

## ***Distribution Sub-Group (2019) Paper 9 - A consistent treatment of council tax discounts in the 100% tax base for the Revenue Support Grant***

**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.**

### **A consistent treatment of council tax discounts in the 100% tax base for the Revenue Support Grant**

#### **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 current process means that local policy discretions are included within the calculation of the 100% taxbase for RSG purposes. The paper provides members two options to ensure a consistent mechanism is used for future settlements to avoid the funding being influenced by local policy decisions.
3. Exemplifications are also provided to assess the financial impact of these options to aid the groups decision making prior to the 2020-21 settlement.

#### **Views sought**

4. Members are asked to give their preference of the options provided in this paper with regards to the calculation of the 100% taxbase for RSG calculation purposes.

#### **Related papers**

5. Distribution Sub-Group (2019) Paper 4– Discretionary council tax discounts and premiums for empty properties and second homes
6. Distribution Sub Group (2018) – Paper 12 – Discretionary Council Tax discounts in the Settlement model  
<https://gov.wales/docs/dsijg/meetings/180515-distribution-sub-group-paper-12-en.pdf>
7. Distribution Sub-Group (2015) - Paper 14 – Council Tax Premiums  
<http://gov.wales/docs/dsijg/minutes/150708-dsg-paper14-en.pdf>

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### **Background**

8. 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.
9. The purpose of the 100% taxbase, 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.
10. 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 forms<sup>1</sup> 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.
11. In addition to charging premiums, local authorities are also able to vary or remove the discounts for long-term empty properties and second homes. The current process within the settlement model nets off the relative dwelling discounts for each authority in the calculation of the 100% tax base for RSG calculation purposes.
12. These discounts contain discretionary elements, it was questioned whether these discretionary elements for long-term empty properties and second homes should be reversed out of the calculation of the 100% tax base. The purpose of this change is to ensure that all local authorities are being treated consistently in the settlement calculation.
13. 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).
14. After discussing further with local government revenue and benefits colleagues, DSG members were informed that the notice period given was insufficient and that 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.
15. Members made clear at the May 2019 DSG meeting that they wish to make this change for the 2020-21 settlement, to ensure that all authorities' are being treated consistently.

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

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16. Welsh Government officials have been in contact with the WLGA and the Revs and Bens Group to discuss these proposals further, to ensure that the implications of these changes are passed on local government officials and to utilise the group's expertise.
17. The conclusion from these discussions so far is that the legislation does not make reference to the 100% taxbase for RSG purposes. Therefore members are asked to specify their preference on the two methods outlined in this paper, to allow for a consistent approach in future settlements.

### **Analysis**

18. 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;
19. The current process removes the discount adjustment (B6) at each authority's respective level 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.
20. In practise, the current process means that those Councils who have exercised their discretion to reduce or remove the discount on long term empty or second homes have an increased tax base for RSG purposes compared to authorities that have not exercised this discretion.
21. Due to their increased tax base figures for RSG purposes, this means that authorities that have exercised their discretion are (either partially, or fully, depending on their level of council tax) being penalised through the settlement, compared to those not exercising their discretion.
22. This means that authorities that have exercised this discretion are (either partially, or fully, depending on their level of council tax) being penalised through the settlement, compared to the 50% base, due to their increased taxbase figures for RSG purposes.
23. The sections below provide two mechanical options to ensure consistency is applied in the 100% taxbase for RSG purposes, and provides the financial impact on AEF before the funding floor.

### **Option 1 – No discount for long-term empty properties and second homes discount**

24. This option ignores the discounts level given for long term empty and second homes across all LAs, thus ensuring all dwellings captured in the 100% taxbase for RSG, are consistent (further details of the CT1 mechanics of this can be found in annex A).
25. This method removes the discount applied to a dwelling, for example a 50% discount would currently count as 0.5 of a dwelling. By ignoring this discount we assume that the dwelling would equal 1 property, hence the overall taxbase increases.
26. The change column in Table 1 shows the approximate number band D dwellings that receive discount. Carmarthenshire and Blaenau Gwent have the largest percentage of discounts in relation to their 100% taxbase (1.8 and 1.7 per cent respectively).

