



Title: **Needs & Redistribution Technical Working Group**

Paper: NR TWG 18-05: Discussion paper regarding the approach to relative resources by the Ministry of Housing, Communities and Local Government

Date: 28 March 2018

Venue: Local Government Association, Smith Square, London

POLICY DEVELOPMENT: NOT A STATEMENT OF GOVERNMENT POLICY

Introduction

1. In recent meetings, the technical working group has discussed papers from MHCLG, North East Combined Authority and SIGOMA on council tax, to inform the resources work stream of the fair funding review (which is also considering income from sales, fees and charges).
2. These papers have covered areas, including an introduction and background to factors which affect local authorities' ability to raise council tax, Local Council Tax Support and analysis of the resources adjustment in the 4 Block Model.
3. MHCLG's paper in November 2017¹ focussed on different precedents for treating council tax levels and taking council tax income into account, and illustrated the effect of hypothetical scenarios for future treatment.
4. One of the areas of future focus set out by MHCLG was returning to factors which affect council tax base. Furthermore, the group's view was that a measure of council tax income should be based on a notional value with scope to take account of past circumstances and other relevant factors. All past technical working group papers and discussion minutes can be found on the LGA website.²
5. This paper has two aims:

¹

<https://www.local.gov.uk/sites/default/files/documents/3a.%20Resources%20workstream%20%E2%80%93%20approach%20to%20council%20tax.pdf>

² <https://www.local.gov.uk/topics/finance-and-business-rates/business-rates-retention>

- i. Establish a comprehensive list of factors which affect the council tax base for the purposes of measuring local authorities' resources, and clarify whether any are missing, and
 - ii. Set out, and seek further views on, elements which may affect council tax levels and which have been raised in earlier technical working group discussions, to reach consensus on areas for future consideration.
6. Factors taken into account which affect council tax base and level will form the calculation of settlement allocations, as part of the adjustment for councils' relative ability to raise local resources.
 7. At this stage, this paper does not propose an approach to discounts, exemptions and premiums on the tax base. Nonetheless it does display whether they have a precedent in the current settlement methodology, as well as the size of the impact of each factor, and invites further views. A short summary of how discounts, exemptions and premiums with precedents were taken into account was provided in MHCLG's scoping paper on resources last July (TWG 17-01 para 22).³
 8. Members' responses to this paper will help to finalise the work plan that will enable us to develop options for ministers to consider in future.

Council tax base

9. The tax base is defined as the number of Band D equivalents after discounts, exemptions and premiums. Some of these discounts, exemptions and premiums are set nationally, whilst others are set at local discretion. Methodologies in previous LGF settlements have imposed assumptions on those set with local discretion, in part so that local decisions do not affect future funding allocations. Examples include the second homes discount and the empty homes premium.
10. Since the 4 block model last calculated relative needs and resources, there have been changes in policy which mean that there are some discounts and premiums with no precedent in the current methodology. The review will consider afresh how to incorporate and measure those with and without precedents.

Table 1 - the four types of discount and exemption

	With a precedent	Without a precedent
Nationally set	Exemptions Disability reductions Single persons' discount 25% discount 50% discount	Family annex discount
Locally set	Second homes discount Empty homes discount	Localised council tax support Empty homes premium

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https://www.local.gov.uk/sites/default/files/documents/Discussion%20paper%20regarding%20the%20approach%20to%20resources%20in%20the%20Fair%20Funding%20Review%20by%20the%20DCLG_0.pdf#page=5

11. At an England level, the effect on the national council tax base of most discounts and exemptions can be considered small, perhaps with the exception of the single person discount (which equates to around 7% of the pre-reductions taxbase) and LCTS (which equates to around 10%). The next largest effect is that of all classes of exemption, which total 2%. Nonetheless, at a local authority level the effect on the tax base varies.

