

**Committee:** Cabinet

**Agenda Item**

**Date:** 24 October 2013

**8(a)**

**Title:** 2014/15 Council Tax Discounts & Local Council Tax Support

**Portfolio Holder:** Councillor Robert Chambers

**Key decision:** No

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### **Summary**

1. On 20 June the Cabinet approved proposals for consultation, relating to changes to Council Tax discounts for Second Homes and Empty Homes, and changes to the Council's Local Council Tax Support (LCTS) Scheme.
2. Consultation has been carried out during the Summer and the majority of people responding to the consultation support the proposed changes.
3. The Cabinet is therefore requested to confirm its proposals and recommend them for approval by Full Council on 10 December.
4. The County Council has requested an adjustment to the proposed LCTS funding arrangements in order to preserve the cost neutrality of LCTS without cross-subsidy from other Council Tax income. Analysis suggests that is in UDC's best financial interests to agree to the request.

### **Recommendations**

5. The Cabinet is requested to approve, for recommendation to Full Council, the following changes, to apply with effect from 1 April 2014:
  - a) Withdrawal of the 10% discount for Second Homes.
  - b) Reduce the Empty Homes Class A (major repairs) discount from 100% for up to 12 months to 50% for up to 12 months.
  - c) Reduce the Empty Homes Class C (vacant dwellings) discount from 100% for up to 6 months to 50% for up to 6 months.
  - d) Introduce an Empty Homes Premium of 50% for dwellings unfurnished and empty for more than 2 years.
  - e) To change the liability cap such that non-vulnerable working age people previously on full CTB shall pay 12.5% of the Council Tax bill (an increase from the present 8.5% figure).
  - f) To continue the other elements of the Uttlesford LCTS Scheme without changes, as summarised in paragraph 9.
  - g) To provide discretionary funding support to major preceptors on the basis of the principles set out in paragraph 41.
  - h) To provide discretionary funding support to town & parish councils on the basis of the principles set out in paragraph 52.

## Financial Implications

6. Detailed in the report (paragraph 53).
7. The proposals will have a modest impact on the Housing Revenue Account relation to empty dwellings. The impact is estimated at £24,800 per annum but this should reduce as void relet times continue to improve.

## Background Papers

8. None.

## Impact

Communication/Consultation	Consultation has been carried out, and the results are detailed in the report.
Community Safety	None.
Equalities	An equalities impact assessment is appended to the report.
Health and Safety	None.
Human Rights/Legal Implications	Compliance with relevant legislation.
Sustainability	The objective is to achieve a financially sustainable set of arrangements.
Ward-specific impacts	None.
Workforce/Workplace	Ongoing demands on the Revenues & Benefits, Housing and Customer Service teams

## Local Council Tax Support (LCTS)

9. LCTS replaced Council Tax Benefit (CTB) from 1 April 2013. The Council has adopted a scheme which has the following key elements:
  - a) Pensioners on low income protected from adverse changes (as required by Government)
  - b) Disabled people, carers and blind people on a low income protected from adverse changes
  - c) Working age people previously on full CTB pay no more than 8.5% of the council tax bill
  - d) £25 per week of earned wages income disregarded from assessment (to provide a work incentive)

- e) Child Benefit and Child Maintenance disregarded from assessment (to minimise exacerbation of child poverty, or accusations of same)
- f) Hardship Policy to enable additional support for genuine extreme hardship cases
- g) Discretionary subsidy from UDC budget to ensure cost neutrality for County, Police and Fire (because the cost of the 'generous' UDC scheme is greater than the Government funding provided)
- h) Funding of parish councils to ensure no effects on parish council tax Band D calculation (caused by LCTS discounts reducing the taxbase).

10. The Council's agreed strategy is that the 2013/14 scheme, and the UDC subsidy of it, is a transitional approach for 2013/14 only – done in order to phase in the impact on the affected households. The stated intention was to review the scheme during 2013/14 and make changes for 2014/15, allied to a review of council tax discounts on second homes and empty homes.

11. On 20 June the Cabinet considered this matter and decided to consult on the following proposal, to apply from 1 April 2014:

To change the liability cap such that non-vulnerable working age people previously on full CTB shall pay 12.5% of the Council Tax bill (an increase from the present 8.5% figure)

12. The Cabinet decided not to propose changes to the other features of the Uttlesford LCTS scheme e.g. protection for vulnerable people, therefore, the consultation process did not invite views on these aspects.

## Consultation

13. A report detailing the consultation process and results is included as an Appendix to this report, and is summarised below.

