

Cabinet

13 November 2024



**Council Tax Base 2025/26 and Forecast
Surplus / Deficit on the Council Tax
Collection Fund**

Key Decision: CORP/R/2024/002

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 The report seeks 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 2025/26 and to report on the estimated council tax collection fund surplus / deficit as at 31 March 2025.

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 the authority.
- 4 The Levelling Up and Regeneration Act 2023 introduced powers to levy a 100% council tax premium for those properties where there is no resident and the property is substantially furnished, also known as a second home. A public consultation was carried out on this proposal, which saw 63% of those who responded agree or strongly agree with the introduction of a premium for these properties. The introduction of this premium was approved by Cabinet on 15 November 2023, effective from 1 April 2025.

- 5 In determining the council tax base for 2025/26 the following issues have been 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 growth (e.g., new build, increases in long term empty property premiums or decreases in other discounts and exemptions) or reductions (e.g., demolitions or increases in the incidence of other council tax discounts and exemptions) for 2025/26;
 - (d) Forecast impact on the tax base as a result of the agreed changes to the Second Homes Property Council Tax Premium from April 2025, offset by estimated impact of the section 13A(1)(c) policy; and
 - (e) Provision for non-collection of council tax due to bad debts that need to be written off.
- 6 Taking these matters into account, the council tax base for the financial year 2025/26, based on the current position and prudent assumptions around the incidence of discounts and exemptions across the coming eighteen months, the impact from the introduction of the second homes premium plus prospects for new builds, has been calculated to be 148,760.6 Band D equivalent properties, an increase of 2,115.2 (1.42%) on the council tax base set for 2024/25. A breakdown of the forecast tax base for each Town and Parish Council area is included in the report, together with an analysis of the year-on-year impacts and details of the Local Council Tax Reduction grant payments that will be made in 2025/26.
- 7 As the billing authority, the council needs to determine and declare by 15 January each year, its forecast council tax collection fund position at 31 March 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 figures they will need to take into account for budget setting purposes.
- 8 As at 30 September 2024 the in-year position for the council tax collection fund is a forecast £0.970 surplus. After taking into account the brought forward share of the undeclared 2023/24 position, the 2024/25 council tax collection fund is forecast to have a surplus of £1.806 million

at 31 March 2025. Durham County Council's share of this surplus would be £1.520 million. The council will formally declare this position to Police and Fire so that they can now reflect this in their budget assumptions.

Recommendation(s)

9 Cabinet are recommended to:

- (a) approve the council tax base for the financial year 2025/26 for the county, which has been calculated (incorporating consultation outcomes) to be 148,760.6 Band D equivalent properties;
- (b) note the impact on individual Town and Parish council tax bases, including the allocations of Local Council Tax Reduction Scheme Grant allocations for the financial year 2025/26; and
- (c) note and agree that the forecasted Council Tax Collection Fund position at 31 March 2025 as set out in the report, be formally declared and the two principal precepting bodies to the Collection Fund - County Durham and Darlington Fire and Rescue Authority and Durham Police and Crime Commissioner notified accordingly.

Background

- 10 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.
- 11 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.
- 12 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.
- 13 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 2025/26.
- 14 On 25 September 2024, County Council approved the continuation of the current LCTRS into 2025/26, retaining the same level of support to all council taxpayers as the previous Council Tax Benefit Scheme, which was abolished on 1 April 2013. This is a significant and material consideration in terms of tax base setting.
- 15 The council's formula grant includes an element relating to Town and Parish (T&P) Councils and whilst the council has previously resolved to pass this notional LCTRS grant on to the Town and Parish Councils, there is no statutory requirement to do so, with most other Councils no longer doing so.
- 16 As part of the 2024/25 budget and MTFP (14) proposals, it was agreed that there would be a 50% reduction in the quantum of grant provided to Town and Parish Councils, phased in over three years from 2024/25. The payments to be made to Town and Parish Councils in 2025/26 will total £1.005 million, a reduction of £0.250 million on the payments being made in 2024/25. The payments to Town and Parish Councils will reduce again by £0.250 million in 2026/27 and will remain at £0.755 million going forward based on the existing MTFP plans.
- 17 The Levelling Up and Regeneration Act 2023 provided powers for councils to introduce a 100% Council Tax Premium for those properties where there is no resident and the property is substantially furnished, also known as a second home. A public consultation was carried out on this proposal, which saw 63% of those who responded agree or strongly