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Table 1: Number of dwellings used in the 100% taxbase for RSG by published method and no discount method

	<b>Published taxbase</b>	<b>No discounts taxbase</b>	<b>Change</b>	<b>% change</b>
Isle of Anglesey	30,876	30,876	-	0.0%
Gwynedd	50,096	50,113	17	0.0%
Conwy	50,507	50,507	-	0.0%
Denbighshire	40,214	40,218	4	0.0%
Flintshire	64,705	64,706	2	0.0%
Wrexham	54,292	54,292	-	0.0%
Powys	62,312	62,312	-	0.0%
Ceredigion	31,579	31,597	17	0.1%
Pembrokeshire	55,565	56,225	660	1.2%
Carmarthenshire	74,298	75,648	1,350	1.8%
Swansea	91,907	92,935	1,028	1.1%
Neath Port Talbot	48,813	49,476	663	1.4%
Bridgend	54,807	55,341	534	1.0%
The Vale of Glamorgan	60,974	61,747	773	1.3%
Rhondda Cynon Taf	78,844	78,870	26	0.0%
Merthyr Tydfil	18,987	19,207	220	1.2%
Caerphilly	61,727	61,727	-	0.0%
Blaenau Gwent	21,362	21,732	370	1.7%
Torfaen	34,026	34,026	-	0.0%
Monmouthshire	46,562	46,583	21	0.0%
Newport	59,824	60,352	527	0.9%
Cardiff	147,714	147,714	-	0.0%
<b>Wales</b>	<b>1,239,992</b>	<b>1,246,205</b>	<b>6,213</b>	

27. Table 2 demonstrates the financial impact of making this change on AEF, before the floor is calculated.

28. Carmarthenshire has the largest financial change, down £1.214m (or 0.5%), followed by Swansea and the Vale of Glamorgan, although the latter have revised their council tax policy on second homes and empty properties since the CT1 form was submitted.

29. Cardiff sees the largest cash increase up £918K (or 0.2%) and Monmouthshire has the largest percentage increase up 0.3% (or £263k)

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Table 2: Change in External Aggregated Finance (AEF) by disregarding each authorities long term empty property and second homes discount levels

	£000s			
	Published (1)	No discounts (2)	Change (2)-(1)	% Change
Isle of Anglesey	95,522	95,714	192	0.2%
Gwynedd	176,552	176,843	291	0.2%
Conwy	153,501	153,815	314	0.2%
Denbighshire	143,637	143,882	245	0.2%
Flintshire	188,444	188,844	400	0.2%
Wrexham	175,252	175,589	338	0.2%
Powys	173,077	173,464	387	0.2%
Ceredigion	102,091	102,266	175	0.2%
Pembrokeshire	162,448	161,974	-474	-0.3%
Carmarthenshire	260,388	259,175	-1,214	-0.5%
Swansea	322,211	321,507	-704	-0.2%
Neath Port Talbot	214,796	214,277	-519	-0.2%
Bridgend	191,807	191,485	-322	-0.2%
The Vale of Glamorgan	152,070	151,490	-581	-0.4%
Rhondda Cynon Taf	367,339	367,797	458	0.1%
Merthyr Tydfil	91,304	91,149	-155	-0.2%
Caerphilly	268,614	268,998	384	0.1%
Blaenau Gwent	110,815	110,490	-326	-0.3%
Torfaen	132,650	132,861	212	0.2%
Monmouthshire	92,470	92,733	263	0.3%
Newport	214,343	214,061	-283	-0.1%
Cardiff	444,629	445,548	918	0.2%
<b>Wales</b>	<b>4,233,961</b>	<b>4,233,961</b>		

**Option 2: All long-term empty properties and second homes properties are treated as receiving a 50% discount.**

30. This option ignores the varied discounts levels for long term empties and second homes across all LAs and brings them all to the 50% level, thus removing the local discretion in the 100% taxbase for RSG purposes (further details of the CT1 form practicalities can be found in annex A).
31. Option 2 applies a 50% discount to all long term empty properties or second home dwellings, with or without a discount/premium. For example, currently a property with no discount would be counted as 1 dwelling. By applying this option of a 50% discount, we assume that the dwelling would equal 0.5 properties, therefore, at a Wales level we have fewer dwellings in the 100% taxbase than previous. Similarly if an authority currently charges a premium of 150% (50% above the normal council tax level) all of these would be reduced to the 50% discount base.
32. It is not possible to make this change separately for discount and premiums due to the grouping of discount or premiums on the CT1 form (particularly row H1 or H2)
33. The change column in Table 3 shows the approximate number of band D long term empty properties and second homes regardless of whether the authority charges a discount or a premium. Gwynedd and Pembrokeshire currently would have the largest percentage reduction in their 100% council taxbase (down 5.7 and 4.2 per cent respectively)..

