

# THE EXECUTIVE

20 DECEMBER 2005

## REPORT FROM THE DIRECTOR OF FINANCE

This report is submitted under Agenda Item 6. The Chair will be asked to determine whether this report can be considered at the meeting under the provisions of section 100B94)(b) of the Local Government Act 1972 as a matter of urgency so as not to delay the setting of the Council Tax Base for 2006/7

<b>CALCULATION AND SETTING OF THE COUNCIL TAX BASE 2006/07</b>	<b>FOR DECISION</b>
<p><b>Summary:</b> This report sets out the calculation of the Council Tax Base for 2006/07 in accordance with the Local Authorities (Calculation of Tax Base) Regulations 1992. It provides information on powers available to the Council to reduce discounts for second homes and long term empty properties, and to award locally determined discounts.</p> <p><b>Wards Affected:</b> None</p>	
<p><b>Implications:</b></p> <p><b>Financial:</b> A Council Tax Base has to be agreed and set in order to correctly bill households for Council Tax for the 2006/7 financial year. This is the main source of local taxation funding for the Council and is required in order to deliver services and agreed priorities for 2006/7.</p> <p><b>Legal:</b> All Councils have to set their Council Tax Base by 31<sup>st</sup> January 2006 at the latest, in order for Council Tax bills for 2006/7 to be issued in accordance with statutory provisions.</p> <p><b>Risk Management:</b> If the Council Tax Base is not set or not set within the dictated time scales, there will be a risk that the Council's major income stream from Council Tax, will be affected. There are also implications in respect of compliance with statutory requirements. The risk management activity to ensure we have an accurate picture of the Council Tax base includes having arrangements in place to certify the numbers of empty and discounted properties, awareness of proposed new buildings and demolitions and other activities that impact on our tax base.</p> <p>This report provides detailed information which will allow the decision to be made.</p> <p><b>Social Inclusion and Diversity:</b> No implications.</p> <p><b>Crime and Disorder:</b> No implications.</p>	

<b>Recommendation(s)</b>		
The Executive is asked to:		
<ol style="list-style-type: none"> <li>1. Note Appendix A setting out the Director of Finance's report on the calculation of the Council's Tax Base for 2006/07, and that pursuant to the report and in accordance with the Local Authorities (Calculation of Tax Base) Regulations 1992, recommend to the Assembly that the amount calculated by the London Borough of Barking &amp; Dagenham Council as its Tax Base for the year 2006/07 shall be 50,648.40 Band D properties.</li> <li>2. Recommend to the Assembly that the discounts for second homes or long term empty properties are not reduced for 2006/07.</li> <li>3. Recommend to the Assembly that locally determined discounts should not be awarded for 2006/07.</li> </ol>		
<b>Reason(s)</b>		
To comply with statute and assist in the calculation of the Authority's Council Tax for 2006/07.		
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## 1. Statutory Background

- 1.1 The Council has a duty to set a Tax Base for Council Tax purposes by 31<sup>st</sup> January each year under Section 67 of the Local Government Finance Act 1992. The setting of the tax base can be delegated to the Director of Finance under the powers contained in Section 84 of the Local Government Act 2003 but the Assembly has previously chosen to retain authority to agree the Tax Base annually.
- 1.2 The Tax Base must be conveyed to the major precepting Authorities by the 31st January prior to the start of the financial year.
- 1.3 The Tax Base must be calculated in accordance with regulations made by the Secretary of State under Section 33(5) of the Local Government Finance Act 1992. i.e. The Local Authorities (Calculation of Tax Base) Regulations 1992.
- 1.4 The regulations set a relevant date for the calculation of the tax, which for 2006/07 is 30<sup>th</sup> November 2005. The data used in the calculation must be that held on the Council Tax records at that date.
- 1.5 Appendix A sets out the Calculation of Tax Base.