agree with the introduction of a premium for these properties. The introduction of such a premium was approved by Cabinet on 15 November 2023 for implementation on 1 April 2025.

- 18 The introduction of second homes premiums will have a direct impact on administration capacity and additional resource may be required to deliver the annual review of Section 13A that is carried out in line with the current policy. A review is underway following receipt of government guidance around mandatory exemptions.
- 19 All monies collected from council tax are paid into the Council Tax 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, as well as the City of Durham Charter Trust. Police and Fire are classified as major precepting bodies under council tax legislation, whereas Town and Parish Councils and the City of Durham Charter Trust 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 each year 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 on the forecast position on the two collection funds are reported as part of the budgetary control reports to Cabinet.

Calculating the Tax Base 2025/26

- 22 Appendix 2 shows the number of dwellings in County Durham, allocated across the various council tax bands. As at 7 October 2024 there were 255,046 dwellings registered for council tax in the county, compared to 253,321 at 2 October 2023, a year-on-year increase of 1,725 (0.68%).
- 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.
- 24 The number of dwellings, in the valuation list needs to be adjusted to reflect discounts, exemptions, and premiums and 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 Local Council Tax Reduction Scheme (LCTRS), there are 222,752.6 chargeable properties in County Durham and 83% of these are within bands A to C, with 56.1% 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 and any provision for net increases or decreases in the tax base across the next 18 months, there are 176,693.2 Band D equivalent properties in County Durham – a year on year increase of 2,235.3 (1.28%).
- 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 65.3% 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%. This means that our notional Band D council tax is higher than many other areas, but the majority of residents only pay a proportion of this. In overall terms the average amount of council tax actually paid by residents in Durham places us in the bottom 25% nationally.
- 27 It also means that County Durham, because it has a much lower tax base than the national average, is unable to generate as much council tax compared to those local authorities with a lower proportion of properties within bands A to C.
- 28 The additional deprivation and low earnings challenges faced by this council (which is borne out by lower average earnings / lower house values relative to other areas), places greater demands on services and on our ability to generate fees and charges etc. A good example of this is in Adult Social Care where on average c80% of all residents in nursing and care homes in County Durham are being supported in some way through commissioned services by the Council. In more affluent areas such the opposite is true, with on a very small proportion of residents requiring support from the Council and effectively paying the full cost of their care themselves, yet in those areas, their tax base is high and the same percentage increase in Council tax yields much more significant sums to address much reduced budget pressures.
- 29 In MTFP terms, a 1% council tax increase in Durham raises circa £2.9 million of additional resources for the council but in more affluent areas

with high tax bases, a 1% council tax increase can raise in excess of circa £10 million.

- 30 In determining the council tax base for 2025/26, 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 growth (e.g., new build, increases in long term empty property premiums or decreases in other discounts and exemptions) or reductions (e.g., demolitions or increases in the incidence of other council tax discounts and exemptions) for 2025/26;
 - (d) Forecast impact on the tax base as a result of the agreed changes to the Second Homes Property Council Tax Premium from April 2025, offset by estimated impact of the section 13A(1)(c) policy; and
 - (e) Provision for non-collection of council tax due to bad debts that need to be written off.
- 31 In 2024/25 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 2025/26 tax base setting purposes. The provision for non-payment will continue to be kept under review for future years.
- 32 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. Prior to 2019/20 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.
- 33 The 2025/26 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 2025/26, where tax base growth of 250 Band D equivalents 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.

