

MIDDLESBROUGH COUNCIL

Report of:	Corporate Director of Finance (s151 Officer), Andrew Humble
Relevant Executive Member:	Executive Member for Finance, Cllr Nicky Walker
Submitted to:	Executive
Date:	6 May 2026
Title:	Exceptional Hardship Fund - Section 13A (1) (a) Policy change
Report for:	Decision
Status:	Public
Council Plan priority:	A healthy place
Key decision:	Yes
Why:	Decision(s) will have a significant impact in two or more wards
Subject to call in?	Yes
Why:	Non-urgent decision

Proposed decision(s)

That Executive approves a time-limited change (2026/27 financial year only) to the Exceptional Hardship Fund - Section 13A (1) (a) policy which was approved at Executive on 4 February 2026 to:

- extend eligibility to Council Tax Reduction (CTR) claimants on the basis of their increased income from Universal Credit due to the removal of the two-child restriction, to enable individual council tax bills to remain unaffected, with automatic awards to be made.

Executive summary

This report addresses the situation created by the timing of the Government Budget announcement made in November 2025 with the intention of tackling child poverty but which would mean that some of those in receipt on Council Tax Reduction (CTR) would not benefit to the full extent if measures are not taken to ensure that CTR awards are not adversely affected once the household income of families increases due to the lifting of the two-child limit in Universal Credit from April 2026. The proposals in this report would enable individual council tax bills to remain unaffected.

The timing of the Budget announcement meant that the necessary consultation could not be undertaken to make adjustments to Middlesbrough's CTR scheme for 2026/27.

In common with some other councils with income banded CTR schemes, Middlesbrough's scheme uses groups of household types, which differentiates between those with none, one or two or more children, with no provision for larger households, reflecting national rules for benefit entitlement in place at the time the scheme was devised when the two-child limit was in place. Within each of these groupings there are 5 income bands which determine entitlement to CTR.

If no mitigation is put in place, those receiving higher levels of income through the lifting of the two-child limit could move into a higher income band, meaning they pay more council tax.

The income bandings within the CTR scheme will remain unchanged for 2026/27 with the maximum reduction of 90%. This applies to both those who are in and are not in work.

Alleviating the effect in 2026/27 is possible, though at some financial cost to the Council and involving administrative burden in making the necessary calculations and adjustments.

If the recommended decision is approved then this would be consistent with the Council's ambition of supporting residents out of poverty, with the particular opportunity for improving outcomes for children in the borough.

It is open to the Council not to take action, though this might be difficult to justify.

The implications of the recommendations have been considered by the appropriate officers of the Council and are set out in the main body of the report.

1. Purpose of this report and its contribution to the achievement of the Council Plan ambitions

- 1.1 This report seeks approval from Executive for a change to the recently confirmed Exceptional Hardship Fund policy that will enable the Council to ensure that recipients of Council Tax Reduction are not adversely affected by the increase in income arising from the removal of the two-child restriction that has previously generally applied in Universal Credit.

Our ambitions	Summary of how this report will support delivery of these ambitions and the underpinning aims
A successful and ambitious town	<i>Council tax revenues are important in maintaining public services and fostering economic growth within the local community. The amount of council tax due to be collected was set in the budget and would have been increased at the expense of some Council Tax Reduction claimants without the policy intervention.</i>
A healthy Place	<i>Provision of additional council tax support is important to the Council's aim of preventing poverty and supporting residents out of poverty. The policy change proposed seeks to ensure that the effect of the government's decision to increase the income of some families through Universal Credit is not diminished through a reduced entitlement to Council Tax Reduction.</i>
Safe and resilient communities	<i>Supporting individual residents whose financial circumstances are not great will contribute to community resilience.</i>
Delivering best value	<i>The implementation of the defined approach assists in efficient administration of providing the additional support proposed.</i>

2. Recommendations

That Executive approves a time-limited change (2026/27 financial year only) to the Exceptional Hardship Fund - Section 13A (1) (a) policy which was approved at Executive on 4 February 2026 to:

- extend eligibility to Council Tax Reduction (CTR) claimants on the basis of their increased income from Universal Credit due to the removal of the two-child restriction, to enable individual council tax bills to remain unaffected, with automatic awards to be made.

3. Rationale for the recommended decision(s)

- 3.1 The decision to extend eligibility is required if it is the Council's intention to ensure that there is no detriment to claimants of CTR who would otherwise benefit from additional household income to be made available by Government through Universal Credit due to the removal of the two-child restriction that has previously generally applied.