Table 2 – Discounts, exemptions and premiums at England level

	Date introduced	Mandatory / Discretionary	Band D equivalent dwellings	Resulting percentage change in base
Dwellings on valuation list (initial)	n/a	n/a	22,236,414	n/a
Exemptions	n/a	Mandatory	-488,790	-2.2%
Demolitions	n/a	Mandatory	-1,312	0.0%
Disabled reduction	1993	Mandatory	-128,130	-0.6%
Disabled relief	1993	Mandatory	109,653	0.5%
Single Person discount	1993	Mandatory	-1,619,440	-7.3%
25% discounts	1993	Mandatory	-48,969	-0.2%
50% discounts	1993	Mandatory	-20,580	-0.1%
Second Homes discount		Discretionary	-2,647	0.0%
Empty Home discount		Discretionary	-45,317	-0.2%
Empty Home premium		Discretionary	25,518	0.1%
Family Annex discount	2014	Discretionary	-2,092	0.0%
Class O (military) exemptions	1993	Mandatory	-38,386	-0.2%
Reduction due to Local Council Tax Support	2013	Discretionary	-2,155,143	-9.7%
Final Taxbase			17,897,658	

Table 3 – Exemptions broken down

Class	Description of exemption	England average percentage of all Exemptions	Overall reduction effect on total taxbase
F	Dwellings left empty by deceased persons.	21.9%	0.48%
N	A dwelling which is occupied only by students, the foreign spouses of students, or school and college leavers.	18.5%	0.41%
U	Occupied only by a person, or persons, who is or are severely mentally impaired who would otherwise be liable to pay the council tax or only by a one or more severely mentally impaired persons and one or more students, students' foreign spouses and school and college leavers.	17.3%	0.38%
E	Previously the sole or main residence of a person who has moved into a hospital or care home.	9.1%	0.20%
M	A hall of residence provided predominantly for the accommodation of students.	5.3%	0.12%
B	Unoccupied dwellings owned by a charity (up to six months).	5.1%	0.11%
W	Forms part of a single property including at least one other dwelling and which is the sole or main residence of a dependent relative of a person who is resident in the other dwelling.	2.9%	0.06%
T	Forms part of a single property which includes another dwelling and may not be let separately from that dwelling, without a breach of planning control.	2.6%	0.06%
R	Empty caravan pitches and boat moorings.	1.6%	0.04%

P	Where at least one person who would otherwise be liable has a relevant association with a Visiting Force.	1.6%	0.04%
S	Occupied only by a person, or persons, aged under 18.	1.2%	0.03%
G	An unoccupied dwelling where the occupation is prohibited by law.	1.2%	0.03%
I	Previously the sole or main residence of a person who is the owner or tenant and has moved to receive personal care.	0.8%	0.02%
L	Taken into possession by a mortgage lender.	0.7%	0.02%
V	At least one person who would otherwise be liable is a diplomat.	0.5%	0.01%
D	Left unoccupied by people who are detained e.g. in prison.	0.4%	0.01%
H	Unoccupied clergy dwellings	0.3%	0.01%
J	Previously the sole or main residence of a person who is the owner or tenant and has moved to provide personal care to another person.	0.2%	0.00%
Q	Where the person who would otherwise be liable is a trustee in bankruptcy.	0.1%	0.00%
K	Where the owner is a student who last lived in the dwelling as their main home.	0.1%	0.00%

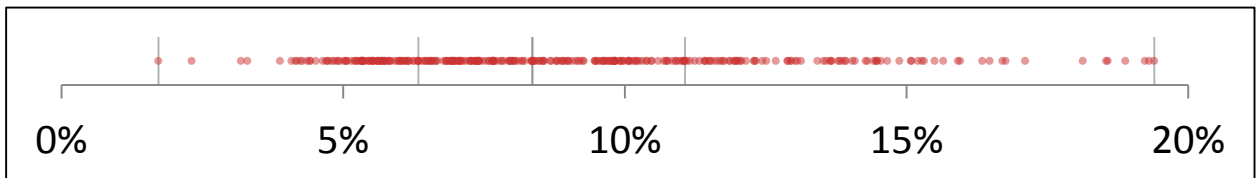
Note – This table excludes Class O (military) exemptions, which are paid for by government grant.