- 34 Prudent assumptions regarding the Second Homes proposals have resulted in further tax base growth of 336.1 Band D equivalent dwellings (332.7 @ 99% collection rate) and these have been included in determining the tax base for next 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, plus the impact of amending the council's second home premium policy (net of assumed s13A reliefs), the Band D equivalent tax base is forecasted to be 148,760.6 in 2025/26. This compares to the current 2024/25 tax base figure for the County of 146,645.4 – an increase 2,115.2 (1.44%) year on year.
- 36 The following table summarises the movement in tax base from 2024/25 to 2025/26:

	2025/26	2024/25	Movement between years
Number of Dwellings shown on the valuation list for the Authority on 07/10/24	255,046.0	253,321.0	1,725.0
Discounts, Exemptions and Reliefs	(32,293.4)	(33,232.3)	938.9
Chargeable Dwellings before LCTRS	222,752.6	220,088.7	2,663.9
Band D Equivalents prior to LCTRS	176,693.2	174,457.9	2,235.3
Local Council Tax Reduction Scheme impact on tax base (Band D Equivalents)	(27,016.0)	(27,078.2)	62.2
Band D Equivalent Properties	149,677.3	147,379.7	2,297.6
Tax Base Growth - Band D Equivalents	250.0	250.0	0
LTE Band D Equivalents	included above	496.7	(496.7)
Second Homes Band D Equivalents	336.1	not applicable	336.1
Total Band D Equivalents	150,263.4	148,126.4	2,137.0
Tax Base (99.0%)	148,760.6	146,645.4	2,115.2

- 37 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 2025/26, which will be included in the council tax bills sent to every council taxpayer in the County.

- 38 The Town and Parish Councils (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 for 2025/26. These will also be added to the council tax bills and sent to every council taxpayer in the respective T&P Council areas when the 2025/26 Council Tax bills are issued in March 2025.

Estimated Collection Fund Surplus / Deficit – Council Tax

- 39 As the billing authority, the council needs to determine and declare the estimated surplus or deficit on its collection fund at 31 March each year by 15 January.
- 40 The position at the end of quarter two (position to 30 September 2024) shows an in-year forecast surplus for the council tax collection fund of £0.970 million. After taking into account the brought forward undeclared 2023/24 position, the 2024/25 council tax collection fund is forecast to have a cumulative surplus of £1.806 million at 31 March 2025.
- 41 The council will formally declare its council tax collection fund position for budget setting purposes based on the quarter two Collection Fund forecast above and will 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 figures they will need to take into account next year, which would be as follows:

	Forecast Surplus at 31 March 2025 £million
Durham County Council	1.520
Durham Police, Crime & Victims' Commissioner	0.198
Durham & Darlington Fire and Rescue Authority	0.088
Total	1.806

Local Council Tax Reduction Scheme (LCTRS) grant payments to Town and Parish Councils

- 42 The council's formula grant notionally includes an element relating to Local T&P Councils and whilst the council has previously passed the grant on to the Local Councils, there is no statutory requirement to do

so. The actual amount of grant being received in respect of T&P Councils is unclear as this is no longer exemplified in the Council formula grant allocations.

- 43 Following the consultation process and subsequent approval to reduce the LCTRS grant by £0.750 million to T&P Councils over a three-year period (2024/25 to 2026/27), the LCTRS grant payable to T&P Councils will be £1.005 million next year. Since 2013 the LCTRS grant payments to T&P Councils has totalled circa £18.9 million.
- 44 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 2025/26.
- 45 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.

Tax Base - Next Steps

- 46 Subject to cabinet consideration of this report, the tax bases will be confirmed and communicated to principal and local precepting bodies. T&P Councils will be asked to submit their precept requests by 17 January 2025 to enable these to be incorporated into the 2025/26 budget and council tax setting reports to Cabinet and Council in February 2025.
- 47 The council will formally declare its forecast Council Tax Collection Fund position to the Police, Crime and Victims' Commissioner and the Durham and Darlington Fire and Rescue Authority by notifying them of their shares of the estimated surplus on the council tax collection fund based on the quarter two position within this report.

