

THE EXECUTIVE

21 DECEMBER 2004

REPORT FROM THE DIRECTOR OF FINANCE

The Chair will be asked to determine whether this report can be considered at the meeting under the provisions of Section 100B(4)(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 2005/06.

2005/2006 COUNCIL TAX BASE	FOR DECISION	
<p><u>Summary</u></p> <p>This report sets out the calculation of the Council Tax Base for 2005/06 and provides information on powers available to the Council to reduce discounts for second homes and long term empty property, and to award locally determined discounts.</p> <p><u>Recommendations</u></p> <ol style="list-style-type: none">1. The Executive is asked to note Appendix A setting out the Director of Finance's report on the calculation of the Council's Tax Base for 2005/06, 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 & Dagenham Council as its Tax Base for the year 2005/06 shall be 50,838.9 Band 'D' properties.2. The Executive is asked to recommend to the Assembly that the discounts for second homes or long term empty properties are not reduced for 2005/06.3. The Executive is asked to recommend to the Assembly that locally determined discounts should not be awarded for 2005/06. <p><u>Reasons</u></p> <p>To comply with statute and assist in the calculation of the Authority's Council Tax for 2005/06.</p>		
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1. Statutory Background

- 1.1 The Council has a duty to set a Tax Base for Council Tax purposes by 31st 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.

- 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 2005/06 is 30th November 2004. 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 for a number of reasons and it was agreed that officers would reconsider the position for the 2005/06 financial year and make recommendations to the Executive as part of the Tax Base setting process for 2005/06. 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 30th November 2004 identified just 32 properties, equivalent to 21.3 band D properties, within the Borough that fell into this category. This was a reduction of 17 properties on the same time last year. The additional Council Tax that could be raised for 2005/06 is estimated to be around £31,000 (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 now 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 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 property carried out in November 2004 identified 469 properties in this category which equates to 380.2 band D equivalents. A small proportion of properties, 25.8 band D equivalents, are empty LBBB Housing properties and an increased charge against these properties would have to be met by the Housing Revenue Account. There is limited historical data available with which to predict trends, but at the same stage last year there were 616 long term empty properties. This was 471 band D equivalents of which 103 were Housing properties. The reduction since November 2003 is mainly attributable to the demolition of over 118 low-rise flats in the Barking area.
- 4.4 However, there is an intention to demolish approximately 377 Housing properties over the next eighteen months to two years. The decant of

tenants from property earmarked for demolition has already commenced and approximately 60 of these properties are now empty but not yet classed as long term empty. The properties are exempt for the first six month 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 but for much of this time it is anticipated that the majority of the properties will be empty and therefore subject to a charge as long term empty property.

- 4.5 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.
- 4.6 Due to the uncertainty of timescales for the decant of tenants and eventual demolition it is extremely difficult to make accurate projections. The position for 2005/06 is estimated as follows for the discounts shown:

% Discount Allowed	Additional Revenue for LBBD into the Collection Fund	Cost to Housing Revenue Account
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

- 4.7 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.
- 4.8 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 1st 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.
- 4.9 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.

- 4.10 A preferred supplier has recently been chosen to supply a modern Council Tax system and it is anticipated that the new system will be operational during 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.
- 4.11 There is also a risk that any unexpected overruns in development time will jeopardise the annual billing process for 2005/06.
- 4.12 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 2006/07;
- 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 21.8% 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

- 5.6.2 It is recommended that no locally determined discounts based on categories of property or occupier be awarded for 2005/06.

Appendices

- A. Report outlining the calculation processes for the 2005/06 tax base
- B. Detailed calculation of the 2005/06 tax base as at 30th November 2004

Background Papers

Council Tax CTB1 return for 2005/06

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 1st April 1991. The bands are as follows:-

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

- 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 1/9th 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 12th November 2004, setting out the number of properties in each valuation band based on the valuation list on the 11th October 2004, together with the number of discounts and exemptions as recorded on the Council's database on the 1st November 2004. The tax base shown on this return was 52,237.9 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 30th 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 2004/05.

