Distribution Sub-Group (2018) Paper 24 – Discretionary Council Tax discounts

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 agree to the proposed methodology for the calculation of the 100% tax base for RSG calculation purposes and to the method of calculating the settlement base year.

Related papers

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

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

Background

3. 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 forms[1] were amended so that the premium element of the tax base is netted off the 100% tax base for RSG calculation purposes, so authorities that charged premiums did not lose funding through the local government settlement.

4. In addition to charging premiums, local authorities are also able to offer discretionary discounts for long-term empty properties and second homes. The current process allows these discounts to flow through in the calculation of the 100% tax base for RSG calculation purposes, lowering the tax base.

Analysis

<u>Change to the tax base methodology</u>

5. The current process of allowing the discretionary discounts to flow through and reduce the tax base means that authorities are (either partially, or fully, depending on their level of council tax) being reimbursed through the settlement for the discounts they choose to offer.

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

6. It is proposed that the methodology is changed so that properties offered a discretionary discount are treated, in the 100% tax base calculation, as though no discount has been offered, from the 2019-20 settlement onwards.

7. Table 1 in the annex shows the financial implications through the settlement of changing the methodology so that properties offered a discretionary discount are treated, in the 100% tax base calculation, as though no discount has been offered.

8. The biggest reduction in Aggregate External Finance (AEF) is for Carmarthenshire, of £956 thousand, or 0.4%. Pembrokeshire also sees a reduction of 0.4% in its funding. These figures reflect these authorities having two of the highest proportions of band D equivalent discounts across all authorities. This can be seen in table 2 in the annex.

9. Although Cardiff sees this highest increase in funding, this only equates to a 0.1% increase in AEF, due to the relatively large size of its settlement. Monmouthshire sees the largest increase in AEF, followed by Powys and Flintshire.

10. Local authorities have up until 31 January to set their council tax policy for the following financial year, and early indications show that the majority of authorities that currently offer second home and/or long-term empty property discounts will no longer do so from 2019-20. Therefore, the majority of the financial implications seen in table 1 will not be fully realised, once council tax is taken into account.

<u>Treatment of the tax base in the base settlement year</u>

11. In the calculation of the settlement, the most up-to-date tax base is used to calculate both the allocation of the funding for that settlement, and for the calculation of the base year, which that settlement is being compared to (e.g. Final settlement for 2018-19 used 2018-19 tax base and was compared with the 2017-18 settlement, re-run with the 208-19 tax base).

12. The reason this is done is so that an authority doesn't benefit from floor funding as a result of a decrease in their settlement brought about by an increase in their tax base and, consequently, their tax raising ability.

13. As such, it is proposed that the new methodology described in paragraph 6 is used in both the settlement year and the base year from 2019-20 onwards, so that no authority that was previously benefitting through the settlement by offering discretionary discounts, benefits from the change in methodology through any floor arrangement.

14. If agreed, the 2019-20 settlement will be calculated under the new methodology and the question of which tax base to use for the base year will be an issue for future years.

15. If the recommendations in this paper are agreed, this methodological change will not be visible in the settlement figures, due to the rebasing of the 2018-19 settlement. As such, it is not proposed to show a table of this change in the DSG report for consideration by the Finance Sub Group (FSG). However, it is proposed that the changes recommended by the DSG are outlined in a section of the DSG report, so they can be considered by the FSG.

Conclusion

16. Members are asked agree to the proposed methodology for the calculation of the 100% tax base for RSG calculation purposes as outlined in paragraph 6.

17. Members are asked to agree to the proposed use of the tax base methodology in both the settlement year and the base year, as set out in paragraph 13.

Local Government Finance and Workforce Partnerships Division
Welsh Government

Annex

Table 1: Exemplification of change in 100% tax base methodology

£000

Unitary Authority	2018-19 published AEF	2018-19 AEF using new tax base methodology	Difference £000	Difference %
Isle of Anglesey	95,812	96,039	227	0.2%
Gwynedd	175,127	175,485	358	0.2%
Conwy	153,576	153,951	376	0.2%
Denbighshire	143,119	143,412	293	0.2%
Flintshire	189,156	189,630	474	0.3%
Wrexham	174,636	175,037	401	0.2%
Powys	174,026	174,487	461	0.3%
Ceredigion	101,251	101,459	209	0.2%
Pembrokeshire	161,774	161,205	-570	-0.4%
Carmarthenshire	259,440	258,483	-956	-0.4%
Swansea	319,087	318,587	-500	-0.2%
Neath Port Talbot	212,341	211,880	-460	-0.2%
Bridgend	191,582	191,388	-193	-0.1%
Vale of Glamorgan	152,480	152,028	-453	-0.3%
Rhondda Cynon Taf	364,176	363,640	-537	-0.1%
Merthyr Tydfil	90,305	90,176	-129	-0.1%
Caerphilly	267,240	267,698	457	0.2%
Blaenau Gwent	109,633	109,362	-271	-0.2%
Torfaen	131,543	131,792	249	0.2%
Monmouthshire	93,218	93,560	343	0.4%
Newport	212,790	212,528	-263	-0.1%
Cardiff	440,947	441,432	486	0.1%
Total Unitary Authorities	**4,213,260**	**4,213,260**	**0**	**0.0%**

Annex

Table 2: Second home and long-term empty discounts, by authority, 2018-19

Unitary Authority	Number of band D equivalent discounts	Discounts as percentage of 100% tax base
Isle of Anglesey	-	0.0%
Gwynedd	16	0.0%
Conwy	-	0.0%
Denbighshire	3	0.0%
Flintshire	1	0.0%
Wrexham	-	0.0%
Powys	-	0.0%
Ceredigion	22	0.1%
Pembrokeshire	841	1.5%
Carmarthenshire	1,293	1.7%
Swansea	1,014	1.1%
Neath Port Talbot	706	1.4%
Bridgend	512	0.9%
Vale of Glamorgan	772	1.3%
Rhondda Cynon Taf	955	1.2%
Merthyr Tydfil	231	1.2%
Caerphilly	-	0.0%
Blaenau Gwent	369	1.7%
Torfaen	-	0.0%
Monmouthshire	-	0.0%
Newport	602	1.0%
Cardiff	509	0.3%
Total Unitary Authorities	**7,844**	**0.0%**