Forward Plan reference number: FP/610/01/20

Report title: Council Tax Sharing Agreement for 2020/21	
Report to: Councillor David Finch, Leader of the Council	
Report author: Stephanie Mitchener, Director of Finance	
Date: 16th January 2020	**For:** Decision
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County Divisions affected: All Essex	

1. Purpose of Report

1.1 To ask the Cabinet Member to agree to enter into a two year Council Tax Sharing Agreement with the district/city/borough councils (referred to as districts throughout the report) and to fund the Business Rates Intelligence Hub and Single Person Discount Reviews.

1.2 To ask the Cabinet Member to endorse a policy to be adopted by the district councils to utilise their discretionary powers to eliminate the council tax liability of Essex County Council (ECC) care leavers up to the age of 21.

2. Recommendations

2.1 Agree to enter into a two year Council Tax Sharing Agreement from 2020/21, with a tapered shareback dependant on performance of the district councils as set out in option 1 in section 4 of this report.

2.2 Agree to enter into an agreement with the districts whereby ECC will encourage districts to grant a full council tax reduction to people leaving ECC care who are aged under 21 as set out in paragraphs 3.11-3.14 and reimburse the district councils for the share of the costs associated with the Essex County Council precept.

2.3 Agree to the draw down of up to £216,000 from the Transformation Reserve to fund a two year programme of Single Person Discount Reviews and to enter into an agreement with the districts for this purpose.

Agree to the draw down of up to £250,000 from the Transformation Reserve to fund a Business Rates Intelligence Hub across Essex and to enter into an agreement with the districts for this purpose.

3. Summary of issue

Council Tax Sharing Agreement - General

3.1 When Council Tax benefit was replaced with local council tax reduction schemes in 2013/14, the Council took the opportunity to work in partnership with the district councils in order to mitigate the initial impact of the 10% reduction to the grant from central government, and to drive up collection and increase the tax base.

3.2 As part of this agreement, the Council contributes to the districts to improve performance. We have invested £630,400 per annum to help increase collection rates, and £661,000 per annum to combat and identify fraud. This investment provides funding to the districts for additional staff resources.

3.3 The districts also receive an additional incentive above the baseline through a "shareback" arrangement. Currently this is set at 14% of the additional money received by ECC. This is in addition to the money that a district would normally keep which is an average of 12p for every £1 of council tax collected.

3.4 In 2019/20, the total additional income collected across Essex is £46m, with the Council receiving £32m, and £14m being received by the districts and the other major preceptors. Out of the Council's proportion, £4.5m is shared back to the districts, resulting in a net benefit to ECC of £27.5m.

3.5 The 14% shareback figure was reduced from the original 16% of additional income collected for 2019/20. ECC has been reviewing whether it would be viable to reduce this to 12% in consultation with the district finance leads.

3.6 Work has identified that the trend in council tax collection follows the national trend in performance. There is limited scope to reduce discounts across the county in order to generate more collectible council tax. Debt recovery processes were reviewed, with an average of 0.32% of council tax debt being written off annually.

Care Leavers

3.7 Many local authorities across the country have introduced measures to exempt care leavers from council tax, following publication of the Children's Society's 'Wolf at the Door' report 2015, which shows care leavers to be a group who are particularly vulnerable to falling into council tax debt when they move into independent accommodation for the first time. As responsible corporate parents, the council wishes to assist care leavers to work toward managing independent living in a positive and supportive way. The report showed that the pace of escalation of debt by local authorities could be frightening for care leavers – what can start out for many care leavers as failing slightly behind can very quickly escalate to a court summons and enforcement action being taken.

3.8 Under S13A(1)(c) of the Local Government Finance Act 1992, billing authorities have the discretionary power to reduce, or further reduce, the amount of council tax a person is liable to pay as it sees fit. This discretionary power is already utilised and funded by the Hardship Fund, to which the council will be contributing £110,000 in 2020/21.

3.9 A number of care leavers are already exempt from paying council tax by virtue of being in education or receive an existing discount by virtue of their income levels. It is proposed to encourage billing authorities to adopt such a scheme in a way that means that the resultant cost to the district would, insofar as it relates to the ECC element of the council tax, be borne by ECC. We would only bear this cost of reduction after all discounts/cost reductions and exemptions have been applied. The cost of this is estimated to be £75,000 per year, although clearly the cost will depend on many factors and it is not possible to know the exact cost.

3.10 This reduction would only apply to ECC care leavers aged under 21 who are resident in the ECC area.

Review of Single Person Discounts

3.11 In 2018, 30% of the dwellings on the valuation list in Essex received a 25% single person discount (SPD). A resident can claim SPD when they are the only adult liable to pay council tax living in a property. Whilst the data matching software, and National Fraud Initiative matching does identify cases of fraudulent claims for this discount, expansion into using credit reference agency matching is likely to yield further results.

3.12 Incorporating credit reference data into the existing data matching software would not be financially viable as the system is designed so that it would undertake a credit reference check for all entries, therefore incurring significant additional costs.

