

## Appendix 2

### Technical Reform to Council Tax

#### Background

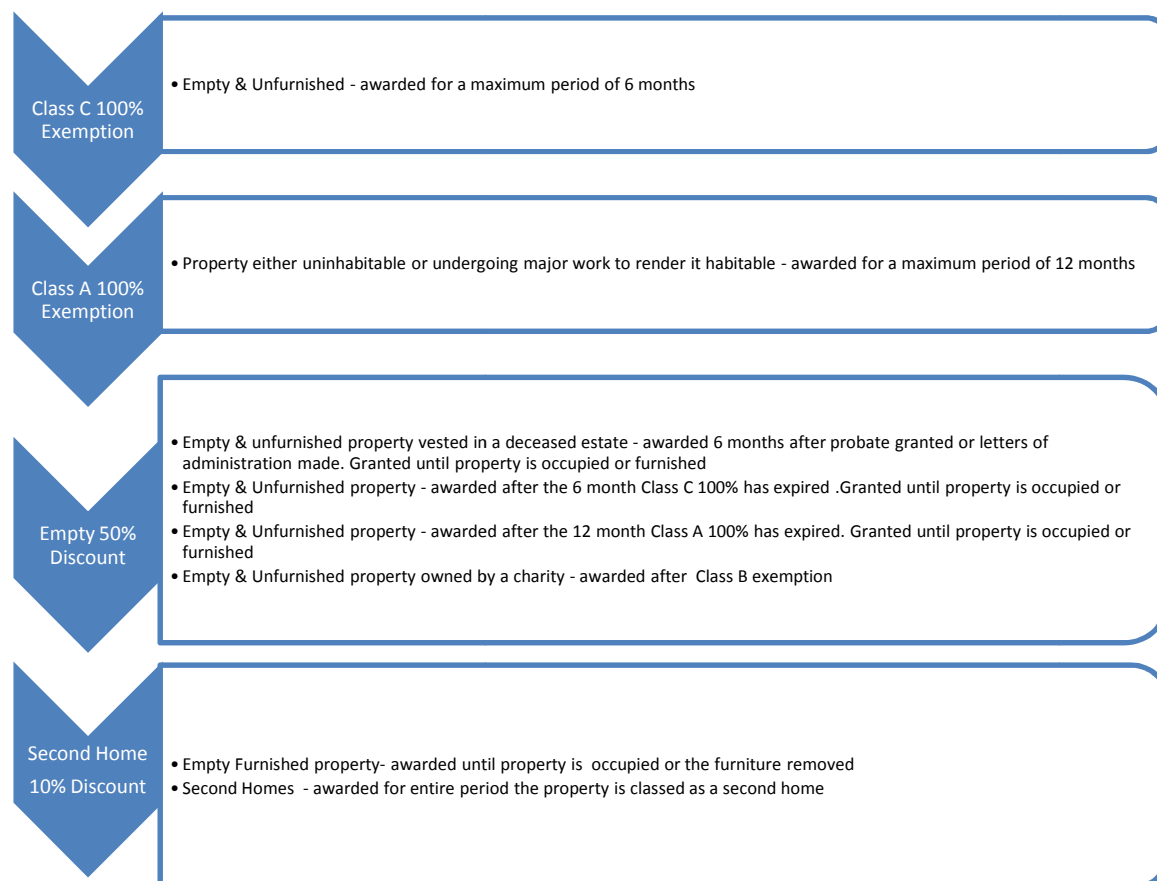
The purpose of the technical reform proposal is to encourage prompt return of empty properties back into occupation and looks to remove certain exemptions to be replaced with discounts. The reforms also allow the level of most discounts to be determined by the Local Authority.

There are currently several Council Tax Exemptions and Discounts which can be applied to empty and unfurnished properties depending upon the circumstance of that property. Government proposals for reform are to empower Local Authorities to make their own determination as to how to apply reductions for certain categories of empty properties and subsequently retain any additional income generated. It should however be borne in mind that while the Council has an excellent Council Tax collection record, collection of debt from empty properties can be considerably more difficult.

It should also be considered 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.

The Government previously stipulated that where an authority does make an alteration to the existing scheme the same percentage must apply for the entire period of the discount, this has subsequently changed and the new proposals will now allow for LA's to determine both the percentage and the time period permitted.

