

<b>Title of Report:</b>	<b>Technical Reforms to Council Tax</b>
<b>Report to be considered by:</b>	Council
<b>Date of Meeting:</b>	13th December 2012
<b>Forward Plan Ref:</b>	C2562

**Purpose of Report:** To establish a policy for the administration of Council Tax discounts and exemptions where changes are permitted by the Local Government Finance Act 2012.

**Recommended Action:** That the existing scheme of council tax exemptions and discounts be amended by:

- (1) Removal of discount on second homes
- (2) Applying a 50% empty homes premium on property vacant for two years or more
- (3) Reducing the amount of exemption class A1 (repairs completed) to 0%
- (4) Reducing the amount of exemption class A2 (repairs incomplete) to 0%
- (5) Limiting the duration of exemption class C (empty and unoccupied property) to a maximum of 4 weeks in any 6 month period and allowing 100% relief during that period

That the making of decisions on applications for discount under S13A of the Local Government Finance Act 2003 on individual properties be delegated to the Head of Finance. Appeals against the head of Finance's decisions will be dealt with via an Appeals Panel.

**Reason for decision to be taken:** The Local Government Finance Act 2012 introduced greater flexibility to the operation of certain council tax exemptions and discounts by allowing councils to exercise local discretion on their use, both in terms of the duration and of extent. This provides an opportunity to generate additional council tax income to offset some of the cost of Localisation of Council Tax Support which will replace Council Tax Benefit from 1st April 2013. The recommended changes will also support the Council's Empty Homes Strategy.

**Other options considered:** Are in the body of the report

**Key background documentation:** DCLG - Localising Support for Council Tax in England Consultation

The proposals contained in this report will help to achieve the following Council Strategy priority:

☒ **CSP1 – Caring for and protecting the vulnerable**

The proposals will also help achieve the following Council Strategy principle:

☒ **CSP6 - Living within our means**

#### Portfolio Member Details

<b>Name &amp; Telephone No.:</b>	Councillor Alan Law - Tel (01491) 873614
<b>E-mail Address:</b>	alaw@westberks.gov.uk
<b>Date Portfolio Member agreed report:</b>	11th November 2012

#### Contact Officer Details

<b>Name:</b>	Bill Blackett
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#### Implications

<b>Policy:</b>	The report recommends adoption of policy for the application of specific forms of Council Tax discount and exemption.
<b>Financial:</b>	The report identifies the potential to generate additional income from the existing tax base. These changes could generate in excess of £950k of additional Council Tax income. However this is dependant upon relevant secondary legislation under the provisions of the Local Government Finance Act 2012.
<b>Personnel:</b>	None
<b>Legal/Procurement:</b>	None
<b>Property:</b>	Where the Council owns vacant domestic property it will be subject to the same level of Council Tax charge as the rest of the community and the recommended policy may result in additional Council Tax charges.
<b>Risk Management:</b>	<p>The recommendations are based upon assumptions having regard to the Council Tax discounts and exemptions which were in place during 2010/11 and 2011/12. The state of the property market does introduce an element of risk that the assumptions will be either insufficient or excessive.</p> <p>The recommendations are based on the broad details of permitted changes following the Royal Assent to the Local Government Finance Act 2012 and are brought to Council now in order to inform the budget and tax setting process. The precise details of the legislation will be given in secondary legislation by the Secretary of State and there is a risk of change or delay in implementation.</p>
<b>Equalities Impact Assessment:</b>	All residents would be affected equally by this decision and individual circumstances will be taken into account. Decisions primarily relate to empty properties.