## **2. Recent Changes to Regulations**

- 2.1 The Local Government Act 2003 gave the Council discretion to vary certain discounts that were previously prescribed. The powers, which came into force for the 2004/05 financial year are to:
- Reduce the 50% discount on second homes to as little as 10%
  - Reduce, or remove entirely, the 50% discount for properties that have been empty for more than six months
  - Award 'locally determined discounts' of up to 100%, determined by categories of properties or persons, or on a case by case basis.
- 2.2 The Council chose not to use the new powers for 2004/05 and 2005/06 for a number of reasons and it was agreed that officers would reconsider the position for the 2006/07 financial year and make recommendations to the Executive as part of the Tax Base setting process for 2006/07. Those recommendations are contained in this report.
- 2.3 The Council must make a decision on whether to exercise these new powers prior to the start of the each financial year.
- 2.4 Members or officers involved in making a decision under the new regulations should give consideration as to whether they need to declare an interest or abstain from the decision making process if they would directly benefit from a decision.
- 2.5 An assessment of the implications of each of these powers is detailed below.

## **3. Second Homes**

- 3.1 The Council now has the power to reduce the statutory discount of 50% for second homes to as little as 10%. A mandatory discount of at least 10% has been retained to give owners of second homes a financial incentive to notify the Council that the property is a second home.
- 3.2 The Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 define a second home as any property which is furnished but is not anyone's sole or main residence. This means that in addition to genuine second homes any properties which are furnished but unoccupied (for example a property that is normally let on a furnished basis but is not currently tenanted) will also be subject to the same reduction in discount.
- 3.3 Any additional capacity to raise revenue by lowering the discount will not be reflected in the Council Tax base used for the calculation of the revenue support grant, but will be reflected in the tax base for the setting of the Council Tax, and the tax base for precepting authorities. This effectively means that additional revenue raised in this way will be retained by the Council and the precepting authorities.
- 3.4 An exercise to identify second homes carried out on 19<sup>th</sup> September 2005 identified just 32 properties, equivalent to 27.44 band D properties within the

Borough that fell into this category. A similar exercise carried out last year (on 30<sup>th</sup> November 2004), also identified 32 properties treated as second homes equivalent to 21.3 band D properties. The additional Council Tax that could be raised for 2006/07 is estimated to be around £13,292.27 (assuming a 5% increase in Council Tax). This would be used to reduce the Council Tax for all payers

- 3.5 Changing the level of discount will require changes to the IT systems and administrative processes, and in view of the small amount of additional revenue that would be raised, it is recommended that the discount for second homes should not be varied from the statutory 50%.

#### **4. Long Term Empties**

- 4.1 The Council has the power to reduce or remove entirely the statutory discount of 50% for long term empty property. The Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 define a property as long term empty if it has been unoccupied and unfurnished for more than six months.
- 4.2 Any additional capacity to raise revenue by lowering or removing the discount will not be reflected in the Council Tax base used for the calculation of the revenue support grant for the year in which the change is introduced, but will be reflected in the tax base used for the calculation of the grant for subsequent years. This means that for the first year in which a change is introduced, the Council will effectively retain revenues raised by reducing the discount on long term empty properties.
- 4.3 An exercise to identify long term empty properties carried out in October 2005 identified 513 properties in this category which equates to 449.4 band D equivalents. A proportion of these long term empties (approx 29%), are empty LBBB Housing properties and an increased charge against these properties would have to be met by the Housing Revenue Account.
- 4.4 At the same stage last year there were 434 long term empty properties. This year there are 513 properties classed as long term empty. A greater proportion of these long term empties are LBBB properties due to the fact that a large number of LBBB properties have remained empty whilst awaiting demolition.
- 4.5 There is an intention to demolish approximately 370 Housing properties over the next eighteen months. The decant of tenants from property earmarked for demolition has already commenced and approximately 130 of these properties are now empty and classed as long term empty (i.e. empty over 12 months). The properties are exempt for the first six months that they are unoccupied, but thereafter are classed as long term empty and subject to a charge. The Housing Department anticipate a delay of up to eighteen months before demolition begins (particularly for The Lintons), but over this time, more and more of them will become long term empty and will therefore be subject to a charge as long term empty properties.

