

Cabinet

13 November 2019

**Council Tax Base 2020/21 and Forecast
Surplus on the Council Tax Collection
Fund as at 31 March 2020**



Key Decision: CORP/R/19/02

Report of Corporate Management Team

John Hewitt, Corporate Director of Resources

Councillor Alan Napier, Cabinet Portfolio Holder for Finance

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To determine the council's tax base for domestic properties liable to pay council tax, which is an important component in the council's budget setting process for 2020/21 and to report on the estimated collection fund surplus as at 31 March 2020, which will need to be distributed to the principal precepting authorities in 2020/21.

Executive summary

- 2 Regulations made under the Local Government Finance Act 1992 requires each billing authority to calculate its 'council tax base' for the following financial year.
- 3 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.
- 4 In determining the council tax base for 2020/21 the following issues must be factored into the calculation:
 - (a) The impact of exemptions and discounts being applied to properties within County Durham;

- (b) Forecast impact on the tax base as a result of changes in the incidence of Local Council Tax Reduction (LCTR) claims, which is a discount rather than a benefit payment and therefore reduces the tax base;
 - (c) Forecast impact on the tax base as a result of the changes to be applied to the Long Term Empty (LTE) property council tax premium, offset by estimated impact of the new section 13A(1)(c) policy;
 - (d) Forecast impact on the tax base as a result of growth (i.e. new build) or reductions (e.g. demolitions or increases in the incidence of other council tax discounts and exemptions) for 2020/21; and
 - (e) Provision for non-collection of council tax due to bad debts that need to be written off.
- 5 Taking all these matters into account the council tax base for the financial year 2020/21 has been calculated to be 141,742.0 Band D equivalent properties, an increase of 2,003.2 (1.43%) on the council tax base for 2019/20.
- 6 As at 30 September 2019 the council tax collection fund is forecast to achieve a surplus of £1.074 million at 31 March 2020 and therefore the council will be declaring a surplus for budget setting purposes and needs to apportion this between the major precepting bodies. Durham County Council's share of the surplus is £0.899 million.

Recommendation(s)

- 7 Cabinet is recommended to:
- (a) approve the council tax base for the financial year 2020/21 for the county, which has been calculated to be 141,742.0 Band D equivalent properties;
 - (b) note the impact on individual Town and Parish council tax bases and the Local Council Tax Reduction Scheme Grant allocations for the financial year 2020/21;
 - (c) approve the declaration of a surplus on the council tax Collection Fund at 31 March 2020 of £1.074 million, to be distributed to the council; the County Durham Fire and Rescue Authority; and the Durham Police, Crime and Victims' Commissioner in accordance with council tax regulations.

Background

- 8 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.
- 9 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.
- 10 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.
- 11 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 2019/20.
- 12 On 10 July 2019, as part of the Medium Term Financial Plan 10 update, cabinet resolved to recommend to council continuation of the current LCTRS into 2020/21.
- 13 On 4 December 2019, County Council will formally consider the continuation of the current Local Council Tax Reduction Scheme into 2020/21, which would retain the same level of support to all council tax payers as the previous Council Tax Benefit Scheme, which was abolished on 1 April 2013. This report is prepared on the basis that County Council will approve the recommendations put to it in December.
- 14 In July 2019, cabinet also considered a report on potential changes to the council's LTE Property premium policy, agreeing to undertake a 12-week period of public consultation on these proposals. A separate report on the outcome of that consultation exercise is included elsewhere on the cabinet agenda, with recommendations that the LTE Property premium is increased to 100% for those empty between two and five years and to 200% for those empty for longer than five years.
- 15 It is also proposed that a new section 13A(1)(c) policy is introduced, to provide assistance to owners of LTE properties who have been unable to sell or let their properties for legitimate reasons, have purchased LTE properties and are renovating them to return to the property market, or who have deliberately kept properties empty due them being in an area

subject to regeneration or where the properties have been earmarked for demolition.

- 16 The changes applied to the LTE property council tax premium impact on the Tax base calculations for 2020/21.
- 17 All monies collected from council tax are paid into the collection fund. The council collects monies on behalf of itself, the Police, Crime and Victims' Commissioner, the County Durham and Darlington Fire and Rescue Authority and local 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.
- 18 Significant sums pass through the collection fund annually, a process which can result in a surplus or deficit on the fund at the 31 March as the monies billed and collected inevitably vary from those estimated.
- 19 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. Last year, the council declared a surplus of £1.716 million, which was distributed in 2019/20 and used for budget setting in the current year.

