

Distribution Sub-Group (2018) Paper 12– Discretionary Council Tax discounts in the Settlement model

This discussion paper has been written by officials of the Welsh Government. Ministers have not had an opportunity to comment on the contents. Exemplifications of changes are provided simply to inform discussion by DSG members. They are not Welsh Government proposals or statements of Government policy for or against changes.

Discretionary Council Tax discounts in the Settlement model

Summary

1. This paper considers the treatment of discounts applied to long-term empty properties and second homes in the 100% tax base for Revenue Support Grant (RSG) calculation purposes.

Views sought

2. Members are asked to give their views on a way forward with regards to the calculation of the 100% tax base for RSG calculation purposes.

Related papers

3. Distribution Sub-Group (2015) - Paper 14 – Council Tax Premiums
<http://gov.wales/docs/dsijg/minutes/150708-dsg-paper14-en.pdf>

Background

4. From 1 April 2017, local authorities in Wales have been able to introduce council tax premiums to charge up to a 100% of the standard rate of council tax on long-term empty properties and second homes in their areas. The additional funds raised through council tax premiums are retained by local authorities. The CT1 forms¹ were amended so that the premium element of the tax base is reversed out of the 100% tax base for RSG calculation purposes, so authorities that charged premiums did not lose funding through the local government settlement.
5. In addition to charging premiums, local authorities are also able to offer discounts for long-term empty properties and second homes. The current process nets off these discounts in the calculation of the 100% tax base for RSG calculation purposes. As these discounts are discretionary, it is questioned whether discounts for long-term empty properties and second homes should be reversed out of the calculation of the 100% tax base, to ensure local authorities do not gain from the settlement as a result of offering these discounts.

Analysis

6. Currently, there are two measures of tax base collected by Welsh Government Knowledge and Analytical Services (KAS) colleagues:
 - the tax-setting tax base, which allows an adjustment for collection rate and is used by Local Authorities to set their budgets and in the settlement model to calculate the assumed council tax income at an all Wales level;

¹ <https://gov.wales/docs/statistics/2017/171101-council-tax-dwellings-2018-19-form-en.xlsx>

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- The 100% tax base, which makes no allowance for income foregone as a result of uncollected tax and is used in the reversal out of council tax at a local authority level in the Local Government Settlement.
7. The purpose of the 100% tax base, in the Settlement calculations, is so no allowance is made for local policy decisions, such as the extent to (or efficiency with) which outstanding council tax is chased.
 8. The CT1 form, used for recording local authorities' income from council tax, asks Authorities to record:

B6 - the long-term empty property discount adjustments and second homes discount adjustments;

B7 - the premium adjustment for empty properties and second homes;
 9. The current process nets off B6 in the formula for calculating the 100% tax base but does not add in the premium adjustment above the 100% charge (B7). This allows local authorities to retain any funds they gain through charging premiums. However, as empty properties and second homes discounts are being netted off in the 100% tax base, this means an authority that collects less through council tax, as a result of offering these discounts, gains a similar amount through the Settlement. In order for the 100% tax base to be exempt from local authority policy decisions, the calculation would need to include (not net off) B6.
 10. The current CT1 form also records the 25% and 50% discounts awarded by local authorities in lines B2a and B2b, which are netted off in the calculation of the 100% tax base. The guidance notes², which accompany the CT1 form, state that local discounts which come under section 13A of the 1992 Act should not be included under this section, or any other section of the form. These discounts along with discounts for empty properties and second homes are the only discretionary areas in Wales, at present, where authorities can give discounts in council tax. It is proposed that these discounts remain in the formula for calculating the 100% tax base as they only cover mandatory discounts.

Conclusion

11. Members are asked to give their views on a way forward with regards to the calculation of the 100% tax base for RSG calculation purposes.

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² <https://gov.wales/docs/statistics/2017/171101-council-tax-dwellings-2018-19-guidance-en.pdf>