- 4.6 The number of Housing properties classed as long term empty is a key factor to be considered in any decision regarding the level of discount, because the Council Tax charge for these properties must be paid from the Council's Housing Revenue Account. There is an increase in income to the Council's general fund for these properties, but the cost to the Housing Revenue Account is approximately 28% higher than the additional income because the Greater London Authority's element of the Council Tax must also be paid. This would effectively reduce the income generated from other long term empty properties.
- 4.7 Due to the uncertainty of timescales for the decant of tenants and eventual demolition, it is extremely difficult to make accurate projections. The estimated position for 2005/6 reported to Members in the Tax Base Report last year is repeated below. This has not significantly changed for 2006/7 given the low increase in Council Tax last year:

<b>% Discount Allowed</b>	<b>Additional Revenue for LBBD into the Collection Fund</b>	<b>Cost to Housing Revenue Account</b>
0	£240,800	£101,399
10	£192,640	£81,120
20	£144,480	£60,840
30	£96,320	£40,560
40	£48,160	£20,280

- 4.8 Any additional revenue to the Council would be used to reduce the Council Tax for all payers and would not be available for spending on services.
- 4.9 If the discount for long term empty properties is set at less than 25% it would be financial advantageous to the tax payer to claim that the property is occupied by one adult and therefore claim a discount of 25%. This may make any scheme with a discount of less than 25% difficult to administer. Other London boroughs that reduced discount levels for long term empties from 1<sup>st</sup> April 2004 report that tax payers have claimed the property is now occupied by a single person, or installed furniture to reclassify the property as a second home, in order to avoid paying a full charge on an empty property. As yet there is no evidence in London that the increased charge is having the Government's desired effect of bringing long term empty property back into the housing market.
- 4.10 In order to reduce the discounts for second homes or long term empty property, enhancements would be required to the Council Tax computer system. The computer system is an in-house designed mainframe system which means all development work would need to be undertaken in-house and the IT development team estimate that a minimum of 35 days development work would be needed. This work would also require support from Revenue Services to specify enhancements and to test outputs.
- 4.11 Members will be aware that the Academy Council Tax system is due to be implemented during the latter part of 2006/07. The chosen system incorporates versatile functionality to vary discount levels and delaying a decision until after the installation of the new system is desirable from an

operational viewpoint. In addition, development of the redundant in-house system will require the use of staffing resources that have been allocated to the system conversion and will inevitably impact on that project.

- 4.12 There is also a risk that any unexpected overruns in development time will jeopardise the annual billing process for 2006/07.
- 4.13 It is therefore recommended that no variation is made to the statutory discount at the present time for the reasons summarized below, but that the position be reviewed for 2007/08;
- a. Operational difficulties associated with changing the discount for the next financial year given the inflexibility of the current IT system, conflicting priorities and limited expertise in staffing resources.
  - b. The one off windfall resulting from a reduction of discounts for long term empties will still be realisable in a future financial year and the Council will not lose out financially in the longer term by delaying a decision.
  - c. Once operational, the new IT system will greatly facilitate changes to discounts.
  - d. There is a risk of a considerable cost to the Housing Revenue Account due to the planned demolition of properties outlined above.

## **5. Locally Determined Discounts**

- 5.1 The Local Government Act 2003 gave the Council the power to award locally determined discounts. Such discounts can be for any amount up to 100% of the Council Tax charge and can be set by reference to the category of property, or occupier, or on a case by case basis.
- 5.2 The Government has given an example of how it anticipated the new power could be used by local Councils. This was to allow a discount of anywhere up to a 100% where a person was unable to live in their property for a temporary period due to circumstances outside their control, for example a natural disaster such as flooding.
- 5.3 There was considerable publicity prior to April 2004 around the possibility of Councils awarding discounts to categories of disadvantaged customers, with pensioners being highlighted as one possible group to receive discounts. In practice no authorities awarded discounts to pensioners due to the possibility of legal challenges. No London Boroughs have chosen to use the power in respect of categories of properties or occupiers and it is reported that only one or two Council outside London have exercised the power.
- 5.4 An informal survey of London Boroughs shows that only two boroughs have awarded any local discounts and both were in individual deserving cases.

