From: John Betts, Interim Corporate Director Finance

To: Peter Oakford, Deputy Leader and Cabinet Member for Finance, Corporate & Traded Services

Subject: Council Tax Collection Subsidies and Incentives

Decision no: ***25/00004***

Key Decision : Affecting more than 2 Electoral Divisions
Expenditure and savings of more than £1m

Classification: Unrestricted

Past Pathway of report: Policy & Resources Cabinet Committee 27th November 2024

Future Pathway of report: Cabinet Member Decision

Electoral Division: All

Is the decision eligible for call-in? Yes

Summary: This report makes recommendations further to the requirement to deliver policy savings in the 2025-26 revenue budget to replace the use of one-off solutions used to balance 2024-25 revenue budget. The report outlines the history of the long-standing subsidies and incentives provided to district/borough/city councils as the billing authorities for council tax. The report recommends ceasing certain subsidies and incentives to facilitate the tax collection authorities ("Billing Authorities") discharging their statutory functions as this is no longer tenable and the Council has to focus on its own statutory services.

Recommendation(s):

That the Cabinet Member for Finance, Corporate and Traded Services agree to:

(a) Cease the current arrangement with the Billing Authorities pursuant to which the Council provides financial support and incentive payments towards the cost of setting up and administering local Council Tax Reduction Schemes (CTRS) with effect on and from 1st April 2025.

(b) Cease the current arrangements with the Billing Authorities pursuant to which the Council makes incentive payments to support the removal of local discretionary empty property discounts and the charging of empty property premiums with effect from 1st April 2025.

(c) Delegate authority to Interim Corporate Director Finance to formally notify the Billing Authorities that payments will cease from 2025-26 financial year and to take any actions or make any decisions deemed necessary to the Interim Corporate Director Finance to implement the decisions of the Cabinet Member for Finance, Corporate and Traded Services in (a) and (b) above.

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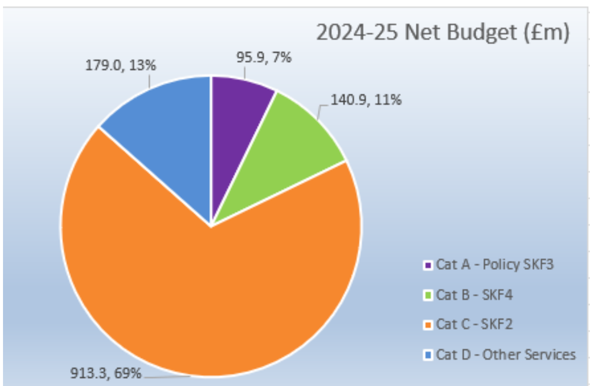
1. Introduction

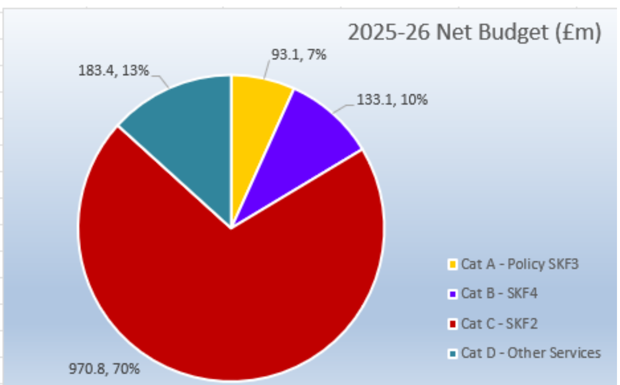
1.1 The approved revenue budget for 2024-25 included £19.8m of one-off solutions from use of capital receipts, use of reserves and the final year of New Homes Bonus Grant. The budget setting report to the Council made it clear that the package of one-off solutions in 2024-25 needed to be replaced with equivalent, ongoing savings in 2025-26 and 2026-27. The details of these savings were still under development at the time the 2024-25 budget was approved and the report identified that all that was required for Council approval of the 2024-25 budget was confirmation of the principle that any recurring costs funded from one-off sources in 2024-25 must be replaced through ongoing savings and income in subsequent years.

1.2 The final 2024-25 budget set out the clear expectation that these £19.8m of policy savings would have to be found in accordance with Objective 3(Policy choices and scope of Council's ambitions) set out in Securing Kent's Future. Consequently, it has been essential that all areas of discretionary spending are reviewed and considered for savings.