2004/05			2005/06	
Last Year Totals	Band 'D' Equivalents	Band	Total	Band 'D' Equivalent
2.50	1.4	A*	3.50	1.9
5,822.00	3,881.3	A	5,739.50	3,826.3
8,368.75	6,509.0	B	8,460.00	6,580.0
36,109.00	32,096.9	C	36,347.50	32,308.9
7,071.75	7,071.8	D	7,116.75	7,116.8
1,592.50	1,946.4	E	1,578.75	1,929.6
294.25	425.0	F	299.50	432.6
42.00	70.0	G	42.25	70.4
3.50	7.0	H	4.50	9.0
59,306.25	52,008.8		59,592.25	52,275.5

*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 2005/06 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 th November 2004	52,275.5
Anticipated effect of new properties	374.0
Anticipated effect of changes to discounts and exemptions	-238.3
	<hr/> 51,411.2
Losses on collection allowance at 3.0%	- 1,572.3
Final Tax Base for 2005/06	<hr/> 50,838.9 <hr/>

- 2.3 The losses on collection allowance for 2005/06 has been assessed as 3.0% which is 0.5% higher than previous years. This reflects an estimated marginal reduction in the longer term Council Tax collection rates.
- 2.4 When compared to the Tax Base for 2004/05 of 51,055.3, there has been a decrease equivalent to 216.4 band D properties (0.4% of the Tax Base).

- 2.5 Predictions of the change to the tax base over the course of 2005/06 have proved difficult for several reasons. Available information predicts a significant increase on the number of new properties in 2005/06 in comparison to previous years', however, with many analysts predicting a slump in the housing market for the London area, it is uncertain whether the growth will be realised. The planned demolition of 377 Housing properties over the next two years and the resulting decant of tenants will also impact on the tax base.
- 2.6 A fully detailed calculation of the tax base is contained in Appendix B.

Appendix B

Council Tax Base calculation for 2005/06 based on the Council Tax database as at 30th November 2004

	Band A entitled to disabled reduction	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	TOTAL
1 Total number of dwellings on the Valuation List		7,344	10,138	41,127	7,884	1,730	313	48	22	68,606
2 Number of exempt dwellings (Class A to W exemptions)		417	390	769	156	22	3	1	3	1,761
3 Number of demolished dwellings and dwellings outside area of authority		-	-	-	-	-	-	-	-	-
4 Number of chargeable dwellings		6,927	9,748	40,358	7,728	1,708	310	47	19	66,845
5 Number of chargeable dwellings subject to disabled reduction		4	20	183	57	15	4	8	12	303
6 Number of dwellings effectively subject to council tax for this band by virtue of disabled relief (line 5 after reduction)	4	20	183	57	15	4	8	12		303
7 Number of chargeable dwellings adjusted in accordance with lines 5 and 6 (lines 4-5+6 or in the case of column 1, simply line 6)	4	6,943	9,911	40,232	7,686	1,697	314	51	7	66,845
8 Number of dwellings in line 7 entitled to a 25% discount on 30 November 2004	2	4,656	5,614	15,054	2,171	433	42	3	0	27,975
9 Number of dwellings in line 7 entitled to a 50% discount on 30 November 2004	0	79	95	242	53	20	8	16	5	518
10 Number of dwellings in line 7 assumed to be entitled to no discounts (lines 7-8-9)	2	2,208	4,202	24,936	5,462	1,244	264	32	2	38,352
11 Total equivalent number of dwellings after discounts, exemptions and disabled relief (<i>to 2 decimal places</i>) [(line 8 x 0.75) + (line 9 x 0.5) + line 10]	3.50	5,739.50	8,460.00	36,347.50	7,116.75	1,578.75	299.50	42.25	4.50	59,592.25
12 <i>Ratio to band D charge</i>	5/9	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
13 Number of band D equivalents (<i>to 1 decimal place</i>)	1.9	3,826.3	6,580.0	32,308.9	7,116.8	1,929.6	432.6	70.4	9.0	52,275.5

