

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Corporate Director Support Services

to

Cabinet

on

6th November 2012

Report prepared by: Christine Lynch, Revenues Manager

Council Tax Discounts and Exemptions

Economic and Environmental Scrutiny Committee

Executive Councillor: Councillor Nigel Holdcroft

A Part 1 Public Agenda Item

1. Purpose of Report

To apprise Members on;

- The results of the recent Government proposals and consultation on the Technical Reforms of Council Tax and the potential problems that could arise from implementing any proposed changes;
- The options and financial implications of implementing the changes, that will minimise Council tax charges for Southend residents and encourage property owners to bring homes into use more quickly.

2. Recommendations

- 2.1 That Members note the details of the Government's proposed amendments to Council Tax discounts and exemptions.
- 2.2 That Members approve the following changes to Council Tax discounts and exemptions with effect from 1 April 2013, which will be incorporated in the Council Tax Base setting report in December 2012.
 - a. The removal of the 10% second homes discount so that all second homes are liable for full Council Tax;
 - b. The granting of a 25% discount on properties undergoing structural work for up to 12 months (Class A);
 - c. The granting of a 100% discount for 3 months on dwellings which are empty and unfurnished. After this period a full charge shall apply (Class C);
 - d. The levying of the maximum allowable 150% charge on properties that have been empty for two or more years.

3. Background

- 3.1 In May 2012 the Government published the results of the consultation into the ideas discussed in the Technical Reforms of Council Tax paper launched in October 2011.
- 3.2 The main areas of interest for Southend Council are around the proposals for reducing or abolishing some discounts and exemptions. The proposals themselves are currently part of the Local Government Finance Bill, which is soon to be enacted.
- 3.3 Appendix A attached shows the current Discounts and Exemptions in use at present by the Council.

4. Second Homes

Definition: A property that is no ones sole or main residence and is furnished

- 4.1 In 2004 the Government introduced legislation that allowed LA's discretion to reduce the council tax discount on Second Homes from between 50% to 10%. Second homes are defined as dwellings that are no one's sole or main residence and furnished and may either be alternative properties, such as a persons holiday homes where they pay full Council Tax elsewhere, or Landlord's property that is let furnished but is unoccupied between tenancies. Where a billing authority reduced the second homes discount, both the billing authority and major precepting authorities benefited from an increase in their tax base used in their council tax setting decisions. The tax base used in the calculations of revenue support grant payable to those authorities in the annual Local Government Finance Report was not increased. Therefore both billing and major precepting authorities benefited financially from the billing authority's decision to reduce the discount.
- 4.2 The discount of 10% in Southend has remained at this figure to date.
- 4.3 The Government has confirmed its intention to amend secondary legislation to extend the range of discounts available to billing authorities to allow them to levy up to full council tax on second homes, thereby placing them on the same basis as normal homes for Council tax purposes. This will come into effect in time for 2013-14 billing year.
- 4.4 The value of Second Home Discounts in 2011/12 was approx £31k. There were 211 properties classified as Second Homes.

Problems likely to arise if discount is removed

- 4.5 If the discount is removed entirely there will be no incentive for Taxpayers to notify the Council if a property is a Second Home or not and it will be increasingly difficult to identify such premises and benefit from the tax base calculation. How important such identification will be going forward is not yet known and it may not be relevant in the future.

- 4.6 As a seaside resort we may want to be encouraging Second Homes within the borough as there is an argument that the occupiers of such homes generally provide less of a strain on the facilities and services within the council such as education, welfare support and benefit. Conversely we might want to discourage second homes in preference to main residence to free up housing stock.
- 4.7 As the amount of the discount is relatively small, it will need to be taken into consideration how this will affect our ability to identify Second Homes, and the cost of us not being able to do so.

5. Empty Dwellings Undergoing Major Repair (Class A Exemption)

Definition: Vacant premises, which require, are undergoing or have recently undergone major repair including structural repairs

- 5.1 The Government has confirmed its intention to abolish Class A exemptions which are currently allowed at a 100% discount for up to 12 months for properties that are undergoing major repair and unoccupied. The intention is to replace it with a discretionary discount of up to 100% for classes of property that can be defined locally for properties that would currently fall under Class A. It is not intended to replace the current arrangements for S13a reductions that allow Councils discretion to reduce the Council Tax bill in either individual or prescribed classes such as pensioners or Special Constables that have been introduced in other areas. (There are currently no prescribed classes or cases of S13a being granted by the Council.)
- 5.2 The change will not permit discretion on the length of time a Council can allow, only the percentage range. The value of Class A exemptions for 2011/12 was approx £235k.

