

## Cabinet

18 November 2015

### Council Tax Base 2016/17 and Forecast Surplus on the Council Tax Collection Fund as 31 March 2016



**Key Decision: CORP/R/15/03**

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#### Report of Corporate Management Team Don McLure, Corporate Director Resources Councillor Alan Napier, Portfolio Holder for Finance

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#### Purpose of the Report

- 1 To determine the Council's Council Tax Base for all domestic properties liable to pay council tax, which is an important component in the Council's budget setting process for 2016/17 and to report on the estimated collection fund surplus as at 31 March 2016, which will need to be distributed to the principal precepting authorities in 2016/17.

#### Background

- 2 Regulations made under the Local Government Finance Act 1992 (The Local Authorities (Calculation of Council Tax Base) Regulations 1992 (as amended)) require each billing authority to calculate its 'Council Tax Base' for the following financial year.
- 3 The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 (SI 2012:2914) provides amended statutory guidance to incorporate the changes as a result of the introduction of Local Council Tax Reduction Schemes (LCTRS's) from 1 April 2013.
- 4 The Council Tax Base is a measure of the County Council's 'taxable capacity', for the purpose of setting its Council Tax. Legislation requires the Council to set out the formula for that calculation and that the tax base is formally approved by Cabinet.
- 5 Section 84 of the Local Government Act 2003 enables authorities to set their Council Tax Base, other than by a decision of the full Council, therefore, allowing Cabinet to take the necessary decisions to determine the Council Tax Base for 2016/17.
- 6 On 15 July 2015 Cabinet resolved to recommend to Council continuation of the current LCTRS into 2016/17. Council, on 28 October 2015 subsequently approved the continuation of the current Local Council Tax Reduction Scheme into 2016/17, which retains the same level of support to all council tax payers as the previous Council Tax Benefit Scheme, which was abolished on 1 April 2013.

- 7 The extension to the LCTRS is initially for one more year and the Scheme will be kept under continuous review with a further decision to be considered by Cabinet in the summer of 2016 and Full Council by January 2017 with regards to proposals for 2017/18. There are no other discount changes impacting on the Tax Base for 2016/17.
- 8 All monies collected from Council Tax are paid into the Collection Fund. The Council collects monies on behalf of itself, the Police and Crime Commissioner, the County Durham and Darlington Fire and Rescue Authority and Town and Parish Councils in the County. Police and Fire are classified as major precepting bodies under Council Tax legislation, whereas Town and Parish Councils are classified as local precepting bodies.
- 9 Significant sums pass through the Collection Fund annually, a process which can result in a surplus or deficit on the Fund at the 31st March as the monies collected inevitably vary from those estimated.
- 10 As the billing authority, the Council is required on an annual basis by 15 January to make a declaration of the estimated Collection Fund outturn position, and identify and apportion any surplus or deficit anticipated for the following financial year between the principal precepting authorities making a precept on the Fund so that they can factor this into the budget setting processes. Quarterly updates are reported as part of the budgetary control reports to Cabinet and over the last few years the Council has declared a balanced position on the Collection Fund.

### **Calculating the Tax Base 2016/17**

- 11 Appendix 2 shows the number of dwellings in County Durham, allocated across the various Council Tax Bands. At 5 October 2015 there were 239,806 dwellings registered for Council Tax.
- 12 Some of these properties are exempt from council tax (e.g. dwellings occupied solely by students), whilst in single person households only 75% of the tax is payable. Following decisions taken in December 2012, empty properties no longer receive any discount; neither do second homes and long term empty properties. Empty properties for more than two years are charged a 50% premium.
- 13 The number of dwellings, therefore, needs to be adjusted to reflect these discounts and exemptions, giving a net property base (chargeable dwellings) for each Council Tax band. Council Tax for a Band A property is 6/9ths of the Band D council tax; Band B is 7/9ths and Band C is 8/9ths. Prior to consideration of the impact of the LCTRS, there are 212,924.46 chargeable properties in County Durham and over 84% of these are within bands A to C, with 59% of all properties being in Band A.
- 14 The Council Tax levied varies between the different bands according to proportions laid down in legislation. These proportions are based around Band D, and are fixed so that the bill for a dwelling in Band A will be a third of the bill for a dwelling in Band H. Applying the relevant proportion to each

band's net property base produces the number of 'Band D Equivalent' properties for the area. Prior to consideration of the impact of LCTRS, there are 166,980.0 Band D Equivalent properties in County Durham.

