Council Tax Update

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Classification	Unrestricted

Background Documents

1. Summary

Council Tax precept for 2022-23 is £823.1m	Council Tax is now the most significant funding source for Council services. The County Council sets the Council Tax precept based on the estimated net Council Tax band D equivalent base (derived from number of eligible dwellings after exemptions, discounts, estimated growth and collection losses) determined by districts and annual household charge (determined by KCC in accordance with Council Tax Referendum principles set by Parliament). This report provides more detail on Council Tax for 2022-23.
Council Tax monitoring arrangements are in place based on information from district Councils	Bearing in mind the significance of Council Tax it is essential the Council has up to date information on Council Tax collection and other significant changes such as new dwellings, changes in discounts, etc. as these will affect collection fund balances and future years' tax base. Monitoring of key Council Tax information is included in quarterly reports to Cabinet.
Local schemes determine discounts for low income households	All districts in Kent offer less than 100% discount for low income working age households. Schemes were initially introduced in 2013 and reviewed in 2017. Most districts now operate banded schemes, where the Council Tax reduction discount does not change in line with changes in household income unless the change leads to a change in band.
KCC has provided incentives for local reduction schemes and Council Tax on empty properties	KCC historically offered an incentive for districts to reduce second homes discounts. With the introduction of local Council Tax reduction schemes in 2013 this was absorbed along with halving the discount on empty and unfurnished properties into a payment to administer local schemes. KCC has offered further incentives on local reduction schemes and empty property discounts. The Council Tax support payments and incentives from KCC to districts currently total over £2.5m.
New powers on second homes and empty properties planned for 2024	The Levelling Up and Regeneration Bill proposes Councils to be able to introduce a new discretionary Council Tax premium on second homes and properties empty for more than a year of up to 100%.

2. Estimated Council Tax Base for 2022-23

The estimated Council Tax base shows 2.63% growth compared to 2021-22	The estimated Council Tax base from the number of registered dwellings after exemptions, discounts and estimated collection rates increased by 2.63% compared to 2021-22. The estimated tax base for 2021-22 showed an unprecedented reduction of 1.04% due to the impact of Covid-19 pandemic on household incomes and collection rates. In the preceding two year the estimated tax base grew by just over 1.5%. Around 60% of the increase in 2022-23 (around 1.6% growth) is new dwellings registered by Valuation Office Agency (VOA) The number of households claiming low-income discounts has reduced to pre pandemic levels following the increase in claimants during the Covid-19 pandemic. However, estimated Council Tax collection rates have not yet fully recovered to pre pandemic levels with losses estimated at 1.2% before the pandemic, increasing to 2.2% in 2021-22 before recovering partially to 1.8% in 2022-23.
Discounts and exemptions reduce the tax yield to KCC by around £173m	The most significant discounts are 25% mandatory discount for single occupancy households (£74.2m) and discounts for low-income pensioner and working age households (£77.8m). Pensioner discounts are determined under national criteria. Discounts for working age households are determined under local Council Tax Reduction Schemes (LCTRS) agreed by the 12 collection authorities (district and borough Councils).
Estimated collection losses average 1.84%	Estimated collection losses range from 1% to 3.5% across the 12 districts. Estimated collection losses reduce KCC's share of tax yield by £15.4m.
KCC precept for 2022-23 is £823.1m	The precept is based on net estimated band D equivalent tax base (563,284.89 BDE) multiplied by KCC band D Council Tax charge (£1,461.24). Of the total precept £97.6m comes from the adult social care levy (£173.25 within the KCC charge). The total precept has increased by £44.4m compared to 2021-22. £20.5m of this is from the 2.63% increase in the estimated tax base, and £23.9m from the increase in the household charge (just under 2% for the general level and 1% for adult social care levy).
Increase in KCC tax base over 3 years slightly above average shire county increase	KCC tax base has increased by 3.09% over the three-years 2020-21 to 2022-23. The average increase across all shire areas over this period was 3.01%. The largest increase was 5% and the smallest 1.4% over this period.

2. Estimated Council Tax Base for 2022-23 (cont'd)

The table below shows the main components of 2022-23 estimated tax base on the overall Council Tax precept and the number of band D equivalents. The table also shows the change in individual elements from 2021-22 in band D equivalents.