Question 1): Considering tables 1 and 2 above, does the group agree that the discounts, exemptions and premiums set out are a comprehensive list to consider in relation to the definition of a local authority's tax base? Are there any other factors affecting the tax base which are missing and should be considered?

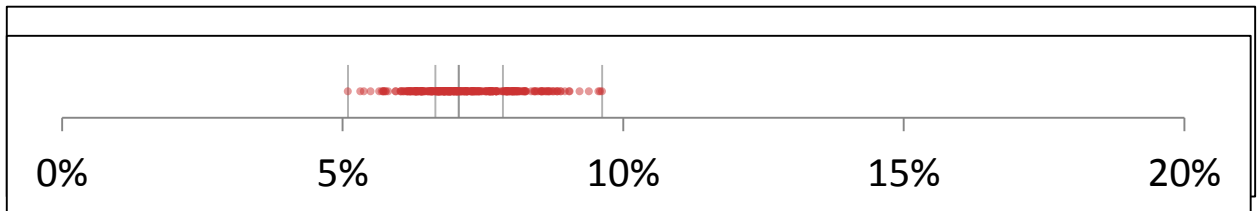
Question 2): Considering Figures 3 and 4 below, does the group have any particular views on whether or how any of these factors should be incorporated, or which may require more detailed consideration? (Note that LCTS will be discussed separately at a later meeting)

Fig. 3: Changes in taxbase due to discounts, exemptions and premiums – larger impacts