Calculating the Tax Base 2020/21

- 20 Appendix 2 shows the number of dwellings in County Durham, allocated across the various council tax bands. At 1 October 2019 there were 247,251 dwellings registered for council tax in the county, compared to 244,719 at 1 October 2018, a year on year increase of 2,532 (1.03%).
- 21 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 LTE properties currently. Empty properties that have been empty for more than two years are currently charged a 50% premium, however a separate report on the cabinet agenda recommends that the LTE property council tax premium is increased to 100% for those empty between two and five years and to 200% for those empty for longer than 5 years.
- 22 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 and the estimated impact of the changes to the LTE property council tax premium, there are 216,479.60 chargeable properties in County Durham and 83.8% of these are within bands A to C, with 57.5% of all properties being in band A.

- 23 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 and the estimated impact of the changes to the LTE empty property council tax premium, there are 170,696.9 band D equivalent properties in County Durham.
- 24 The proportion of properties in each band varies significantly across the country, impacting on the tax raising capacity of individual local authorities. In England there are 65.74% of properties within bands A to C, compared to County Durham which has a much higher proportion of properties within bands A to C, at 83.8%. This means County Durham has a much lower tax base than the national average and is therefore unable to generate as much council tax compared to those local authorities with a low proportion of properties within bands A to C. For example, Surrey is a high tax base local authority as it has a low proportion of properties within band A to C (only 25.39%) which enables them to generate a large proportion of their funds from council tax, compared to Durham. In MTFP terms this means that a 1% council tax increase in Durham raises circa £2.2 million of additional resources for the council but in Surrey a 1% council tax increase raises circa £7.3 million.
- 25 In determining the council tax base for 2020/21, four further issues must be factored into the calculation:
 - (a) Forecast impact on the tax base as a result of changes in the incidence of LCTRS claims, which is a discount rather than a benefit payment and therefore reduces the tax base;
 - (b) Forecast impact on the tax base as a result of the changes to be applied to the LTE property council tax premium, offset by estimated impact of the new section 13A(1)(c) policy which is to introduced to provide assistance to owners of LTE properties (the net effect is an increase the tax base);

- (c) Forecast impact on the tax base as a result of growth (i.e. new build or reductions in the incidence of other council tax discounts and exemptions) or reductions (e.g. demolitions or increases in the incidence of other council tax discounts and exemptions) for 2020/21; and
 - (d) Provision for non-collection of council tax due to bad debts that need to be written off.
- 26 In 2019/20 the provision for non-collection was 1%, giving a forecast overall collection rate of 99% and based on actual collection performance, it is proposed to retain the same non-collection rate for 2020/21 tax base setting purposes.
- 27 In terms of the impact of the changes to the LTE property council tax premium assumptions have had to be made as to the net impact of the increase in the premiums and the application of the new section 13A(1)(c) policy. For financial planning purposes, it has been assumed that 35% of all LTE properties premiums could be remitted by applying this policy going forward. The estimated impact on the tax base is an increase of 419.0 band D equivalents (414.8 @ 99% collection rate) in 2020/21 as a result of these changes.
- 28 2019/20 was the first year in which the council built in assumptions for growth in the tax base as a result of new build and net changes in discounts and exemptions over the coming year. Previously, the council had taken a cautious approach to tax base setting and had not built in any tax base growth into its tax base calculations.
- 29 Whilst there is uncertainty with regards to the impact of the LTE property council tax premium, the 2020/21 calculations again include a prudent assumption on net tax base growth as a result of new builds and net changes in other discounts and exceptions. This, together with the LTE property council tax premium, therefore builds in more risk to the collection fund in 2020/21, where tax base growth of 500 band D equivalents dwelling (495 @ 99% collection rate) is again included in determining the tax base for next year.
- 30 Taking into account the forecast collection rate, the provision of tax base growth and factoring in the adjustments to the band D Equivalent properties as a result of the LCTRS and the estimated impact of the changes to the LTE property council tax premium next year, the band D equivalent tax base is forecasted to be 141,742.0 in 2020/21. This compares to the current 2019/20 tax base figure for the County of 139,738.8 – an increase of 2,003.2 (1.43%) year on year.
- 31 The tax base for the county council will be used by the Police, Crime and Victims' Commissioner and the Durham and Darlington Fire and

Rescue Authority to set their council tax precepts for 2020/21, which will be included in the council tax bills sent to every council tax payer in the County.

