changes in circumstance in the current financial year. The majority of these are changes to Universal Credit entitlement, due to UC being a real time benefit, and therefore re-calculated by the DWP on a monthly basis.
- 10 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 a household's net liability and instalment plans for any council tax balance they are responsible for.
- 11 As a consequence, it is not easy for residents to track their council tax liability, leading to difficulties for households when managing their finances and personal budgeting, which can impact on the amount of council tax we collect. This is expected to increase as Universal Credit migration continues.
- 12 Consideration of whether to extend the current scheme into 2025/26 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.
- 13 This report recommends that the current LCTRS is again retained and remains unaltered for a further year into 2025/26.

## **Recommendations**

- 14 Council is recommended to:
  - (a) Agree to continue the current Local Council Tax Reduction Scheme into 2025/26, 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) Agree that the extension to the Scheme be initially for a further year only and that the scheme be kept under continuous review with a further decision on the scheme to apply in 2026/27 to be considered by Cabinet in summer 2025 and Full Council by March 2026.

## **Background**

- 15 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 and as such impacts on the tax base.
- 16 A Council Tax Reduction Scheme Grant to offset the impact of the reduction in tax raising capacity was initially paid directly to the council and the major precepting bodies (Police and Fire) but now forms part of the council's formula funding arrangements.
- 17 As this Government grant was technically 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.
- 18 The council's formula grant includes an element relating to Town and Parish (T&P) Councils and whilst the council has previously resolved to pass this notional LCTRS grant on to the Town and Parish Councils, there is no statutory requirement to do so, with most other Councils no longer doing so.
- 19 As part of the 2024/25 budget and MTFP(14) proposals, it was agreed that there would be a 50% reduction in the quantum of grant provided to Town and Parish Councils, phased in over three years from 2024/25. At this stage it is assumed that payments to Town and Parish Councils in 2025/26 will total £1.0 million, a reduction of £0.250 million on the payments being made in 2024/25, of £1.25 million. The payments to Town and Parish Councils will reduce again by £0.25 million to £0.75 million in 2026/27, as part of the proposals agreed last year.
- 20 LCTR provides a 'discount' against the council tax charge, rather than crediting the account with a benefit payment and as such, the award of LCTR impacts (reduces) the council tax base and therefore the tax raising capacity of the Council and its precepting bodies.
- 21 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.
- 22 There are no such restrictions on the level of support that can be given via working age LCTR schemes.

