

Report of the Cabinet Member for Corporate Services

Technical Reforms to Council Tax

Summary

1. The purpose of this paper is to provide Cabinet with details of the Governments Technical Reforms to Council Tax. The report also sets out the recommended changes to council tax exemptions for Cabinet approval in the light of the new powers.

2. Changes to council tax exemptions as set out in this paper should:
 - have a positive impact in reducing the number of empty properties in the city;
 - bring short term empty properties back into use more quickly;
 - incentivise developers to bring development properties back to the market more quickly;
 - create substantial savings in the annual council tax billing process.

Background

3. The Governments aims of their technical changes are based upon the localisation agenda and keeping the overall level of Council Tax down. The context is:
 - necessarily tight local Government finance settlements for the next few years;
 - proposals to return some control of business rates to local authorities; and
 - proposals to replace council tax benefit with local support for council tax.

4. The changes were also seen by the Government as an opportunity to address some of the technical issues that have arisen in recent years, to explore modernising the system in certain minor respects and to consider whether some aspects of the system should be changed. None of these changes will affect students who will remain exempt from council tax. The changes in summary are:
 - (a) giving billing authorities power to levy up to full council tax on second homes;
 - (b) replacing exemption Classes A and C with discounts, the amount of which would be for billing authorities to determine;
 - (c) abolishing Class L exemptions, and making mortgagees in possession of empty dwellings liable to council tax in respect of them;
 - (d) allowing billing authorities to levy an 'empty homes premium' in respect of dwellings which have been left empty for two years or more;
 - (e) setting a default assumption that payment of council tax by instalments will be over twelve months rather than (as is currently the case) ten;
 - (f) allowing authorities to publish online the 'Information to be supplied with demand notices', but with a duty to supply it in hardcopy to any council tax payer requesting it – as an efficiency measure, and to encourage the take-up of electronic billing;
 - (g) changes to eliminate potential tax complications from arrangements involving third party suppliers where solar panels are placed on the roofs of dwellings without coming into the paramount control of the residents.
5. This paper looks at each of the issues in turn in light of the Government's response to consultation document issued by DCLG at the end of May 2012. It also sets out the financial benefits, recommendations and any potential risks.

Providing the power to levy full council tax on second homes

6. The council already has the power to provide a discount of between 10% and 50% on second homes and has for a number of years only provided in most cases a 10% discount. The opportunity to remove the remaining 10% discount would provide an additional £102K of liability based upon the value of accounts raised in 11/12. There are a further 5 homes that benefit from a 50% discount as the occupant necessarily occupies it and another home as part of their job. Two of these are in respect of military personnel, two in respect of clergy and the final property is a schoolmaster of a boarding school. Increasing these to 100% would provide further additional liability of £7,800.
7. The Government's response to the consultation has confirmed its intention to amend secondary legislation to allow billing authorities to levy up to the full council tax on second homes.
8. It is recommended that the council takes advantage of this power and seeks to levy full council tax on all second homes other than those that are occupied as part of their job (5 properties). The key risks are that the council will no longer be able to identify second homes. It is likely that collection rates will be high for this additional levy and that the value of additional bills will be between an estimated £75K – £105K in 13/14

Empty Homes Premium

9. The Government sought views on whether the billing authorities should be given the option to levy an 'empty homes premium' on the council tax payable in respect of dwellings that have been left empty for two years or more.
10. The Government's response to consultation is to seek the necessary primary legislation to implement the empty homes premium, and this has been included in Clause 10 of the Local Government Finance Bill. The premium will not become payable until a dwelling has been empty and unfurnished for at least two years and the maximum premium which an authority will be able to adopt will be 50%.
11. There has been a reduction in recent years in the number of empty properties in the city and this change if implemented will further incentivise bring homes back into use. There are currently just 154 properties in this category. The additional

liability that could be levied by applying the full 50% would be approx £64K. The key risks are that customers may claim their properties are occupied once this premium is applied. If basic furnishing were moved in to the property they could become classed as second homes and avoid the additional premium altogether. The clock will start again if any property is occupied for over six weeks. The actual amount of additional liability that will be collected in year is likely to be very low. It is however recommended that the council adopt the maximum levy of 50%.