<b>Is this item subject to call-in?</b>	Yes: <input type="checkbox"/>	No: <input checked="" type="checkbox"/>
<p>If not subject to call-in please put a cross in the appropriate box:</p> <p>The item is due to be referred to Council for final approval <input checked="" type="checkbox"/></p> <p>Delays in implementation could have serious financial implications for the Council <input type="checkbox"/></p> <p>Delays in implementation could compromise the Council's position <input type="checkbox"/></p> <p>Considered or reviewed by Overview and Scrutiny Management Commission or associated Task Groups within preceding six months <input type="checkbox"/></p> <p>Item is Urgent Key Decision <input type="checkbox"/></p> <p>Report is to note only <input type="checkbox"/></p>		

# Executive Summary

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## 1. Introduction

- 1.1 This report details changes to council tax exemptions and discounts under the provisions of the Local Government Finance Act 2012. There will be an increase in the Council's council tax base if the recommended policy is adopted. Because of the time constraints of our own decision making process the report is being presented in anticipation of secondary legislation making no significant change to current understanding of the powers given to billing authorities.
- 1.2 The changes allow councils greater flexibility in charging by removing the statutory maximum periods which apply to certain classes of exemption or discount and, in the case of repossessed property, removing the exemption entirely. The changes also allow flexibility in the amount of discount which may be allowed.
- 1.3 The recommendations are for the adoption of a policy in respect of these classes of discount and exemption. The detailed legislation will be contained in Statutory Instruments following the Local Government Finance Act 2012 and the recommendation assumes that no significant change to current understanding will arise from the issue of these by the Secretary of State. The intention of the recommended action is to increase council tax revenue in order to offset the impact of reduced grant when Localised Council Tax Support replaces Council Tax Benefit from 1st April 2013.
- 1.4 The recommendations, particularly those relating to long term empty property and to second homes, will also support the Council's own Empty Homes Strategy.

## 2. Proposals

- 2.1 That the Council takes advantage of changes to Government reforms to the Local Government Finance Bill. This could yield the Council over £950k of additional income. This report proposes to take advantage of the maximum income allowed, except for providing four weeks of 100% Council Tax relief on empty and unoccupied properties.

## 3. Equalities Impact Assessment Outcomes

- 3.1 The recommendations relate to discounts and exemptions which are applied to properties which are either unoccupied or are second homes. They apply equally across those members of the community liable for Council Tax in respect of such properties.
- 3.2 There are other forms of discretionary discount which the Council may use in the event of special circumstances being presented.

## 4. Conclusion

- 4.1 The reforms from Central Government to Council Tax exemptions and discounts will allow the Council to obtain significant additional Council Tax income. The policy recommendation provides a means to address the financial pressures arising from the reduced grant when council tax benefit is replaced by council tax support from 1st April 2013. This will help the Council to reduce the impact on individual

claimants. The policy recommendations also support the Council's empty homes strategy by providing minimal council tax relief for those who chose to leave homes unoccupied.

# Executive Report

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## 1. Introduction

- 1.1 In October 2011 the Government consulted on proposals to make technical changes to Council Tax. Following that consultation the proposals have been included in the Local Government Finance Act 2012. It is the Government's intention that these changes will have effect from 1st April 2013, but the bill does provide for the Secretary of State to delay the commencement of provisions. There are currently no indications of an intention to delay.
- 1.2 The purpose of this report is to inform members of the changes included in the Act. It makes recommendations for a policy to be adopted in respect of these exemptions and discounts in anticipation of there being no significant change to current understanding once the necessary secondary legislation is introduced by the Secretary of State.
- 1.3 The Act makes provision to replace Council Tax benefit (CTB) with locally defined support to be known as Council Tax Support (CTS) and which will be in the form of a discount rather than a welfare benefit. These provisions are addressed in a separate report which this report is intended to support. The CTS provisions are not covered in detail here but the following paragraphs explain the context.
- 1.4 A significant part of the proposed benefit changes will be a reduction in Government grant following the replacement of CTB with CTS from 1st April 2013. The Government's stated intention is to reduce the overall cost nationally of this form of benefit by 14%. Protection is to be provided for claimants who are of pension age so that they will be no worse off under the new scheme. There is also a requirement to consider protection for vulnerable groups (although these have not been defined for us). Because of these protections the impact of, what will be a 14% cut in funding for West Berkshire, will be felt by those of working age who are either on a low income or not working. In reality this will lead to a reduction in "benefit" for those groups which is in the region of over 25% unless other funding can be made available from the Council's existing resources or newly generated income.
- 1.5 The intention of the policy recommendations in this report is to generate additional Council Tax income in order to replace the lost subsidy funding and, thereby, reduce the financial impact on individual benefit claimants. The additional Council Tax income to be generated by approval of the recommendations is estimated to be £950k.