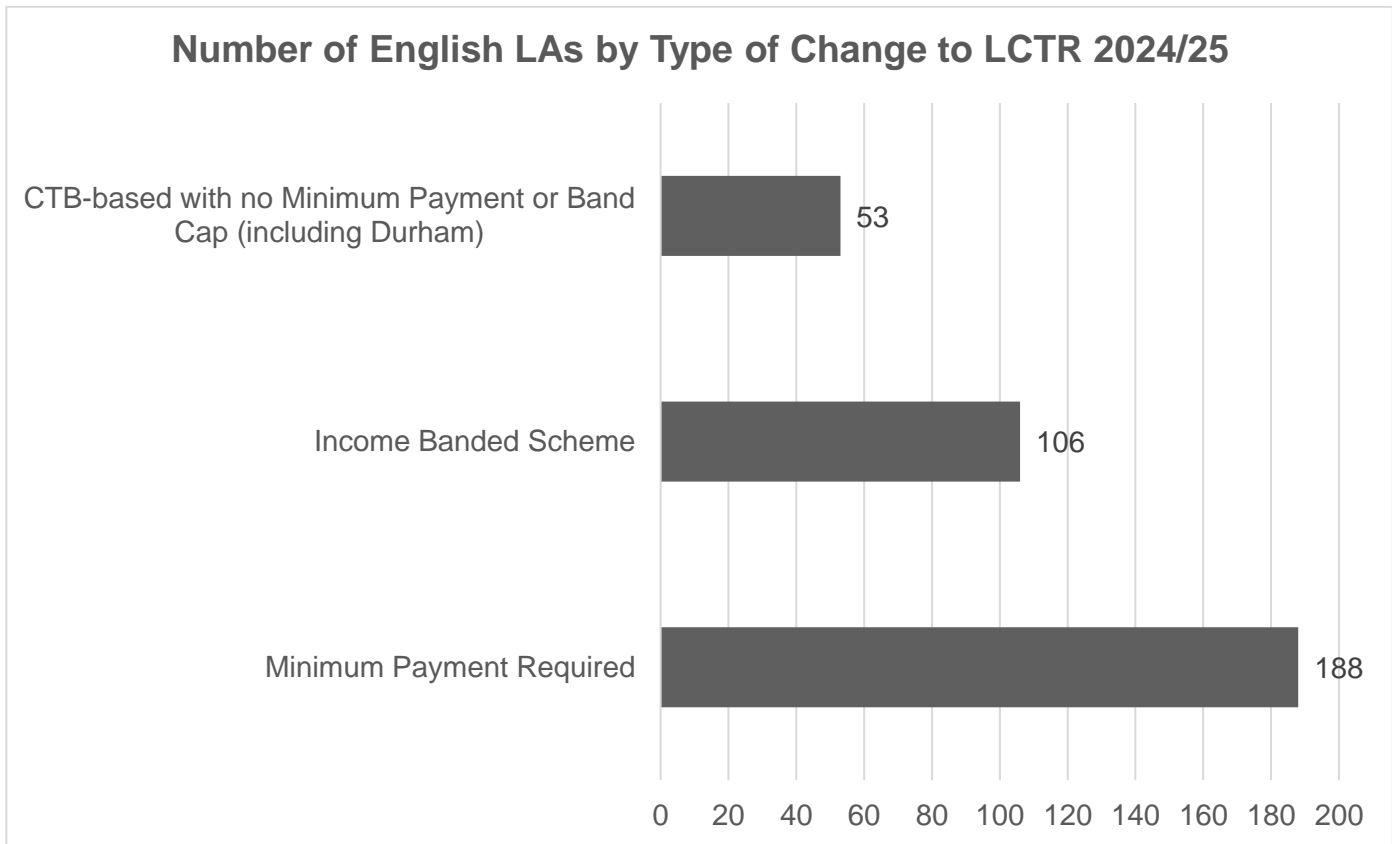
## **Review of the Local Council Tax Reduction Scheme for 2025/26**

- 23 In the North East region, Durham is 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, although two (Northumberland CC and Stockton BC), have in recent years changed their scheme so that they can provide up to 100% to some working age claimants.

- 24 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. Lots of these, including authorities in our region have sought to relax their initial schemes over time.
- 25 The most recent comprehensive national data was published in 2018/19 by the Joseph Rowntree Foundation, so is a little dated, but some basic national data was recently published by Entitled To concerning the 2024/25 schemes in place across the country.
- 26 National data shows that over 80% of councils have made at least one significant change to their scheme since the original schemes were adopted in 2013/14.
- 27 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.
- 28 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.
- 29 The Council will need to 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 more than 12 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, in part due to the multiple and changed bills they receive.
- 30 The cost-of-living crisis has in recent years prompted some local authorities to restore higher levels of maximum support for their poorest households.
- 31 Since 2018 there has been a trend towards councils making their LCTR schemes more generous. In part this trend has continued into 2024/25, with 15 councils increasing the maximum support available, including 6 that moved to 100% support. However, while in 2022/23 and 2023/24 only 1 council each year reduced the maximum support available under their schemes, in 2024/25, 9 councils made cuts to the level of support offered.