3.13 Procuring an external organisation to undertake bi-annual single person discount reviews across the county, which would include access to credit reference data would assist in the identification of further fraudulent claims. The robustness of the data that is matched would reduce the likelihood of appeals and reinstatement of the discount, meaning that revenue would be increased in the long term. ECC’s share of the cost of doing this is estimated to be £216,000 over two years. That is 86% of the cost of this work, the districts will fund the balance.

National Non Domestic Rate Collection

3.14 With respect to business rates, to date, districts have used their own resources to drive up and maximise collection, with no collaborative efforts undertaken. It is now proposed to create a Business Rates Intelligence Hub which would create a ‘virtual’ hub resulting in additional staffing within all the districts and assist in sharing best practice and intelligence. In addition to this, the hub would be looking at the valuation list in each area to identify any missing rateable property, using local knowledge and mapping tools. Additional software would be procured to identify potential fraud, particularly the claiming of Small Business Rates Relief. The cost to ECC of doing this is estimated to be £250,000 for 2020/21, which is the full cost of this work. This investment is expected to drive up business rates collection to the benefit of ECC and the districts in excess of £250,000, however it is a new innovation and monitoring will be required to assess its impact.

4. Options

Sharing Agreement:

4.1 Option 1: Recommended. Enter into a new agreement, with a contribution towards a two year programme of Single Person Discount Reviews, with a tapered shareback level of not lower than 12% but not exceeding 14%, based on income performance targets. This will result in an estimated £1.9m increase in Council tax income to ECC if targets are met, or a reduction on the shareback payment to the districts of up to £666,000 if they are not.

4.2 Option 2: Extend the current agreement at the same shareback level (14%), this would not generate any additional income or savings

4.3 Option 3: Extend the previous agreement, with a reduction to the shareback to the districts from 14% to 12%. This will release £666,000 from the agreement.

4.4 Option 4: Discontinue the arrangement. This would release budget of £6.4m. However, this would result in the districts not being able to fund fixed term roles which are paid for from the investment provided for increased collection. Some districts have also indicated that without the additional money received from the agreement (both the contributions and the shareback), it would not prove financially viable for them to continue to operate their local council tax support schemes as they currently do due to the administration costs involved. This could result in them increasing council tax discounts offered or making the council tax reduction scheme more favourable so that their schemes become less complex to administer. Whilst the districts would lose on their own tax take, for some this could be outweighed by the saving on administration costs. In the longer term a reduction in resources expended on collection would have an adverse impact on the level of council tax collected across the county, and therefore the County Council's council tax income.

Care Leavers Exemption

4.5 Option 1: Recommended. Endorse a policy to be adopted by the district councils to provide a discretionary discount to care leavers. This will enable care leavers to transition into independence over the longer term without the risk of escalating debt arising from the responsibility to pay council tax. The council has been asked by the Children's Society, the Children's Commissioner and the Essex Children in Care Council to support this exemption.

4.6 Option 2: Do nothing. Young care leaver will continue to be billed for council tax in line with the current policies.

Business Rates Intelligence Hub

4.7 Option 1: Recommended. Fund the £250,000 business rates intelligence hub, enabling the district councils to increase business rates income. This will generate additional income to all authorities; however it is difficult to quantify by how much at this stage.

4.8 Option 2: Do nothing. It is unlikely that the hub would be formed without the support from ECC, thus there would be no increases to business rate income.

5. Next steps

5.1 Prepare the legal agreement for 2020/21 Council Tax Sharing Agreement.

6. Financial implications

6.1 The draft budget for the 2020/21 Council Tax Sharing Agreement is set at £6.4m, with £1.3m comprising the fixed payments to the districts to help increase collection rates and combat identify fraud. Additional investment is required of £216,000, which will be phased over two years.

6.2 Additional investment to fund the business rates pilot of £250,000 is required.

6.3 The recommended sharing agreement option will result in either additional council tax income being received, or a saving arising from a reduction to the shareback percentage, dependant on performance by individual districts.

6.4 The original £666,000 saving to be delivered by reducing the shareback to 12% currently reflected in Finance, Property and Housing portfolio will need to be removed. The loss of this saving will more than be offset by the increase in council tax income that is estimated at £1.9m.

6.5 Included within the draft budget for the Council Tax Sharing Agreement, there is £75,000 for the estimated cost to ECC of the care leavers exemption, in the Finance, Property and Housing portfolio.

7. Legal Implications

7.1 This scheme is ECC providing funding to district councils in order to increase collection rates. ECC is allowed to do this under the Local Government Act 1972 and the Local Government Finance Act 1992.

8. Equality and Diversity implications

8.1 The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires us to have regard to the need to:
   (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful
   (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
   (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.

8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that ‘marriage and civil partnership’ is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).

8.3 The equality impact assessment indicates that the proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.

9. Appendices

9.1 Equality impact assessment

10. List of Background papers

10.1 Previous years’ sharing agreements.

I approve the above recommendations set out above for the reasons set out in the report. **Councillor David Finch, Leader of the Council**	**Date** 04/02/2020

In consultation with:

Role	**Date**
Director for Finance (Deputy S151 Officer) **Stephanie Mitchener**	29/01/2020
Director, Legal and Assurance (Monitoring Officer) **Paul Turner**	14/01/2020