

Cabinet

18 November 2020

**Council Tax Base 2021/22 and Forecast
Deficit on the Council Tax Collection
Fund as at 31 March 2021**



Key Decision: CORP/R/20/03

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 2021/22 and to report on the estimated collection fund surplus as at 31 March 2021.

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 2021/22 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 Scheme (LCTRS) 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 made 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 2021/22; and
 - (e) Provision for non-collection of council tax due to bad debts that need to be written off.
- 5 This year, COVID19 is making it more difficult to accurately forecast a tax base for next year. The pandemic has had a significant impact on our local economy which has resulted in an increase in unemployment, particularly youth unemployment, and a subsequent increase in the incidence of LCTRS claims.
- 6 The council experienced a 4% increase in claims for LCTRS in quarter one, followed by a steady reduction in the number of claims across quarter two as the national lockdown came to an end. New LCTRS claims received in August and September were in line with “normal” levels, though the underlying position is that there are many more LCTRS claims in payment currently than we were anticipating when we set the tax base last year.
- 7 There are concerns that there will be a further wave of new LCTRS claims in quarter three when the furlough scheme comes to an end and as lock down restrictions potentially impact on employment.
- 8 New house building has continued throughout the pandemic period, though not quite at the rate that would have been expected previously but there is still a steady stream of new assessments being added to the rating list, which is expected to continue into 2021/22.
- 9 Taking all these matters into account the council tax base for the financial year 2021/22, based on the current position and prudent assumptions around the incidence of discounts and exemptions across the coming eighteen months plus prospects for new builds, has been calculated to be 141,623.2 band D equivalent properties, a small decrease of 118.8 (0.08%) on the council tax base for 2020/21.
- 10 This is the first time since the LCTRS was introduced that that the tax base for the following year has been lower than the current year and

this will reduce the council's tax raising capacity, resulting in a MTFP / budget pressure next year of circa £0.2 million. Prior to the pandemic impacts it would have been expected that there would be an increase in tax raising capacity of between £1 million and £1.5 million from increases in the council tax base.

- 11 As at 30 September 2020 the council tax collection fund is forecast to have a deficit of £4.816 million at 31 March 2021. Durham County Council's share of this deficit would be £4.034 million.
- 12 The council would usually declare its council tax collection fund position for budget setting purposes based on the quarter two forecast and inform the two principal precepting bodies to the Collection Fund - County Durham and Darlington Fire and Rescue Authority and Durham Police, Crime and Victims' Commissioner – of the amounts they would need to take into account next year.
- 13 Regulations have changed for 2021/22 and whilst previously the shares of the declared Collection Fund Surplus or Deficit would need to be absorbed by the relevant bodies in the following year, the Government have amended the regulations to allow this pressure to be spread over three years.
- 14 Given the uncertain and fluid position currently and that COVID19 can still have a significant impact on the council tax collection fund outturn it is felt that it is too early to declare the collection fund position for budget setting purposes. The council plans on declaring the final position later in the year. The statutory deadline for declaring the forecast position is 15 January. The quarter two position has been shared with the two principal precepting bodies to the Collection Fund.

Recommendation(s)

- 15 Cabinet is recommended to:
 - (a) approve the council tax base for the financial year 2021/22 for the county, which has been calculated to be 141,623.2 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 2021/22;
 - (c) note the forecasted council tax Collection Fund position at 31 March 2021 and agree that the final position for budget setting purposes will be declared later in the year;

Background

- 16 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.
- 17 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.
- 18 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.
- 19 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 2021/22.
- 20 A separate report on the Cabinet Agenda sets out the outcome of the annual review of the council's LCTRS, with cabinet requested to recommend to Council continuation of the current LCTRS into 2021/22.
- 21 On 2 December 2020, County Council will formally consider the continuation of the current LCTRS into 2021/22, which would retain the same level of support to all council taxpayers 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.
- 22 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.
- 23 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.
- 24 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 £1.074 million, which was distributed in 2020/21 and used for budget setting in the current year.