- 15 In determining the Council Tax Base for 2016/17, two further issues must be factored into the calculation:
  - Forecast reductions in the tax base as a result of the LCTRS, which is a discount rather than a benefit payment and therefore reduces the tax base; and
  - Provision for non-collection of council tax due to bad debts that need to be written off.
- 16 In previous years, the provision for non-collection was 1.5%, giving a forecast collection rate of 98.5% and based on actual collection performance, it is proposed to retain the same non-collection rate for 2016/17 tax base setting purposes. In determining the tax base, no provision has been made for new build or other changes in the quantum of discounts and exemptions. Also, unlike previous years, no provision has been made for increases in the incidence of LCTRS claims. This is considered a prudent approach to apply going forward based on experience of the incidence of LCTRS claims over recent years.
- 17 Taking into account the forecast collection rate and factoring in the adjustments to the Band D Equivalent properties as a result of the LCTRS next year, the Band D Equivalent Tax Base is forecasted to be 133,892.4 in 2016/17, which compares to the current 2015/16 tax base figure for the County of 130,493.0 – an increase of 3,399.4 (2.61%).
- 18 The council tax base for the County Council will be used by the Police and Crime Commissioner and the Durham and Darlington Fire and Rescue Authority to set their council tax precepts for 2016/17, which will be included in the council tax bills sent to every council tax payer in the County.
- 19 The Town and Parish (T&P) Councils and the Charter Trust for the City of Durham, council tax bases are set out at Appendix 3 and will be used to calculate the parish and town councils and the Charter Trust for the City of Durham precepts in 2016/17. These will also be added to the council tax bills and sent to every council tax payer in the respective T&P Council areas.
- 20 The Council's formula grant includes an element relating to T&P Councils and whilst the Council has passed the grant on to the T&P Councils over the last three years, there is no statutory requirement to do so.
- 21 Following discussions with the T&P Councils' Working Group, Cabinet resolved on 15 July 2015 to continue to pass on the T&P element of its formula grant in 2016/17, but in doing so, continue to apply pro-rata reductions in the Council Tax Support Grant paid to T&P Councils in 2016/17 in line with reductions in the overall formula funding made available to the Council.

- 22 Formula grant has been subject to significant ongoing year on year reductions since 2010/11 and the latest MTFP includes a forecast c£15m reduction in Revenue Support Grant in 2016/17, partially offset by retail price index inflation (RPI) increases in the local share of business rates and top up grant under the localisation of Business Rates. Overall, funding from a combination of formula grant and business rates top up is forecast to reduce by c6.42% in 2016/17. This equates to a reduction in grant next year for the T&P Councils of £131,000.
- 23 Appendix 4 summarises the financial impact on individual parish and town councils across the county and the Charter Trust for the City of Durham from the combined effects of the changes to the tax base, and the distribution of LCTRS grant in 2016/17.
- 24 The LCTRS grant payable to individual T&P Councils has been allocated proportionate to impact on tax raising capacity brought about by the LCTRS, which was agreed as the most appropriate method of distribution.
- 25 Although there is a year on year reduction in LCTRS grant payable to T&P Councils in 2016/17, due to the increase in the tax base, T&P Councils are forecast to be in a positive net position.

#### **Estimated Collection Fund Surplus – Council Tax**

- 26 The Council needs to determine and declare the estimated surplus or deficit on its Collection Fund at 31 March each year by 15 January.
- 27 As highlighted in the quarter 2 forecast of outturn report (based on the position to 30 September 2015) the Council Tax Collection Fund is forecast to achieve a surplus of £7.031m at 31 March 2016 and therefore the Council will be declaring a surplus for budget setting purposes and needs to apportion this between the major precepting bodies.
- 28 The estimated surplus for council tax will be shared between the County Council, the Fire Authority and Durham Police and Crime Commissioner in proportion to the 2016/17 demands / precepts on the Fund. The £7.031m will therefore be allocated as follows:

	<b>Forecast Surplus to be Distributed in 2016/17 £m</b>
Durham County Council	£5.896m
Durham Police and Crime Commissioner	£0.719m
Durham & Darlington Fire and Rescue Authority	£0.416m
<b>Total</b>	<b>£7.031m</b>

- 29 Officers will continue to carefully track and monitor the Council Tax Base and Collection Fund performance over the coming months. It is unlikely that the forecast outturn on the Collection Fund will change significantly at this stage.

## Next Steps

- 30 Police, Fire and local town and parish councils have been notified of their indicative Council Tax Bases earlier this summer and the Fire Authority and Durham Police and Crime Commissioner were notified that they will receive a share of an anticipated surplus on the Council Tax Collection Fund.
- 31 Subject to Cabinet consideration of this report, the tax bases will be confirmed. Town and Parish Councils will be requested to submit their precept requests by 29 January 2016 to enable these to be incorporated into the 2016/17 Budget and Council tax setting reports to Cabinet and Council in February 2016.
- 32 The Fire Authority and Durham Police and Crime Commissioner will be notified of their share of the estimated surplus on the Council Tax Collection Fund to enable them to factor this into their budget setting for 2016/17. This will produce a one-off benefit / additional resource in 2016/17.
- 33 In continuing with the current LCTRS next year, members have committed to a full review of the Scheme in early summer of 2016. This review will draw on experiences elsewhere and the impact of the wider welfare reforms in County Durham during the period 2013/14 to 2015/16 and put forward options for consideration by Cabinet in July/September next year, with a view to consultation on any changes for 2017/18 being in the Autumn of 2016 and a report being presented to Cabinet on the outcome of the consultation by December 2016. The 2017/18 LCTRS scheme will need to be endorsed by Council before 31 January 2017.