- 3.2 The cost of extending eligibility under the Exceptional Hardship Fund - Section 13A (1) (a) Policy is offset to a substantial extent by increased council tax revenue because the value of CTR awards for the claimants affected will be reduced. The impact from increased household income will commonly be a lower rate of individual entitlement under the CTR scheme.
- 3.3 Avoiding the requirement for individual applications will reduce the administrative effort that would be involved in arranging for them to be made and decided. A standard approach that enables individual council tax bills to remain unaffected should reduce the level of contact with the Resident and Business Support Service from affected claimants and avoid the need for more than one council tax bill to be issued associated with the income change.

4. Background and relevant information

- 4.1 Under Schedule 1A of the Local Government Finance Act 1992, CTR schemes have to be approved by 11 March each year, with the requirement to publish a draft scheme and provide for consultation on changes to an existing scheme in advance of that date.
- 4.2 The Chancellor of the Exchequer announced in her Budget on 26 November 2025 that the government would be removing the two-child limit in the child element of Universal Credit from April 2026, estimating that the measure would lift 450,000 children out of poverty.
- 4.3 The announcement was made too late for councils to undertake the necessary preparatory work to design and consult on a scheme taking the change into account and then to obtain scheme approval by the 11 March 2026 deadline.
- 4.4 The Department for Work and Pensions (DWP) has been approached for data on those claimants who are likely to be affected by the change but have responded to the effect that nothing is to be provided.
- 4.5 It is therefore unfortunately difficult to predict with any accuracy the numbers and cost potentially involved as the Council is reliant on receiving DWP electronic notifications that are expected during May and June 2026 as individual claimant Universal Credit entitlements are recalculated.
- 4.6 The data that is already held suggests in excess of 1,000 claimants will be affected, and the scale of the impact in each instance will vary according to other factors in individual assessments. The effect that this will have in terms of the reduction in the rate of support to be provided by the CTR scheme could be substantial, particularly for larger families.
- 4.7 For each additional child for which the child element will be awarded in Universal Credit, the income provided for will increase by £303.94 per month, or £70.14 per week.
- 4.8 Most claimants will be receiving CTR at a rate of 90% before the increase takes effect, with 72%, 36%, 24% and none, all being possible entitlement rates afterwards. The current scheme bands prescribe income ranges as shown in the table below:

Discount Band	Discount	Single Person	Single person with one child	Single person with two or more children	Couple	Couple with one child	Couple with two or more children
Band 1	90%	£0 - £126.77	£0 - £200.80	£0 - £275.17	£0 - £177.47	£0 - £257.89	£0 - £326.00
Band 2	72%	£126.78 - £228.17	£200.81 - £301.20	£275.18 - £368.99	£177.48 - £304.22	£257.90 - £353.49	£326.01 - £426.30
Band 3	36%	£228.18 - £272.54	£301.21 - £320.03	£369.00 - £437.78	£304.23 - £367.60	£353.50 - £402.56	£426.31 - £501.54
Band 4	23%	£272.55 - £323.24	£320.04 - £351.40	£437.79 - £562.87	£367.61 - £430.99	£402.57 - £465.45	£501.55 - £601.85
	0%	Over £323.24	Over £351.40	Over £562.87	Over £430.99	Over £465.45	Over £601.85

- 4.9 The proposal being made is to negate the effect of a lower rate of CTR by reducing a claimant's council tax liability to the value of CTR lost by crediting an equivalent amount under the Exceptional Hardship Fund - Section 13A (1) (a) Policy. The Exceptional Hardship Fund - Section 13A (1) (a) Policy provides for application-based reductions to council tax bills in exceptional circumstances, usually where a CTR award has been made.
- 4.10 The cost of extending eligibility under the Exceptional Hardship Fund - Section 13A (1) (a) Policy is offset to a substantial extent by increased council tax revenue because the value of CTR awards for the claimants affected will be reduced in comparison to the sum allowed in the Council's budget setting process. Therefore, whilst the amounts that taxpayers are required to pay is unchanged, for accounting purposes there is an effect.
- 4.11 The cost of CTR awards is not borne solely by the Council and neither therefore is any saving on that cost, but awards from the Exceptional Hardship Fund are not shared, giving rise to the only partial offset. Council tax, against which CTR is awarded, is revenue not just for the Council, but also the Police and Crime Commissioner and Cleveland Fire Authority. The net cost to the Council might be anywhere between £50k and £300k, subject to the factors of claimant numbers and the value of CTR individually lost, and will only become clear once DWP data is received.
- 4.12 As the Council's budget has been set, it will be necessary to identify resources that can be directed to ensuring that the additional expenditure that would be incurred in making the proposed Exceptional Hardship Fund awards is funded.
- 4.13 The introduction of the Crisis and Resilience Fund (CRF), which is still subject to Executive approval as part of a future report, provides funding that might overlap with some of the provision set aside from the Family Resilience Fund initiative introduced from 2025/26. As provision can be maintained and expanded under CRF, and the objective of this report is connected to improving family resilience, some of the ongoing budgeted funding could be redirected to meet the new Exceptional Hardship Fund expenditure.
- 4.14 It is proposed that awards would only be made for the 2026/27 council tax year and that an amended CTR scheme would be brought forward for 2027/28 that would make allowance for the removal of the two-child limit and for any other changes then relevant.
- 4.15 Households newly affected during the course of 2026/27 are to be eligible for the adjustment to council tax liability, recognising that the effect for new claimants of their Universal Credit award could mean less support is being provided through the CTR scheme than is appropriate in the circumstances.