Conclusion

- 48 The introduction of the Second Homes premium referenced within this report supports bringing properties back into full time use by providing a financial disincentive to owners of such properties whilst also generating additional spending power for the authority, at a time when the council is having to make significant savings to balance its budget.
- 49 The need to make savings is due to unavoidable inflationary spending pressures outstripping our council tax raising powers due to the council's low tax base and the grants received from government not

adequately compensating us for this and for the unavoidable cost pressure increases we face.

Background papers

- Medium Term Financial Plan (15), 2025/26 – 2028/29 and Review of the Local Council Tax Reduction Scheme and Council Tax Discretionary Discounts and Premiums Policy – Report to Cabinet 18 September 2024
- Local Council Tax Reduction Scheme 2025-26 – Report to Council 25 September 2024
- Local Authorities (Calculation of council tax base) Regulations 2012 (SI:2012:2914)
- Welfare Reform Act 2012.

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

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 2024/25 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 2024/25.

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 25 September 2024 Council considered proposals to continue with the current LCTRS into 2025/26, in line with the cabinet recommendations on 18 September 2024.

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. The council will formally declare the quarter two forecast position for the two major precepting bodies so that they can factor these into their budget setting processes.

The proposals were either already present in the Local Government Finance Act 1992 or are included in new powers conferred on local authorities through the Levelling Up and Regeneration Act.

Finance

On 25 September 2024, Council formally approved the continuation of the current Local Council Tax Reduction Scheme into 2024/25, retaining the same level of support to all council taxpayers as the previous Council Tax Benefit

Scheme, which was abolished on 1 April 2013. This is a significant and material consideration in terms of the tax base setting process.

The extension to the LCTRS will be kept under continuous review with a report being considered by cabinet in the summer next year.

The council will distribute £1.005 million of its formula grant to the T&P Councils and the Charter Trust for the City of Durham in 2025/26, a year-on-year reduction of £0.250 million compared to 2024/25.

Based on the position to 30 September 2024 the council tax collection fund is forecast to have a surplus of £1.806 million at 31 March 2025. Durham County Council's share of this surplus is £1.520 million. The position will be formally declared to Police and Fire so that they can now reflect this in their budget assumptions.

Consultation

Consultation on the Empty Homes and Second Homes premiums and on the reductions in LCTS grant payments to Town and Parish Councils took place between 19 July 2023 and 13 September 2023 and was available electronically via the council's website, with paper copies made available on request from our Customer Access Points or libraries.

In November 2023, Cabinet considered the outcome of that consultation and resolved to implement the proposed changes to the Empty Homes Premium from April 2024 and to implement the Second Homes Premium from April 2025.

The reductions to the LCTRS grant payments to Town and Parish Councils – phased in over three years from 2024/25 to 2026/27 – were also agreed at Cabinet in November 2023 and were factored into the MTFP (14) proposals agreed by Council on 28 February 2024.

There are no changes to the LCTRS scheme for 2025/26 and no changes to the policy position agreed last year which impact on the 2025/26 council tax base setting therefore no further consultation is required.

Human Rights

None

Climate Change

None

Crime and Disorder

None

Staffing

There may be a requirement for additional staffing resource to administer, maintain, manage, and review on an annual basis the additional S13A applications received as well as the additional staffing resource required to collect the debt. This position will be kept under review.

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 2025.

The council's performance on recovery of council tax, both in year and the overall recovery rate needs careful monitoring. In 2024/25, 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 2025/26.

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

The effect of the additional resource required to administer, maintain, manage, and monitor the increase in S13A applications will reduce the resource available for the business-as-usual council tax work that generates incoming revenue into the council.

The additional resource required to collect the debt will reduce the resource available for the collection of the remaining council tax debt.

The additional resource required to manage payment avoidance from property owners, as well as the increase in sole/main residence queries to investigate.

Procurement

Not applicable