

# North Tyneside Council Report to Cabinet Date: 16 January 2013

## ITEM 4

Title: Technical Reforms  
of Council Tax

Portfolio(s): Finance Housing	Cabinet Member(s): Cllr Judith Wallace Cllr Paul Mason
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Report from Directorate:	Finance and Resources
Report Author:	Fiona Rooney, Strategic Director of Finance and Resources Tel 6435724
Wards affected:	All

### PART 1

#### 1.1 Purpose:

The report sets out the changes to Council Tax legislation included in the Local Government Finance Act 2012. The Act was granted Royal Assent on 31 October 2012 and therefore provides the statutory framework under which the decisions on local discounts and second homes may be made.

#### 1.2 Recommendation(s):

It is recommended that Cabinet:

- (a) consider the options presented within this report with regard to Council Tax discounts; and
- (b) agree proposals for Council Tax discounts for referral to Council for consideration and determination at its meeting on 24 January 2013.

#### 1.3 Forward plan:

This report appears on the Forward Plan for the period 12 December 2012 to 31 March 2013.

#### 1.4 Council plan and policy framework

This report does not directly relate to priorities identified in the Council Plan 2012-15 or the Sustainable Community Strategy 2010-2013.

#### 1.5 Information:

- 1.5.1 The Government's stated purpose behind the technical reform proposals is to encourage prompt return of empty properties back into occupation by the removal of specified

exemptions and the introduction of discounts in their place. The reforms also allow the level of discounts to be determined by the Local Authority, whereas exemption levels were prescribed in previous legislation.

1.5.2 There are currently a broad range of exemptions and discounts prescribed by law applicable to liability for Council Tax. Of these there are currently several exemptions and discounts which can be applied to empty and unfurnished properties, depending upon the circumstance of that property. The recent Government reforms allow Local Authorities to make their own determination as to how to apply reductions for certain categories of empty properties, and to subsequently retain any additional income generated. It should however be borne in mind that while the Council has a strong Council Tax collection record, collection of debt from empty properties may be more difficult than collection from occupied properties.

1.5.3 Cabinet should note that within North Tyneside a high proportion of properties which are empty, are so for very short periods of time while owners exchange contracts, decorate before moving in or where new tenancies are being arranged, etc. This factor has been taken into account in the formulation of the recommended options set out in this report.

#### 1.5.4 Current Statutory Exemptions & Discounts before change on 1 April 2013

1. Class A Exemption. This is a 100% exemption applied where a property is unoccupied and unfurnished and is deemed uninhabitable, as it requires or is undergoing major work or structural alterations to make it habitable. The exemption is awarded for up to a maximum period of twelve months.

2. Class C Exemption. This is a 100% exemption applied where a property is unoccupied and unfurnished. The exemption is awarded for up to a maximum period of six months.

3. Empty Homes 50% Discount. This discount follows the application of an exemption and applies to long term empty properties. It is awarded in the following circumstances:

- An unoccupied and unfurnished property is vested in a deceased estate. The discount is awarded six months after probate is granted or letters of administration issued. This discount is currently granted for an indefinite period until the property is occupied or furnished.
- An unoccupied and unfurnished property awarded after the current Class C 100% exemption has expired. This discount is currently granted for an indefinite period until the property is occupied or furnished.
- An unoccupied and unfurnished property awarded after the 12 month Class A 100% exemption has expired. This discount is currently granted for an indefinite period until the property is occupied or furnished.
- An unoccupied and unfurnished property owned by a charity awarded after the Class B exemption specific to charitable organisations has expired. This discount is currently granted for an indefinite period until the property is occupied or furnished.

#### 4. Second Home Discount

The second home discount applies in the following circumstances:

- When a property is unoccupied but furnished. This currently is awarded a 10% discount until the property becomes occupied or furniture is removed.
- Where a property is not the sole or main residence of anyone and they have an additional property which is their main residence. 10% discount awarded.

#### 1.5.5 Analysis

To determine the options available, an analysis of the data available for the last full financial year (2011/12), which is also indicative of trends in the previous 5 years, has been done. Any changes to 'Class C Exemptions' must be considered in the context of any changes made to the category 'Empty 50% Discount' as there is a link between the two categories, in that the discount (if any) is applied after the maximum period of the exemption has been applied.

#### 1.5.6 Class A Exemptions - During 2011/12 almost 1,000 properties of the 94,500 properties in the Borough met the criteria of being uninhabitable or undergoing major repairs for a period of time, attracting a 100% exemption with a value equivalent to £257k.