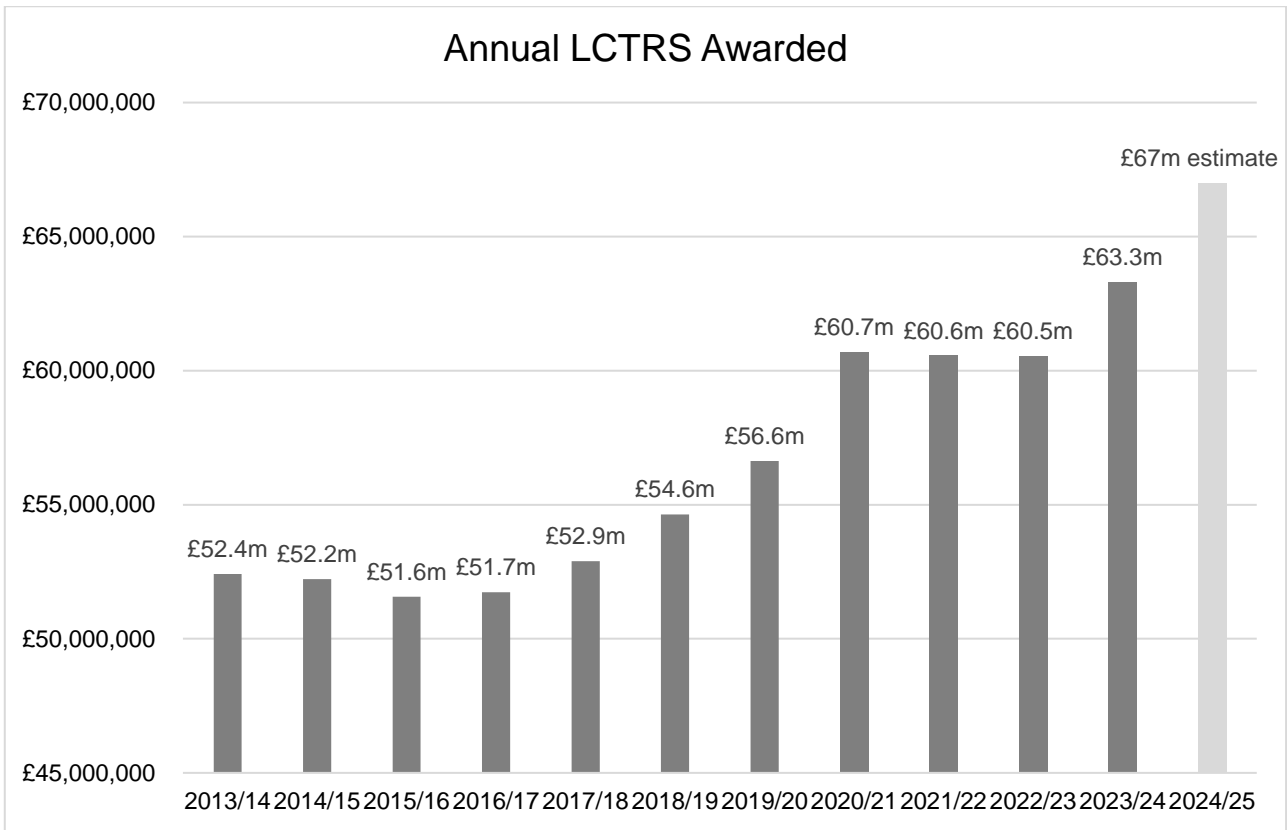
32 In England, 188 of 296 local authorities (64%) do not offer 100% reductions in liability to any working age residents and require a minimum payment instead regardless of the personal circumstances of the claimant and despite the cost-of-living crisis:



