

Cabinet

17 November 2021

**Council Tax Base 2022/23 and Forecast
Deficit on the Council Tax Collection
Fund as at 31 March 2022**



Key Decision: CORP/R/21/03

Report of Corporate Management Team

Paul Darby, Corporate Director of Resources

**Councillor Richard Bell, Deputy Leader and Cabinet Portfolio Holder
for Finance**

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To 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 2022/23 and to report on the estimated collection fund deficit as at 31 March 2022.

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 2022/23 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 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 2022/23; and
 - (e) Provision for non-collection of council tax due to bad debts that need to be written off.
- 5 COVID-19 continues to make it difficult to accurately forecast the tax base for next year, with the pandemic having a significant continuing impact on our local economy.
- 6 LCTRS caseloads have almost returned to pre-pandemic levels. There are now slightly fewer households receiving LCTRS overall than there were in February 2020 before the first national lockdown; around 56,300 compared to 56,800. There are around 1,000 additional working age households receiving help with their council tax compared with pre-pandemic levels, although this number is gradually reducing. This higher level of working age claims is offset, by a circa 1,400 reduction in pension age households receiving LCTRS, which reflects a long-term national trend for this age group.
- 7 There are concerns that the removal of the furlough scheme from October 2021 may lead to a further new rise in working age LCTRS applications.
- 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 properties being added to the rating list, which is expected to continue into 2022/23.
- 9 Taking all these matters into account the council tax base for the financial year 2022/23, 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 143,695.8 band D equivalent properties, an increase of 2,072.6 (1.46%) on the council tax base for 2021/22.
- 10 The council usually declares its council tax collection fund position for budget setting purposes based on the quarter two Collection Fund forecast and informs 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 figures they would need to take into account next year.

- 11 Regulations changed for 2020/21, 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 amended the regulations to allow this pressure to be spread over three years. As such, one third of the declared deficit for 2020/21 of £5.720 million will be included in the Collection Fund Surplus or Deficit in years 2021/22 to 2023/24 (£1.907 million per year).
- 12 As at 30 September 2021 the in-year position for the council tax collection fund is a forecast £0.558 million surplus. After taking into account the brought forward share of the 2020/21 deficit, the 2021/22 council tax collection fund is forecast to have a deficit of £5.090 million at 31 March 2022. Durham County Council's share of this deficit would be £4.292 million. The council will not however be declaring a final forecast outturn position the council tax collection fund until later in the year.

Recommendation(s)

- 13 Cabinet is recommended to:
 - (a) approve the council tax base for the financial year 2022/23 for the county, which has been calculated to be 143,695.8 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 2022/23;
 - (c) note the forecasted council tax Collection Fund position at 31 March 2022, which will be updated and formally declared in January.

Background

- 14 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.
- 15 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.
- 16 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.
- 17 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 2022/23.
- 18 On 20 October 2021, County Council approved the continuation of the current LCTRS into 2022/23, retaining the same level of support to all council taxpayers as the previous Council Tax Benefit Scheme, which was abolished on 1 April 2013.
- 19 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.
- 20 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.
- 21 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 deficit of £5.720 million, which will be distributed over the three years 2021/22 to 2023/24 and included in budget setting in those years.

Calculating the Tax Base 2022/23

- 22 Appendix 2 shows the number of dwellings in County Durham, allocated across the various council tax bands. As at 4 October 2021 there were 250,232 dwellings registered for council tax in the county, compared to 248,867 at 5 October 2020, a year-on-year increase of 1,365 (0.55%).
- 23 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
- 24 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 218,979.4 chargeable properties in County Durham and 83.4% of these are within bands A to C, with 57.0% of all properties being in band A.
- 25 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 173,105.5 band D equivalent properties in County Durham – a year on year increase of 1,213.1.
- 26 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 65.46% 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 83.4%. 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. In MTFP terms this means that a 1% council tax increase in Durham raises circa £2.4 million of additional resources for the council but in more affluent areas with high tax bases, a 1% council tax increase can raise circa £10 million.

- 27 In determining the council tax base for 2022/23, 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 2022/23; and
 - (c) Provision for non-collection of council tax due to bad debts that need to be written off.
- 28 COVID-19 continues to make it difficult to accurately forecast the tax base for next year, with the pandemic having a significant continuing impact on our local economy.
- 29 LCTRS caseloads have almost returned to pre-pandemic levels. There are now slightly fewer households receiving LCTRS overall than there were in February 2020 before the first national lockdown; around 56,300 compared to 56,800. There are around 1,000 additional working age households receiving help with their council tax compared with pre-pandemic levels, although this number is gradually reducing. This higher level of working age claims is offset, by a circa 1,400 reduction in pension age households receiving LCTRS, which reflects a long-term national trend for this age group.
- 30 There are concerns that the removal of the furlough scheme from October 2021 may lead to a further new rise in working age LCTRS applications.
- 31 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 2022/23.
- 32 In 2021/22 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 2022/23 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 throughout 2020/21 and into the first few months of the current year as a result of COVID-19 still uncertain.