## Recommendation and Reasons

- 34 It is recommended that Cabinet:
- (i) approves the Council Tax Base for the financial year 2016/17 for the County, which has been calculated to be 133,892.4 Band D equivalent properties;
  - (ii) approves the declaration of a surplus on the Council Tax Collection Fund at 31 March 2016 of £7.031m, to be distributed to the Council; the County Durham Fire and Rescue Authority; and the Durham Police and Crime Commissioner in accordance with Council Tax regulations.

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## Background Papers

- Local Authorities (Calculation of Council Tax Base) Regulations 2012 (SI:2012:2914)
- Welfare Reform Act 2012.
- Local Council Tax Support Scheme 2016/17 – report to Council 28 October 2015
- Forecast of Revenue and Capital Outturn 2016/17: Quarter 2 – report to Cabinet 18 November 2015

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## **Appendix 1: Implications**

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### **Finance**

Council on 28 October 2015 approved the Cabinet's recommendations to extend and continue the current Local Council Tax Reduction Scheme (LCTRS) into 2016/17, which retains the same level of support to all council tax payers as the previous Council Tax Benefit Scheme, which was abolished on 1 April 2013.

The extension to the LCTRS is initially for one more year and the Scheme will kept under continuous review with a further decision to be considered by Cabinet in July / September 2016 and Council in January 2017. There are no other discount changes impacting on the Tax Base for 2016/17.

The Council will distribute £1.691m of its formula grant to the Town and Parish Councils and the Charter Trust for the City of Durham in 2016/17, reflecting the Town and Parish element of the LCTRS Grant (as reduced in line with Council formula grant reductions).

Factoring in the Tax Base figures contained in this report, the Council will be able to include additional Council tax revenues of c£4.536m into MTFP6 in 2016/17 as a recurring item.

The Council is forecasting a surplus on the Council Tax Collection Fund of £7.031m at 31 March 2016 and therefore will be declaring a surplus for budget setting purposes and need to apportion this between the major precepting bodies. The Councils share of this surplus is £5.836m and this will be included into MTFP6 in 2016/17 as a one off sum.

### **Staffing**

None.

### **Risk**

The key risks associated with this report are financial, in terms of prudence and accuracy of forecasts used to determine the Tax Base and the estimation of the Council tax Collection Fund surplus / deficit position at 31 March 2016.

The Council's performance on recovery of Council Tax, both in year and the overall recovery rate needs careful monitoring. In 2015/16, the provision for non-collection was 1.5%, giving a forecast collection rate of 98.5% and it is proposed to retain the same collection rate for budget setting in 2016/17.

The tax base does not include any provision for new build or other changes in the quantum of discounts and exemptions. Unlike previous years, no provision has been made for increases in the incidence of LCTRS claims. This is considered a prudent approach to apply going forward based on experience of the incidence of LCTRS claims over recent years.

Officers will continue to carefully track and monitor the Council Tax Base and Collection Fund performance. The quarter 2 forecast of outturn report (based on the position to 30 September 2015) includes details of the Collection Fund performance.

For budget setting purposes the Council Tax Collection Fund surplus is estimated to be £7.031m at 31 March 2016 and this will be distributed between the major precepting bodies in 2016/17 in accordance with Council Tax legislation.

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

None.

### **Accommodation**

None

### **Crime and Disorder**

None.

### **Human Rights**

None

### **Consultation**

Towns and Parish Councils were 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 within formula grant for 2016/17. Indicative tax base figures and LCTRS grant allocations were provided to Town and Parish Councils in July.

No further consultation has been undertaken as Council resolved on 28 October 2015 to continue with the current Local Council Tax Reduction Scheme into 2016/17, thereby retaining the same level of support to all council tax payers as the previous Council Tax Benefit Scheme, which was abolished on 1 April 2013.

The County Durham Fire and Rescue Authority; and the Durham Police and Crime Commissioner were informed of their indicative tax base for 2016/17 and an initial estimate of their share of a forecast surplus on the Council Tax Collection Fund in July.

### **Procurement**

None

### **Disability Issues**

See above.

### **Legal Implications**

The Council has a statutory responsibility to set its council tax base for the purpose of levying council tax from its council tax payers in order to raise the required amount of council tax income to balance its 2016/17 revenue budget

There is a statutory requirement for the Council to adopt a local council tax reduction scheme by 31 January each year and Council agreed on 28 October 2015 to continue with the current LCTRS into 2016/17, in line with the Cabinet decisions on 15 July 2015.

The Council is also required to determine and declare the forecast surplus or deficit position on its Collection Fund at the year-end by 15 January each year and notify its major precepting bodies (County Durham Fire and Rescue Authority; and the Durham Police and Crime Commissioner) of their share of these sums so that they can factor these into their budget setting processes