

THE EXECUTIVE

Tuesday, 18 December 2007

**Agenda Item 6.      Calculation and Setting of the Council Tax Base  
2008/09 (Pages 1 - 14)**

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18 DECEMBER 2007

## REPORT FROM THE DIVISIONAL DIRECTOR OF CORPORATE FINANCE

This report is submitted under Agenda Item 6. The Chair will be asked to decide if it 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 in order for the Council to meet its statutory obligations in respect of setting the Annual Council Tax Base.

2008/2009 COUNCIL TAX BASE	For Decision
<p><b>Summary:</b> This report requires the Executive to agree the Authority's Council Tax Base for 2008/09 and to recommend the Tax Base to the Assembly.</p> <p>This report also sets out the calculation of the Council Tax Base for 2008/09 and 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. Information is also provided on powers available to the Council to offer discounts for prompt payment, where bills are paid immediately in full without the need for an instalment plan.</p> <p><b>Wards Affected:</b> All</p>	
<p><b>Recommendation(s)</b></p> <p>The Executive is asked to:</p> <ol style="list-style-type: none"> <li>1. Note Appendix A (Joint report from the Divisional Director of Corporate Finance and Head of Barking &amp; Dagenham Direct on the calculation of the Council's Tax Base for 2008/09) 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 and Dagenham Council as its Tax Base for the year 2008/09 shall be 51,429.5 Band 'D' properties.</li> <li>2. Recommend to the Assembly that the discounts for second homes and short term empty properties are reduced from the current 50% discount to a 10% discount from 2008/09 onwards.</li> <li>3. Recommend to the Assembly that the discounts for long term empty properties are reduced from the current 50% discount to a 10% discount from 2008/09 onwards.</li> <li>4. Recommend to the Assembly that no locally determined discounts based on categories of property or occupier be awarded for 2008/9</li> <li>5. Recommend to the Assembly that a reduction for prompt payment scheme is implemented for 2009/10.</li> </ol>	
<p><b>Reason(s):</b></p> <p>To comply with statute and assist in the calculation of the Authority's Council Tax for 2008/09.</p>	

**Implications:****Financial:**

The financial implications are set out in Appendix A to this report (Calculation of Tax Base)

**Legal:**

The legal implications are summarised within paragraphs 1.1 to 1.4 of this report.

**Risk Management:**

Conservative financial estimates have been made when taking into account the effects of each of the recommendations in this report. This approach will enable the Council to better manage any risks associated with each recommendation.

**Social Inclusion and Diversity:**

The Race Relations (Amendment) Act 2000 places a requirement on local authorities to make an assessment of the impact of new and revised policies in terms of race equality. Existing policies have already been subjected to impact assessments. This Authority has adopted an approach of extending the impact to cover gender, disability, sexuality, faith, age and community cohesion.

As this report does not concern a new or revised policy there are no specific adverse impacts insofar as this report is concerned.

**Crime and Disorder:**

Section 17 of the Crime and Disorder Act 1998 places a responsibility on local authorities to consider the crime and disorder implications of any proposals. In relation to this report

There are no specific implications insofar as this report is concerned.

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**1. Background**

- 1.1 The Council has a duty to set a Tax Base for Council Tax purposes by 31 January each year under Section 67 of the Local Government Finance Act 1992. The setting of the tax base can be delegated to the Chief Financial Officer 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 31 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 2008/09 is 1 December 2007. 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 In addition to the above, the Council also has discretion to award reductions for prompt payment and non-cash payments.
- 2.3 The Council has been carrying out a detailed review of all of the local discretions allowable under the regulations and is now in a position to recommend to the Executive that some of these discretions are enacted for 2008/9. These recommendations are contained in this report.
- 2.4 The Council must make a decision on whether to exercise these new powers prior to the start of the each financial year. The decision whether or not to award reductions for prompt payment, must also be made prior to the start of the financial year.
- 2.5 Members or officers involved in making a decision under new or existing 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.
- 2.6 An assessment of the implications of each of these powers is detailed below.

