

## ***Report to the Council***

**Committee:** Cabinet                      **Date:** 18 December 2012

**Portfolio Holder:** Councillor S-A Stavrou  
(Finance and Technology)

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### **TECHNICAL REFORMS OF COUNCIL TAX**

#### **Recommending:**

**(1) That with effect from 1 April 2013 properties under Section 11A of the Local Government Finance Act 1992 and fall within Class B of the Council Tax (Prescribed Classes of Dwellings ) (England) Regulations 2003 classified as unoccupied and furnished (Second Homes) receive a discount of 5%;**

**(2) That with effect from 1 April 2013 properties in need of major repair as defined under Section 11A(4A) of the Local Government Finance Act 1992 and fall within Class D of the Council Tax (Prescribed Classes of Dwellings ) (England) Regulations 2003 receive a discount of 50% for twelve months;**

**(3) That with effect from 1 April 2013 properties which are unoccupied and substantially unfurnished as defined under section 11A(4A) of the Local Government Finance Act 1992 as defined under Class C of the Council Tax (Prescribed Classes of Dwellings ) (England) Regulations 2003 receive a discount of 100% for a period of three months after which a discount of 0% will apply; and**

**(4) That with effect from 1 April 2013 properties which are long-term empty dwellings for over two years under Section 11B of the Local Government Finance Act 1992 will be charged a Council Tax premium of 50%.**

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#### **OR IF IT IS NOT POSSIBLE TO REACH AN ACCEPTABLE AGREEMENT WITH THE MAJOR PRECEPTORS TO SHARE THE INCOME FROM THESE CHANGES –**

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**(1) That with effect from 1 April 2013 properties under Section 11A of the Local Government Finance Act 1992 and fall within Class B of the Council Tax (Prescribed Classes of Dwellings ) (England) Regulations 2003 classified as unoccupied and furnished (Second Homes) receive a discount of 10%;**

**(2) That with effect from 1 April 2013 properties in need of major repair as defined under Section 11A(4A) of the Local Government Finance Act 1992 and fall within Class D of the Council Tax (Prescribed Classes of Dwellings ) (England) Regulations 2003 receive a discount of 100% for twelve months;**

**(3) That with effect from 1 April 2013 properties which are unoccupied and substantially unfurnished as defined under section 11A(4A) of the Local Government Finance Act 1992 as defined under Class C of the Council Tax (Prescribed Classes of Dwellings ) (England) Regulations 2003 receive a discount of 100% for a period of six months after which a discount of 50% will apply for a further six months; and**

**(4) That with effect from 1 April 2013 properties which are long-term empty dwellings for over two years under Section 11B of the Local Government Finance Act 1992 will not be charged a Council Tax premium.**

## **Background**

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. A report on the localisation of council tax support appears elsewhere on the Council agenda 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. It is necessary for the Council to determine its position as regards the technical reforms in order to establish the Council Tax base for 2013/14.

## **Second Homes Discount**

2. Second homes are classified as those dwellings that are unoccupied but remain furnished. The Act allows 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%. This Council currently applies a discount of 10% but now has the discretion to reduce this to 0%.

3. The 10% discount figure is important as additional revenue raised by reducing the discount on second homes is not set off by any reduction in formula grant. Having a discount provides an incentive for owners to identify their properties as second homes and consequently, without this, there may be no way of establishing second homes and the extra revenue that should be retained locally. The additional revenue that would be retained from this is relatively small affecting 248 properties which could raise a maximum of £37,000, although a more realistic figure from experience of pursuing such amounts would be around £25,000. There is an agreement with Essex County Council, the Fire and Police Authorities, which expires at the end of this year, that 50% of the additional revenue is retained by the District Council.

4. Accordingly, we recommend that the 10% discount is reduced to 5% so that additional income will arise but an incentive remains for owners to identify their properties as second homes.

## **Empty Properties Discount**

5. A major aspect of the technical reforms 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 attached) and has scrapped Classes A and C.

6. Class A relates to properties that are undergoing or in need of major repair. Currently an 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. We have been informed that the number of properties affected is 54 which is relatively small with the maximum revenue raised £80,000, although from experience collection levels would be around 90% as there would be some resistance as traditionally this has been an exempt category. Therefore we

anticipated that £72,000 could be raised of which the District Council would retain around £7,000. We wish to add a note of caution here in that cases under this category could be any affected by flooding or major damage such as fire. We are of the opinion it would be reasonable that owners of such properties receive some relief for a period of 12 months, so it is proposed to reduce the current 100% discount to 50%. 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 the District Council and not shared with the other major precepting authorities.

7. Class C relates to properties that are vacant ie. unoccupied and substantially unfurnished. The Council currently has 541 of these properties and they receive a full exemption for up to six months. After this period under the discretions under s11a of the Local Government Finance Act 1992, 50% discount is received for a further six 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 six months. The number of properties affected is 541 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 the District Council retaining £20,000. We wish to point out that 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, the District Council would be affected by any decisions. On balance it was felt reasonable to retain a 100% discount but to reduce the time limit to three months, after which the full charge is payable.

8. 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. However, it was felt that it was important to provide an incentive to bring these properties back into use and so a premium of 50% is recommended.

### **Resource Implications**

9. 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. The District Council 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. We believe that the benefit of any additional income to the District Council at this stage would be outweighed by the increased risk to on-going collection processes if the major precepting authorities do not agree to share an adequate proportion of their income.

10. Throughout the process of implementing the various reforms to local government finance there has been good co-operation across the county and there is no reason to assume that this will not continue. However, as set out above, the implementation of the technical reforms would not be financially viable without support from the major preceptors and so the alternative set of recommendations will be adopted if it is not possible to reach an agreement. Negotiations are ongoing and an oral update will be provided to confirm their outcome and the discounts that will be applied to the Council Tax for the various classes of dwellings.

## **Recommendation**

11. We recommend as set out at the commencement of this report.

## 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.