14. The public consultation showed that the majority of respondents supported the proposal:

Proposal	Number of respondents expressing an opinion	Yes	No
Change liability cap from 8.5% to 12.5%	256	58%	42%

15. The Liberal Democrat Group invited people to sign and submit a postcard that expresses objections to the proposal. The text of this postcard is included in the Appendix. The distribution of the postcard is not known. A total of seven signed postcards were received. It is not known if these responses duplicate those received through the official consultation process.

16. Support for the proposals was received from Essex County Council and Essex Fire Authority. There was no consultation response from Essex Police. The County Council response was received after the end of the formal consultation period.
17. The County Council support was on the basis of continued cost neutrality i.e. costs of LCTS discounts not exceeding current levels of Government funding for LCTS. The County Council has expressed concern about using the extra income from reducing council tax discounts to offset Government funding reductions for LCTS and LCTS costs. This is discussed in the funding & subsidy section of this report.

## Impact Assessment

18. The effect of the proposal is that although pensioners and vulnerable working age Council Tax payers will continue to receive protection, non-vulnerable working age Council Taxpayers will be required to pay more Council Tax. A Council Taxpayer previously paying the minimum 8.5% liability would be required to pay a minimum 12.5%. Based on the average 2013/14 Band D Council Tax bill of £1,514, this equates to an extra £60.56 or £1.16 per week. In practice many such Council Taxpayers are in smaller properties so the average effect is smaller at £0.90 per week (the range across the caseload is £0.56 to £2.34). The average of £0.90 is slightly larger than the figure of £0.73 estimated in June, which is due to fluctuations and variations within the caseload. This is summarised in the table below. An Equalities Impact Assessment is attached to the report.

	No. of Households as at Sep 2013	2014/15 LCTS discounts (based on 8.5%)	2014/15 average weekly discount per household (if 8.5%)	2014/15 LCTS discounts (based on 12.5%)	2014/15 average weekly discount per household (12.5%)	Average discount reduction per week
Pensioners (protected)	2,078	£2.040m	£18.83	£2.040m	£18.83	£0.00
Vulnerable working age (protected)	462	£0.507m	£21.03	£0.507m	£21.03	£0.00
<b>Non-vulnerable working age</b>	<b>1,321</b>	<b>£1.179m</b>	<b>£17.12</b>	<b>£1.117m</b>	<b>£16.22</b>	<b>£0.90</b>
Total / average	3,861	£3.726m	£18.51	£3.664m	£18.20	£0.31

19. The above table illustrates only the changes that arise from the alteration of the minimum liability from 8.5% to 12.5%. In practice, all council tax payers may be required to pay more council tax if precepting authorities increase their council tax levels. Changes in the council taxpayer's circumstances would also

affect the amount paid. These factors are disregarded from the table to ensure that only the effect of the LCTS scheme change is shown.

### **Council Tax Discounts**

20. From 1 April 2013, billing authorities (including UDC) have had a greater discretion over the level of council tax discounts given to owners of second homes and empty homes.
21. The Council chose not to make use of this discretion for 2013/14, in order to focus efforts on smooth implementation of the mandatory change from Council Tax Benefit to LCTS.
22. In determining its LCTS scheme for 2013/14, the Council decided that it would review Council Tax discounts during the year, with a view to possibly making changes for 2014/15. The underpinning objective is to increase Council Tax income to mitigate reductions in government funding.
23. On 20 June, the Cabinet decided to consult upon the following proposals, to take effect from 1 April 2014:
- a) Remove the 10% second homes discount
  - b) Reduce the Empty Homes Class A (major repairs) discount from 100% for up to 12 months to 50% for up to 12 months
  - c) Reduce the Empty Homes Class C (vacant dwellings) discount from 100% for up to 6 months to 50% for up to 6 months
  - d) Introduce an Empty Homes Premium of 50% for dwellings unfurnished and empty for more than 2 years

### **Consultation results**

24. Full details of the consultation process and results are set out in an Appendix to this report.
25. The following table summarises the results of the public consultation, and shows strong support for the proposals:

Proposal	Number of respondents expressing an opinion	Yes	No
Remove second homes discount	266	84%	16%
Reduce Empty Homes Class A discount	255	79%	21%
Reduce Empty Homes Class C Discount	256	82%	18%
Introduce Empty Homes Premium	251	89%	11%

26. Support for the proposals was received from Essex County Council and Essex Fire Authority. There was no consultation response from Essex Police.

27. The County Council (whose consultation response was received after the end of the formal consultation period) has expressed concern about using the extra income from reducing discounts to offset Government funding reductions for LCTS and LCTS costs. This is discussed in the funding & subsidy section of this report.