## **3. Second Homes and Short Term Empty properties**

- 3.1 The Council 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 for 2008/9, 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 until adjusted in the calculation of the revenue support grant for 2009/10.
- 3.4 An exercise to identify second homes carried out in October 2007, identified 42 second homes.
- 3.5 The Council has made significant investments in new systems which will now allow the relevant changes to be made to reduce the level of discounts awarded to second homes. In addition, a wide and extensive range of new administrative processes and procedures have also been implemented to take full advantage of the up to date functionality of the new system.
- 3.6 Recommendations – second homes
  - 3.6.1 It is recommended that discounts for second homes and short term empty properties are reduced from the current statutory level of 50%, to the lower discretionary level of 10%. This will mean that owners of second homes will from 1 April 2008, have to pay 90% of the full charge due on their second home, instead of the current 50% charge. This brings the London Borough of Barking and Dagenham in line with most London authorities.
  - 3.6.2 This recommendation is in line with previous tax base reports, where it has been stated that the introduction of new systems would provide functionality that would allow the Council to make decisions to vary the level of discounts and allow additional income to be generated as a result.
4. **Long Term Empty Properties**
  - 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 As mentioned earlier in para 3.3 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.
  - 4.3 As at 1 December 2007, approximately 1189 long term empty properties had been identified from system records. All of these properties are currently receiving a statutory discount of 50%. 429 of these are known to be Council owned properties that are due to be demolished and plans are currently under way to get these properties removed from the Valuation Listings.

- 4.4 In previous years, there have been concerns that any reduction in the discounts allowable for long term empty properties, would have an adverse impact on the Council's Housing Revenue Account. However, from now onwards, this issue will no longer exist as the Council is now permitted to remove properties from the valuation list where they are awaiting demolition before, any charges become due.
- 4.5 Currently, the system does not distinguish between second homes and long term empties, so a 10% discount must be applied for long term empties. Further work will be done during the year to separate these exemptions in future years.
- 4.6 Recommendations – long term empty properties
- 4.6.1 It is recommended that discounts for long term empties are reduced from the current statutory level of 50%, to the lower discretionary level of just 10%. This will mean that owners of long term empty properties will from 1 April 2008, have to pay 90% of the full charge due on their long term empty property, instead of the current 50% charge.
- 4.6.2 Changing the discount for long term empties so that 90% of the full charge is now payable, will encourage the owners of long term empty properties, to bring the properties back into habitation before any charge is due, rather than paying a 90% charge for an empty property. This should also assist in reducing the overall numbers of empty properties in the borough as measured by the H18 CPA indicator.
- 4.6.3 This recommendation will also increase the Council's capacity to raise revenue as 90% of the full Council Tax charge will be levied and collected instead of just 50% of the charge.
- 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 Very few authorities award discounts to pensioners, due to the possibility of legal challenges from other disadvantaged groups.
- 5.4 Since this type of discount will be set locally, the full cost of the discount would 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 In addition to the element of the Council Tax for the Council, there is also a precept from the Greater London Authority (GLA). For 2007/8 this precept made up approx 24% of a band D 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 (i.e. everyone else would have to pay more).

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 2008/09.

## **6 The Award of Reductions for Prompt Payment and Non-Cash Payments**

6.1 During August and September of 2006, a postal survey covering budget consultation issues (including Council Tax issues), was carried out amongst a random sample of local residents. Three quarters of respondents indicated that they would be fairly interested in paying their Council Tax in one lump sum payment before the end of May each year in return for a discount.

6.2 Under reg.25 of the Council Tax Administration and Enforcement Regulations, a billing authority may set a resolution on or before the date that the Council Tax is set, that will allow a scheme to be run which would allow Council Tax payers to receive a discount for paying their Council Tax by a specified date / day, in one lump sum.

6.3 LBBD has not previously operated such a scheme. Some investigation and research into the options that exist, together with the approaches taken by other Councils, has now taken place. With the current level of functionality available with our new systems, the ability to offer customers a reduction / discount for prompt payment is now possible.

6.4 The likely level of take-up of such a scheme is unknown, but discount levels would have to be high enough to provide some level of benefit / incentive for customers, without creating any negative financial impact for the Council as a whole. The typical level of discount offered by those Authorities participating in such schemes is between 1.4% and 2%. Careful consideration would have to be given to the level of discount allowable.

6.5 Recommendations – Reductions for prompt payments

6.5.1 Whilst the functionality to provide prompt payment discounts is available there would be considerable work involved in introducing this scheme at this time. In order that proper preparations for this scheme can take place and in order that an appropriate level of discount can be determined, It is recommended that a reduction for prompt payment scheme, is implemented for 2009/10.

## **Appendices**

A. Detailed calculation of the 2008/09 tax base as at 1 December 2007



**Background Papers**

Council Tax CTB1 return for 2008/09.