Calculating the Tax Base 2021/22

- 25 Appendix 2 shows the number of dwellings in County Durham, allocated across the various council tax bands. At 5 October 2020 there were 248,867 dwellings registered for council tax in the county, compared to 247,251 at 7 October 2019, a year on year increase of 1,616 (0.65%).
- 26 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 (LTE) properties currently. From 1 April 2020 empty properties that have been empty for more than two years are currently charged a 100% premium, and those empty for longer than five years are charged a 200% premium
- 27 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 217,798.5 chargeable properties in County Durham and 83.6% of these are within bands A to C, with 57.4% of all properties being in band A.
- 28 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 171,892.4 band D equivalent properties in County Durham.
- 29 The proportion of properties in each band varies significantly across the country, impacting on the tax raising capacity of individual local authorities. In England, the latest information available shows there are 65.74% of all properties within bands A to C. In County Durham there is a much higher proportion of properties within bands A to C, at 83.6%. 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 25.47% based on the latest published information) 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 £2.3 million of additional resources for the council but in Surrey a 1% council tax increase raises circa £9.8 million.

- 30 In determining the council tax base for 2020/21, three 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 against the council tax and therefore impacts on the tax base.
 - (b) 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
 - (c) Provision for non-collection of council tax due to bad debts that need to be written off.
- 31 This year, COVID19 is making it more difficult to accurately forecast a tax base for next year. The pandemic has had a significant impact on our local economy which has resulted in an increase in unemployment, particularly youth unemployment, and a subsequent increase in the incidence of LCTRS claims.
- 32 The council experienced a 4% increase in claims for the LCTRS in quarter one, followed by a steady reduction in the number of claims across quarter two as the national lockdown came to an end. New LCTRS claims received in August and September were in line with “normal” levels, though the underlying position is that there are many more LCTRS claims in payment currently than we were anticipating when we set the tax base last year.
- 33 There are concerns that there will be a further wave of new LCTRS claims in quarter three when the furlough scheme comes to an end and as lock down restrictions potentially impact on employment. It is uncertain what the level of new claims might be and whether this will be a temporary increase in claims followed by a sharp or gradual reduction as people find alternative employment.

- 34 New house building has continued throughout the pandemic period, though not quite at the rate that would have been expected previously but there is still a steady stream of new assessments being added to the rating list, which is expected to continue into 2021/22.
- 35 In 2020/21 the provision for non-collection was 1%, giving a forecast overall collection rate of 99% and it is proposed to retain the same non-collection rate for 2021/22 tax base setting purposes. The provision for non-payment will continue to be kept under review for future years, with the long-term impact of the suspension of formal recovery action in the current year as a result of COVID19 still uncertain.
- 36 2019/20 was the first year in which the council built in prudent 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 an even more cautious approach to tax base setting and had not built in any tax base growth into its tax base calculations. The prudent assumptions in terms of tax base growth year on year have in part helped protect the councils position this year.
- 37 Whilst there is still uncertainty with regards to the impact of COVID19 on the demand for LCTRS, the 2021/22 calculations again include prudent assumptions for a modest net tax base growth as a result of new builds and net changes in other discounts and exceptions. This assumption does build in an increased element of risk to the collection fund in 2021/22, where tax base growth of 250 band D equivalent dwellings (247.5 @ 99% collection rate) has been included in determining the tax base for next year. This is half the level that has been built into the forecasts in recent years.
- 38 Considering 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, the band D equivalent tax base is forecasted to be 141,623.2 in 2021/22. This compares to the current 2020/21 tax base figure for the County of 141,742.0 – a decrease of 118.8 (0.08%) year on year.
- 39 This is the first time since the LCTRS was introduced that the tax base for the following year has been lower than the current year and this will reduce the Councils tax raising capacity, resulting in a MTFP / budget pressure next year of circa £0.2 million. Prior to the pandemic impacts it would have been expected that there would be an increase in tax raising capacity of between £1 million and £1.5 million from increases in the council tax base.
- 40 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 2021/22, which will be included in the council tax bills sent to every council taxpayer in the County.