- 33 Since 2019/20 the council has 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 during the COVID-19 pandemic.
- 34 Whilst there is still uncertainty with regards to the impact of COVID-19 on the demand for LCTRS, the 2022/23 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 does build in an increased element of risk to the collection fund in 2022/23, 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 the same level that was built into the forecasts last year.
- 35 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 expected incidence of LCTRS, the band D equivalent tax base is forecasted to be 143,695.8 in 2022/23. This compares to the current 2021/22 tax base figure for the County of 141,623.2 – an increase of 2,072.6 (1.46%) year on year.
- 36 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 2022/23, which will be included in the council tax bills sent to every council taxpayer in the County.
- 37 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 2022/23. These will also be added to the council tax bills and sent to every council taxpayer in the respective T&P Council areas.
- 38 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.
- 39 A MTFP(12) update was considered by Cabinet on 13 October 2021. Members will be aware of the significant financial uncertainties facing the council in relation to the outcome of the Comprehensive Spending Review, the local government finance settlement, the deferred Fair Funding Review and the wide range of unfunded base budget pressures facing the Council.

- 40 Despite this uncertainty it is proposed to continue to pass on LCTRS grant to T&Ps next year, calculated on the same basis as the current year.
- 41 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 £14.7 million.
- 42 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 2022/23.
- 43 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

- 44 The council needs to determine and declare the estimated surplus or deficit on its collection fund at 31 March each year by 15 January.
- 45 The position at the end of quarter two (position to 30 September 2021) on the council tax collection fund is a forecast deficit of £5.090 million at 31 March 2022.
- 46 The council usually declares 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 2022
Durham County Council	£4.292m
Durham Police, Crime & Victims' Commissioner	£0.541m
Durham & Darlington Fire and Rescue Authority	£0.257m
Total	£5.090m

- 47 Regulations changed for 2020/21, 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 amended the regulations to allow this pressure to be spread over three years. As such, one third of the declared deficit for 2020/21 of £5.720 million will be included in the Collection Fund Surplus or Deficit in years 2021/22 to 2023-24 (£1.907 million per year). The council will not however be declaring a final forecast outturn position the council tax collection fund until later in the year.

Next Steps

- 48 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 21 January 2022 to enable these to be incorporated into the 2022/23 budget and council tax setting reports to cabinet and council in February 2022.
- 49 The Police, Crime and Victims' Commissioner and the Durham and Darlington Fire and Rescue Authority 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 in the year and notifications issued to them prior to 15 January 2022.

Conclusion

- 50 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 143,695.8.
- 51 The forecast deficit on the council tax collection fund at 31 March 2022 is estimated to be £5.090 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 2022/23 – report to Council 20 October 2021
- Medium Term Financial Plan (12), 2022/23-2025/26 – report to Cabinet 13 October 2021
- Forecast of Revenue and Capital Outturn 2021/22: Quarter 2 – report to Cabinet 17 November 2021

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 taxpayers in order to raise the required amount of council tax income to balance its 2022/23 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 2022/23.

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 20 October 2021 Council considered proposals to continue with the current LCTRS into 2022/23, in line with the cabinet recommendations on 7 July 2021.

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 changed for 2020/21, 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 amended the regulations to allow this pressure to be spread over three years. As such, one third of the declared deficit for 2020/21 of £5.720 million will be included in the Collection Fund Surplus or Deficit in years 2021/22 to 2023-24 (£1.907 million per year).

Finance

On 20 October 2021, Council formally considered the continuation of the current Local Council Tax Reduction Scheme into 2022/23, 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 extension to the LCTRS is initially for one more year and the Scheme will be 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 2023/24 being in late summer / Autumn of 2022 and a report being presented to cabinet on the outcome of the consultation by December 2022 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 2022/23.

Based on the position to 30 September 2021 the council tax collection fund is forecast to have a deficit of £5.090 million at 31 March 2022. Durham County Council's share of this deficit is £4.292 million. 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 October 2021.

On 20 October 2021 council resolved to continue with the current Local Council Tax Reduction Scheme into 2022/23, thereby retaining the same level of support to all council taxpayers 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 2022.

The council's performance on recovery of council tax, both in year and the overall recovery rate needs careful monitoring. In 2021/22, 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 2022/23.

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

Procurement

None