1.3 To assist this process of considering savings a breakdown of the 2024-25 budget and planned amounts for 2025-26 and 2026-27 was prepared across four categories. These categories comprised the totality of the Council's budget (excluding non-attributable costs and centrally held budgets) as demonstrated in the graphic below:

- Category A - spending where there is most scope for local decisions. This includes discretionary services, services where there is a mix of statutory requirements and discretion, and statutory services where there is a significant degree of choice over the level of services provision.
- Category B - support functions.
- Category C - spending on adult social care, children in care, home to school transport.
- Category D - other services (largely statutory with less choice over level of service provision).





1.4 In considering savings from spending in category A it was identified whether there was a binary choice whether to spend or not, those services where there was a range of options to review, or whether spending was considered too low to warrant consideration/was out of scope. Spending within the first two sub-categories was then tested against the following policy considerations:

- Whether the Council should limit spending on grant funded activities to the amount available within the grant conditions with no discretionary top-ups
- Whether the Council should seek full cost recovery from clients/service users of discretionary services
- Whether spending is on (niche) services which are visible/accessible/benefit a small number of the Kent population
- Whether the Council is willing to remove or reduce (cross) subsidies where there is no requirement (duty) to provide support

1.5 The totality of spending (£3.75m net to KCC in 2024-25 budget) on the current arrangements for subsidies and incentives on council tax collection (including Council Tax Reduction Schemes (CTRS) and empty property discounts), and joint work on fraud and error comes is Category A spending and has been reviewed as part of this programme against the policy considerations – specifically the final one.

1.6 Spending on joint fraud and error activities across all 12 districts, and spending to subsidise the pursuit of outstanding debts in 3 East Kent districts (only the 3 districts are subsidised) provided returns on investment of over 400% per annum and therefore this report does not recommend making any savings from this expenditure.

1.7 There was not the same evidence for the spending on subsidising and incentivising Billing Authorities for local CTRS or incentives to reduce/remove empty property discounts/charge premiums on long-term empty properties. Consequently, spending on these activities (£1.75m net 2024-25 budget) for CTRS support and incentives and (£1.45m net 2024-25 budget) for empty properties was put forward for member consideration as part of formulating draft budget proposals. After full consideration proposed savings from ceasing these payments in 2025-26 were included in the administration's draft 2025-26 budget proposals published on 29th October 2024 and final budget proposals approved by full Council on 13th February 2025. Following approval of the budget it is then necessary for the key decisions recommended in this report to be made in order to achieve the budgeted savings.

1.8 Leaders, Chief Executives and Chief Finance Officers of each of the district/borough/city councils (who are the billing authorities for council tax) (the Billing Authorities) have been informed at an early stage in the current financial year of the requirement for KCC to make £19.8m policy savings to replace one-offs in 2024-25 budget, and that these activities relating to council tax collection subsidies and incentives fell within the scope of those considerations. The Billing Authorities response was that if the subsidies and incentives were removed they would have to review working age CTRS and empty property discounts/premiums especially where these result in council tax charges that are not cost effective for the district to collect from their share of council tax. To date no Billing Authority has proposed or implemented any changes to discounts or premiums.

2. Key Considerations

2.1 As outlined in the introduction the Council has reviewed all spending on (cross) subsidies where there is no statutory requirement (duty) to provide support. This review is not limited to the support provided to the Billing Authorities towards their statutory obligations and reviews have taken place in other areas including support for schools, health authorities and the voluntary sector.

2.2 The key considerations for this particular decision included the potential impact on the council tax precept if Billing Authorities chose to reduce the size of collection teams, with a consequential impact on council tax collection rates. Consideration was also given to the impact should Billing Authorities choose to change local CTRS and/or reinstate council tax discounts or cease premiums.

2.3 In respect of the size of collection teams/council tax collection rates, there is a statutory obligation on individuals to pay council tax and the Billing Authorities are under a duty to levy and collect council tax. The section 151 officers and the monitoring officers of the Billing Authorities are also subject to their own duties (respectively) relating to the financial administration and legal compliance of their authority. Therefore, the potential impact on council tax collection rates is considered to be a matter for individual Billing Authorities to determine and justify through their own governance and compliance arrangements. See also paragraph 5 below for the financial implications and mitigation.