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Table 3: Number of dwellings used in the 100% taxbase by published method and all at a 50% discount level

	Published taxbase	50% discounts taxbase	Change	% Change
Isle of Anglesey	30,876	29,615	- 1,261	-4.1%
Gwynedd	50,096	47,248	- 2,849	-5.7%
Conwy	50,507	49,172	- 1,336	-2.6%
Denbighshire	40,214	39,641	- 573	-1.4%
Flintshire	64,705	64,187	- 518	-0.8%
Wrexham	54,292	54,064	- 228	-0.4%
Powys	62,312	61,164	- 1,148	-1.8%
Ceredigion	31,579	30,325	- 1,255	-4.0%
Pembrokeshire	55,565	53,259	- 2,306	-4.2%
Carmarthenshire	74,298	73,752	- 546	-0.7%
Swansea	91,907	90,781	- 1,125	-1.2%
Neath Port Talbot	48,813	48,705	- 108	-0.2%
Bridgend	54,807	54,795	- 12	0.0%
The Vale of Glamorgan	60,974	60,974	-	0.0%
Rhondda Cynon Taf	78,844	77,870	- 975	-1.2%
Merthyr Tydfil	18,987	18,896	- 91	-0.5%
Caerphilly	61,727	61,266	- 461	-0.7%
Blaenau Gwent	21,362	21,362	-	0.0%
Torfaen	34,026	33,903	- 123	-0.4%
Monmouthshire	46,562	46,096	- 466	-1.0%
Newport	59,824	59,824	-	0.0%
Cardiff	147,714	145,211	- 2,503	-1.7%
<b>Wales</b>	<b>1,239,992</b>	<b>1,222,109</b>	<b>- 17,883</b>	

34. Table 4 demonstrates the financial impact of making this change on AEF, before the floor is calculated.
35. The largest financial increase is seen in Gwynedd up £2.69m (or 1.5%), followed by Pembrokeshire and Isle of Anglesey (up 1.904m and 1.032m respectively).
36. The Vale of Glamorgan has the largest decrease of £1.113m (or 0.7%), followed by Newport down £1.092m (or 0.5%). Although in practice, both of these authorities have changed their council tax policy since they submitted the CT1 form, so the financial changes would not be as extreme.

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Table 4: Change in External Aggregated Finance (AEF) by applying a 50% discount for all long term empty properties and second homes in each authority

	<b>£000s</b>			
	<b>Published</b>	<b>No discounts</b>	<b>Change</b>	<b>%</b>
	<b>(1)</b>	<b>(2)</b>	<b>(2)-(1)</b>	<b>Change</b>
Isle of Anglesey	95,522	96,554	1,032	1.1%
Gwynedd	176,552	179,242	2,690	1.5%
Conwy	153,501	154,270	768	0.5%
Denbighshire	143,637	143,628	-9	0.0%
Flintshire	188,444	187,918	-526	-0.3%
Wrexham	175,252	174,550	-702	-0.4%
Powys	173,077	173,393	316	0.2%
Ceredigion	102,091	103,102	1,011	1.0%
Pembrokeshire	162,448	164,351	1,904	1.2%
Carmarthenshire	260,388	259,724	-665	-0.3%
Swansea	322,211	321,958	-253	-0.1%
Neath Port Talbot	214,796	214,042	-754	-0.4%
Bridgend	191,807	190,822	-985	-0.5%
The Vale of Glamorgan	152,070	150,958	-1,113	-0.7%
Rhondda Cynon Taf	367,339	367,134	-205	-0.1%
Merthyr Tydfil	91,304	91,073	-231	-0.3%
Caerphilly	268,614	268,071	-543	-0.2%
Blaenau Gwent	110,815	110,426	-390	-0.4%
Torfaen	132,650	132,185	-465	-0.4%
Monmouthshire	92,470	92,210	-260	-0.3%
Newport	214,343	213,252	-1,092	-0.5%
Cardiff	444,629	445,101	471	0.1%
<b>Wales</b>	<b>4,233,961</b>	<b>4,233,961</b>		

### **Timeline**

37. The Revs and Bens sub-group and the WLGA has been made aware of the intent to change the current mechanism, to ensure a consistent approach is followed in the local government settlement calculation.
38. To allow local authorities sufficient time to review their policies following the change to the calculation of the 100% council taxbase for RSG purposes, a decision will need to be made in the coming weeks as authorities require sufficient time to allow for any statutory consultation.
39. The next Revs and Bens meeting will take place on the 11 June with the Sub-group on discounts and premiums to take place on the 19 June. Welsh Government officials will discuss this paper with local authority Revenue and Benefit colleagues and inform them of DSG's preferred way forward.

### **Conclusion**

40. Both options in this paper remove the local policy discretion within the 100% taxbase for RSG purposes. Option 1 provides the simplest method to explain the change to ensure this consistent treatment, whilst option 2 adheres more to local government's

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interpretation of the current regulations. The changes in funding levels by following option 1 also look less varied.

41. This change in method may have a knock on effect on authorities council tax discounts policies. In these cases the funding exemplifications could over-estimate the actual impact of this decision.
42. This paper will also be circulated to the sub-group of the Revs and Bens, to ensure that the technical aspect is followed and understood. They will also be asked to assess if there are any oversights in either option.
43. The decision of the preferred option going forward lays with the DSG, members are therefore asked to express their preferred option of amending the calculations of the 100% tax base for RSG purposes only.

**Local Government Finance Policy Division  
Welsh Government**



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**Annex A**

**Mechanics of making either change on the CT1 form**