## 2. The Bill provisions

- 2.1 There are a range of exemptions and discounts where individuals can pay a lesser amount on homes where they are held liable for the payment of Council Tax. The way in which these discounts and exemptions are applied is currently prescribed by legislation, although there have been some permitted local discretions. The prescription defines both the period over which a reduction may be allowed and the amount of that reduction.
- 2.2 The Local Government Finance Act provisions relate to five particular forms of relief:

- (1) Class A exemptions apply to property which requires or is undergoing major repair or structural alteration. The exemptions are split between those where repairs are complete (A1) and those where repairs are incomplete (A2). The maximum duration for Class A1 is 6 months whereas the maximum for Class A2 is twelve months. It is possible for these exemptions to run consecutively to give an overall maximum duration of 18 months.
- (2) Class C exemptions apply to new properties and to properties which become vacant. This form of exemption applies for a maximum period of 6 months and provides for full relief. After which charges may apply in accordance with locally exercised discretion. In West Berkshire's case this discretion has been exercised and full Council Tax charges are applied once the initial period of 6 months has run its course. Within this class are those properties which are normally considered to be long term empty, having no residents for periods which may extend to a number of years and where there seems to be no intention to change that position.
- (3) Class L exemptions apply where an unoccupied property is held by a mortgagee who has taken possession. There is no maximum period of exemption – it will apply until either possession is relinquished or the property is sold.
- (4) Second homes are currently allowed 10% discount. This is the minimum amount of discount which Regulations tell us must be allowed.

2.3 For property falling into either of exemption classes A and C the Act allows Councils local discretion in deciding both the period and amount of relief which may be allowed. This includes a decision not to allow relief or to allow it for a different period to that previously prescribed by statute. This is a discretionary power and the recommendation to this report is for exercise of this discretion.

2.4 For property falling within exemption Class L the Act allows removal of the exemption rendering all such property liable to full Council Tax charges. The Act removes this as a permitted exemption and there is no discretion to be exercised.

2.5 For longer term empty property the Act allows councils to apply a discretionary 50% surcharge (taking the charge to 150% of the normal Council Tax charge) once a property has been empty for a period in excess of 2 years. The Government are currently consulting on clarification to this proposal whereby relief would continue to be allowed where a dwelling is:

- (1) Genuinely for sale or letting on the market; or
- (2) The sole or main residence a member of the armed forces, who is absent from the property as a result of such service.

This is a discretionary power and the recommendation to this report is for exercise of this discretion.

2.6 For second homes the Act removes the minimum discount of 10% leaving councils free to exercise local discretion in allowing discounts between 0% and 100%. This

too is a discretionary power and the recommendation to this report is for exercise of this discretion.

- 2.7 All of the changes from paragraphs 2.2 to 2.6 remain subject to the possibility of change or delay by the Secretary of State.