## Impact Assessment

28. The table below summarises the estimated effects the affected households, and the additional Council Tax income that would be generated. The figures are very similar to those reported in June; minor fluctuations in caseload have had a slight effect. An Equalities Impact Assessment is attached to the report.

	Discounts given 2013/14	Number of properties	Estimated cost of discounts given in 2013/14	Proposed change for 2014/15	Estimated potential annual income	Average effect per affected property
<b>Second homes</b>	10%	324	£33,000	Remove discount	£33,000	£102
<b>Empty Homes Class A (major repairs)</b>	100% for up to 12 months	142	£102,000	Reduce to 50% for up to 12 months	£51,000	£359
<b>Empty Homes Class C (vacant)</b>	100% for up to 6 months	3,029	£602,000	Reduce to 50% for up to 6 months	£301,000	£99
<b>Empty Homes Premium (long term empty)</b>	None	173	n/a	Add premium of 50%	£85,000	£491
<b>TOTAL</b>					<b>£470,000</b>	
			Attrition factor, hardship support and non-collection	20%	£376,000	
		Major preceptor shares	County Fire Police UDC	71.7% 4.4% 9.3% 14.6%	£270,000 £16,000 £35,000 £55,000	

29. Overall, it can be said that there is strong support for the Cabinet's proposals for second homes and empty homes, and it is therefore recommended that the changes be adopted as set out above.

## Forecasted financial effects of the proposals

30. It is first necessary to consider the two issues (LCTS and Council Tax discounts) separately and then discuss their relationship with each other.

## Local Council Tax Support

31. The table below shows the estimated cost of LCTS discounts in 2014/15 against the Government funding for 2013/14. This is the agreed basis for gauging the cost neutrality of LCTS schemes for the precepting authorities. For this purpose the assumption is made that this funding level will continue in the 2014/15 Local Government Financial Settlement.

£000	TOTAL	County, Police & Fire share	UDC share 2014/15
LCTS discounts if 12.5% cap Assumes no caseload growth Assumes no precept increases	3,664	3,129	<b>535</b>
Government funding for LCTS at 2013/14 levels (Excluding Transition Grant)	(3,583)	(3,070)	<b>(513)</b>
Net direct cost	81	59	<b>22</b>

## Council Tax discounts changes

### Income sharing agreement

32. The major preceptors (UDC, County, Police, Fire) are signatories to an income sharing agreement that results in County, Police and Fire passing back to the district council a 30% share of their additional income, arising from district council decisions to collect more Council Tax from second homes and empty homes. This is to provide district councils with an incentive to effect the changes and to compensate for the additional work.

33. The agreement covers the three financial years 2013/14, 2014/15 and 2015/16 however parties may terminate the agreement early by giving notice on or before 30 November preceding each financial year. The agreement has a clause requiring disputes to be resolved by means of independent arbitration. The key part of the agreement is as follows.

Financial year	Share of additional income to be passed back to the district council	
2013/14	25%	Not applicable to UDC as no changes to the discounts were made
2014/15	30%	Notice date to withdraw: 30 November 2013
2015/16	35%	Notice date to withdraw: 30 November 2014

34. The table below sets out the forecasted additional income and the application of the income sharing agreement in 2014/15:

£000	TOTAL	County, Police & Fire share	<b>UDC share 2014/15</b>
Additional income generated by changes to second homes & empty homes council tax discounts	(376)	(321)	<b>(55)</b>
Major preceptors income sharing agreement – 30% passed back to district council	-	96	<b>(96)</b>
Net income	(376)	(225)	<b>(151)</b>

35. The Cabinet decided to consult on the basis that the additional income arising from discount reductions would cross-subsidise the LCTS scheme such that taking all things together, the net position would be cost neutral or better. This is demonstrated by the figure of £376,000 above exceeding the LCTS net direct cost of £81,000.

36. In its consultation response (received after the end of the formal consultation period), the County Council has expressed the view that cross-subsidisation in this way is outside the spirit of the income sharing agreement. The agreement itself does not specify this. However the inference is that the County Council may withdraw from the agreement if UDC does not provide additional subsidy to the LCTS scheme such that the LCTS scheme on its own achieves a cost neutral position. If so there would be a possibility of Fire and Police adopting a similar position.

37. At risk therefore is potentially up to £96,000 of income to the district council under the income sharing deal, and possibly up to £34,000 of funding by major preceptors provided towards LCTS administration & recovery work. The total at risk is therefore potentially up to £130,000.

38. Against this is the consideration of the cost of providing subsidy to the LCTS scheme to fulfil the County Council's expectation. The estimated cost of this would be £59,000.