2.4 Whilst it is acknowledged that the vast majority of council tax is collected by the Billing Authorities on behalf of other authorities (including the Council) (the precepting authorities), any financial support by the Council towards collection is discretionary. Furthermore, collection costs are already deducted from council tax proceeds before they are distributed between precepting authorities and the Billing Authorities. This tension between collection and receipt of tax does not occur in unitary areas.

2.5 All Billing Authorities have simplified their local CTRS and moved to a banded approach. Under a banded scheme an individual household’s discount does not change whilst household income remains within the band. This provides increased certainty for recipients and reduces assessment costs for the Billing Authorities. The Council has fully supported this move to banded arrangements even though up to this point there has been no change to financial support provided by the major preceptors. Effectively Billing Authorities have already benefitted from efficiency gains whilst still receiving subsidy from the Council.

2.6 The major precepting authorities have not required Billing Authorities to account separately for spending from the subsidy and incentive payments. Consequently, there is very little evidence how much it costs the Billing Authorities to operate local schemes. Up to 2022-23 the government also provided the Billing Authorities with a separate Localised Council Tax Support (LCTS) Administration Subsidy Grant. This was calculated annually based on caseloads. This LCTS grant was rolled into Revenue Support Grant in 2023-24, an indication that government now considers administration of local schemes to be a business as usual activity with no separate funding.

2.7 In conclusion, whilst there is there is an economic argument for providing increased support to low-income households this would still apply even if the Council removes the current subsidies and incentives. In setting local CTRS Billing Authorities will have to balance competing claims of securing their financial resilience through their own budgets with protecting residents in difficult financial circumstances through cost of living crisis. Billing Authorities have their own challenge through increased costs of and demand for their council services within limited resources available through local taxation referendum limits and central government grants which can only be balanced through a combination of cuts to other council services, raising income from other sources or increasing council tax income through reviewing local schemes.

2.8 There is also little evidence that removing empty property discounts adds a significant ongoing administrative burden on Billing Authorities. One of the benefits put forward by Billing Authorities for removing discounts was that it would avoid the requirement to assess whether a property is empty to qualify for the discount. Consequently, there is a strong argument that this incentive payment should have been time limited in the first place and is no longer required.

2.9 The original arrangement was on an understanding that it was reviewed on a three-year cycle. The first review was undertaken and implemented in 2017 (delayed a year from 2016 to allow schemes to be aligned with changes to other welfare benefits under the Welfare Reform and Work Act 2016). There has been no subsequent review as emphasis has switched to providing support during Covid-19 pandemic and Cost of Living challenge. Consequently, review of the arrangements is long overdue.

3. Background

Council Tax Reduction Schemes

3.1 Until 2013 households on low incomes could claim welfare benefits (up to 100% of council tax) towards their household council tax charge. These arrangements were transferred to local CTRS in April 2013 under provisions in the Local Government Finance Act 2012. Funding from council tax benefit (CTB) was transferred from Department for Work and Pensions (DWP) into the local government finance settlement and allocated to the Billing Authorities through the redistribution mechanism for retained share of business rates (business rate baseline) and Revenue Support Grant (RSG). These are shown in the settlement as Settlement Funding Assessment (SFA). The funding transferred came with an overall 10% reduction compared to the cost of CTB.

3.2 Each Billing Authority is responsible for developing local CTRS to provide low income households with a discount on council tax charges. The legislation required that schemes for pensioner households had to provide the same value discount as CTB entitlement. A default scheme for working age households also offered the same discounts as CTB, or Billing Authorities could consult on and agree their own local schemes for working age discounts (in consultation with major precepting authorities in two tier areas).

3.3 To support the introduction of local schemes in April 2013 it was agreed locally in Kent that a total of £1.5m payment would made by the major precepting authorities to the 12 Billing Authorities towards the cost of setting up and administering local schemes. The preceptor shares are split pro rata to respective council tax shares, and have been fixed at 2017-18 levels (excluding adult social care levy for KCC) since then i.e. 83.1% KCC, 11.5% Police and 5.4% Fire. The agreement was designed to ensure that local CTRS took account of the 10% reduction in funding and the overall impact was financially neutral for all authorities.