Class A Exemptions

12. The Class A exemption provides for a maximum 1 year grace period to bring properties requiring structural alteration or major repairs back into use. The Government have acknowledged in their response to consultation that it is reasonable that council tax payers should receive some relief.
13. The Government's response to the consultation is to confirm its intention to abolish Class A exemptions, and instead empower billing authorities to provide a discount which they may set at 100% or any lower percentage which seems reasonable to them having regard to local circumstances, in respect of dwellings which currently fall within Class A exemption. The Government has further decided that the length of discount should not be a matter for local discretion but should remain at 1 year.
14. Reducing the discount may act as a positive incentive to bring properties back into use more quickly. There were 251 accounts raised in respect of this exemption in 2011/12. It is recommended that the discount should be limited to 50% and based on the 2011/12 figures would provide additional liability in the region of £67K. There is no experience of collecting this new liability and the value of bills from 2013 onward will depend on whether this change deters developers from modernising properties.

Class C Exemptions

15. This exemption applies to properties that are vacant and unfurnished for example between lets and following a move when the initial property has not sold. The Government's proposal here is the same as Class A in allowing councils' to

charge up to 100% of council tax and retain the additional income.

16. The Government's response to the consultation is to confirm its intention to abolish Class C exemptions, and instead empower billing authorities to provide a discount which they may set at 100% or any lower percentage which seems reasonable to them having regard to local circumstances, in respect of dwellings which currently fall within Class C.
17. There were 7,720 accounts raised in respect of this exemption in 2011/12. As with Class A exemptions it might be unfair to completely remove the discount especially given the number of accounts and customers affected. It is proposed however that the discount is reduced from 100% to 50% which based on the 2011/12 figures would provide an additional liability of £537K.
18. This change may again incentivise landlords in particular to bring properties back into use more quickly. There are some risks associated with this exemption. One highlighted in the Government's response document relates to landlords. Landlords feel that this is unfair and they would instantly become liable for council tax when a tenancy ended, and that it would inhibit the rental market. Housing believes that the rental market in York is buoyant and that the charge may increase turnover of stock. The council would also be liable for council tax on any of its own properties that remain empty between tenancies the estimates based on 11/12 put this in the region of £40K. Landlords who are Registered Social Landlords (RSL's) and have charitable status can apply for an alternative exemption to escape the additional charge.
19. The accounts raised under this exemption are short term with an average of 44 days in 2011/12. It is expected due to their short term nature and low value that in year collection rates will be below the current levels and possibly substantially lower in respect of this additional levy. A quicker turnover of properties driven by this change will also reduce the overall liability. It is recommended that the discount should be reduced from 100% to 50%.

Class L Exemptions

20. This exemption applies to properties that have been repossessed. The Government's proposition is a change in the hierarchy of liability so that the mortgagee becomes

liable rather than the owner who is currently not required to pay. The Government suggests that the Class L exemption then would no longer be required.

21. The Government have accepted that this is a complex issue and their response to consultation is to continue to develop the proposals as set out in the consultation. Along with a commitment that the measure will not be commenced without detailed discussions with the mortgage lenders about these issues, leading to a satisfactory and workable administrative arrangements.
22. There were 47 accounts issued in respect of this exemption in 2011/12 with a liability of £18.5K. None of this liability will be recoverable until the Government have finalised there proposals.

Consequential issues for Empty Homes

23. This has no impact for City of York Council as all empty homes that have been empty for up to two years are already charged at 100% liability.

Definition of relevant person

24. This is a technical change to close a loophole that allows the liable party to escape liability for non-domestic rates when they retain an element of a property that is being commercially let. The amendment should therefore be supported. This relates to holiday homes escaping liability for business rates, but at the moment we may be benefiting because these properties pay council tax. However, we are not aware that there are any such cases in York
25. The Government's response to the consultation is therefore to go ahead with the amendment.