## **5.5 Funding Local Discounts**

- 5.5.1 Since this type of discount will be set locally, the full cost of the discount is to be borne by local tax payers, so effectively the overall level of Council Tax will need to be increased to offset the cost of any discounts.
- 5.5.2 In addition to the element of the Council Tax for the Council there is also a precept from the Greater London Authority (GLA). For 2005/06 this precept made up 28.33% of each bill and any local discount will also apply to the GLA element of the bill. However, the local discounts can not be reflected in the tax base that is provided to the GLA in order to calculate its precepts. This means that local taxpayers who do not get a discount will also be required to fund the shortfall to the GLA resulting from local discounts.

## **5.6 Recommendations – Local Discounts**

- 5.6.1 It is recommended that no locally determined discounts based on categories of property or occupier be awarded for 2006/07.

## **Appendices**

- A. Report outlining the calculation processes for the 2006/07 tax base
- B. Detailed calculation of the 2006/07 tax base as at 30<sup>th</sup> November 2005

## **Background Papers**

Council Tax CTB1 return for 2006/07

**Calculation of Tax Base****1. Calculation of Tax Base**

- 1.1 The valuation of properties for Council Tax purposes is carried out by the Valuation Office Agency.
- 1.2 For Council Tax purposes each property is placed in a band based on its open market value as at 1<sup>st</sup> April 1991. The bands are as follows:-

<b>Range of Values Band</b>	<b>Valuation</b>
Values not exceeding £40,000	<b>A</b>
Values exceeding £40,000 but not exceeding £52,000	<b>B</b>
Values exceeding £52,000 but not exceeding £68,000	<b>C</b>
Values exceeding £68,000 but not exceeding £88,000	<b>D</b>
Values exceeding £88,000 but not exceeding £120,000	<b>E</b>
Values exceeding £120,000 but not exceeding £160,000	<b>F</b>
Values exceeding £160,000 but not exceeding £320,000	<b>G</b>
Values exceeding £320,000	<b>H</b>

- 1.3 The Tax Base is calculated in terms of the equivalent number of Band 'D' properties after discounts and exemptions have been taken into account. There are statutory ratios which determine the proportion of the band D charge that will be charged for a property in each band. The ratios are as follows:

A = 6/9ths	E = 11/9ths
B = 7/9ths	F = 13/9ths
C = 8/9ths	G = 15/9ths
D = 1	H = 18/9ths

- 1.4 The standard Council Tax is set in relation to Band 'D' properties, this will mean that somebody living in a Band 'A' property pays 2/3rds of the standard amount whilst somebody in a Band 'H' property pays twice the standard amount.
- 1.5 The full Council Tax charge is based on the assumption that the property is occupied by two or more adults. However, some properties are exempt from any charge, and others qualify for a discount. In determining the Tax Base the following discounts and exemptions are taken into account:-

**a) Single Person Discount**

Where only one adult lives in the property the Council Tax bill for that property is reduced by 25%.



**b) Status Discounts**

For the purpose of determining the number of adults living in the property certain categories of people are not taken into account. Examples include:

- Full time students and student nurses
- Recent school leavers
- People with severe mentally impairment
- People living in a nursing or care home
- Certain care workers
- People in prison

Where the number of adults to be counted after allowing these discounts is one, a 25% discount is allowed. Where the number of adults is nil a 50% discount is allowed.

**c) Empty Properties**

Properties that are unoccupied, but not exempt, are entitled to a statutory 50% discount unless the Council resolves to reduce the level of the discount.

**d) Exemptions**

There are 23 categories of property which are exempt. The main exemptions that apply in Barking and Dagenham are:

- Unoccupied properties (for the first six months they are unoccupied)
- Properties undergoing major repairs
- Properties left unoccupied because the occupier has died
- Properties occupied only by full time students
- Properties occupied only by people with severe mental impairment

**e) Reductions for People with Disabilities**

Under certain circumstances, a property that is the home of a person with a disability is charged at the rate for the band below that which would normally be charged. For properties in band A the charge is reduced by 1/9<sup>th</sup> of the band D charge.