3.4 A standard Kent scheme was developed that provided a maximum 81.5% discount for eligible working age households on the minimum level of income, with a tapered reduction to the discount for incomes above the minimum. This provided an offset for the 10% reduction in funding. There were different minimum income levels depending on household circumstances e.g. single person, lone parent, couples with no children, couples with children. Individual Billing Authorities had the option to agree alternative local arrangements to the standard Kent scheme e.g. provide more generous working age discounts, provided the impact remained financially neutral with offsetting reductions to other discounts e.g. empty properties.

3.5 Originally the arrangement provided all Billing Authorities with a fixed sum of £125k. This was partly funded by Billing Authorities agreeing to reducing the class C empty property discount (empty and largely unfurnished dwellings) from 6 months to 3 months. This increased council tax proceeds for all authorities. The allocation to Billing Authorities was subsequently reformed from the start of 2017 to the current arrangements based on lower fixed sum of £70k and the balance of the £1.5m allocated according to number of eligible low income households (pensioner and working age). The overall amount provided has never subsequently been changed since introduction of the scheme in April 2013. The £1.5m payment was provided by all major precepting authorities pro rata to share of council tax (excluding the subsequent ASC levy for KCC).

3.6 The original intention was that these local arrangements would be reviewed on a three-year cycle. The first review due for 2016 was delayed a year to ensure that changes to local CTRS could be made to align them with other welfare reforms under the Welfare Reform and Work Act 2016. This review resulted in the Council agreeing an additional £500k incentive fund, taking the total value of subsidy and incentive payments to £2m. This was intended to encourage Billing Authorities to align schemes with other welfare reforms and to incentivise districts to reduce the working age discount (the standard scheme was amended to 80%) and change other criteria limiting access to discounts e.g. levels of household savings. These changes were partly in response to reductions in RSG since the original schemes were introduced which had affected the financial neutrality equation. District allocations from the incentive fund are calculated annually based on number of eligible working age households weighted according to the extent to which changes to local schemes impact the council tax base calculations.

3.7 The amounts paid through the preceptor support subsidy and additional KCC incentive for local CTRS in 2024-25 are set out below:

	Original CTRS Agreement					
District	**Preceptor Support Subsidy**	**Police Share**	**Fire Share**	**KCC Share**	**Additional KCC Incentive**	**Total KCC**
Ashford	£127,485	£14,679	£6,849	£105,957	£58,745	£164,702
Canterbury	£130,524	£15,028	£7,013	£108,483	£41,175	£149,658
Dartford	£112,527	£12,956	£6,046	£93,525	£40,528	£134,053
Dover	£148,431	£17,090	£7,975	£123,366	£51,179	£174,545
Folkestone	£130,283	£15,001	£7,000	£108,282	£46,920	£155,202
Gravesham	£113,783	£13,101	£6,113	£94,569	£27,335	£121,904
Maidstone	£131,526	£15,144	£7,066	£109,316	£45,529	£154,845
Sevenoaks	£108,290	£12,468	£5,818	£90,003	£31,354	£121,357
Swale	£131,012	£15,085	£7,039	£108,889	£62,325	£171,214
Thanet	£148,431	£17,090	£7,975	£123,366	£45,274	£168,640
TMBC	£112,559	£12,960	£6,047	£93,551	£25,650	£119,201
TWBC	£105,150	£12,107	£5,649	£87,393	£23,986	£111,379
Total	**£1,500,000**	**£172,710**	**£80,590**	**£1,246,700**	**£500,000**	**£1,746,700**

Empty Property Discounts and Premiums

3.8 Until 2013 there were mandatory exemptions on council tax for certain empty properties. These included class C exemption of 6 months on empty and largely unfurnished dwellings, and class D exemption of 12 months on properties undergoing major repairs or structural alterations. The previous mandatory 50% discount on second homes had been removed by earlier legislation in 2004 and Billing Authorities already had discretion to offer discounts between 10% to 50% on second homes. There was a long-standing agreement between the Council and the Billing Authorities to share the proceeds from reducing the discounts on second homes.