39. As £130,000 is a larger figure than £59,000 it is in UDC's financial interests to accept the point made by the County Council in its consultation response.

40. It is therefore proposed that the Council commits to provide discretionary subsidy to the 2014/15 LCTS scheme on the following basis:



- a) UDC will fund the excess of LCTS discounts costing more than the Government funding provided for LCTS, based upon 2013/14 funding levels, adjusted for the following:
  - b) Major preceptors will bear the cost of higher LCTS discounts arising from their own Council Tax increases. UDC would not subsidise this cost.
  - c) Major preceptors will bear the risk of Government funding for LCTS in 2014/15 being reduced below the 2013/14 levels. UDC would not subsidise any such loss of funding.
  - d) The risk of LCTS costs increasing due to higher demand is borne by UDC.
41. Government funding for LCTS forms part of the formula funding provided by the Local Government Finance Settlement. The 2013/14 figures for the four major preceptors total £3.583 million, with £0.513 million being the amount for UDC itself. Although the Government has already indicated a provisional figure for 2014/15 formula funding, it has not provided a breakdown and therefore the element relating to LCTS is not known. The 2014/15 provisional total is 12.5% smaller than the actual 2013/14 figure (and it is possible that there will be an even larger cut when the actual Settlement is announced in December). Therefore it is possible to assume that the element relating to LCTS is smaller. However, the Government has indicated that Councils have discretion on how to use its formula funding and therefore the amount allocated to LCTS can be protected at the 2013/14 levels. Indeed, there is a tacit expectation that councils do this. The County Council, in expecting a cost neutral LCTS scheme for 2014/15, is using 2013/14 LCTS funding levels as the basis for gauging this. Hence including the 2013/14 LCTS funding figure in the 2014/15 analysis is the correct approach in order to gauge scheme affordability. However, it should be borne in mind that there is a possibility of a lower figure being notified by Government in the final settlement.

### **Funding for Town/Parish Councils**

42. A key feature of the LCTS scheme is that the LCTS discounts reduce the taxbase, and therefore affect council tax calculations, including the headline Band D figure.
43. The Government intends that billing authorities distribute a share of their LCTS funding to town & parish councils to compensate for the reduction in their taxbase. This should avoid excessive increases in parish Band D figures. Whether and how this is done, is a discretionary matter for each authority.
44. For 2013/14 UDC decided that the most appropriate course of action was to distribute funds to town & parish councils in such a way as to ensure that they are neither advantaged or disadvantaged by the LCTS taxbase adjustments. The effect is that the parish Band D figure is not affected by these adjustments, and any increase or decrease in the Band D figure was solely because of changes in the town/parish council's budget.

45. An example of this principle is below.

2012/13		2013/14 without UDC funding	2013/14 with UDC funding		
Parish precept	£12,000	£12,000	Parish income requirement	£12,000 (no change)	£14,000 (£2,000 increase)
			<b>UDC funding</b>	<b>-£3,000</b>	<b>-£3,000</b>
			Parish precept	£9,000	£11,000 (£2,000 increase)
Taxbase	400	300 (smaller figure due to LCTS discounts)	Taxbase	300	300
Parish Band D figure	£30.00	£40.00	Parish Band D figure	£30.00	£36.67
		33% increase		No change	22% increase

46. Calculations showed that the total UDC funding required to achieve neutrality in each town/parish was £194,000 and this money was paid over to town & parish councils in May 2013.

47. Although many parish councils did reduce their intended precept accordingly, some did not and in a few cases there were large precept increases such that the average town/parish Band D increase in 2013/14 was 7.3%. It is emphasised that any such increases were solely due to town/parish council spending increases and not the LCTS discounts and taxbase reductions.

48. Although an entirely discretionary payment, it is fairly clear that to discontinue some form of parish council subsidy would lead to large parish band D increases. It is not yet known whether there will be a council tax referendum limit for town & parish councils in 2014/15. If there is a referendum limit then discontinuation of the UDC subsidy would cause financial difficulties for some town & parish councils.

49. It is therefore proposed that a discretionary parish subsidy scheme continues for 2014/15 and indeed into the medium term subject to affordability.

50. However, in continuing with its arrangements the Council (UDC) needs to be mindful of two budgetary pressures that need to be managed:

- a) Firstly that the Council's LCTS funding from Government is likely to reduce in proportion to the rest of the Formula Funding received under the Local Government Finance Settlement. Best planning assumption at the present time is a 10% reduction in 2014/15. If the level of subsidy for parish councils is protected at the 2013/14 level, £194,000, then the district council will bear a disproportionate share of the funding reduction.