- 41 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 2021/22. These will also be added to the council tax bills and sent to every council taxpayer in the respective T&P Council areas.
- 42 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.
- 43 A MTFP (11) update was considered by Cabinet on 14 October 2020. Members will be aware of the significant uncertainty surrounding the outcome of the Comprehensive Spending Review, the Financial Settlement for next year and the deferred Fair Funding Review.
- 44 Despite this uncertainty it is proposed to continue to pass on LCTRS grant to T&Ps next year, frozen at the same level as the current year.
- 45 The LCTRS grant payable next year to the T&P councils is therefore estimated to be £1.333 million. Since 2013 the LCTRS grant payments to T&P Councils has totalled circa £13.4 million.
- 46 Members will recall that when the LCTRS was introduced and the decision taken to pass on LCTRS grants to T&P councils the issue of "double taxation" and continuation of pre-existing and inconsistent arrangements for grant funding to be provided to certain T&Ps for some services that had been devolved to them pre-LGR was also considered.
- 47 In agreement with the Local Councils Working Group and through the County Durham Association of Local Councils the circa £0.25 million of grant payments that were being made at that time were withdrawn and any T&P council who wished to relinquish or hand back services that had previously been devolved was asked to do so. No services were subsequently handed back.
- 48 There have been a small number of motions raised at various town and parish councils recently in relation to this issue, calling on the council to reconsider this and conduct a detailed costing exercise for these devolved functions to inform "double taxation" payments to them. To do so would involve a significant amount of work and would not be feasible at this time to inform 2021/22 budget setting process.
- 49 If this request is taken up then the wider support to T&P council's would also need to be considered, including reviewing the existing

arrangements for making LCTRS grant payments. The annual “double taxation” grant payments that were removed were circa £0.25 million. Had the council not decided to make LCTRS grant payments pass on the grant, as many others haven’t, and continued to pay the £0.25million instead local councils would have received around £11.4m less funding over the last 8 years. Discussions on this matter are being progressed through the Local Councils Working Group and via the County Durham Association of Local Councils

- 50 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 2021/22.
- 51 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 / Deficit – Council Tax

- 52 The council needs to determine and declare the estimated surplus or deficit on its collection fund at 31 March each year by 15 January.
- 53 The position at the end of quarter two (position to 30 September 2020) on the council tax collection fund is a forecast deficit of £4.816 million at 31 March 2021.
- 54 The council would usually declare its council tax collection fund position for budget setting purposes based on the quarter two forecast and inform the two other principal precepting bodies to the Collection Fund of the amounts they would need to take into account next year, which would be as follows:

	Forecast Deficit at 31 March 2021
Durham County Council	£4.034m
Durham Police, Crime & Victims’ Commissioner	£0.525m
Durham & Darlington Fire and Rescue Authority	£0.257m
Total	£4.816m

- 55 Regulations have been changed for 2021/22 and whilst previously the shares of the declared Collection Fund surplus or deficit would need to be absorbed by the relevant bodies in the following year, the Government have amended the regulations to allow this pressure to be spread over three years
- 56 Given the uncertain and fluid position currently and that COVID19 can still have a significant impact on the council tax collection fund outturn it is felt that it is too early to declare the collection fund position for budget setting purposes in line with the normal process. The council will therefore be declaring the final position later in the year.
- 57 Officers will continue to carefully track and monitor the council tax base and collection fund performance over the coming months. The statutory deadline for declaring the forecast position is 15 January. The quarter two position has been shared with the two principal precepting bodies to the Collection Fund.