- 32 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 T&P Councils and the Charter Trust for the City of Durham precepts in 2020/21. These will also be added to the council tax bills and sent to every council tax payer in the respective T&P Council areas.
- 33 The council's formula grant includes an element relating to T&P Councils and whilst the council has previously passed the grant on to the T&P Councils, there is no statutory requirement to do so.
- 34 Following discussions with the T&P Councils' Working Group, Cabinet resolved on 10 July 2019 to continue to pass on the T&P element of its formula grant in 2020/21, but in doing so, continue to apply pro-rata reductions in the Local Council Tax Reduction Scheme Grant paid to T&P councils in 2020/21 in line with reductions in the overall formula funding made available to the council.
- 35 Formula grant has been subject to significant ongoing year on year reductions since 2010/11, however, based on the Spending Round announcements on 4 September 2019, the latest MTFP is forecasting a consumer price index (CPI) inflationary increase in revenue support grant and in the local share of business rates and top up grant under the localisation of business rates, for 2020/21. The Local Council Tax Reduction Scheme Grant payable next year to the T&P councils is therefore estimated to be £1.33 million.
- 36 Appendix 4 summarises the financial impact on individual T&P 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 2020/21.
- 37 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 previously agreed as the most appropriate method of distribution with representatives of the County Durham Association of Local Councils as part of the Local Councils Working Group.

Estimated Collection Fund Surplus – Council Tax

- 38 The council needs to determine and declare the estimated surplus or deficit on its collection fund at 31 March each year by 15 January.

- 39 As highlighted in the quarter 2 forecast of outturn report (based on the position to 30 September 2019) the council tax collection fund is forecast to achieve a surplus of £1.074 million at 31 March 2020 and therefore the council will be declaring a surplus for budget setting purposes and needs to apportion this between the major precepting bodies.
- 40 The estimated surplus for council tax will be shared between the County council, the Fire Authority and Durham Police, Crime and Victims' Commissioner in proportion to the 2019/20 demands / precepts on the Fund. The £1.074 million will therefore be allocated as follows:

	Forecast Surplus to be Distributed in 2020/21
Durham County Council	£0.899m
Durham Police, Crime & Victims' Commissioner	£0.116m
Durham & Darlington Fire and Rescue Authority	£0.059m
Total	£1.074m

- 41 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

- 42 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, Crime and Victims' Commissioner have also been notified that they will receive a share of an anticipated surplus on the council tax collection fund.
- 43 Subject to cabinet consideration of this report, the tax bases will be confirmed. T&P councils will be requested to submit their precept requests by 24 January 2020 to enable these to be incorporated into the 2020/21 budget and council tax setting reports to cabinet and council in February 2020.
- 44 The Fire Authority and Durham Police, Crime and Victims' 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 2020/21. This will produce a one-off benefit / additional resource in 2020/21.

Conclusion

- 45 Taking into account the forecast collection rates, the provision of tax base growth, and factoring in the adjustments to the band D Equivalent properties as a result of the LCTRS and the estimated impact of the changes to the LTE property council tax premium next year, the band D equivalent tax base is forecasted to be 141,742.0.
- 46 The surplus on the council tax collection fund at 31 March 2020 is estimated to be £1.074 million (at 30 September 2019). The estimated surplus for council tax will be shared between the county council, the Fire Authority and Durham Police, Crime and Victims' Commissioner in proportion to the 2019/20 precepts on the Fund.

Background papers

- Local Authorities (Calculation of council tax base) Regulations 2012 (SI:2012:2914)
- Welfare Reform Act 2012.
- Local Council Tax Reduction Scheme 2019/20 – report to Council 23 October 2019
- Medium Term Financial Plan (9), 2020/21-2023/24 and Review of the Local council tax Reduction Scheme, council tax Discounts and Business Discretionary Rate Reliefs – report to Cabinet 10 July 2019
- Review of the Council Tax Long Term Empty property premium Charges – reports to Cabinet 10 July 2019 and 13 November 2019
- Forecast of Revenue and Capital Outturn 2018/19: Quarter 2 – report to Cabinet 13 November 2019

Other useful documents

- Local Council Tax Support Scheme, Review of Discretionary council tax Discount on Unoccupied Properties & Calculation of Council Tax Base 2013/14 – report to Cabinet 19 December 2012

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Appendix 1: Implications

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 2020/21 revenue budget

Regulations made under the Local Government Finance Act 1992 (The Local Authorities (Calculation of council tax base) Regulations 1992 (as amended) set out how the council must calculate a council tax base for each financial year.

The Local Authorities (Calculation of council tax base) (England) Regulations 2012 (SI 2012:2914) 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.

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 2020/21.

A key element of the tax base calculation is the council's policy in terms of its LCTRS and on other discretionary discounts. In 2020/21 there will be changes to the council's LTE council tax property premiums and assumptions have had to be made with regards to the impact of these proposals.

There is a statutory requirement for the council to adopt a Local council tax Reduction scheme by 11 March each year and on 4 December 2019 Council will consider proposals to continue with the current LCTRS into 2020/21, in line with the cabinet decisions on 10 July 2019.

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, Crime and Victims' Commissioner) of their share of these sums so that they can factor these into their budget setting processes.