### 3. Current discounts and exemptions in West Berkshire

- 3.1 The table below gives details of the number of these discounts and exemptions applied to accounts during 2011/2012:

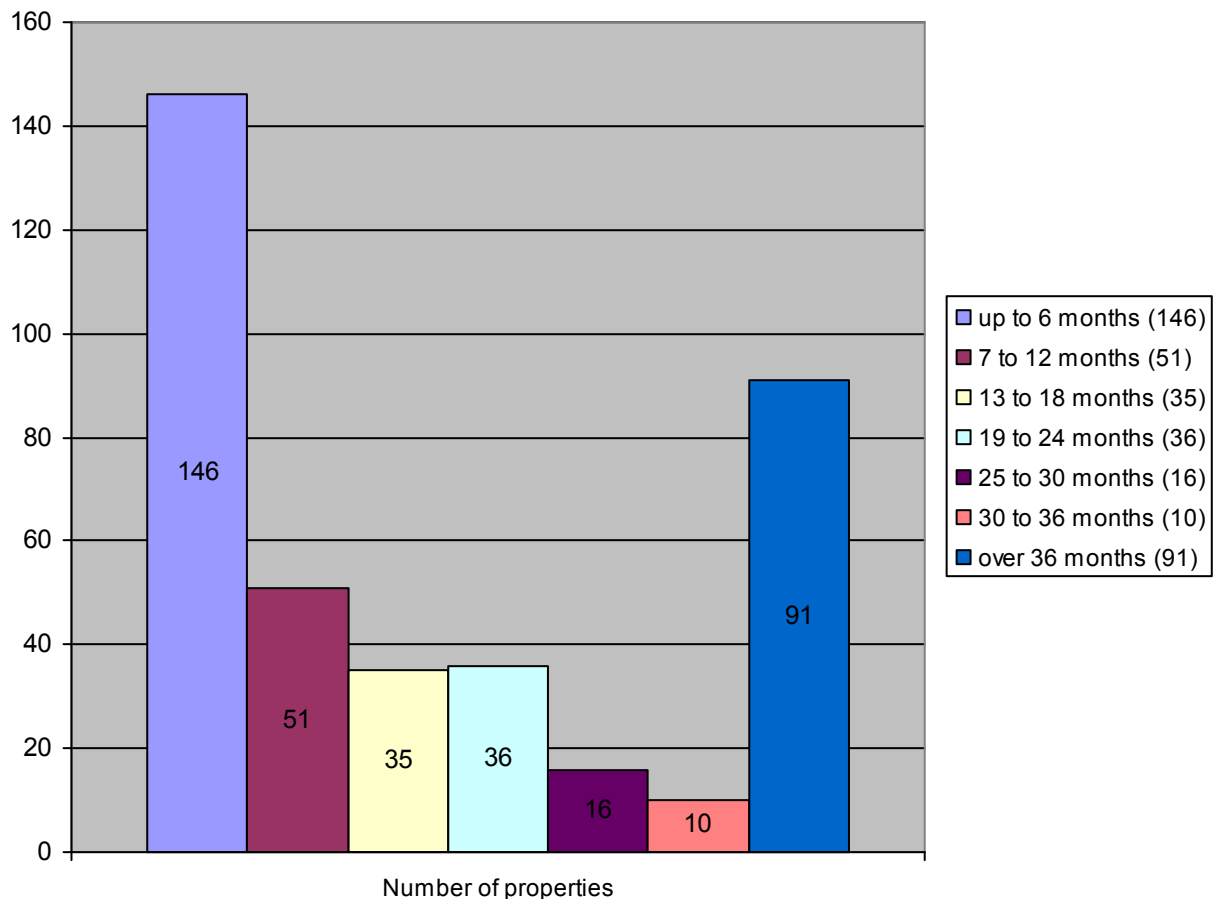
	Class A1 Repairs complete	Class A2 Repairs incomplete	Class C Empty & unfurnished	Class L Mortgagee in possession	Second homes
Number of properties	1	136	646	19	501
Total number of exempt weeks	2	3,193	5,775	271	
Average number of exempt weeks	2	23	9	14	
Council Tax lost through exemption	£1,699.62	£196,383.80	£877,210.66	£23,094.14	£85,881.35

The following table illustrates the duration (in months) for exemptions granted in 2011/12:

