

Report to the Council

Committee: Cabinet

Date: 27 September 2005

Portfolio Holder: Councillor J Knapman

Item: 5(d)

1. COUNCIL TAX DISCOUNTS FOR SECOND HOMES

Recommending:

That the discount for Class B Properties (Second Homes) within the Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 be reduced from 50% to 10% with effect from 1 April 2006.

Introduction

- 1.1 The owners of empty properties are currently eligible to a six month exemption from Council Tax provided a property is substantially unfurnished and no-one's sole or main residence. After the six month period, a 50% charge is payable. Properties which are furnished but no-one's sole or main residence receive no period of exception and a 50% charge is levied.
- 1.2 Regulations now allow Billing Authorities to either reduce the current 50% discount to a minimum of 10% for second homes and/or to completely reduce the discount for long-term empty homes in all or part of its area. The Council Tax (Prescribed Classes of Dwellings) (England) Regulations 2003 prescribed three classes of dwellings. Classes A and B refer to second homes and Class C refers to long-term empty homes. Class A dwellings are second homes where occupation is prohibited by law for a continuous period of at least 28 days in the relevant year and Class B dwellings are second homes where occupation is not restricted.

Revenue Implications

- 1.3 The tax base determines the capacity for a Council in generating revenues from Council Tax. This calculation has to take into account the effect of Council Tax discount and the fewer discounts, the higher the tax base.
- 1.4 Where a Council reduces the second homes discount, both the Council and major precepting authority should benefit from the increase in their tax base used in their Council Tax setting decisions. The tax base used in the calculations of revenue support grant will not be increased. In essence, therefore, the Council and major precepting authorities retain the additional revenue.
- 1.5 The legislation determines that any additional revenue will be distributed in the same proportion as the current precepts. Therefore, the District Council could expect to receive only approximately 11% of any additional revenue with a vast majority going to Essex County Council.

- 1.6 Where the Billing Authority reduces or removes the discount for long-term empty homes this will also be taken into account in calculating the tax base for Council Tax setting purposes. However, because the Government will take this into account in revenue support calculations, neither the District Council nor major precepting authorities receive the same financial benefit.
- 1.7 A full Council decision is required to change the discount for second homes or long-term empty properties.
- 1.8 The issue of long-term empty houses forms part of the empty property strategy. By removing the discount the intention is to remove an incentive for owners to do nothing with their properties, although whether this will force owners to bring properties back into use is not clear. The key difference with second homes, however, is that the Council receives no additional revenue as a result of reducing the discount for long-term empty properties.

Second Homes and Long-Term Empty Properties in the Epping Forest District

- 1.9 From the information the Local Taxation Section currently holds, it is estimated that there are approximately 213 second homes within the District of which approximately 45 may be classified as Class A as being subject to planning restrictions on occupancy. Of the remaining 168 properties there are also likely to be claims for exception on the grounds of work-related issues although the actual number is not evident at the present time.
- 1.10 The Council has approximately 800 long-term empty properties.

Essex County Council and Essex Police Authority

- 1.11 There is a scheme in place between the County Council and the Essex Districts regarding the discounts for second homes. The scheme only covers second homes as there is no additional revenue generated for authorities with the removal of the discount for long-term empty houses.
- 1.12 The scheme allows for 60% of the additional County Council income raised as a result of the removal of the second homes discount to be repaid to the District Council. Income received from the County is to be spent on its concurrent functions with District Councils.
- 1.13 Currently within Essex all but three authorities, including Epping Forest District Council, reduce the discount on Class B properties, or second homes and are part of the scheme with the County Council.
- 1.14 Essex Police Authority has no power to operate a scheme in the same way as the County Council. To overcome this situation, the Police Authority has agreed to allocate any additional funds generated by the removal of the second homes discount to the Crime and Disorder Reduction Partnership in the area. The allocation is split 50/50 with half the funds going to the Divisional Commander to be used to support the Crime and Disorder Reduction Partnership and the other half going to the District Council again for Crime and Disorder Reduction Partnership purposes.
- 1.15 Consultation with other Essex authorities shows that, where the second homes discount has been removed, this has caused increased administration but collection levels have been reasonably good.

Additional Income

- 1.16 The estimated additional income that would be generated for this Council is as follows:

EFDC Precept Allocation	£11,000	For expenditure on general Council Services.
Essex County Council Precept Allocation at 60%	£44,000	For expenditure on concurrent functions between EFDC and ECC.
Essex Police Allocation at 50%	£4,000	For expenditure on CDRP purposes.
TOTAL	£59,000	

- 1.17 The above estimates relate to the total number of second homes. There may be circumstances that will affect the ability to reduce the discount on a second home that the Council is unaware of, such as a job related dwelling. This would reduce the potential income that could be raised.
- 1.18 The additional income quoted is also based on a 100% collection rate. The Council will generally collect approximately 99% of any one-year's Council Tax but there is the possibility that cases where the discount is removed may be more difficult to collect. In addition, the Council bears the full administration cost for collecting the revenue.
- 1.19 On balance, although there are some concerns over the final amount of income that would actually be generated and collected, it is felt that the discounts for second homes not subject to planning restrictions on occupancy should be reduced from 50% to 10% with effect from the financial year 2006/07.
- 1.20 Those properties subject to planning restrictions are not capable of being brought into full time use, and it is not proposed to alter the discount.
- 1.21 To reduce the discount for long-term empty houses is likely to cause a significant increase in administration costs with no additional income for the authority.
- 1.22 The Cabinet has decided, therefore, that the discount for Class A properties (those subject to planning restrictions) and Class C properties (long-term empty properties) should remain at 50%. However in relation to Class B properties (second homes) the Council is recommended to reduce the discount from 50% to 10%.