

Cabinet

1st October 2013

Report of the Cabinet Member for Finance, Performance and Customer Services

Technical Reforms to Council Tax

Summary

1. The purpose of this paper is to provide Cabinet with an update on the current position of the changes to Council Tax Exemptions approved in November 2012 and to consider what, if any, changes should be made for 2014/15 including council tax support.

Background

2. The Government allowed councils latitude to amend four key Council Tax Exemptions in the Finance Act (November 2012) these changes came into place from 1st April 2013. The exemptions became discounts from this date and Table 1 below shows the changes approved by Cabinet in November 2012.

Table 1

Exemption	Pre 1st April 2013	April 2013
Empty and Unfurnished (Class C)	0%	50%
Structural Repairs (Class A)	0%	50%
Second Homes	90%	100%
Longer Term Empty (2Yrs +)	100%	150%

Collection and Liability

3. It is difficult to predict with complete accuracy the level of additional council tax that will be collected through the changes made to exemptions from the 1st April 2013 until the end of the financial year. Table 2 below provides an estimate of the potential outturn position based upon collection and liability at the end of August 2013. The table also compares this to the estimated additional liability set out in the November 2012 decision paper to highlight any variation. The paper to Cabinet highlighted that actual collection was unlikely to match liability due to a number of factors.

Table 2

Exemption	Est 2013/14 (Liability)	August 2013 (Liability)	August 2013 (Collected)	Est Outturn (Collection)
Empty and Unfurnished (Class C)	£537K	£347K	£115K	£276K
Structural Repairs (Class A)	£67K	£22K	£8K	£19K
Second Homes	£105K	£82.6K	£30K	£72K
Longer Term Empty (2Yrs +)	£64K	£29.7K	£10K	£24K
Total	£773K	£481.3K	£163K	£391K

4. It is difficult to provide accurate full year estimates of liability for Class A and C exemptions. This is due to the way that the Northgate system (Council Tax database) applies exemptions. It will always apply any exemption from the date of award to the end of the financial year so liability is always overstated where it is applied before 1st September. Even after September in many cases a property will be reoccupied before expiry of the exempt period. As a result of this the value of liability and collection arising from these changes will not be known until the end of the financial year. A conservative estimate however is that the changes will yield

at least £300,000 of additional income taking account of all issues.

5. In the report to Cabinet, it was highlighted that there remained a number of risks and issues, which meant that relying upon significant additional income would not be prudent in the first year. These included the potential for residents to transfer to payment of council tax over 12 months (affecting cash flow) and wider issues and risks associated with council tax benefit, and the general economic position which could impact on council tax collection. In particular there were significant risks associated with the actual spend side of council tax benefits, and therefore we needed to be relatively prudent in terms of assumed council tax income. The issue of medium term growth in the spend side of benefit continues to be a factor, and this is considered further later.
6. The council does have the power to amend both Class A and C exemptions which currently stand at 50% (Second Homes and Long Term Empties are already at the maximum charge permissible). Removing them altogether will not necessarily increase income by 100% and visibility will be lost in the normal council tax collection (i.e. they won't appear as exemptions). Table 2 predicts income this year for these exemptions to be in the region of £300K.
7. It is difficult to predict what will happen if one or both are removed or further reduced. There has been very little feedback to the changes this year. We have had representation from an Almshouse in respect of the 50% charge on Class A as they are struggling to afford major structural repairs and some anecdotal feedback from small local builders affected by having to pay council tax in respect of Class C on unsold properties.
8. Therefore, in simple terms the current estimates suggest the changes made to exemptions this year should yield over £300,000 in additional income, with the scope for a further £300,000 if all exemptions were removed in 2014/15.
9. These figures however need to be considered in the context of the wider financial position, both in terms of council tax collection/council tax benefits, and the wider financial strategy. These are considered below.

Council Tax Support

10. The Council approved a Council tax support scheme which limited council tax benefits to 70% of the assessed liability. This was with a view to ensuring the scheme was cost neutral on the Council, following the loss of Government grant. Whilst it is still too early to conclude what the final figures will be, it is considered that the scheme will operate to budget during 2013/14, albeit there remain some risks in terms of non collection
11. Looking ahead to future years there are a number of considerations to be made. The spend on council tax benefits is almost certain to increase, for example due to increases in council tax e.g. a 1% increase in council tax will increase the council's expenditure by some £75,000. The grant from the Government in respect of council tax support is fixed (although there is some debate it is actually being reduced). In addition there remain risks that the total number of claimants will increase, either through general demographic changes, or economic factors.
12. It has been assumed for financial planning purposes that any additional council tax income e.g. from the technical changes, would be utilised to cover the growth identified in the above paragraph.
13. In respect of the percentage reduction applied, as described above the 30% is likely to deliver a balanced scheme. If members wished to reduce this percentage reduction, every 1% reduction would cost in the region of £50,000. Any change in percentage will require public consultation and Full Council approval before 31 January 2014.