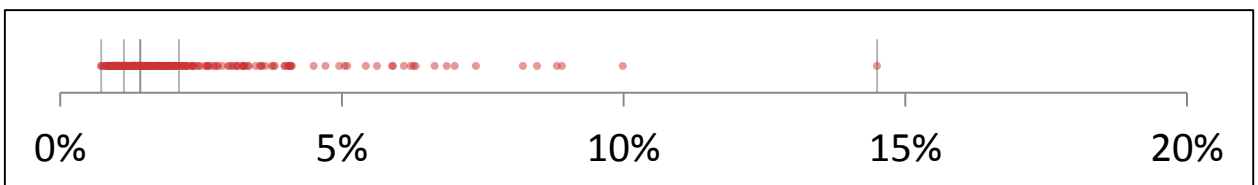
Local Council Tax Support



Single person discount



Exemptions



Class O (military) exemptions

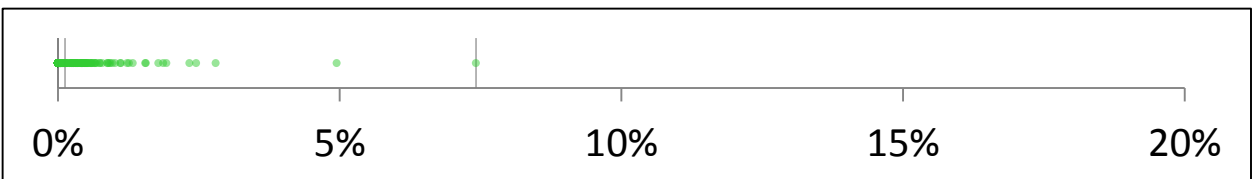
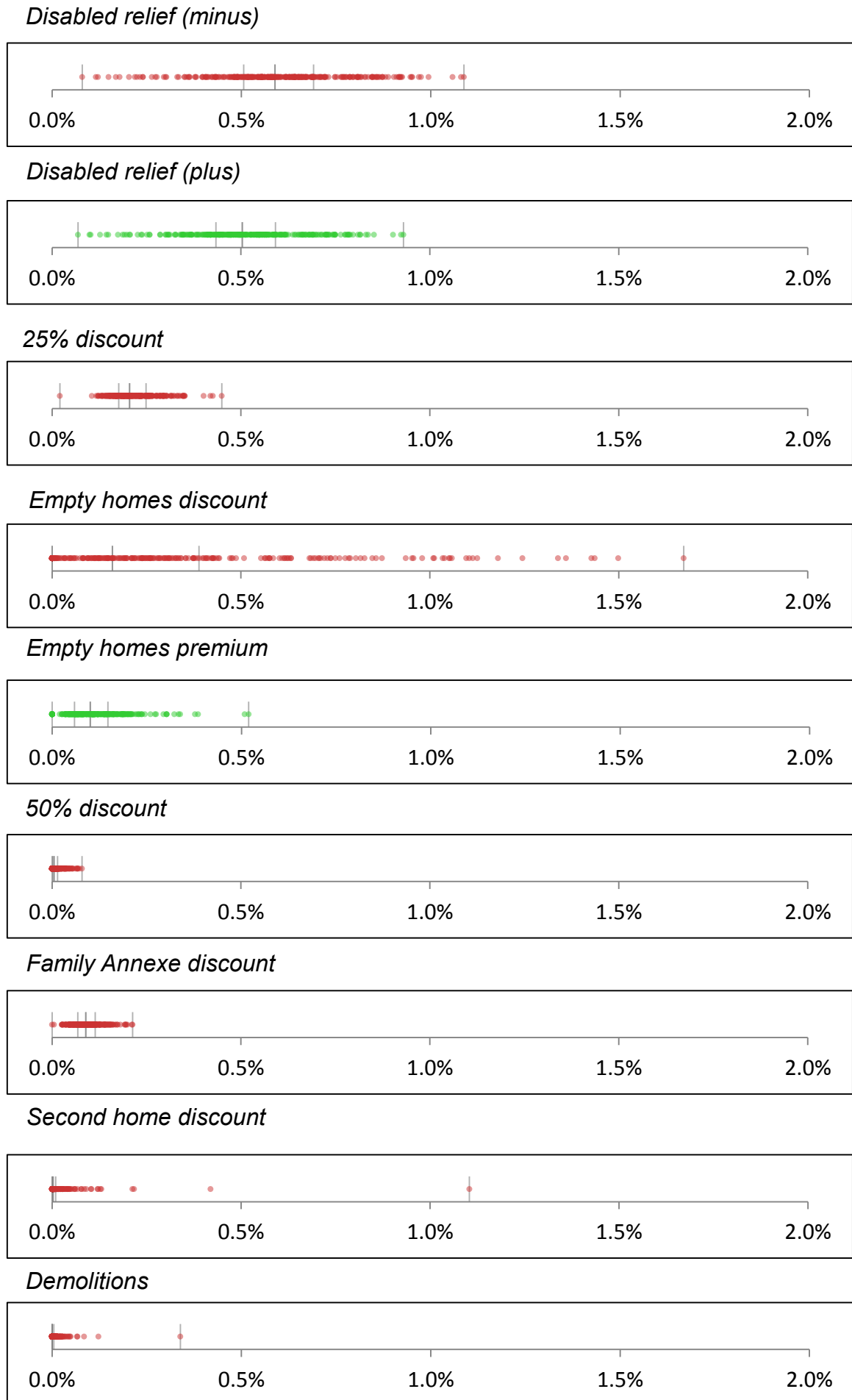


Fig. 4: Changes in taxbase due to discounts, exemptions and premiums – smaller impacts