- 1.6 The Council was required to make a return to the Office of the Deputy Prime Minister by the 19<sup>th</sup> October 2005, setting out the number of properties in each valuation band based on the valuation list on the 10<sup>th</sup> September 2005, together with the number of discounts and exemptions as recorded on the Council's database on the 10<sup>th</sup> October 2005. The tax base shown on this return was 51,985.4 band D equivalent properties.

- 1.7 For the purposes of setting the tax base for calculating the Council Tax, the information to be used is that recorded in the valuation list and the Council Tax records as at 30<sup>th</sup> November 2004. The number of band D equivalents for each property band at that date is shown below with a comparison to the figures at the time the tax base was set for 2005/06.

2005/06		Band	2006/07	
Last Year Totals	Band 'D' Equivalents		Total	Band 'D' Equivalent
3.50	1.9	A*	3.75	2.1
5,739.50	3,826.3	A	5534.25	3,689.5
8,460.00	6,580.0	B	8370.00	6,510.0
36,347.50	32,308.9	C	36155.50	32,138.2
7,116.75	7,116.8	D	7135.75	7,135.8
1,578.75	1,929.6	E	1545.00	1,888.3
299.50	432.6	F	294.00	424.7
42.25	70.4	G	41.25	68.8
4.50	9.0	H	4.00	8.0
<b>59,592.25</b>	<b>52,275.5</b>		<b>59,083.50</b>	<b>51,865.4</b>

\*Disabled person's reductions

## 2. Adjustments

- 2.1 When determining the tax base for the purpose of setting the Council Tax an allowance must be made for a number of factors such as:

- New properties expected to be completed
- Properties expected to be demolished
- Anticipated change to the number of discounts and exemptions
- An allowance for non-collection

- 2.2 For 2006/07 adjustments are required in respect of new properties, changes to exemptions and discounts, and the allowance for losses on collection. The adjustments, expressed as band D equivalents, are shown below.

Basic tax base at 30 <sup>th</sup> November 2005	51865.4
Anticipated effect of new properties	344.2
Anticipated effect of changes to discounts and exemptions	5.2
Adjustment for anticipated demolitions	0
	<hr/>
	52214.8
Losses on collection allowance at 3.0%	- 1,566.4
<b>Final Tax Base for 2006/07</b>	<hr/> <b>50,648.4</b> <hr/>

- 2.3 The losses on collection allowance for 2005/06 has been assessed as 3.0% which is the same as last year. This reflects an estimated marginal reduction in the longer term Council Tax collection rates.

- 2.4 When compared to the Tax Base for 2005/06 of 50,838.9, there has been a decrease equivalent to 190.5 band D properties (0.37% of the Tax Base).

- 2.5 Predictions of the change to the tax base have proved difficult for several reasons. Available information predicts an increase in the number of new properties in 2006/07 (approx 50% increase on 2005/6). However, this can be influenced to a large extent by the state of the housing market which has so far managed to avoid any major slump.
- 2.6 Another factor that makes it difficult to predict how the tax base will change, is the number of single person discounts in force. During 2005/06 the level of single person 25% discounts has continued to grow, as the availability has been publicised and comparisons to the Housing Benefit database has continued. Over the last 12 months to 30<sup>th</sup> November, the number of discounts has risen by almost 1000 to 27,975 (42.5% of the database). Although it is anticipated that growth will continue during 2006/07, data from the 2001 Census indicated at that time, that there were a total of 24,000 single adult households in the borough. Whilst we would expect a certain amount of uplift to have occurred during the intervening period, we do not expect to see any substantial increase in the level of single person discounts.

### **3. Single Person Discount**

- 3.1 Discounts are routinely reviewed by virtue of changes to people's circumstances (i.e. people moving within the Borough, new and reviewed HB claims, information supplied by occupiers and third parties etc.). In addition to the above, it is common practice to carry out a periodic review of all categories of discounts across the whole database. Regular reviews assist in reducing the risk that:
- (a) Some residents may start to claim discounts without the correct entitlement
  - (b) Some residents currently in receipt of discounts may fail or forget to report changes in circumstances that could affect their entitlement
  - (c) The overall level of discounts in payment across the whole database rises to an unsustainable level
- 3.2 The last periodic review took place in 2001 and this is an area that should be reviewed now.
- 3.3 It has already been mentioned in para 4.11 that the Academy Council Tax system is anticipated to be operational during the latter part of 2006/07. A number of key resources and personnel are currently being used to prepare for the implementation of the new Council Tax system. Consequently, a targeted review will be undertaken to focus in on the high risk areas whilst minimising the resources required for this review.