Wider financial implications

14. Whilst the above issues are relevant in the context of understanding the options/issues surrounding council tax exemptions and council tax support, they clearly need to be considered against the overall financial strategy.
15. The first thing to note is that the impact of technical changes (i.e. exemptions) is only one part of the calculation of the council tax base which is determined by the Director of CBSS. Other factors need to be considered at the time, not least the overall position regarding general collection rates, and any issues regarding the overall make up of the taxbase.

All things being equal however, further reduction to the exemptions will produce additional income.

16. Of perhaps more significance is the fact that the Council faces increasingly difficult financial circumstances, and as such any areas of potential additional income need to be considered against the Councils overall pressures. There remain significant financial issues, including in particular
- Additional reductions imposed on local government funding, including further 1% reduction in 14/15
 - Looking into 15/16 there is a need to save some £10m, with a grant reduction of around 13%
 - Beyond 15/16 further cuts in grant of around 10% are to be expected
 - Beyond 15/16 there are likely to be further increases in benefits expenditure.

Options

17. All this means that there are in essence the following key options to consider
- i) Does the Council wish to change the exemptions applied, and in particular to amend class A and C to 100% liability, noting the potential increase in income of £300,000?
 - ii) Subject to the above point, if there is additional income, how does the Council wish to use this, recognising that the financial pressures facing the Council are very significant and that the current financial plans assume that growth from benefits expenditure would be met from increased council tax yield?
 - iii) Does the council wish to amend the level of Council Tax Support for 2014/15?
18. Given the financial challenges facing the Council it is recommended that class A and C be amended to 100%.
19. Given the wider financial issues and challenges, and recognising the need for prudence, it is proposed that any additional income from these changes in 2014/15 and

2015/16 be utilised to cover the potential costs of any increases in expenditure pressures on the benefits expenditure, with the final amount to be determined at budget setting time. No change is proposed to the council tax benefit scheme.

Council Plan 2011 - 2015

20. The implication of any changes made will potentially impact on the following priorities within the council plan:
- a) Protecting vulnerable people
 - b) Building strong communities

Implications

- (a) **Financial** – The wider financial implications that need to be considered in taking any decision are set out at Paragraphs 14 – 16.
- (b) **Human Resources (HR)** - There are no implications
- (c) **Equalities** – There are no implications
- (d) **Legal** - There are no implications
- (e) **Crime and Disorder** - There are no implications
- (f) **Information Technology (IT)** - There are no implications
- (g) **Property** - There are no implications

Risk Management

21. The key risks in relation to this paper is the level of the additional council tax that will be levied and collected through removing or further reducing Class A and/or C exemptions which is difficult to predict. In addition landlords may increase rents to offset any further reduction in class C exemptions however the risks of this are not perceived as being high (In consultation with Housing). Further reductions to Class A and C exemptions can also impact charities and individuals

respectively however Charitable Registered Social Landlords can claim full relief for six months by claiming Class B rather than Class C exemptions.

Recommendations

22. Cabinet are asked to:

- a. Apply 100% liability in respect of Class A and C properties, from the current 50% liability.

Reason

To increase the amount of council tax liability in respect of council tax exemptions in 2014/15

- b. Approve that any additional income from the technical changes to council tax be reserved in the first place to cover potential increases in benefits expenditure, with further consideration at time of budget setting.

Reason

To ensure cost pressures related to council tax benefits are managed, and to consider any additional income against the Councils overall financial position

- c. Leave the level of council tax support as at present.

Reason

To set the level of council tax support for 2014/15.

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	Report Approved	√	Date 6 September 2013
Wards Affected: All			√
<i>For further information please contact the authors of the report</i>			

Background Papers

Technical reforms to council tax DCLG and
 Technical reforms to council tax – Response DCLG
<https://www.gov.uk/government/consultations/technical-reforms-of-council-tax>

Technical Reforms to Council Tax – Cabinet, 6th November 2012