Finance

On 4 December 2019, Council will formally consider the continuation of the current Local Council Tax Reduction Scheme into 2020/21, which is proposed to retain the same level of support to all council tax payers as the previous Council Tax Benefit Scheme, which was abolished on 1 April 2013. This report

is prepared on the basis that Council will approve the recommendations put to it in December.

The extension to the LCTRS is initially for one more year and the Scheme will kept under continuous review with a report being considered by cabinet in the summer next year, with a view to consultation on any changes for 2021/22 being in late summer / Autumn of 2020 and a report being presented to cabinet on the outcome of the consultation by December 2020 if any changes are to be considered.

In July 2019, cabinet considered a report on potential changes to the council's LTE property premium policy, agreeing to undertake a 12-week period of public consultation on these proposals. A separate report on the outcome of that consultation exercise is included elsewhere on the cabinet agenda, with recommendations that the LTE property premium is increased to 100% for those empty between two and five years and to 200% for those empty for longer than 5 years.

As part of those proposals it is recommended that a new section 13A(1)(c) policy is introduced, to provide assistance to owners of LTE properties who have been unable to sell or let their properties for legitimate reasons, have purchased long term empty properties and are renovating them to return to the property market, or who have deliberately kept properties empty due them being in an area subject to regeneration or where the properties have been earmarked for demolition.

The changes applied to the LTE property council tax premium impact on the tax base calculations for 2020/21 and the report outlines that for financial planning purposes, it has been assumed that 35% of all LTE properties premiums could be remitted by applying this policy going forward. The estimated net impact on the tax base is an increase of 419.0 band D equivalents (414.8 @ 99% collection rate).

The council will distribute £1.33 million of its formula grant to the T&P councils and the Charter Trust for the City of Durham in 2020/21, reflecting the T&P element of the LCTRS Grant (as adjusted in line with council formula grant allocations).

Factoring in the Tax base figures contained in this report, the council will be able to include additional council tax revenues of c£3.186 million into MTFP10 in 2020/21 as a recurring item – of which c£0.667 million relates to the impact of the LTE property premium changes.

The council is forecasting a surplus on the council tax collection fund of £1.074 million at 31 March 2020 and therefore will be declaring a surplus for budget setting purposes and need to apportion this between the major precepting bodies. The council's share of this surplus is £0.899 million and

this will be included into MTFP10 in 2020/21 as a one off sum. These adjustments will be made in the December MTFP10 report to cabinet.

Consultation

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 2020/21. Indicative tax base figures and LCTRS grant allocations were provided to Town and Parish Councils in July.

The changes to the council's LTE property premium policy were subject to a 12-week period of public consultation and a separate report on the outcome of that consultation exercise is included elsewhere on the Cabinet Agenda, with recommendations that the LTE property premium is increased to 100% for those empty between two and five years and to 200% for those empty for longer than 5 years. The estimated impact of the LTE property premium changes is factored into the tax base forecasts included in this report.

No further consultation has been undertaken. It is expected that on 4 December 2019 that council will resolve to continue with the current Local Council Tax Reduction Scheme into 2020/21, 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 have been informed of their indicative tax base for 2020/21 and an initial estimate of their share of a forecast surplus on the council tax collection fund in October 2019, updating the estimates previously supplied in July 2019.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

Bringing LTE properties back into use has impacts on the environment / climate change in several ways: carbon emissions emanating from the works undertaken to bring these properties back into use and for their subsequent occupancy. There are also climate change impacts from changes in the visits and inspections of such properties and in various agencies responding to incidents such as anti-social behaviour that some of these properties attract.

Human Rights

None

Crime and Disorder

None

Staffing

None

Accommodation

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 2020.

The council's performance on recovery of council tax, both in year and the overall recovery rate needs careful monitoring. In 2019/20, the provision for non-collection was 1.0%, giving a forecast collection rate of 99.0% and it is proposed to retain the same collection rate for budget setting in 2020/21.

2019/20 was the first year in which the council built in assumptions for growth in the tax base as a result of new build and net changes in discounts and exemptions over the coming year. Previously, the council had taken a cautious approach to tax base setting and had not built in any tax base growth into its tax base calculations.

Whilst there is uncertainty with regards to the impact of the LTE property council tax premium, the 2020/21 calculations again include a prudent assumption on net tax base growth as a result of new builds and net changes in other discounts and exceptions. This, together with the LTE property council tax premium, therefore builds in more risk to the collection fund in 2020/21, where tax base growth of 500 band D equivalents dwelling (495 @ 99% collection rate) is included in determining the tax base for next year.

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 2019) includes details of the collection fund performance.

For budget setting purposes the council tax collection fund surplus is estimated to be £1.074 million at 31 March 2020 and this will be distributed between the major precepting bodies in 2020/21 in accordance with council tax legislation.

Procurement

None