### **4. Exemption Review**

- 4.1 Exemptions are also regularly reviewed by virtue of changes to the circumstances of residents and also by virtue of changes to the status of properties (e.g. uninhabitable properties becoming habitable). Although the vast majority of exemptions are regularly reviewed and amended, there is a need to ensure that the risks associated with exemptions being claimed without proper entitlement, are properly managed.

- 4.2 We will be reviewing our procedures in this work area to ensure that:
- (a) Information held within our back office, is properly tied up with information held by our external inspectors
  - (b) Any discrepancies that arise are addressed and dealt with promptly
  - (c) An efficient exchange of information is in place between the Council Tax section, General Income and the Benefits section as well as other Council departments
- 4.3 A fully detailed calculation of the tax base is contained in Appendix B.



16	New properties expected to be completed by 31/3/06	0	1	31	96	55	3	0	0	1	187
	<i>Ratio to band D</i>	5	6	7	8	9	11	13	15	18	
17	<b>New properties expected to be completed by 31/3/04 as band D equivalents</b>	0.0	0.7	24.1	85.3	55.0	3.7	0.0	0.0	2.0	<b>171</b>
18	New properties expected to be completed in 2006/07 (based on information from builders)	0.0	0.5	62.5	339.5	52.5	5.0	0.0	0.0	0.0	460.0
	<i>Ratio to band D</i>	5	6	7	8	9	11	13	15	18	
19	Band D equivalent new properties expected to be completed during in 2005/06	0.0	0.3	48.6	301.8	52.5	6.1	0.0	0.0	0.0	409.3
20	Less 50% to allow for completion over the year	-	0.17	24.31	150.89	26.25	3.06	-	-	-	204.7
21	<b>Total Band D equivalent new properties (line 17 + line 20)</b>	-	<b>0.83</b>	<b>48.42</b>	<b>236.22</b>	<b>81.25</b>	<b>6.72</b>	-	-	<b>2.00</b>	<b>375.4</b>
22	Less allowance for 25% discounts (discounts assumed to apply to 1:3 properties which is slightly lower than overall tax base ratio of 1:2.5)	-	0.07	4.03	19.69	6.77	0.56	-	-	0.17	31.3
23	<b>Total Band D equivalent new properties after allowance for single occupier 25% discounts</b>	-	<b>0.76</b>	<b>44.38</b>	<b>216.54</b>	<b>74.48</b>	<b>6.16</b>	-	-	<b>1.83</b>	<b>344.2</b>
24	<b>Tax base after adjustment for new properties</b>										<b>52,209.6</b>
	<b>Demolished properties (detailed for info, already accounted for in line 2 above)</b>										
25	Properties expected to be demolished	0	360	10	7	0	0	0	0	0	
26	Less 50% discount	0	180	5	3.5	0	0	0	0	0	
27	Band D equivalents	0.0	120.0	3.9	3.1	0.0	0.0	0.0	0.0	0.0	
28	<b>Less 50% to allow for demolition during year</b>	0.0	60.0	1.9	1.6	0.0	0.0	0.0	0.0	0.0	0
29	<b>Tax base after adjustment for demolitions</b>										<b>52,209.6</b>
	<b>Changes to exemptions and discounts</b>										
25	Adjustments due to planned demolition of Housing properties (Band D equivalents)		54.6	-5.0	0.0						49.6
26	Adjustment for growth in single person discounts (Band D equivalents)		2.2	-5.5	-40.3	-3.6	2.9	-0.2	0.2	0.0	- 44.4
27	<b>Tax base after adjustment for exemptions and discounts</b>										<b>52,214.8</b>
28	Adjustment for losses on collection @ 3%										- 1,566.4
29	<b>Tax base for purpose of setting Council Tax after allowing for losses on collection of 3.0%</b>										<b>50,648.4</b>