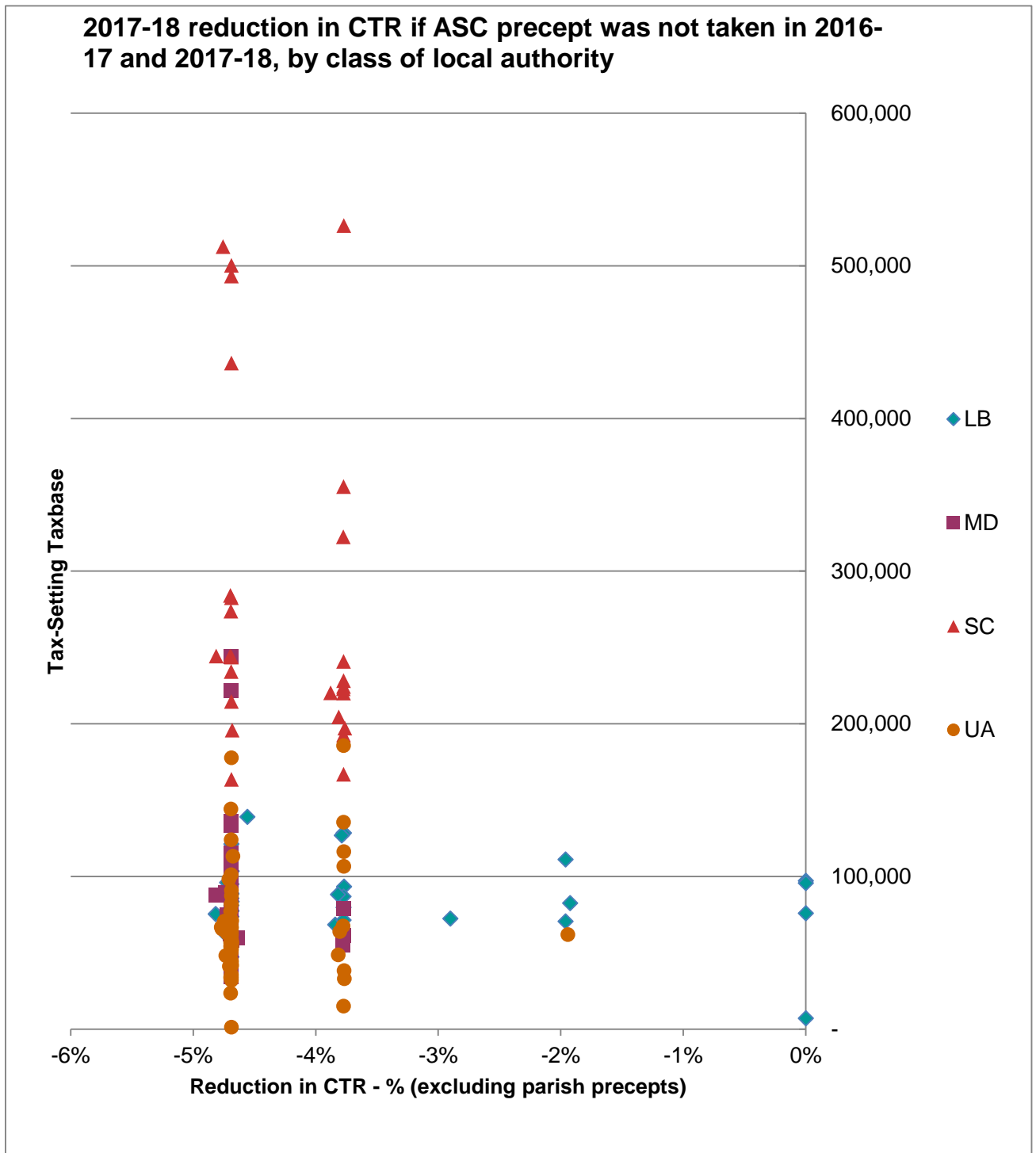


Council tax levels

12. As well as the size of tax bases, the amount of income which can be raised through council tax depends on the Band D level set by individual authorities.
13. In November's meeting of the technical working group, members considered the distributional effects of hypothetical options for taking account of council tax income, including no account, full account of 'actual' Band D levels, and notional account. It was agreed that broadly 'notional' values could be used to calculate authorities' relative resources for the purpose of setting funding baselines.
14. Several factors have been raised in representations by local government during the course of our engagement, as well as by the TWG, which affect council tax levels. It has been suggested that the review may explore adjustments, where practicable, in recognition of these factors. This paper seeks the group's views on the following factors (starting on the next page).