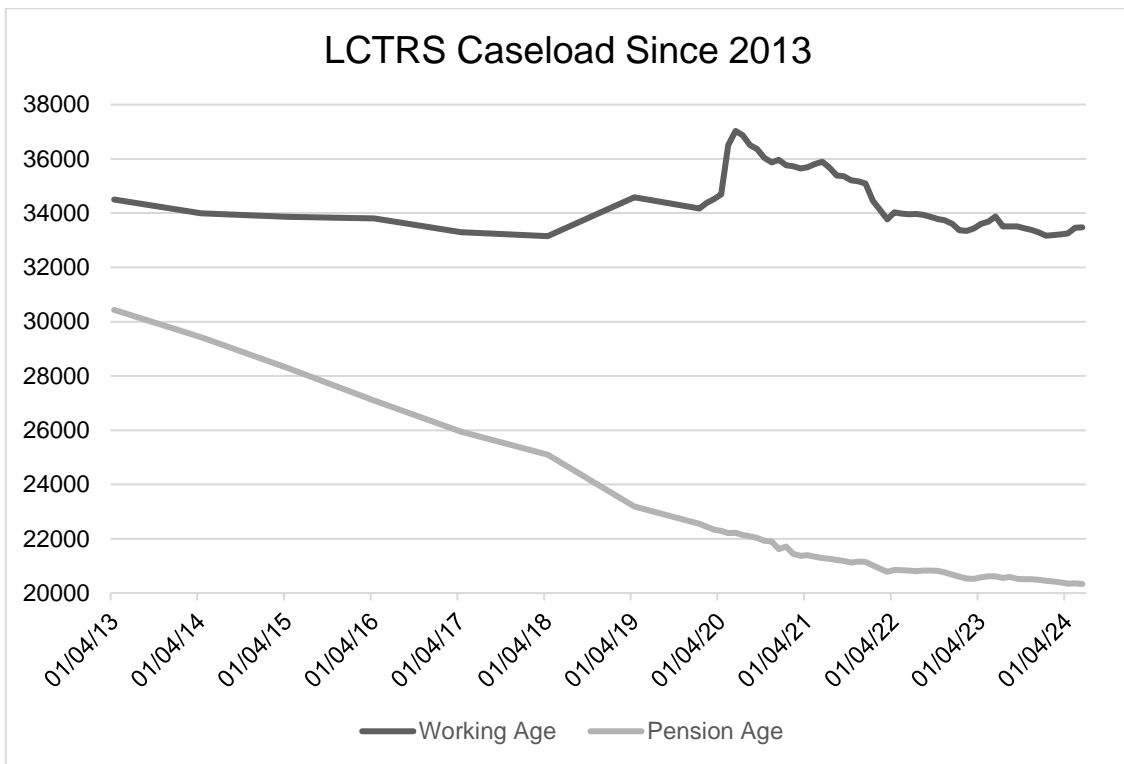
33 The roll-out of Universal Credit is currently scheduled to be completed by March 2026. As at May 2024, there were circa 20,700 LCTR applicants in County Durham receiving UC, around 62% of the current working age LCTR caseload.

34 There are currently just over 53,800 LCTR cases in County Durham, of which 20,350 (38%) are of pension age and 33,450 (62%) are of working age. Almost 83% (circa 27,700) 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. Total LCTRS support is forecast to be circa £67 million in 2024/25 - £25 million of this relates to claimants of pensionable age and £42 million of this relates to claimants of working age.

35 The table below shows the year-on-year differences in LCTR scheme costs over the last ten years. It is important to note that the council tax charges have increased across this period, and this results in increased LCTR costs from year to year. There was a significant increase in caseload in 2020/21 that continued into 2021/22 as a result of the Covid-19 pandemic.