Analysis of the data in relation to this category identified that 46% of the properties were being renovated for sale or re-letting by landlords, investors and developers; 36% were being renovated with the intention of the owners moving in; 16% were flood damaged and awaiting renovation; and the remaining 2% required major work which would take in excess of 12 months.

Note that under the changes in the Local Government Finance Act 2012 for Class A exemptions, Local Authorities can alter the **amount** of discount but the **period the discount is awarded remains fixed** at a maximum of 12 months.

#### Options for consideration in respect of the Class A Exemption

Option 1. To remove the exemption and apply a 0% discount; this would increase the debit to collect by approximately £257k, of which any money collected could be retained by the Council.

Option 2. To remove the exemption and apply a 25% discount; this would increase the debit to collect by approximately £192k, of which any money collected could be retained by the Council.

Option 3. To remove the exemption and apply a 50% discount; this would increase the debit to collect by approximately £128k, of which any money collected could be retained by the Council.

Option 4. To change the exemption to a 100% discount would maintain the status quo with neither any additional cost nor income to the Council.

## Implications for consideration

The purpose of the reforms is to reduce the number of properties left empty for lengthy periods. The evidence in North Tyneside suggests that the properties currently in receipt of this exemption do so because they are being brought back into habitable occupation.

The removal / reduction of the exemption would deter purchase of properties in disrepair and would eliminate the incentive for developers to complete refurbishments in short periods of time.

The costs of administration and collection of any additional charge would be increased in terms of verification of information, clarification of accurate liability, response to potential complaints and potentially increased difficulty and complexity of recovery from empty properties.

The evidence within this Borough confirms that the exemption is being used for the purpose that it was intended and properties are being refurbished and returned to occupation.

As the exemption is being used to encourage properties to be improved and brought back into use, it is considered appropriate to replace the exemption with a 100% discount, as set out at Option 4 above.

1.5.7 Class C Exemptions – During 2011/12, 8,213 properties of the 94,500 properties within the Borough were empty for a period of time, attracting a 100% exemption value equivalent to £1.3m.

Of the 8,213 properties:

- 2,368 were reoccupied within 14 days
- 3,853 were reoccupied within 30 days
- 5,484 were reoccupied within 60 days
- 2,729 were empty longer than 60 days.

Note that under the changes in the Local Government Finance Act 2012 for Class C exemptions Local Authorities can alter both the **amount** of discount **and the period the discount is awarded**.

### Options for considerations in respect of Class C Exemptions

Five suggested options are set out below:

- Options 1 to 3 propose removal of any initial discount period.
- Option 4 proposes no change.
- Option 5 considers several scenarios, all of which provide an initial discount period.

Option 1. To remove the exemption completely and apply no discount; this would increase the debit to collect by approximately £1.3m, of which any money collected could be retained by the Council.

Option 2. To remove the exemption and apply a 25% discount; this would increase the debit to collect by approximately £975k, of which any money collected could be retained by the Council.

Option 3. To remove the exemption and apply a 50% discount; this would increase the debit to collect by approximately £650k, of which any money collected could be retained by the Council.

Option 4. To change the exemption to a 100% discount would maintain the status quo, with neither any additional cost nor income to the Council.

Option 5. Taking into account the relatively quick re-occupation of empty homes in the Borough as set out in the tables below, which show a high percentage of properties being re-occupied within 30, 60 and 90 days, to remove the exemption and apply a discount for a specified period of time; this would reduce the financial impact for a large percentage of Council Tax payers (including North Tyneside Homes and other registered social housing providers).

For information the impact on North Tyneside Homes has been included in the tables set out below.

Table A – Grant of a 100% discount for a period of time, followed by zero discount

<b>Initial Period of Discount</b>	<b>Current % of empty properties occupied within Initial Period</b>	<b>Debit Raised if 0% discount after Initial Period (100% charge)</b>	<b>[Impact on NT Homes</b>
30 day discount	47%	£812,000	£112,000
60 day discount	67%	£523,000	£63,000
90 day discount	77%	£334,000	£40,000]

Table B – 10% discount (90% charge)

<b>Initial Period of Discount</b>	<b>Current % of empty properties occupied within Initial Period</b>	<b>Debit Raised if 10% discount after Initial Period (90% charge)</b>	<b>[Impact on NT Homes</b>
30 day discount	47%	£730,000	£100,000
60 day discount	67%	£470,000	£57,000
90 day discount	77%	£300,000	£36,000]