	2022-23 Tax Yield £m	2022-23 Taxbase Band D equivalent	Change from 2021-22 Band D equivalent
Total Dwellings (692,361)	1,001.8	685,572.00	8,658.56
Less			
Exemptions & Disabled Discounts	-21.0	-14,338.10	732.78
Single Person Discount	-74.2	-50,801.21	-863.10
Council Tax Reduction Discounts	-77.8	-53,216.26	2,811.63
Plus			
Estimated in year growth	8.5	5,804.11	256.54
Other taxbase changes	1.2	823.85	1,008.05
Estimated collection losses (1.84%)	-15.4	-10,559.49	1,817.95
Final Precept and Tax Base 2022-23	823.1	563,284.89	14,422.41

3. Council Tax Monitoring

Council Tax collection monitoring will be undertaken on a quarterly basis	Throughout the Covid-19 pandemic, regular Council Tax collection monitoring was undertaken by KCC, with support and information provided by the twelve collection authorities (district and borough Councils). The conclusions for the potential impact on collection fund and future tax base estimates are included in quarterly budget monitoring reports to Cabinet. The monitoring returns provide information on Council Tax collection rates and LCTRS discounts.
Initial monitoring returns show a shortfall against budgeted collection rates	Across the 12 Kent districts 29.2% of the total collectable tax base has been collected in quarter 1. Projecting this forward for the remainder of the year (assuming the remaining quarters' collections rates are similar to pre pandemic levels) results in a forecast collection rate 97.94% (equivalent to a deficit of £2.5m on the 98.16% assumed in the estimated tax base). Of this KCC's pro rata share would be £1.8m. The forecast collection rates do not take into consideration any payments against 2021-22 arrears or the change allowing households to opt to pay Council Tax in 12 monthly instalments rather than 10 instalments. This will change the profile of payments from pre pandemic levels although we do not have sufficient information to forecast the impact as the change at this stage. However, the change to 12 monthly instalments taken up by some households is likely to reduce the forecast collection fund deficit by the end of the year. The forecasts do not include any assumption about future impact on Council Tax collections of the current cost of living crisis. A clearer picture of the impact of cost of living will emerge in subsequent quarterly returns. There is a risk this could increase collection losses.
Initial monitoring returns show slightly lower level of LCTRS discounts than budgeted	The overall impact across all districts is marginal although the variances differ between individual districts. The effect is a slightly lower number of LCTRS claimants than budgeted (0.1% less). This results in a forecast small surplus of £67k, of which KCC's share is £38k.
Council Tax remains significant source of income to the Council	Council Tax funds nearly a half of KCC gross revenue expenditure (excluding schools), and over 70% of the net revenue budget (after deducting income and specific grants). Monitoring of the key components affecting collection and future tax base estimates is vital to the Council's financial strategy and resilience.

4. Local Council Tax Reduction Schemes

Responsibility for Council Tax benefits (CTB) transferred from DWP in 2013-14	Previously households on low incomes received welfare benefits from the Department for Work and Pensions (DWP) which for the lowest households amounted to 100% of Council Tax liability for eligible households. The value of CTB depended on individual local and household circumstances such as Council Tax banding, average income, number of dependent children, other non-dependent adults in the household, savings, etc. For example, a person aged over 25 whose only income was working age benefits would have paid no Council Tax. Those whose income was low but above the benefit level paid a proportion of Council Tax on a taper until income reached a threshold beyond which individuals paid full Council Tax.
Funding initially transferred to Local Government included 10% reduction	Funding for the transfer of responsibility was included in the 2013-14 settlement split between the elements for locally retained business rates (business rate baseline and top-up) and Revenue Support Grant (RSG) from centrally retained share of business rates. The total funding included a 10% reduction compared to the cost of forecast Council Tax benefits.
RSG element was not protected from further reductions	RSG has been significantly reduced since the business rate retention funding arrangements and LCTRS were introduced in 2013-14. The element for Council Tax support was not protected. Following further changes to the allocation of RSG in 2016 it is no longer possible to identify separate amounts within the overall settlement for Council Tax reduction scheme funding.
Local schemes for working age households	Collection authorities were required to consult on and implement local schemes for working age households from April 2013. A default scheme offered the same eligibility and benefits as CTB. All Kent districts agreed to reduce the discount on empty and unfurnished properties from 6 months to 3 months as part of the compensation for working age discounts. The major precepting authorities agreed to pay £1.5m (£125k per district) from the proceeds towards the costs of setting up and administering local schemes. Half of Kent districts adopted a common scheme that allowed a maximum discount of 81.5% for the lowest income working age households to offset the 10% reduction in funding. The other half offered higher maximum discounts for working age households (and in some cases disabled claimants). These districts further reduced other discounts e.g. empty property discounts, to compensate for the higher working age Council Tax reduction discounts.