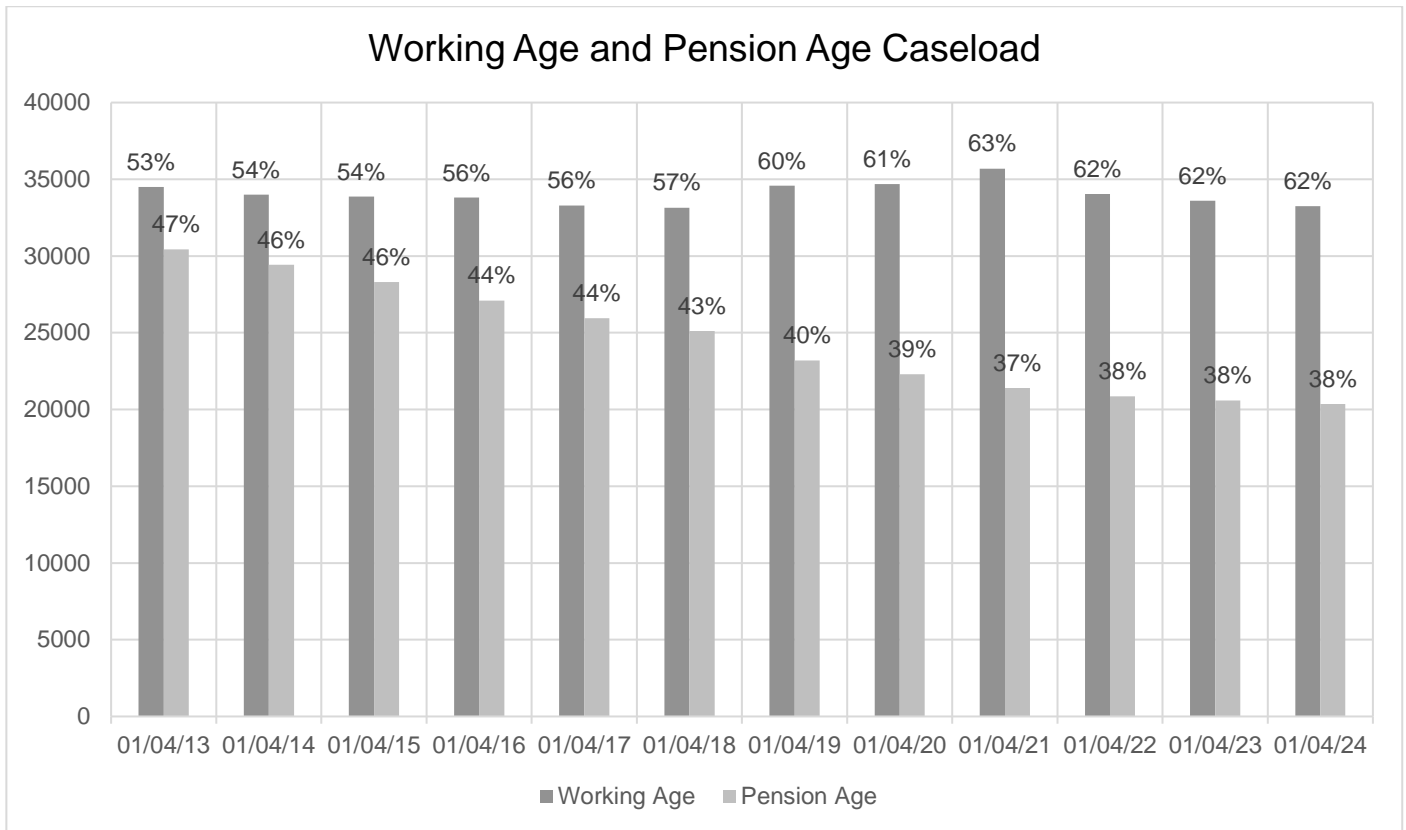


36 The pension age caseload has continued a trend of year-on-year reductions, although this rate of reduction has started to slow. The working age caseload increased dramatically in the first quarter of 2020/21, as an unprecedented number of new claims were received from households adversely affected by the Covid-19 pandemic. At its 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 stable since then:



- 37 In Durham, there are now over 4,300 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 be a further move up to age 67 between 2026 and 2028, then to age 68 between 2044 and 2046.
- 38 Over the last twelve 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 LCTR 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.





- 39 It is important to consider any impact on the collection rate for council tax, that changes to the LCTRS can have. The Institute for Fiscal Studies (IFS) estimated that a quarter of the additional council tax liability created by cuts to LCTR since 2013 has not been collected in year. They stated that this rate of non-collection was ten times higher than normal collection rates, and that it did not appear to be improving over time.
  
- 40 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.
  
- 41 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 2023/24 the in-year recovery rate had improved to 95.37%, however this is still almost one and half percentage points below the 2017/18 rate of 96.83%, in part reflecting the ongoing impact of the expanding UC rollout on LCTRS and in part due to the ongoing impact of the pandemic and the subsequent cost of living squeeze that has impacted in year council tax collection rates across all authorities.
  
- 42 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 2024. It is notable that Durham is

one of only two councils to have improved its collection rate since council tax support was first localised:

Local Authority	Basis of Scheme	Minimum Payment	Second Adult Reduction Offered?	In Year Recovery Rate 2023/24	Change in in-year council tax collection rate between 2012/13 and 2023/24
Durham	CTB	No	Yes	95.37	+0.37%points
Darlington	CTB	20%	No	96.39	+0.49%points
Gateshead	CTB	8.5%	No	93.84	-2.76%points
Hartlepool	CTB	12%	No	92.48	-4.52%points
Middlesbrough	Income Banded – since 2022/23	10%	No	92.84	-3.16%points
Newcastle	Income Banded – since 2018/19	No (was 15% but removed for 2022/23)	No	97.09	-0.01%points
North Tyneside	CTB	15%	No	94.84	-2.06%points
Northumberland	CTB	8%	Yes	96.69	-1.01%points
Redcar and Cleveland	CTB	17.5%	No	92.73	-4.7%points
South Tyneside	Income Banded since 2024/25	10% (was 30% before 2024/25)	Yes	93.87	-3.23%points
Stockton	Income Banded – since 2022/23	No (was 20% but removed for 2022/23)	No	95.09	-3.11%points
Sunderland	CTB	8.5%	No	92.74	-4.46%points