Table C – 25% discount (75% charge)

<b>Initial Period of Discount</b>	<b>Current % of empty properties occupied within Initial Period</b>	<b>Debit Raised if 25% discount after Initial Period (75% charge)</b>	<b>[Impact on NT Homes</b>
30 day discount	47%	£609,000	£84,000
60 day discount	67%	£392,000	£47,000
90 day discount	77%	£250,000	£30,000]

Table D – 50% discount (50% charge)

<b>Initial Period of Discount</b>	<b>Current % of empty properties occupied within Initial Period</b>	<b>Debit Raised if 50% discount after Initial Period (50% charge)</b>	<b>[Impact on NT Homes</b>
30 day discount	47%	£406,000	£56,000
60 day discount	67%	£262,000	£32,000
90 day discount	77%	£167,000	£20,000]

Implications for consideration

A 0% discount rate (Option 1) would mean that the charge for an empty property would increase by 25% more than the occupied charge currently paid by a single person. In addition an immediate charge without discount could lead to a potential increase in fraudulent tenancies/occupations to circumvent the charge.

The costs of administration and collection of any additional charge (all options except Option 4) without any initial period of discount would be increased in terms of verification of information, clarification of accurate liability, response to complaints and the additional difficulty of recovery from empty properties.

In these circumstances, provision of an initial discount period would offer a fair system and not penalise those where properties are empty only on a short term basis. Furthermore it can be seen that within Table A, provision of an initial 100% discount for a period of 60 days caters for a high proportion (67%) of short term empty properties, whilst still generating considerable income.

Note : North Tyneside Homes, which received a £216,000 Class C Exemption in 2011/12, would be impacted by any option other than Option 4 (status quo).

### 1.5.8 Empty Homes 50% Discount

Local Authorities have had the power to remove or reduce this discount since 2003. North Tyneside Council has chosen at each annual Council Tax Base setting since then not to reduce this discount as previously there was no financial gain to the Council. 50% of local authorities nationally have removed this discount.

During 2011/2012 at any given point in time approximately 1200 properties of the 94,500 properties within the Borough were subject to a 50% discount on the basis that they had been empty in excess of 6 months. The value of this discount is £616k. The decision taken in respect of 'Class C Exemptions' above directly impacts any decision in respect of this category (as currently 50% Empty Homes Discounts are awarded, where appropriate, after a Class C exemption has elapsed).

#### Options for consideration in respect of the 50% Empty Homes Discount

Option 1. To remove the discount; this would increase the debit to collect by approximately £616k of which any money collected could be retained by the Council.

Option 2. To amend the discount and apply a 25% discount; this would increase the debit to collect by approximately £308k, of which any money collected could be retained by the Council.

Option 3. To amend the discount and apply a 10% discount; this would increase the debit to collect by approximately £123k, of which any money collected could be retained by the Council.

Option 4. To retain the discount at 50%; this would maintain the status quo with neither any additional cost nor income to the Council.

#### Implications for consideration

The majority of those currently in receipt of this discount have already benefitted from a 100% exemption for up to six months under the Class C exemption.

Customers are already aware that they are subject to payment of a charge albeit at the rate of 50%.

Removal of the Empty Homes 50% discount may incentivise re-occupation of the property.

From the analysis Option 1 could potentially be the most viable option.

Note: Any increase will have a direct impact on the Housing Revenue Account for those properties which have been empty longer than 6 months. North Tyneside Homes received £230k in long term empty discount during 2011/2012.

#### 1.5.9 Second Home Discount

Local Authorities have had the power to remove or reduce this discount since 2003. North Tyneside Council chose at each annual Council Tax Base setting since 2004/05 to reduce this discount from 50%, to the lowest permitted level of 10%. The Local Government Finance Act 2012 now allows Local Authorities to reduce this discount further to 0%.

During 2011/12 6,210 properties of the 94,500 properties within the Borough were subject to a 10% discount, for a period of time, on the basis that they were either a furnished letting or a second home. The value of this discount is £55k.

#### Options for consideration in respect of Second Home Discount

Option 1. To amend the discount and apply a 0% discount; this would increase the debit to collect by approx. £55k, of which any money collected could be retained by the Council.

Option 2. To retain the discount at 10%; this would maintain the status quo with neither any additional cost nor income to the Council.

