

Report to the Cabinet

Report reference: C-041-2012/13
Date of meeting: 3 December 2012



Portfolio: Finance and Technology
Subject: Technical Reforms of Council Tax
Responsible Officer: Rob Pavey (01992 564211).
Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) That for the financial year 2013/14 the amount of discount for second homes remains at 10%;**
- (2) That for the financial year 2013/14 the amount of discount for properties in need of major repair is 100% for twelve months;**
- (3) That for the financial year 2013/14 the amount of discount for properties which become vacant is 100% for six months;**
- (4) That the discounts for the properties in recommendations (1) to (3) are reviewed in 2013/14 in time for implementation in 2014/15.**

Executive Summary:

The Local Government Finance Act 2012 has been passed and contains reforms to Council Tax which provides a number of discretions for councils relating to second homes, properties in need of major repair, properties which become vacant and properties which have been empty for more than two years. The recommendations are that there are effectively no changes for these properties in terms of Council Tax levied for 2013/14 but that the position is reviewed in time for potential implementation in 2014/15.

The position and financial information set out in the rest of this report are based on the assumption that this Council does not receive any financial incentive from Essex County Council (ECC) or the other major preceptors to amend the discounts. At a meeting of the Essex Strategic Leaders Finance (ESLF) Group on 30 October, ECC suggested that they might be prepared to share some of the benefit they would receive from reduced discounts if the Essex Districts implemented the reductions. This issue will be discussed at the next meeting of ESLF on 27 November and an update will be provided to Cabinet.

If ECC and the other major preceptors are prepared to incentivise Districts to reduce discounts then the balance between cost and benefit set out below would change. It is unclear at this stage which of the discounts will be covered by any offer and what percentage of any gain the major preceptors will be prepared to share. There is a tipping point at which the benefit could outweigh the cost and the update to Cabinet will include an assessment of whether or not that point has been reached.

Reasons for Proposed Decision:

There is a great deal of risk and uncertainty around local government finance and with the implementation of local business rates retention and local council tax support the added complexity of introducing these changes for annual billing for 2013/14 would potentially jeopardise the process and on-going collection. EFDC as billing authority incurs the cost of the additional administration associated with the potential changes whereas the beneficiaries of the income are predominantly Essex County Council and the Police and Fire authorities. The benefit of any additional income to EFDC at this stage is outweighed by the increased risk to on-going collection processes.

Other Options for Action:

To vary the discount levels for the properties concerned for 2013/14.

Report:

1. The Local Government Finance Act 2012 contains three main areas to the reform of local government finance namely, the local retention of business rates, the localisation of council tax support and technical reforms of council tax. The provisions within the Act are to have effect from 1 April 2013. Members have already received reports relating to business rates and council tax support and this report focuses on the technical reforms of council tax. The main areas of the technical reforms allow for greater council discretion over some discounts and exemptions and these will be dealt with in turn. Whilst the Act has received royal assent the detailed regulations are yet to be issued. It is however necessary for the council to determine its position as regards the technical reforms in order to establish the council tax base for 2013/14, for which regulations are also awaited.

2. Second homes are classified as those dwellings that are unoccupied but remain furnished. The 2012 Act will allow councils to levy up to full council tax on second homes. The current provisions under the Local Government Finance Act 1992 allow for Councils to apply a discount between 10% and 50%. EFDC applies a discount of 10% but now has the discretion to reduce this to 0%. The 10% discount figure is important however as additional revenue raised by reducing the discount on second homes is not set off by any reduction in formula grant. The 10% discount provides an incentive for owners to identify their properties as second homes and consequently, without this, there may be no way to identify the second homes and identify the extra revenue that should be retained locally. The additional revenue that would be retained from this is relatively small affecting 248 properties and could raise a maximum of £37,000 (a more realistic figure from experience of pursuing such amounts would be around £25,000) Currently there is an agreement with Essex County Council, Fire and Police due to expire in 2014/15 that 50% of the additional revenue is retained by EFDC. It is recommended in this report that the 10% discount is retained so that an incentive remains for owners to identify their properties as second homes.

3. A major aspect of the technical reforms focus is on empty homes ie. those which are both empty and substantially unfurnished. The reforms are intended to increase the ability of councils to bring empty homes back into use. Council Tax has a range of property exemptions (see Appendix 1) and has scrapped Classes A and C. the additional revenue raised by applying a discount less than 100% is retained locally. Class A relates to properties that are undergoing or in need of major repair. Currently the owner may receive 100% exemption for up to 12 months subject to meeting the necessary criteria. The Government has given councils the discretion to issue a discount between 0% and 100% for 12 months. The number of properties affected here are 54 so numbers are relatively small and the maximum revenue raised would be £80,000, but collection levels would be from experience around 90% as there would some resistance as traditionally this has been an exempt category. Therefore it is anticipated that £72,000 could be raised of which EFDC would retain

around £7,000. There is a note of caution here in that cases that could be affected under this category would be any affected by flooding or major damage such as fire. It would seem reasonable that owners of such properties get some relief for a period of 12 months. Should there be no discount then the only other provision would be granting relief under s13a of the Local Government Finance Act 1992 on such hardship cases. However, the costs of granting such a relief under s13a would be borne wholly by EFDC and not shared with the other major precepting authorities.