43 If any changes are to be made to the Councils 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.

- 44 Pensioners must be protected from any changes, with any reductions applied to working age claimants only.
- 45 Twelve years after the government abolished the national CTB system the council continues to have a LCTR scheme which mirrors the previous entitlement under the national CTB system for all claimants. No LCTR claimants have therefore been financially worse off in the last twelve years (including the current year) than they would have been under the previous national scheme.
- 46 In retaining this level of support, 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 in recent years 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. If the council were to cap the level of support available, it would make collection of council tax more difficult and costly to recover from these low-income households.
- 47 In approving the scheme for 2024/25, the council gave a commitment to review the scheme on the grounds of medium-term financial plan (MTFP) affordability.
- 48 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 subjected 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 86% based on current caseloads.
- 49 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 £3.7 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 86% with a prudent collection rate of 80%). This would impact circa 33,450 working age households across County Durham, where 6,050 (18%) are in low paid jobs rather than being unemployed.

- 50 Following careful consideration of the current financial position of the council and in light of the continuing impact of welfare reforms including the continued roll out of Universal Credit, which commenced in October 2017 in County Durham; and the ongoing cost-of-living impacts the Cabinet have resolved to recommend to Council that the current scheme should be extended for a further year into 2025/26 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.
- 51 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.
- 52 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.
- 53 The council will need to continue to 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.
- 54 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.

## **Conclusion**

- 55 The council is 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, although two other authorities (Northumberland CC and Stockton BC) do also now provide up to 100% LCTRS reduction.

- 56 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.
- 57 Following careful consideration of the current financial position of the council balanced against the impact on working age low income households of making changes to the LCTR scheme at this stage Cabinet have resolved to recommend to Council that the current scheme should be extended for a further year into 2025/26 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.
- 58 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.
- 59 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.
- 60 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.
- 61 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**

- Local Government Finance Act 1992
- Welfare Reform Act 2012

- The Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations (as amended)
- The Impacts of Localised Council Tax Support Schemes – Institute for Fiscal Studies Report January 2019
- Medium Term Financial Plan(15), 2025/26 – 2028/29 and Review of the Local Council Tax Reduction Scheme and Council Tax Discretionary Discounts and Premiums Policy – Report to Cabinet 18 September 2024

### **Other useful documents**

- Medium Term Financial Plan (14), 2024/25 to 2027/28 – Report to Council 28 February 2024
- Local Council Tax Reduction Scheme 2024/25 – Report to Council October 2023

### **Author(s)**

Rob Davisworth	Tel: 03000 261946
Victoria Murray	Tel: 03000 267707
Steve Evans	Tel: 03000 261441

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## **Appendix 1: Implications**

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### **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. The majority 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.

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 Local Council Tax Reduction 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 £3.7 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 86% with a prudent collection rate of 80%). This would impact circa 33,450 working age households across County Durham, where 6,050 (18%) are actually in low paid jobs rather than being unemployed. The proposal in the report is to retain the existing scheme into 2025/26.

## **Consultation**

If any changes are proposed to the LCTR scheme, these must not impact on pension age claimants, 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.

## **Equality and Diversity / Public Sector Equality Duty**

Twelve 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 twelve years than they would have been under the previous national scheme and if the proposals set out in this report and ultimately agreed this will continue to be the case in 2025/26.

## **Climate Change**

None

## **Human Rights**

None

## **Staffing**

None

## **Accommodation**

None



## **Risk**

Universal Credit 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 2023/24 the in-year recovery rate had improved to 95.37%, however this is still almost one and half percentage points 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.

If the council were to cap the level of support available, it would make collection of council tax more difficult and costly to recover from these low-income households.

## **Procurement**

None