- b) Secondly that the intention of the scheme is to neutralise the effect of LCTS taxbase adjustments, and not to subsidise local decision making by town/parish councils to increase their spending plans and in turn, the council tax paid by local residents. Because of the increases made by some town/parish councils in 2013/14, care needs to be taken that this does not in turn lead to additional costs being borne by the district council. In other words, UDC cannot reasonably be expected to increase its discretionary subsidy of town/parish councils by an average 7.3%.

51. Consistent with the above, it is proposed to adopt the following for 2014/15:

- a) UDC should continue to provide discretionary funding to town and parish councils to mitigate the effect of LCTS discount taxbase reductions on the Band D Council Tax calculation.
- b) UDC should cap the total town/parish subsidy funding at the 2013/14 level adjusted pro rata for the loss of LCTS funding (if any) sustained by UDC in the Local Government Funding Settlement; for example, a 10% reduction this would mean a reduction in parish council funding of around £19,400. This should mean no net increase in the bottom line cost to UDC of the parish subsidy element of the LCTS scheme.
- c) The total UDC parish subsidy pot to be distributed using the formula of [2012/13 Parish Band D x 2014/15 Parish LCTS taxbase reduction] – thus avoiding UDC subsidising any precept increases made in 2013/14 or 2014/15. The payment then to be adjusted pro rata to any cut in Government funding for LCTS, if applicable.
- d) That the Council intends to continue town/parish council subsidy beyond 2014/15, subject to affordability issues that may arise from changes in local government finance.
- e) In the event of parish referendum limits being imposed by DCLG the entire scheme to be reviewed and consideration given to putting in place arrangements that minimise risks to town/parish councils.

## Putting it all together

52. The following table brings together all the costs and income arising from the recommendations in the report. It shows that the forecasted position for UDC in 2014/15 is a net cost of £93,000 which is a reduction of £123,000 from the 2013/14 budget. The proposals taken together are therefore consistent with the Council's policy of phasing in the impact of these changes on local people while managing its own financial position in a prudent and sustainable way.

All figures £000	<b>TOTAL forecast 2014/15</b>	<b>County, Police and Fire share forecast 2014/15</b>	<b>UDC share forecast 2014/15</b>	<b>UDC share budget 2013/14</b>
LCTS discounts	3,664	3,129	535	372
Government LCTS funding at 2013/14 levels	(3,583)	(3,070)	(513)	(526)
UDC discretionary funding of major preceptors	-	(59)	59	212
<b>Sub total – LCTS scheme</b>	<b>81</b>	<b>0</b>	<b>81</b>	<b>58</b>
Additional income generated by changes to second homes and empty homes discounts	(376)	(321)	(55)	0
Major preceptors income sharing agreement – 30% passed back to district council	0	96	(96)	0
<b>Sub total – net effect of the LCTS &amp; discounts changes</b>	<b>(295)</b>	<b>(225)</b>	<b>(70)</b>	<b>58</b>
UDC discretionary funding of town/parish councils	194	0	194	194
Major preceptor funding of LCTS administration & recovery costs	0	34	(34)	(34)
LCTS hardship scheme	10	7	3	3
ECC funding of hardship administration	0	0	0	(5)
<b>TOTAL NET COST</b>	<b>(91)</b>	<b>(184)</b>	<b>93</b>	<b>216</b>

## Timetable

Cabinet	24 October 2013	Consider consultation responses and determine final proposals for 2014/15
Provisional 2014/15 Local Government Finance Settlement, including LCTS funding	Late November / Early December 2013	Indication of available funding and council tax referendum limit
Cabinet	5 December 2013	Reconsideration if necessary in light of Local Government Finance Settlement
Full Council	10 December 2013	Approve 2014/15 LCTS scheme and Council Tax Discounts
Full Council	27 February 2014	2014/15 Budget setting and council tax resolution
2014/15 Council Tax bills issued	Early-Mid March 2014	New discounts implemented
Cabinet	June 2014	Commence work on scheme review for 2015/16

## Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Assumptions about costs and income levels are incorrect	3 (a high degree of variability and estimation is involved)	3 (use of reserves may differ from the level envisaged)	Monitor trends closely and review scheme each year to make necessary adjustments. Maintain adequate contingency reserves.
Impact on local people & collectability			Proactive engagement with Council Taxpayers Maintain investment in LCTS Recovery resources, LCTS Hardship Scheme

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.

## **APPENDICES**

- A Consultation results
- B Equalities Impact Assessment – LCTS
- C Equalities Impact Assessment – Council Tax Discounts