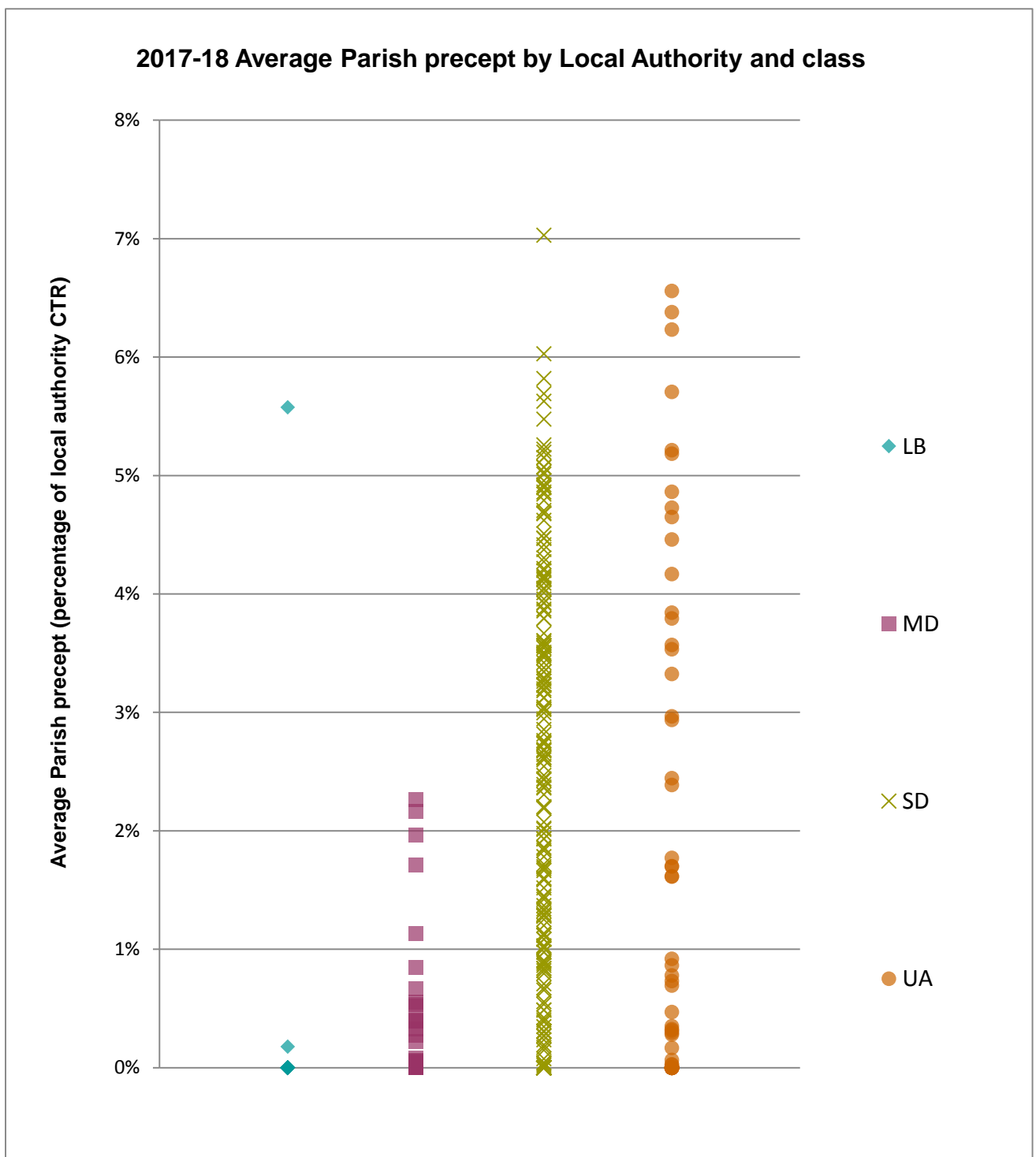
I. Adult Social Care precept

- The Adult Social Care Precept was introduced in 2016-17 alongside the improved Better Care Fund.
- The Precept provides flexibility for an additional percentage increase in council tax (without triggering a local referendum).
- The improved Better Care Fund was allocated in such a way that the overall distribution of dedicated adult social care funding, including the Precept, reflects authorities' relative need.
- By 2019-20, the Adult Social Care Precept could have added a further £1.8 billion to England's total Council Tax Requirement than had it not been introduced.