Duration (months)	Class A1 Repairs complete	Class A2 Repairs incomplete	Class C Empty & unfurnished
Less than 1	1	9	194
1		12	157
2		14	86
3		14	73
4		17	75
5		11	29
6		10	32
7		9	
8		9	
9		12	
10		1	
11		4	
12		3	
13		11	

- 3.2 The following table illustrates the duration of empty periods in Class C. Any period in excess of 6 months is considered to be long term empty and is subject to a full Council Tax charge. There are 117 properties with a duration in excess of two years and which may be subject to a premium charge once the legislation is in place and depending upon member's wish or otherwise to levy a premium charge.





3.3

3.4 At the time of annual billing for 2012/2013 there were 122 properties in this category with a total Council Tax liability of £179,181.77.

3.5 Analysis of Class C exemptions over the two years 2010/11 and 2011/12 shows that 22% have a duration of less than two weeks.

#### 4. Other relevant forms of discount and exemption

4.1 During discussion during the preparation of this report Members have been concerned about the potential impact on those cases where a property remains empty because the former occupier is in hospital or has died, such circumstances fall within other classes of exemption which are unchanged and are listed below.

Class D	Liabie person is in prison
Class E	Liabie person is in hospital
Class F1	Liabie person deceased awaiting probate
Class F2	Liabie person deceased probate granted 6 months
Class G	Occupation prohibited – unlimited
Class H	Unoccupied religious property - unlimited
Class I	Liabie person in care – unlimited - unlimited
Class J	Liabie person away – carer - unlimited
Class K	Empty student property - unlimited

Class Q	Liabe person is bankrupt - unlimited
Class R	Empty caravan pitch – moorings - unlimited
Class T	Unoccupied granny annexe – unlimited*
	* the rules to Granny Annexes are also changing but fall outside the purposes of this report

4.2 Armed Forces Personnel on active service will not be affected by these changes and retain their current exemptions.

4.3 In addition to the above the Council has the power (under section 13A of the Local Government Act 2003) to reduce the liability of a Council Taxpayer to such extent as it thinks fit. This includes the power to reduce an amount to nil and may be exercised in relation to a particular case or by determining a class of case in which liability is to be reduced to an extent provided for in the determination. The cost of such discount is borne by the Council and is not passed on to precepting authorities. This form of discount was used following the 2007 floods where the scale of the flooding rendered it impossible for all those affected to have repairs completed before the expire of exemptions granted under class A.

## 5. Reasons for change

5.1 The changes in respect of Council Tax Benefit when it is replaced by Localised Council Tax Support from 1st April 2013 will see a 14% reduction Government grant (in the region of £1.13m). The Council is required to establish its own scheme for Council Tax Support whilst complying with specific requirements relation to protection for claimants of pension age and those who are identified as vulnerable. The reality of this that claimants of working age, if they bear the burden of reduced grant through reduced benefits, will see a reduction of over approximately 25%, A number of claimants who are currently not making Council Tax payments will find themselves having to make payments. There is little doubt that this will have an impact on Council Tax collection performance. When making a decision on the form of its own local scheme the Council will need to consider how much the reduced grant will impact on claimants and how much can be met from other sources amongst which may be reduced budgets for services, the use of balances or the generation of additional income. The changes covered by this report do present an opportunity to generate additional income from the existing Council Taxbase.

5.2 Through its Empty Homes Strategy the Council have been actively seeking to bring long term empty homes back into occupation. Most of these properties have been subject to review by colleagues working on that strategy and their comment on the matter is:

“Properties are remaining empty long term for a number of reasons. These include slow refurbishment, reluctance to let or sell and owners wishing to hold onto the property as an investment. The owners often live elsewhere and are unaware of the impact their empty property is having on the neighbours and local community. In general a lot of owners are very reluctant to communicate or work with us to bring the homes back into residential use.