4. Class C relates to properties that are vacant ie. unoccupied and substantially unfurnished. The Council currently has 541 of these properties and they currently receive a full exemption up to 6 months. After this period under the discretions under s11a of the Local Government Finance Act 1992 50% discount is received for a further 6 months before 100% becomes payable. Within the 2012 Act the Government is allowing discretion to apply a discount between 0% and 100% for between 0 to 6 months. The number of properties affected here are 541 so numbers and the maximum revenue raised would be around £400,000, but collection levels would be from experience around 50%, so £200,000 would probably be realised with EFDC retaining £20,000. There are a number of factors to consider in relation to applying a discount level in this respect. Should the discount be applied at a low level then it would result in a large number of small debits being raised which would not be cost-effective to collect and subject to write-off. In addition, a sufficient period of discount would be recommended to ensure the amount of debit is cost-effective to pursue and would allow such council tax payers such as landlords sufficient time to find new tenants. The danger with restricting any discount is that, as a landlord, EFDC would be affected by any decisions. It would be relevant that in considering the latest provisions in the 2012 Act that the existing discretions used under the 1992 Act for the period between 6 to 12 months are reviewed also.

5. An additional discretion is available for councils to implement an empty homes premium. A premium would be payable on a dwelling if it has been empty and unfurnished for at least two years. The maximum premium allowable would be 50%. An owner of such a property would be liable for 150% of the Council Tax on that property. The Government has consulted further on the premium to exclude certain categories of long-term empty property such as those that are genuinely on the market for sale or letting. It is anticipated, as with Standard Community Charge that avoidance issues would be prevalent with these cases and collection rates which are generally lower with empty property liabilities would be even lower in these cases. The administration around billing and collection with these cases also disproportionately increases.

6. The above changes which are available from 1 April 2013 come at a time when there is great risk and uncertainty around local government finance, particularly with the introduction of the local retention of business rates and localisation of council tax support. There is an increased risk around tax base setting for both Council Tax and business rates and also on meeting the annual billing process as regulations and figures from Government are awaited. The pressure on the Finance service in meeting these changes and implementing them successfully is high and consequently with all that risk and uncertainty it is proposed that changes around technical reforms of council tax are deferred for 2013/14 and are reviewed in time for implementation in 2014/15. In effect what is therefore being recommended is that the discount for second homes remains at 10%, and that classes A and C exemptions are replaced by discounts of 100% for 12 and 6 months respectively.

Resource Implications:

EFDC as billing authority incurs the cost of the additional administration associated with the potential changes whereas the beneficiaries of the income are predominantly Essex County Council and the Police and Fire authorities. The benefit of any additional income to EFDC at

this stage is outweighed by the increased risk to on-going collection processes. As a landlord EFDC would be affected by changes to discounts on empty properties.

Legal and Governance Implications:

The Local Government Finance Act 2012 abolishes Classes A and C Council Tax exemptions. The Council must apply a discount level to these properties for 2013/14. In addition there are other discretions that the Council is able to apply from 1 April 2013. The decisions need to be made in order that the council tax base can be set for 2013/14.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

None.

Background Papers:

None.

Impact Assessments:

Risk Management

There are a number of major changes affecting local government finance for the year 2013/14, of which the technical reforms of council tax are part. The introduction of the local retention of business rates and the localisation of council tax support are already increasing the risk to the tax setting and billing process for 2013/14. The additional risks associated with implementing the technical changes in 2013/14 are not justified by the small share of the additional income that EFDC would retain.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A.

Appendix 1 Current exemptions from council tax

Class Description

- A Vacant dwellings where major repair works or structural alterations are required, under way or recently completed (up to twelve months). [This exemption is subject to reform].
- B Unoccupied dwellings owned by a charity (up to 6 months)
- C A vacant dwelling (i.e. empty and substantially unfurnished) (up to six months). [This exemption is subject to reform].
- D A dwelling left unoccupied by people who are in prison.
- E An unoccupied dwelling which was previously the sole or main residence of a person who has moved into a hospital or care home.
- F Dwellings left empty by deceased persons (6 months from date of probate).
- G An unoccupied dwelling where the occupation is prohibited by law.
- H Unoccupied clergy dwellings.
- I An unoccupied dwelling which was previously the sole or main residence of a person who is the owner or tenant and who has moved to receive personal care.
- J An unoccupied dwelling which was previously the sole or main residence of a person who is the owner or tenant and who has moved in order to provide personal care to another person.
- K An unoccupied dwelling where the owner is a student who last lived in the dwelling as their main home.
- L An unoccupied dwelling which has been taken into possession by a mortgage lender.
- M A hall of residence provided predominately for the accommodation of students.
- N A dwelling which is occupied only by students, the foreign spouses of students or school and college leavers
- O Armed forces' accommodation
- P A dwelling where at least one person who would otherwise be liable has a relevant association with a Visiting Force.
- Q An unoccupied dwelling where the person who would otherwise be liable is a trustee in a bankruptcy.
- R Empty caravan pitches and boat mooring.
- S A dwelling occupied only by a person, or persons, aged under 18.
- T A dwelling which forms part of a single property which includes another dwelling and may not be let separately from that dwelling, without a breach of planning control.
- U A dwelling occupied only by a person, or persons, who is or are severely mentally impaired who would otherwise be liable to pay the council tax or only by one or more severely mentally impaired person
- V A dwelling in which at least one person who would otherwise be liable is a diplomat.
- W A dwelling which forms part of a single property, include at least one or other dwelling, and which is the sole or main residence of a dependent relative of a person who is resident in the other dwelling.