3.9 The Local Government Finance Act 2012 introduced additional discretions on council tax. This included removing the mandatory class C and class D exemptions and replacing these with discretionary power to grant discounts of between 0 to 100%. The Act also extended the discount on second homes to between 0% and 50% and introduced a discretionary power to raise 100% premium on properties empty for more than two years (effectively meaning 200% charge on such properties).

3.10 The Council encouraged the Billing Authorities to use these new powers to reduce empty property discounts and to levy premiums on long term empty properties. The policy objective was consistent with the Council's "No Use Empty" programme and was intended to encourage empty properties to be brought back into use. Building on the existing second homes arrangement the Council offered 25% of its share of the increased council tax base to those Billing Authorities that agreed to reduce empty property council tax discounts and/or introduce council tax premiums on long empty properties under the new powers (other than to those Billing Authorities which elected to change empty property discounts as part of variations from the standard approach to local CTRS).

3.11 At the time individual Billing Authorities adopted differing approaches with some continuing to offer discounts but for reduced periods and others removing all empty property discounts. The amounts paid to individual Billing Authorities are largely historical based on the impact at the time discounts were reduced/removed and premiums levied. Each year Billing Authorities are asked whether they would like a roll-over of the previous year's payment or to provide latest information on numbers of dwellings being charged a premium/discounts removed and the council tax raised for the Council (excluding adult social care levy) to enable the subsidy to be recalculated. The previous second homes arrangement was ceased.

3.12 The premium on long term empty properties has subsequently been extended to allow discretion to raise additional premiums on properties empty for more than 5 years (200% premium taking the council tax charge to 300% of the standard rate) and more than 10 years (300% premium taking the council tax charge to 400% of the standard rate). In 2024 the power was extended to levy premiums on properties empty for more than one year. All Kent Billing Authorities used the powers to raise these long term empty premiums and by 2024 all authorities had removed all empty property discounts. In 2025 new powers come into force that allow up to 100% premium to be levied on second homes (taking the council tax to 200% of the standard charge).

3.13 The amounts paid under the empty property incentive in 2023-24 are set out below (the budget for 2024-25 was increased following the agreement with all Billing Authorities to remove all remaining empty discounts and maximise premiums although details of 2024-25 payments are still to be finalised awaiting confirmation from the Billing Authorities of the council tax raised for the Council):

Dartford	£109,550
Folkestone & Hythe	£152,861
Gravesham	£46,030
Maidstone	£100,009
Sevenoaks	£95,550
Tonbridge & Malling	£209,503
Tunbridge Wells	£109,780

4. Options considered and dismissed, and associated risk

4.1 Maintaining the current arrangements is not considered sustainable in the current financial climate with the urgent need for the Council to focus on its statutory responsibilities and consequential requirement to review policy choices and scope of the Council's ambitions. Reducing the amount was not considered as an option as this was identified as a binary choice whether or not the Council should continue to cross subsidise statutory functions of Billing Authorities. As set out in paragraphs 2.2 to 2.7 this poses a potential risk to future council tax income, but it is suggested that this is a potential risk rather than inevitable consequence. The decision does not alter either the statutory obligation on individuals to pay council tax or the duty on the Billing Authorities to levy and collect council tax. Ceasing these payments is consistent with the policy consideration to review (cross) subsidies where there is no statutory requirement to provide support. The Council is not aware of similar subsidies and incentives towards the cost of council tax collection in other two tier areas.

4.2 A transitional arrangement which would allow for the phased removal of the two subsidies/incentives, with the empty property agreement ceased in April 2025 and local CTRS agreement ceased from April 2026, has been considered. This option is not recommended on the grounds that it would reduce the potential savings that could be achieved against the targets required for 2025-26 (increasing the amount that would need to be found from other alternatives or one-offs) and would run counter to the policy consideration to remove (cross) subsidies where there is no statutory requirement to provide support.

4.3 The Council intends to continue to contribute towards the costs of fraud and error activities which increase the amounts of council tax received and additional support towards the recovery of debt in those areas where council tax is proving most difficult to collect in 3 East Kent districts, provided these continue to show a positive return on investment.

5. Financial Implications

5.1 The annual saving to the Council from ceasing the subsidy and incentive on local CTRS is £1,746.7k based on 2024-25 approved budget. The annual saving to the Council from ceasing the empty property incentive is £1,450k based on 2024-25 budget.