4. Local Council Tax Reduction Schemes (cont'd)

Local schemes reviewed 2017-18	A new three-year agreement was developed for implementation in 2017-18. This consisted of reducing the standard maximum discount to 80% (with the option remaining to offer a higher discount compensated by reductions in other discounts) and changing aspects of the eligibility criteria to be consistent with other welfare reforms. The 2017-18 agreement included hardship schemes with the impact shared between collection and major precepting authorities based on pro rata shares of over Council Tax yields. Preceptors continued to make £1.5m available to administer schemes although the allocation was amended to a £70k fixed amount per district (amounting to £840k in total) and the balance (£660k) allocated according to working age/pensioner caseloads. KCC offered an additional £0.5m incentive fund where districts agreed a lower maximum discount and/or further changes to eligibility criteria. A summary of the 2017 schemes is attached as appendix A.
Further reviews of have simplified schemes via income bands	Most districts have now adopted banded schemes (albeit with varying number of bands and income values so that there is no detrimental impact on the overall tax yields compared to previous schemes). Under a banded scheme the Council Tax reduction discount does not change in line with changes in household income unless the change leads to a change in band. Banded schemes offer additional security for low-income households and reduce administration costs.
Economic conditions are a key factor affecting Council Tax yields	The localisation of Council Tax reduction schemes means Councils are exposed to the impact of higher discounts during an economic recession. Collection rates are also more volatile during a recession. During the Covid-19 pandemic Councils were partially compensated for irrecoverable losses (and could accrue deficits over 3 years) and additional grant was provided for the impact on Council Tax reduction schemes. At this stage it is unclear whether further support would be available in any future recession.

5. Other Council Tax Discounts

KCC has previously shared proceeds from reducing Council Tax discounts on second homes	Historically second homes attracted a 50% discount. When the option to reduce the discount was introduced KCC agreed with Kent districts in 2006-07 that all districts reduce the discount to 10%. This increased the KCC share of Council Tax by around £2.5m. KCC retained a fixed £2m and any remaining additional Council Tax levied from the reduction was paid to districts pro rata to the value of the reduction in each district. Districts could spend this on projects agreed with KCC. Districts and other precepting authorities retained a share of the reduction within their individual tax base shares. The second homes scheme was revised and simplified in 2011-12 with the KCC proceeds shared 75% to the County Council and 25% paid to districts (again pro rata the value of the reduction in each district). Districts no longer required KCC consent to the spending on projects. In 2013-14 legislation allowed the second homes discount to be removed entirely. As part of the compensation for LCTRS discounts KCC and major preceptors agreed with all districts that the second homes discount be removed. The previous arrangements to share the KCC proceeds from reducing second homes discounts were absorbed into the £1.5m payment to support Council Tax reduction schemes.
Flexibility on empty property discounts and premiums incentivised	Legislative changes in 2013-14 allowed discretion to charge Council Tax on empty properties where unoccupied and substantially unfurnished (previously 6 month full exemption) or where a property requires major repairs or structural alterations to render it habitable (previously 12 month full exemption). The legislation allowed local Councils to introduce local arrangements to apply a % discount, reduce the length of discounts compared to previous exemptions or adopt local criteria limit discounts to certain specified circumstances e.g. natural disasters. The legislation also allowed Councils to charge a 50% premium on long term empty properties unoccupied for more than 2 years other than annexes or armed forces accommodation. Further legislative changes in 2019 enabled the premium to be increased to 100% after two years, and to up to 400% for properties unoccupied for more than 10 years.
KCC incentives on empty properties	KCC offered an incentive to Councils to reduce empty property discounts or introduce long term empty property premiums of 25% of the County Council's share of the estimated increased Council Tax (other than where discounts were reduced/premiums used to offset higher working age Council Tax reduction discounts.

5. Other Council Tax Discounts (cont'd)

KCC incentives on empty properties	KCC has agreed empty property incentive payments with seven out of 12 districts. In total payments amount to £830k and are largely based on historical estimated additional Council Tax from reducing discounts and introducing premiums.
Council Tax (or premiums) cannot be charged on some empty properties	Empty properties subject to probate are not liable for Council Tax until probate is granted. Councils can apply a further 6 month discount after probate is granted under local agreement if the property remains unoccupied and is still owned and in the name of the person who died. Other properties exempt for empty property charges include homes: • of someone in prison (except for not paying a fine or Council Tax) • of someone who's moved into a care home or hospital • that have been repossessed • that cannot be lived in by law, for example if they're derelict • that are empty because they've been compulsory purchased and will be demolished
New powers to charge premiums on second homes and long term empty properties	The 2022 Queen's Speech included proposed legislation under the Levelling Up and Regeneration Bill that would allow Councils to be able to introduce a new discretionary Council Tax premium on second homes of up to 100%. The Bill would also enable Councils to start charging long term empty premiums on homes that have remained empty for longer than a year. The Bill is anticipated to receive Royal Assent next year for implementation in 2024.