Where possible we do negotiate with owners and we offer financial assistance by the way of flexible loans to assist an owner to bring the property back into use. On completion of works the owner can rent privately, sell, live in the property

themselves or place a tenant in the property from the WBC Common Housing Register. The loan is repayable within 5 years.

In addition to this WBC is part of a consortium of LA's that have recently submitted a bid for Empty Homes funding to the Homes and Communities Agency to fund a Private Sector Leasing Scheme. If the bid is successful, a nominated Housing Association will manage identified empty properties at an Affordable Rent (defined as 80% of open market rent) for a defined period. The Housing Association will be responsible for all repairs and maintenance for the duration of the lease and at the end of the lease the property will be returned to the owner.

Empty Homes grant funding is no longer available due a lack of funding.

If the Council charged an 'Empty Homes Premium' on dwellings which have been empty for 2 years or more it is likely it will provide an incentive for owners of empty properties to bring their properties back into use quickly and make a dent into the number of long term empty properties.”

- 5.3 The removal of Council Tax reductions and imposition of a premium charge on long term empty property will support the Empty Homes Strategy.

## **6. Recommendations**

- 6.1 It is necessary to establish a policy in relation to exemption Class A and Class C and in relation to long term empty property surcharges and second homes even if that policy is to leave things as they stand at present.
- 6.2 The changes to Class L exemption do not require a policy as legislation will remove it from the list of available exemptions.
- 6.3 The changes to discounts and exemptions do allow the opportunity to generate additional income from the taxbase whilst supporting the council's own empty homes strategy. Additional Council Tax income will be beneficial having regard to the financial constraints with which the Council is faced and may be a tool to bridge the gap in funding available for localised Council Tax support (the replacement for Council Tax benefit and subject to a separate report) The amount of the additional income will very much depend upon the extent to which elected members wish to impose additional charges and their assessment of reasonableness.

6.4 In summary the potential for additional income is as follows:

	Area of additional income	Potential additional income	Additional income in line with recommendations
1	Removal of the 10% discount on second homes	£85,881	£85,881
2	Removal of full exemption for repossessed property	£23,094	£23,094
3	Empty homes premium – removal of six month free period	£85,590	£85,590
4	Exemption A1 repairs completed – removal of six month free period	£1,699	£1,699
5	Exemption A2 repairs incomplete – removal of twelve month free period	£196,383	£196,383
6	Exemption C empty and unoccupied Option 1 remove 26 week free period	£877,210	£877,210
7	Exemption C empty and unoccupied Option 2. Replace 26 week free period with a 2 week free period	£877,210	£702,000
8	Exemption C empty and unoccupied Option 3. Replace 26 week free period with a 4 week free period	£877,210	£565,000
<b>Totals</b>			
	Using (6) from above		£1,269,857
	Using (7) from above		£1,094,647
	Using (8) from above		£957,647

6.5 There are a number of permutations of policies which may be applied in relation to the various classes of discount but, in compiling recommendations a member/officer task has assumed that Council would wish to generate the maximum amount of additional income for the reasons given in the Reasons for Change shown at Section 5 (above). This forms the basis of the preferred option. The options include:

- (1) Make no change leaving exemption classes A and C as they exist at present, allowing a 10% discount for empty homes and making no premium charge for long term empty property;
- (2) Make changes to some of the categories leaving others unchanged. Those changes may be in respect of duration or the amount of relief allowed;

- (3) Make changes to the fullest extent possible apart from allowing either a two or four week's exemption under Class C. This is the basis of the recommendation on which members are asked to make a decision.