5.2 A 1% reduction in collection rates across all 12 Billing Authorities would result in £9.5m to £9.8m reduction in the Council's share of council tax (with proportionate reductions in other preceptors and Billing Authority shares). Actual losses from collection will not be confirmed until annual accounts have been closed and audited. The Council will continue to manage fluctuations in collection through a smoothing reserve set up specifically for this purpose. The Council's annual council tax precept must be set based on tax base estimates calculated by each Billing Authority. The deadline for notifying these estimates is 31st January prior to the start of each financial year. The Council must notify the Billing Authorities of its council tax precept by the end of February.

5.3 It is estimated that if the cessation of the local CTRS subsidy and incentive led to Billing Authorities reverting to the default scheme for working age households this would increase council tax discounts for the major preceptors by £14.6m, £12m of which would be the Council share. There would be an appropriate pro rata increase in the discounts on the Billing Authority share. Changes to CTRS schemes are subject to statutory consultation and must be agreed and implemented by 11th March prior to start of financial year. Re-instating empty property discounts and/or removing empty property premiums would also reduce the share of council tax for all councils (preceptors and billing authorities) although the impact is more difficult to estimate as it depends on the number of empty properties at any point in time.

6. Legal implications

6.1 The Council is not under a duty to provide the subsidies and incentives that it is proposing in this report to end. The Council can therefore cease the payments in accordance with its functions.

6.2 The obligation on individuals to pay their council tax, and the obligation placed on Billing Authorities to collect to council tax remain.

6.3 The subsidies and incentives have been paid pursuant to informal arrangements between the Council and the Billing Authorities. There is no formal agreement that commits the Council to continue the payments beyond this financial year and the Council has not made any other express or implied commitment or given any assurance to the Billing Authorities that any payment would continue beyond this financial year.

6.4 The Council has consulted on the savings identified through the budget setting process and has engaged specifically with the Billing Authorities on the removal of these payments with the outcome of those consultations taken into account in preparing this report and summarised.

7. Equalities implications

7.1 No equalities implications identified as this decision does not directly impact on individuals with protected characteristics.

8. Data Protection Implications

8.1 No data protection impact identified.

9. Other corporate implications

9.1 No overlap with other functions of the Council

10. Governance

10.1 No additional delegations required other than to delegate authority to Interim Corporate Director Finance as per the recommendations in this report.

11. Conclusions

11.1 The subsidies and incentives the Council currently offers to Billing Authorities towards the costs of council tax collection are long standing but entirely discretionary, and as far as we can ascertain unique to Kent. The Council has a requirement to find £19.8m savings to replace one-off solutions used to balance the 2024-25 budget in accordance with Objective 3 (Policy choices and scope of Council's ambitions) set out in Securing Kent's Future. Removing these subsidies and incentives is consistent with the policy consideration to review all (cross) subsidies where there is no statutory requirement (duty) to provide support.

11.2 Ceasing these arrangements will not alter either the statutory obligation on individuals to pay council tax or the duty on Billing Authorities to bill and collect council tax. In ceasing these arrangements the Council is aware of the potential risk of loss of council tax income through under collection and/or increased discounts/reduced premiums. The Council believes these risks are potential and not inevitable and in the short-term can be mitigated from an established smoothing reserve to deal with fluctuations in collection levels.

Recommendation(s):

That the Cabinet Member for Finance, Corporate and Traded Services agrees to:

(a) Cease the current arrangement with the Billing Authorities pursuant to which the Council provides financial support and incentive payments towards the cost of setting up and administering local Council Tax Reduction Schemes (CTRS) with effect on and from 1st April 2025.

(b) Cease the current arrangements with the Billing Authorities pursuant to which the Council makes incentive payments to support the removal of local discretionary empty property discounts and the charging of empty property premiums with effect from 1st April 2025.

(c) Delegate authority to Interim Corporate Director Finance to formally notify the Billing Authorities that payments will cease from 2025-26 financial year and to take any actions or make any decisions deemed necessary to the Interim Corporate Director Finance to implement the decisions of the Cabinet Member for Finance, Corporate and Traded Services in (a) and (b) above.

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10. Appendices

Proposed Record of Decision

11. Contact details

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