

Distribution Sub-Group (2019) Paper 4– Discretionary council tax discounts and premiums for empty properties and second homes

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Discretionary council tax discounts and premiums for empty properties and second homes

Summary

1. This paper considers the treatment of discounts and premiums applied to long-term empty properties and second homes in the 100% tax base for Revenue Support Grant (RSG) calculation purposes.
2. The paper aims to clarify to the group the next stages and the timings required to consider this change prior to the 2020-21 settlement.

Views sought

3. 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.
4. A sub-set of DSG members are asked to meet with local authority Revenue and Benefit colleagues and Welsh Government officials, to agree the way forward.

Related papers

5. Distribution Sub-Group (2015) - Paper 14 – Council Tax Premiums
<http://gov.wales/docs/dsijlg/minutes/150708-dsg-paper14-en.pdf>
6. Distribution Sub Group (2018) – Paper 12 – Discretionary Council Tax discounts in the Settlement model
<https://gov.wales/docs/dsijlg/meetings/180515-distribution-sub-group-paper-12-en.pdf>

Background

7. 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;
 - 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.
8. 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.

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9. From 1 April 2017, local authorities in Wales have been able to introduce council tax premiums to charge up to an additional 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.
10. 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 the relative dwelling discounts in the calculation of the 100% tax base for RSG calculation purposes. As these discounts are discretionary, it was 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.
11. In the May 2018 DSG meeting, members agreed in principle to reverse all discounts for empty properties and second homes out of the calculations for the 100% tax base in order for the 100% tax base to be exempt from local authority policy decisions. This was assuming the statutory position for council tax for empty properties and second homes was to offer no discount or premium (i.e. charge 100% council tax on those properties).
12. DSG members have since been informed the statutory discount for empty properties and second homes is set at 50%, with Local Authorities having the discretion to vary the discount, or being able to charge a premium of up to 100% above the standard (100%) level of council tax.
13. It was agreed by DSG members to revise the decision to reverse out empty properties and second homes from the 100% tax base in the 2019-20 settlement, and instead consider amending the calculations of the 100% tax base to reflect the statutory basis of the 50% discount and the discretion to vary this for the 2020-21 settlement.

Analysis

14. 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;
15. 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.
16. The current calculations for the 100% council tax base assume the statutory position is to offer no discount or premium.
17. To ensure the 100% tax base is exempt from local policy decisions going forward, we would need to amend the tax base to ensure all discretionary long term empty property and second homes discounts are removed from the calculation. It is noted that there appears to be a misunderstanding regarding whether the 50% discount is

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

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statutory or not. The 2003 Local Government Act altered the 1992 Act to provide the discretion to local authorities to vary or remove the 50% discount (e.g. Torfaen have decided to not offer a discount on long term empty homes or second homes). Clearly authorities will need to consider their individual policy approach, alongside any consideration for amending the tax base calculation to remove the impact of discretionary discounts.

Timeline

18. The legislation on council tax premiums state local authorities must set out their intention to charge premiums on second homes at least one year before the beginning of the financial year to which it relates.
19. Therefore, to allow local authorities sufficient time to review their policies following the change to the calculation of the 100% council tax base, a decision will need to be made before 1st April 2019. Sufficient time will have to be given to allow for any statutory consultation.
20. In theory, this change should not impact the need for authorities to charge premiums. To ensure that this is the case, we recommend setting up a meeting with a sub-set of DSG, Local Government Revenue and Benefits group and Welsh Government officials.
21. This meeting should take place prior to the March DSG. This will allow authorities to express any issues with the latest proposed mechanism and to assess the financial impact in greater detail, in order for a full informed decision to be made prior to the next financial year.

Conclusion

22. 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 and to express if they can take part in the discussion with local authority Revenue and Benefit colleagues, to agree the way forward.
23. Members are also asked to give further consideration to the wider issues associated with the proposed change and to give consideration as to whether the potential for authorities having insufficient time to implement the necessary changes to charge premiums from 2020-21 is cause to delay until 2021-22.

**Local Government Finance Policy Division
Welsh Government**