- 4.16 Changes in claimant circumstances will be monitored throughout 2026/27 to ensure that any award initially made remains equivalent to the sum lost in CTR entitlement, so that the cost borne by the Council under the policy extension is minimised.
- 4.17 An Impact Assessment undertaken notes the consistency of the effect of the recommended decision with the provision made in Universal Credit and the intent that low income families are not disadvantaged as they would be financially without the decision.

5. Ward Member Engagement if relevant and appropriate

- 5.1 To the extent that members are represented at the Policy Development Group, members have been consulted and engaged.

6. Other potential alternative(s) and why these have not been recommended

- 6.1 The Council could take no action to provide additional support, which would mean more council tax revenue would become payable due to the reduction in individual CTR claimants' entitlements.
- 6.2 Those claimants would bear the cost of the bigger council tax bills and meet it from the additional income that the government has announced would be received through Universal Credit.
- 6.3 The perception could well be that the Council is not serious about reducing poverty, particularly for families with children, and is taking financial advantage from the changed circumstances.
- 6.4 It is possible that a sum at a lesser rate than the full amount lost in CTR could be awarded from the Exceptional Hardship Fund, but an additional level of complexity would be introduced for which a substantial amount of work might be required to understand the range of consequences that would result and to then implement. The interplay between the CTR scheme income ranges and associated CTR award rates creates the possibility that some households could have a lot more council tax to pay if the full amount were not credited.

7. Impact(s) of the recommended decision(s)

Topic	Impact
Financial (including Social Value)	The first £100,000 of the cost will be met from the budgeted provision for the Family Resilience Fund (see paragraph 4.13), with the remainder being financed from the General Fund in 2026/27. Subject to its approval and terms, the Council Tax Reduction Scheme for 2027/28 would restore the previous status quo where the cost of maintaining individual entitlements would be met through the Collection Fund and not directly by the Council. If the previous status quo is restored, and as this decision is affecting only the current financial year, then there are no consequences for the Medium Term Financial Plan.

Procurement	None – existing Revenues & Benefits system software to be utilised.
Legal	Section 13A (1) (a) of the Local Government Finance Act 1992 provides for the reduction of council tax bills. There are no other legal implications arising from the proposed change.
Risk	The Policy will continue to support the delivery of the Council's strategic priority to reduce poverty as set out in the Council Plan 2024-2027.
Human Rights, Public Sector Equality Duty and Community Cohesion	There are no disproportionate adverse impacts on any group or individuals with characteristics protected in UK equality law.
Reducing Poverty	Through the provision of additional awards, the extent to which the government's action on poverty reduction among households on low incomes would be effective is not lessened.
Climate Change / Environmental	There are no disproportionate adverse impacts on the aspirations of the Council to achieve net zero, net carbon neutral or be the lead authority on environmental issues.
Children and Young People Cared for by the Authority and Care Leavers	The change is of no consequence to Care Leavers who are already not required by the Council to pay council tax until reaching the age of 25.
Data Protection	The collation and use of personal data will continue to be managed in accordance with the Council's Data Protection policy and the Benefits, Council Tax and Business Rates Privacy Notice Privacy notice - Housing Benefit and Council Tax Reduction Middlesbrough Council

Actions to be taken to implement the recommended decision(s)

Action	Responsible Officer	Deadline
Amend Service procedures	Janette Savage	8 May 2026

Appendices

None

Background papers

Body	Report title	Date
Executive	Exceptional Hardship Fund - Section 13A (1) (a) Policy	4 February 2026

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