Payment by instalments

26. The Government is proposing that council tax payers should be allowed to pay their bills in 12 monthly instalments instead of the current 10. This is on the basis that this is common practice with utility bills and that councils often allow this when customers are required to make a payment arrangement.
27. The Government has carefully considered this issue and the response from local authorities. Taking these views into account it is of the view that the default should remain at 10

months. The impact of all customers migrating to 12 monthly instalments could increase the councils borrowing costs by as much as £300K per annum. The council however must inform the council tax payer that they have a legal right to pay by 12 instalments.

Information to be supplied with demand notices

28. The Government proposed that billing authorities should be able to discharge their duty to provide the information that must currently be supplied with demand notices by publishing it on line (with the exception of information relating to penalty charges), and subject to the right of any resident to request a hard copy. This has been approved and forms part of the Local Government Finance Bill. It has not been possible to talk to all local authorities about their approach to this opportunity but our largest neighbour East Riding Council will be moving to the electronic approach for annual billing in 13/14.
29. The savings associated with this change would be in the region of £46K - £50K. The roll out of e-billing during 2012/13 will also add further savings through lower annual postage charges. It is recommended that the council adopt this change.

'Rent a Roof' solar installations

30. In simple terms the Government is proposing that where these are fitted to domestic properties by a third party for profit they are classed as part of the property. This will not increase the value of the property (For Council Tax purposes) but will avoid a complex case by case review by the valuation office for non-domestic rates.
31. The Government have adopted this proposal with a cap at 10kW. There are no risks or issue for the council in relation to this decision.

Annexes to dwellings

32. Currently, occupied "granny annexes" are banded separately to the main residence and receive full exemption when occupied. When the granny annex becomes vacant then it is no longer deemed to be a granny annex and would be treated as a normal self contained property. This is a little complex but what is being suggested in simple terms is where an owner of a property has a 'granny annex' that is

self contained but is no longer occupied and has effectively been returned to the main residence as a joint home they should not have to continue to pay council tax for this separately. The Government have decided due to the complexities to undertake a broader review of the issue.

33. This is not material in terms of liability however policing occupation of this type of annex would be difficult.

Options

34. The options associated with this paper are:

Option 1 – To agree the recommendations at Paragraphs 6 – 33 and approve them on the basis that the Finance Bill is enacted;

Option 2 – To not agree the recommendations and leave exemptions as they currently are

Option 3 – To approve different levels of exemption to those recommended.

Council Plan

35. The implication of the changes contained within the Governments consultation document will impact on several of the council's priorities that create the corporate strategy. This specifically includes:
- a) Protecting vulnerable people
 - b) Building strong communities
 - c) Creating jobs and growing the economy

Implications

- (a) **Financial** – There is an opportunity to increase the council tax liability base and therefore council tax income.
- (b) **Human Resources (HR)** - There are no implications
- (c) **Equalities** – There are no implications

- (d) **Legal** - There are no implications
- (e) **Crime and Disorder** - There are no implications
- (f) **Information Technology (IT)** - There are no implications
- (g) **Property** - There are no implications

Risk Management

36. The key risks in relation to this paper are that the value of additional council tax collected will be less than predicted. Landlords may increase rents to offset the reduction in class C exemptions. The risks of this are not perceived as being high (In consultation with Housing) although the impact of any change will be monitored. There is a risk of reputational damage as a result of increasing taxation.

Recommendations

37. Cabinet are asked to:

- a. Consider and comment on the issues raised in this decision paper;

Reason: To gain an understanding of the implications of the Government's Technical Changes to Council Tax

- b. Approve the recommendations set out at Paragraph 6 - 33;

Reason: To increase the amount of council tax liability in 2013/14

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	Report Approved	√	Date 25 October 2012
Wards Affected: <i>All</i>			
For further information please contact the authors of the report			

Background Papers

Technical reforms to council tax DCLG
Technical reforms to council tax – Response DCLG

Annexes - None