Problems likely to arise if exemption is removed

- 5.3 There could be opposition from members of the public, landlords, property developers and purchasers wishing to renovate or improve old or dilapidated premises as depending on the percentage discount they could be liable for full Council Tax immediately. It may act as a disincentive to property regeneration and improvement and lead to more properties standing empty as developers will be more reluctant to embark on projects where they could be liable for full Council Tax.
- 5.4 There may be cases of genuine hardship being caused, for example where a resident is forced to vacate a property due to flood or fire and will still be liable for full charge.
- 5.5 There may be an increase in the numbers of appeals being taken to the Valuation Office Agency (VOA) to have a property removed from the list due to major repair. This could lead to a backlog in the VOA and increased work load while the Council has to monitor the progress of the work and make sure relevant properties are brought back into the list.

5.6 It would therefore seem prudent to either make a provision within S13a payments budget that can be granted for exceptional cases such as outlined above.

6. Vacant Dwellings (Class C Exemption)

Definition: Premises that have been unoccupied and substantially unfurnished for less than six months

6.1 Dwellings that become empty and unfurnished are currently exempt for Council Tax for up to 6 months. In line with the abolition of Class A above, the Government has confirmed its intention to abolish Class C exemption and instead empower Councils to give a discount which they may set at anything between 0% and 100%. In addition the Government has also now indicated that they will allow Council further discretion over the period of the reduction.

6.2 Councils already have a similar power with long term empty properties that are empty beyond the 6 month period in that they can allow 0%-50% reduction under S11A. In Southend a 0% reduction is allowed after 6 months. This is in line with rest of Essex authorities. The financial implications on the Council Tax Base are the same as for Second Homes in that the Council benefits from reducing the discount.

6.3 The value of Class C awarded in 2011/12 was approx £1,385k.

Problems likely to arise if exemption is removed

6.4 As with Class A removal, main opposition will be from landlords who will be unwilling to accept liability between tenancies and may lead to an increase in bogus tenancies or disputes about vacation dates.

6.5 In addition, there will be an impact on Registered Social Landlords (RSL's) and SE Homes within the borough in terms of the amount they will be required to pay to the Council during lettings.

6.6 It has already been established that the likely cost of removing entirely Class C for SE Homes is approximately £70k. As they do not have the power to increase rent, they will have to generate efficiencies to cover this extra charge. For 2011/12 they paid approx £20k.

6.7 RSL's who are registered charities will not be affected as they are entitled to Class B exemptions between tenancies and Class B is not set to change. However there are several large RSL's that are not registered charities and removal of Class C between tenancies may have a serious effect on their budget.

6.8 There are concerns that the removal of Class C could inhibit the rental market or see an increase in rents as Landlords seek to recoup their liability in other ways by passing this on to tenants.

- 6.9 If the exemption is removed entirely, even for short periods there will be additional administrative costs to the Council in raising bills and trying to recover liability raised for short periods of a few days or weeks which may not be cost effective and may end up being written off. However, as the Government has now mitigated this risk with the additional discretion over timescales, there is an opportunity for Members to consider a provision for a de minimis period of, say, up to 3 months when Council Tax would not be charged to avoid small debts that are likely to be hard to collect and therefore not cost effective.

7. Value of Discounts and Exemptions

| Exemption | Period | Value in 2011/12 |
|----------------------|-----------------|-------------------|
| 2 nd Home | Indefinite | £30,600 |
| Class A | Up to 12 months | £235,226 |
| Class C | Up to 6 months | £1,385,492 |
| | Total | £1,651,318 |

- 7.1 The value of the discounts and exemptions outlined above make this an option for the Council to consider as a way to mitigate some of the losses in government grant arising from the on-going austerity measures. However, the losses in collection and increased administration costs in trying to collect the debt must be fully considered against this, although, as yet, this figure is difficult to quantify.
- 7.2 Further work is currently being undertaken to evaluate the value of discounts for relatively short periods that would be hard to collect and how any changes will factor into the new Government funding system from April 2012, particularly if the changes are for year one only.
- 7.3 The sector view is that it may be difficult to collect for short periods billed but in many cases, such as RSL, SE Homes and majority of landlords this may not be the case, although the increased amounts payable could create financial problems for these organisations.