## **7. Recommendation**

7.1 The preferred recommendation is to take full advantage of the possible changes by:

- (1) Removal of discount on second homes
- (2) Applying a 50% empty homes premium on property vacant for two years or more
- (3) Reducing the amount of exemption class A1 (repairs completed) to 0%
- (4) Reducing the amount of exemption class A2 (repairs incomplete) to 0%
- (5) Limiting the duration of exemption class C (empty and unoccupied property) to a maximum of 4 weeks in any 6 month period and allowing 100% relief during that period

7.2 By allowing a 4 week exemption period for class C we can provide some relief for that short duration unoccupied periods which occur on the sale or change of tenancy of a property. This will provide some relief for:

- (1) A landlord who is unaware that a tenant has vacated prior to the end of their tenancy
- (2) A tenant who moves to a new property a few days prior to the end of the tenancy at their previous address.

7.3 Within this preferred option it is recognised that there may be some circumstances where the empty period matter outside the control of the liable person therefore unavoidable, for example:

- (1) Local difficulty such as the 2007 floods.
- (2) Some legal matter preventing sale (a recent example being a former council house sold without the necessary access over land in front of the house).
- (3) Classes of property where there is a restriction on the type of occupant such as occurs in some retirement apartments – the reduced market making sale more difficult.

7.4 In each of the above cases it is considered that the existing discounts under section 13A of the Local Government Act 2003 are available to provide a remedy where one is needed. The recommendations to this report include a recommendation that decision making on applications under this section be delegated to the Head of Finance where it relates to a single property with appeal rights to the Executive by the Individual Decision procedure.

## **Appendices**

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### Appendix A – Equality Impact Assessment – Stage 1

#### **Consultees**

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<b>Local Stakeholders:</b>	There is no requirement to consult
<b>Officers Consulted:</b>	Corporate Board, Maureen Sheridan (Strategy Support Officer - Housing), Joseph Holmes (Chief Accountant), Corporate Board
<b>Trade Union:</b>	Not consulted

# APPENDIX A

## Equality Impact Assessment – Stage One

<b>Name of item being assessed:</b>	Technical reforms to council tax - changes to council tax charges on vacant property
<b>Version and release date of item (if applicable):</b>	
<b>Owner of item being assessed:</b>	Bill Blackett
<b>Name of assessor:</b>	Bill Blackett
<b>Date of assessment:</b>	12 November 2012

<b>1. What are the main aims of the item?</b>
To vary the extent of council tax reductions allowed in order providing funding to reduce the impact of lost grant for those who receive council tax support. In support of the Council's empty homes strategy to encourage the return of empty homes to occupation with a consequent reduction in homelessness

<b>2. Note which groups may be affected by the item, consider how they may be affected and what sources of information have been used to determine this.</b> (Please demonstrate consideration of all strands – age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion or belief; sex; sexual orientation)		
<b>Group Affected</b>	<b>What might be the effect?</b>	<b>Information to support this.</b>
Landlords	Additional council tax charges	Removal of exemptions and discounts
Other property owners	Additional council tax charges	Removal of exemptions and discounts
Further comments relating to the item:		
The aim of the recommendations in this report is to address two social issues: The impact of lost government grant on those who need financial support in order to meet their council tax liability ; and  Homelessness in the district whilst many homes remain unoccupied		

<b>3. Result</b> (please tick by clicking on relevant box)
<input type="checkbox"/> <b>High Relevance</b> - This needs to undergo a Stage 2 Equality Impact Assessment
<input type="checkbox"/> <b>Medium Relevance</b> - This needs to undergo a Stage 2 Equality Impact Assessment
<input type="checkbox"/> <b>Low Relevance</b> - This needs to undergo a Stage 2 Equality Impact Assessment
<input checked="" type="checkbox"/> <b>No Relevance</b> - This <b>does not</b> need to undergo a Stage 2 Equality Impact Assessment

**For items requiring a Stage 2 equality impact assessment, begin the planning of this now, referring to the equality impact assessment guidance and Stage 2 template.**

<b>4. Identify next steps as appropriate:</b>	
Stage Two required	
Owner of Stage Two assessment:	
Timescale for Stage Two assessment:	
Stage Two not required:	

**Name:** Bill Blackett

**Date:** 12 November 2012