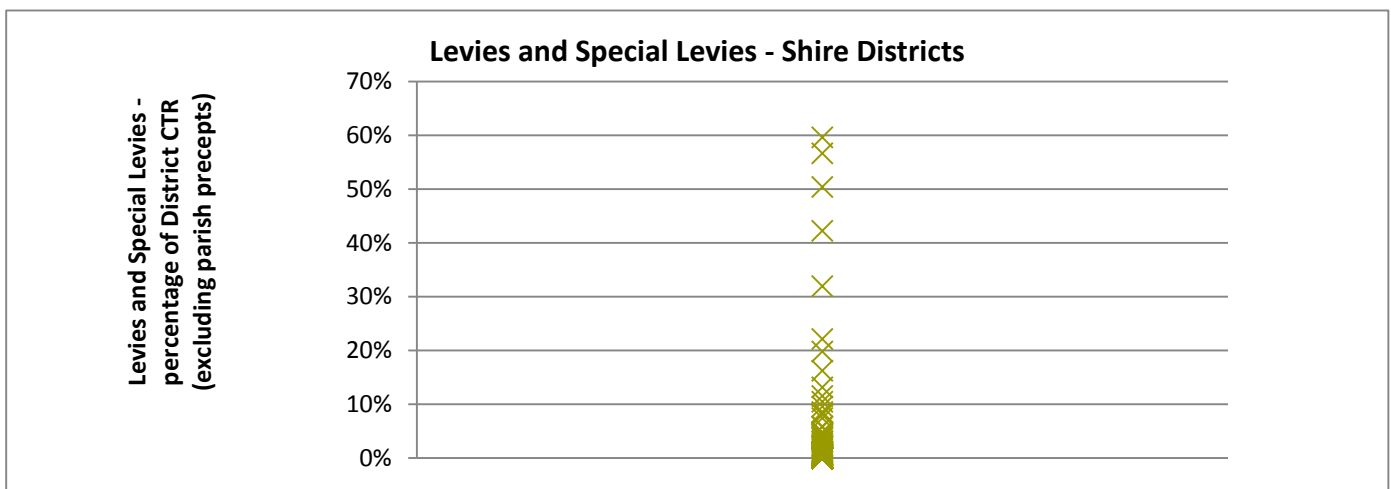
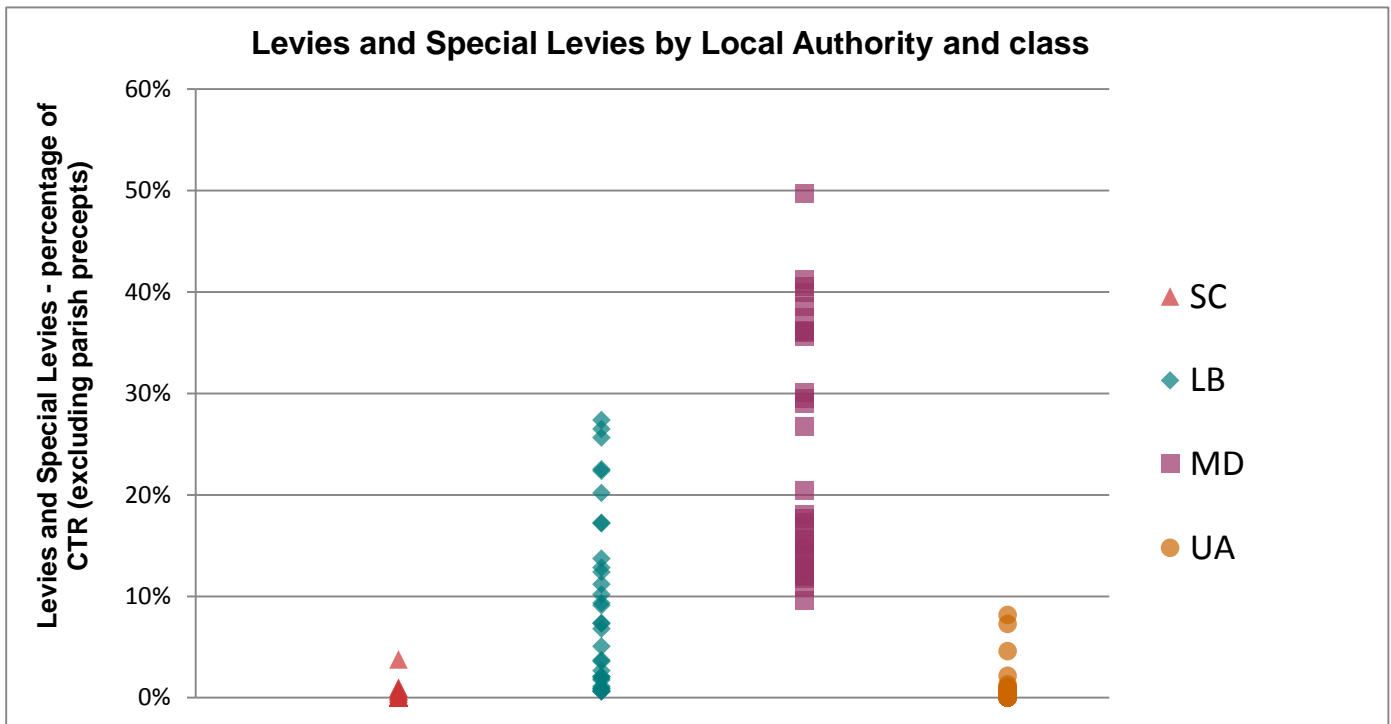
II. Parishes