8. Empty Homes Premium

Definition: A levy on dwellings that have been empty for a long time (two years or more)

- 8.1 Currently properties that have been empty for more than 6 months attract a charge of 100%. The Government plans to seek primary legislation to implement a premium of up to 150% if the empty period extends beyond 2 years.
- 8.2 As this discount has not been reviewed for some time due to the fact that full charge is payable after 6 months, accurate figures will not be available until a full review is undertaken, however, it is likely to be as many as 300 properties within Southend that could be affected.

Problems likely to arise

- 8.3 It will be more difficult to identify these properties as owners are likely to claim them as occupied rather than empty.
- 8.4 It is possible that properties could be made available to let which are not fit for occupation to vulnerable tenants, who will choose to rent them regardless of condition.

9. Conclusion

- 9.1 The Government has agreed that the exemptions for Class C will now allow for periods as well as percentages, which will allow the Council to obviate administrative problems likely to arise from billing of small periods of small amounts.
- 9.2 The relaxing of prescriptive controls on empty properties would allow the Council to increase its potential income by either removing entitlement to discount or exemption entirely or by reducing current entitlement and use this mechanism as a lever to reduce number of empty homes.
- 9.3 The detailed proposals for change and the financial impact are shown in Appendix B.

10. Other Options

- 10.1 To do nothing and leave discounts and exemptions as they currently stand as outlined in body of report above. However this would mean that the Council may miss out on the opportunity for additional revenue in 2013/14.

11. Reasons for Recommendations

- 11.1 To provide additional income in 2013/14 and to help reduce the number of empty homes in the borough.

12. Corporate Implications

- 12.1 Contribution to Council's Vision & Corporate Priorities

Maintaining a robust budget and making amendments to current discounts and exemptions will assist in encouraging empty homes back into use.

- 12.2 Financial Implications

Appendix B identifies the details of the predicted revenue that could be generated from these changes. This is based on full liability and an allowance for an initial non collection factor of 5%.

If approved by Members the proposals will also form part of Council Tax base setting report to Council in December 2012.

12.3 Legal Implications

An enabling measure has been included in Clause 9 of the Local Government Finance Bill, and when enacted will amend section 11A of the Local Government Finance Act so that the Secretary of State may define a class of dwelling in respect of which an authority may determine a discount in the range 0%-100%. This will address the locally set level of discount.

12.4 People Implications

See main body of report.

12.5 Property Implications

See main body of report

12.6 Consultation

Unlike the Council Tax support scheme there is no legal requirement for public consultation on the scheme, however the Government has consulted on giving local authorities greater discretion in this area and has decided to proceed.

The content of this report has been subject to pre cabinet scrutiny where the comments received were that the Council should look to maximise revenue in the light of the proposed changes and that there was general support for:

- Second Homes discount should be removed
- Class A replaced with a charge of between 50%-100%
- Class C replaced with a discount of 100% for a period of up to 3 months.
- A charge should be levied on long term empty properties of 150%

12.7 Equalities and Diversity Implications

Any changes to the level of reductions would be included with the 2013/14 budget process and part of this an Equalities Impact Assessment undertaken.

12.8 Risk Assessment

If the Council decides to reduce the existing discounts and exemptions granted, we will need to closely monitor the financial impact of any changes implemented to ensure that the additional council tax charged is collected at the same rate as normal council tax and that there is not a disproportionate increase in other discounts claimed.

12.9 Value for Money

There are no specific implications as a result of this report

12.10 Community Safety Implications

There are no specific implications as a result of this report

12.11 Environmental Impact

Empty homes will be brought back into use and derelict property refurbished sooner.

13. Background Papers

[Technical reform for Council Tax: Summary of responses report](#)

14. Appendices

Appendix A - List of current Council Tax Discounts and Exemptions

Appendix B - Proposals for Council Tax Discounts and Exemptions