Next Steps

- 58 Police, Fire and local town and parish councils were been notified of their indicative council tax bases earlier this summer and County Durham and Darlington Fire and Rescue Authority and Durham Police, Crime and Victims' Commissioner were also informed of the quarter one forecast of outturn for the council tax collection fund.
- 59 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 22 January 2021 to enable these to be incorporated into the 2021/22 budget and council tax setting reports to cabinet and council in February 2021.
- 60 The Fire Authority and Durham Police, Crime and Victims' Commissioner will be provided with the updated position in terms of their shares of the estimated deficit on the council tax collection fund and informed that the final forecast position that will be declared later on in the year and notifications issued to them prior to 15 January 2021.

Conclusion

- 61 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, the band D equivalent tax base is forecasted to be 141,623.2.
- 62 The forecast deficit on the council tax collection fund at 31 March 2021 is estimated to be £4.816 million. Officers will continue to carefully track

and monitor the council tax base and collection fund performance over the coming months and the Council will declare the estimated outturn position to be taken into account by the principal precepting authorities later in the year, with notifications issued to the principal precepting bodies in advance of the statutory deadline of 15 January.

Background papers

- Local Authorities (Calculation of council tax base) Regulations 2012 (SI:2012:2914)
- Welfare Reform Act 2012.
- Local Council Tax Reduction Scheme 2020/21 – report to Council 4 December 2019
- Medium Term Financial Plan (11), 2021/22-2024/25 – report to Cabinet 14 October 2020
- Review of the Local Council Tax Reduction Scheme and Council Tax: COVID19 Hardship Fund Payments - Report to Cabinet 18 November 2020
- Forecast of Revenue and Capital Outturn 2020/21: Quarter 2 – report to Cabinet 18 November 2020

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

Contact: Paul Darby

Tel: 03000 261930

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 taxpayers in order to raise the required amount of council tax income to balance its 2021/22 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 2021/22.

A key element of the tax base calculation is the council's policy in terms of its LCTRS and on other discretionary discounts.

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 2020 Council will consider proposals to continue with the current LCTRS into 2021/22, in line with the cabinet recommendations on 18 November 2020.

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.

Regulations have been changed for 2021/22 and whilst previously the shares of the declared Collection Fund Surplus or Deficit would need to be absorbed by the relevant bodies in the following year, the Government have amended the regulations to allow this pressure to be spread over three years.

Finance

On 4 December 2020, Council will formally consider the continuation of the current Local Council Tax Reduction Scheme into 2021/22, 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 2022/23 being in late summer / Autumn of 2021 and a report being presented to cabinet on the outcome of the consultation by December 2021 if any changes are to be considered.

The council will distribute £1.333 million of its formula grant to the T&P councils and the Charter Trust for the City of Durham in 2021/22.

Factoring in the tax base figures contained in this report, the council will need to include a MTFP / budget pressure next year of circa £0.2 million. Prior to the pandemic impacts it would have been expected that there would be an increase in tax raising capacity of between £1 million and £1.5 million from increases in the council tax base.

Based on the position to 30 September 2020 the council tax collection fund is forecast to have a deficit of £4.816 million at 31 March 2021. Durham County Council's share of this deficit would be £4.034m. The council will not however be declaring a final forecast outturn position the council tax collection fund until later in the year.

Consultation

Town and Parish Councils have been consulted on the proposals to continue to passport an element of the council's formula grant to them as part of a LCTRS grant.

The County Durham Fire and Rescue Authority, Durham Police, Crime and Victims' Commissioner and local T&P Councils were all informed of their indicative tax base for 2021/22 in August 2020.

It is expected that on 4 December 2020 that council will resolve to continue with the current Local Council Tax Reduction Scheme into 2021/22, 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. No other consultation has been undertaken with regards to the contents of this report.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

None.

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 2020/21, 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 2021/22.

Officers will continue to carefully track and monitor the council tax base and collection fund performance.

Procurement

None