- The precept charged by a parish council is in addition to all other precepting bodies: that is, the existence of a parish does not affect a local authority's ability to increase council tax in line with existing referendum principles.
- Less than half of England's tax base is parished, with parish precepts making up £0.5bn of England's total Council Tax Requirement in 2017-18.
- Some local authorities include the effect of parish precepts when arguing that residents in some areas face higher council tax levels, as part of wider representations made to MHCLG regarding Local Government Finance.



III. Levying bodies

- Levying bodies⁴ can levy money from local authorities to discharge their functions⁵. When setting council tax, billing authorities take into account monies they will pay to levying and special levying bodies: these were brought into the referendum calculation via the LAA Act 2014.
- The CT receipts reserved for use by levying bodies form, excluding parish precepts, 4.6% of England's CTR (around £1.2bn) in 17-18.
- Boards of levying bodies are usually attended by some elected council members, as well as non-elected representatives, to help to coordinate service provision across the area.
- Shire Counties tend to have lower average levies, but this belies the fact that these may be spread across individual districts.



⁴ Such as internal drainage boards, crematorium boards, conservators, the Environment Agency, garden square committees, harbour boards/conservancies, joint waste disposal authorities, national park authorities, the Lee Valley Regional Park Authority, passenger transport authorities and so on.

⁵ Sections 74, 75, 117 and 118 of the Local Government Finance Act 1988, <https://www.legislation.gov.uk/ukpga/1988/41/contents>

IV. Freeze grant

- The council tax freeze grant was a voluntary scheme introduced in 2011. In the first year of the freeze grant (2011-12), 100% of local authorities took the grant, equivalent to the additional Council Tax Requirement from an increase of 2.5%. The uptake dropped to 85% in the second year (still at 2.5% except for police authorities, fire authorities, GLA and City of London which received more), then around 60% for the remaining three years (grant at 1%).
- Had the freeze grant not existed, council tax bills could have been around 8% higher in 2017-18 (£125 extra on the average £1,563 bill)⁶. This would be an additional £2.2bn in Council Tax Requirement.

Question 3): Does the group have views on the factors listed above which affect council tax levels, in the context of making a resources adjustment in local government finance settlement allocations?

Question 4): Are there any other factors that affect council tax income which the review should consider?

⁶ Assumes max increases without referendum as alternative