#### Implications for consideration

Customers are already aware that they are subject to payment of a charge at the rate of 90%.

All properties in this category are not the sole or main residence of the owner and are either second homes or furnished lettings.

From the analysis, Option 1 could potentially be the most viable option on the basis that the relevant customers are already subject to payment of 90% of the charge, and a further 10% increase would have minimal impact.

#### 1.5.10 Empty Homes Premium

For Cabinet's information, in addition to proposals for amendments to existing exemptions and discounts, the Government will also permit councils to charge an empty homes premium on properties which have been empty in excess of 2 years. The premium can be 50% of the full charge. This means that it will be open to the Council, if it wishes to do so in the future, to increase the full charge on an empty property by up to a further 50% on top of the 100% unoccupied rate, after the property has been empty for 2 years.

Government is proposing to introduce exemptions from this additional charge where the properties are marketed for sale. Further work and analysis will need to be undertaken once these are finalised, to determine whether this would be a useful option for the Council. It is however considered unlikely that this would result in a large amount of additional income for the Council.

## **1.6 Decision Options**

The options on the discounts, for Cabinet's consideration, are set out fully in paragraphs 1.5.6 through to 1.5.9 of this report. Cabinet is requested to determine recommendations to be put to full Council for consideration at the Council meeting on 24 January 2013.

From analysis of the options available to the Council, the impact on Council Tax payers and potential additional income which could be generated, the recommended options in respect of the four exemptions/discounts are listed below.

1. Class A Exemption – To replace the exemption with a 100% discount resulting in no impact on Council Tax payers and no additional debit generated to collect.
2. Class C Exemption – The option set out in Option 5 Table A at paragraph 1.5.7; to apply a 100% discount for a period of 60 days with zero discount thereafter (linked to recommendation at 3 below).
3. Empty Homes 50% Discount - To reduce this discount to zero (linked to the recommendation at 2 above).
4. Second Home Discount - To reduce the discount awarded from 10% to zero.

Each of these options is a separate decision, although the Class C Exemption and the Empty Homes 50% discount are linked as the discount currently follows on after the maximum period of exemption has been awarded.

Although it has no direct impact on the decisions to be taken, for Cabinet's information Appendix 1 sets out the proposals on discounts currently being put forward for consideration by other local authorities in the north east region. However these are only proposed changes and no decisions on these have yet been made.

## **1.7 Reason for Recommended Options**

1. Class A Exemption – To replace the exemption with a 100% discount, resulting in no impact on Council Tax payers and no additional debit generated to collect. As set out at 1.5.6, this exemption / discount is being used effectively for the purpose for which it is intended. Removal or reduction of the level of discount awarded may have a detrimental impact on the speed in which properties in disrepair are brought back into use.
2. Class C Exemption – The option set out in Option 5 Table A at paragraph 1.5.7; to apply a 100% discount for a period of 60 days, then zero discount thereafter. This would still accommodate 67% of short term empty properties, on the same basis as currently. It would generate additional debit to collect of £523,000.
3. Empty Homes 50% Discount - To reduce this discount to zero. It follows on from the Class C Exemption removal after a period of 60 days. This would generate £616,000 of additional debit to collect. Approximately 50% of local authorities nationally have already removed this discount.

4. Second Home Discount - To reduce the discount awarded from 10% to zero. This would generate additional debit to collect of £55,000. Customers already pay 90% of the charge, and a 10% increase would have minimal impact.

## **1.8 Appendices**

Appendix 1 – Information on proposed changes in other local authorities.

Appendix 2 – Equality Impact Assessment.

## **1.9 Contact Officers**

Andrew Scott – Senior Client Manager, Revenues, Benefits and Customer Services  
Tel. 6437150

Janice Gillespie – Senior Manager, Corporate Finance Tel 6435701.

Geoff Huzzard - Financial Development Officer Tel 6435716.

## **1.10 Background Information**

[Local Government Finance Act 1992](#)

[Local government Finance Act 2012](#)

[Council Tax \(Exempt Dwellings\) \(England\)\(Amendment\) Order 2012](#)

[Council Tax \(Prescribed Classes of Dwellings\) \(England\) \(Amendment\) Regulations 2012](#)

[Local Authorities \(Calculation of Council Tax Base\) \(England\) Regulations 2012](#)

[Council Report 29 November 2012 - Local Council Tax Support](#)

## **PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING**

### **2.1 Finance and other resources**

The detailed financial implications of the options within this report to adjust exemptions and discounts are set out at section 1.5 of this Report with the specific decision options being set out as section 1.6 of this report. This section of the report sets out the range of different levels of income that can be generated.