## 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:-

Range of Values Band	Valuation
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 currently entitled to a statutory 50% discount. If all of the recommendations of this report are agreed, the new reduced level of discount available on empty properties would be just 10%.

#### **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 26 October 2007, setting out the number of properties in each valuation band based on the valuation list on the 17 September 2006, together with the number of discounts and exemptions as recorded on the Council's database on the 8 October 2007. The tax base shown on this return was 52,425.1 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 1 December 2007. 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 2007/08.

2007/08			2008/09	
Last Year Totals	Band 'D' Equivalents	Band	Total	Band 'D' Equivalent
5.25	2.9	A*	4.50	2.5
5,562.75	3,708.5	A	5,710.00	3,806.7
8,415.50	6,545.4	B	8,555.20	6,654.0
36,235.25	32,209.1	C	36,600.15	32,533.5
7,193.75	7,193.8	D	7,316.35	7,316.4
1,528.50	1,868.2	E	1,534.25	1,875.2
294.75	425.8	F	304.80	440.3
42.5	70.8	G	40.80	68.0
4.5	9	H	6.05	12.1
<b>59,282.75</b>	<b>52,033.5</b>		<b>60,072.10</b>	<b>52,708.7</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 2008/09, 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 1 December 2007	52,708.7
Anticipated effect of new properties	558.73
Anticipated effect of changes to discounts and exemptions	-172.74
Adjustment for anticipated demolitions	-74.61
	53,020.08
Losses on collection allowance at 3.0%	- 1,590.55
<b>Final Tax Base for 2008/09</b>	<b>51,429.5</b>

2.3 The losses on collection allowance for 2008/09 has been assessed as 3.0% which is the same as last year.

2.4 When compared to the Tax Base for 2007/08 of 50,660.8, there has been an increase equivalent to 768.7 band D properties (1.52% of the Tax Base).

2.5 Predictions of the change to the tax base over the course of 2008/09 have proved difficult for several reasons. Available information predicts an increase in the number of new properties in 2008/09. 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. Over the last few months however, some experts have predicted that a major slump is likely and there have been some signs of this in the slowdown of

the house price market, the increases in interest rates and the general slowdown of the national economy.

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

- 3.1 Discounts are routinely reviewed by virtue of changes to peoples 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. The last periodic review took place during December 2006-January 2007 where all discounts in bands C, D, E & F took place.
- 3.2 A review of discounts within bands A & B is currently underway and this could have the effect of further reducing the total number of discounts shown on the Council Tax register. Predicting the exact amount of shift that will be caused by the review will be difficult, because a significant amount of time has passed since the last formal review of discounts in these bands took place.
- 3.3 A fully detailed calculation of the tax base is contained in Appendix B.

## Council Tax Base calculation for 2008/09 based on the Council Tax database as at 1 December 2007

	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	TOTAL
1	7,307	10,453	42,048	8,124	1,687	323	45	22	70,009
2	437	602	1,338	195	30	5	2	4	2,613
3	-	-	-	-	-	-	-	-	-
4	6,870	9,851	40,710	7,929	1,657	318	43	18	67,396
5	5	15	193	59	20	4	6	11	313
6	15	193	59	20	4	6	11		313
7	6,880	10,029	40,576	7,890	1,641	320	48	7	67,396
8	4,514	5,786	15,717	2,243	415	46	2	1	28,726
9	410	258	406	89	15	7	2	2	1,189
10	1	3	12	8	3	6	13	1	47
11	1,955	3,982	24,441	5,550	1,208	261	31	3	37,434
12	5,710.00	8,555.20	36,600.15	7,316.35	1,534.25	304.80	40.80	6.05	60,072.10
13	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
	3,806.7	6,654.0	32,533.5	7,316.4	1,875.2	440.3	68.0	12.1	



<b>Changes to exemptions and discounts</b>											
25	Adjustments due to planned demolition of Housing properties (Band D equivalents)									-	
	Allowance for non-collection of long term empty charges (20% allowance on 90% collectable)	0.00	49.20	36.12	64.96	16.02	3.30	1.82	0.60	0.72	172.74
26	Adjustment for growth in single person discounts (Band D equivalents)										-
27	<b>Tax base after adjustment for exemptions and discounts</b>										53,020.08
28	Adjustment for losses on collection @ 3%										-1,590.55
29	<b>Tax base for purpose of setting Council Tax after allowing for losses on collection of 3.0%</b>										<b>51,429.5</b>