The specific options proposed within this report and the estimated income to be generated by each of these options is set as follows:

#### Proposed Options

Class A Exemption – To replace the exemption with a 100% discount resulting in no impact on Council Tax payers and no additional debit generated to collect.

Class C Exemption – The option set out in Table A under 1.5.7 to apply a 100% discount for a period of 60 days, then zero discount thereafter. This would still accommodate 67% of short term empty properties. It would generate additional debit to collect of £523,000 including a £63,000 additional cost to North Tyneside Homes.

Empty Homes 50% Discount - To reduce this discount to zero. It follows on from the Class C Exemption removal after a period of 60 days. This would generate £616,000 additional debit to collect.

Second Home Discounts - To reduce the discount awarded from 10% to zero. This would generate additional debit to collect of £55,000. Customers already pay 90% of the charge, and a 10% increase would have minimal impact.

## Other Options

In addition to the proposed options, the multiples of applying different percentages discounts produce a significant range of options for Cabinet to consider and ultimately for a decision by full Council at its meeting to be held on 24 January 2013. Any combination of these options can be considered by Cabinet and ultimately approved by Council.

The estimated income that can be generated from changes to exemptions and discounts differs as a result of the combination of percentages applied to the various options and indeed by the options chosen. Illustrative examples of how changing percentage rates impact on the estimated income generated from changes to the various classes of property are set out in sections 1.5.6 to 1.5.9 of this report. It is not feasible within the report to produce the financial impact of every possible change as the combination of the multiple of options is very considerable indeed.

## Impact on the Council's Available Resources

Any change introduced to exemptions and discounts makes a commensurate change to the council tax base. The change is converted to a Band D equivalent and feeds into the statutory council tax base calculation by increasing the total council tax base, thereby increasing the available resources for the Council. As such, any income generated by changes to exemptions and discounts is available for the general use by the Council's General Fund as part of the 2013/14 Financial Planning and Budget Setting process.

Once the changes to exemptions and discounts are ultimately confirmed by Council on 24 January 2013, these will feed into the calculation of the 2013/14 Council Tax Base, to be approved by Cabinet on 28 January 2013.

## **2.2 Legal**

Section 10 of the Local Government Finance Act 2012 amends section 11A of the Local Government Finance Act 1992 enabling the Secretary of State to define a class of property in respect of which an authority may determine a discount in the range zero to one hundred percent.

The Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012 which came into force on 30 November 2012 now enable Local Authorities to retain any income generated by the implementation of the discount schemes set out in sections 11A and 11B of the Local Government Finance Act 1992 (as amended). The calculation of the Council Tax base is now specifically referred to in the Regulations which replace earlier Regulations dealing with that calculation.

Section 67 of the Local Government Finance Act 1992 specifies the functions that can be discharged only by the Council as a whole. Included in those functions is the ability to grant discounts in respect of a particular class of dwelling and to permit a reduction in the level of Council Tax required to be paid by an individual.

## **2.3 Consultation / Community Engagement**

There is no legal requirement for public consultation on a new discount scheme. Prior

to introducing the reforms, Government carried out a full public consultation on giving local authorities greater discretion in this area.

Consultation has taken place with other regional local authorities.

## **2.4 Human rights**

There are no human rights implications directly arising from this report.

## **2.5 Equalities and diversity**

An equality impact assessment has been carried out and is attached as Appendix 2 to this report.

## **2.6 Risk management**

Consideration has been given to the risks of removing exemptions / discounts entirely. To remove the Class C exemption entirely, could result in Council Tax payers having no incentive to notify the Council that they had vacated a property. For instance single occupiers, in receipt of a single person's discount, may choose not to notify the Council when they vacate a property as it would be cheaper for them to state that they continued to live in the property. This is because they would have a 25% Council Tax discount when occupying a property and no reduction when they vacate it.

## **2.7 Crime and disorder**

There are no crime and disorder implications arising from this report.

## **2.8 Environment and sustainability**

There are no environment and sustainability implications directly arising from this report.

### **PART 3 - SIGN OFF**

- Chief Executive
- Strategic Director(s)
- Mayor/Cabinet Member(s)
- Chief Finance Officer
- Monitoring Officer
- Strategic Manager Policy and Partnerships