#### Current Exemptions & Discounts



Analysis of the data available for last financial year, which is also indicative of the previous 5 years, has been undertaken to determine the options available. *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.*

**Class C Exemptions** – During last financial year 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 8200 properties,

- 2368 were reoccupied within 14 days
- 3853 were reoccupied within 30 days
- 5484 were reoccupied within 60 days
- 2729 were empty longer than 60 days

### Suggested Options

**Options 1 to 3 consider removal of any initial discount period**

**Option 4 considers no change**

**Option 5 considers several scenarios all of which provide an initial discount period**

1. To remove the exemption completely and apply a 0% discount would increase the debit to collect by approx. £1.3m of which any money collected could be retained by the Council.
2. To remove the exemption and apply a 25% discount would increase the debit to collect by approx. £975k of which any money collected could be retained by the Council.
3. To remove the exemption and apply a 50% discount would increase the debit to collect by approx. £650k of which any money collected could be retained by the Council.
4. To change the exemption to a 100% discount would maintain the status quo with neither a cost nor an income to the Council.
5. To apply a discount for a specified period of time would reduce the impact for a large percentage including North Tyneside Homes. See Tables Below;

Table A – 0% discount (100% charge)

<b>Initial Period of Discount</b>	<b>% 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>% 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>% 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>% 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**

- Within options 1,2 & 3, a number of the properties are owned by North Tyneside Homes and the financial impact for each of these options would need to be considered. North Tyneside Homes received £216,000 in Class C Exemption during 2011/2012.

- A 0% discount rate would mean that the charge for an empty property would be greater by 25% than the occupied charge currently paid by a single person.
- Administration & collection of any additional charge without any initial period of discount would be considerable in terms of verification of information, clarification of accurate liability, response to complaints and the difficulty and complexity of recovery from empty properties.
- Potential increase in fraudulent tenancies/occupations to circumvent the charge where there is an immediate charge without discount.

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 while still generating considerable income.

**Class A Exemptions** - During last financial year almost 1,000 properties of the 94,500 properties met the criteria of being uninhabitable or undergoing major repairs 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.

### **Suggested Options**

1. To remove the exemption and apply a 0% discount would increase the debit to collect by approx. £257k of which any money collected could be retained by the Council.
2. To remove the exemption and apply a 25% discount would increase the debit to collect by approx. £192k of which any money collected could be retained by the Council.
3. To remove the exemption and apply a 50% discount would increase the debit to collect by approx. £128k of which any money collected could be retained by the Council.
4. To change the exemption to a 100% discount would maintain the status quo with neither a cost nor an 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.
- Removal / reduction of the exemption would deter purchase of properties in disrepair.
- Removal / reduction would eliminate the incentive for developers to complete refurbishments in short periods of time.

- Administration & collection of any additional charge would be considerable in terms of verification of information, clarification of accurate liability, response to complaints and the difficulty and complexity of recovery from empty properties.

The evidence within North Tyneside confirms that the exemption is being used for the purpose that it was intended and properties are being refurbished and returned to occupation and this is not something that should be deterred.

**50% Empty Discount** - During last financial year at any given point in time approximately 1200 properties of the 94,500 properties within the borough were in receipt of 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' directly impacts any decisions in respect of this category.*

### **Suggested Options**

1. To amend the discount and apply a 0% discount this would increase the debit to collect by approx. £616k of which any money collected could be retained by the Council.
2. To amend the discount and apply a 25% discount would increase the debit to collect by approx. £308k of which any money collected could be retained by the Council.
3. To amend the discount and apply a 10% discount would increase the debit to collect by approx. £123k of which any money collected could be retained by the Council.
4. To retain the discount at 50% this would maintain the status quo with neither a cost nor an income to the Council.

### **Implications for consideration**

- The majority of those currently in receipt of this discount have already benefitted from a 100% exemption
- Customers are already aware that they are subject to payment of a charge albeit at the rate of 50%
- 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.
- As customers are already in receipt of 50% discount there is no incentive to reoccupy.

From the analysis Option 1 could potentially be the most viable option following a full assessment of the impact on North Tyneside Homes and the Housing Revenue Account and providing it works with the decision taken in respect of Class C Exemptions.

**Second Home Discount** - During last financial year 6210 properties of the 94,500 properties within the borough were in receipt of 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.

## **Suggested Options**

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.
2. To retain the discount at 10% this would maintain the status quo with neither a cost nor an 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 analysis Option 1 could potentially be the most viable option on the basis that the customers are already subject to payment of 90% of the charge and a further 10% increase would have minimal impact.

## **Empty Homes Premium**

In addition to proposals for amendments to existing exemptions and discounts the Government will also permit Councils to charge an empty rate premium on properties which have been empty in excess of 2 years. The premium can be 50% of the full charge. This means that the Council, if it decides, can increase the full charge on an empty property by a further 50% to that of an occupied property.

Further analysis of the impact of this will be required if this is an option the Council intends to consider. However suggestions have been made in terms of ensuring continued regeneration that incentives may be considered with those who engage with the Council to enable the properties to be brought back into occupation.

**For reference this is the information extracted from the consultation document.**

### **Second Homes –**

*The Government's response to the consultation is to confirm its intention to amend secondary legislation to allow billing authorities to levy up to full council tax on second homes. It intends to make this change in time for authorities to make an effective determination for the year 2013-14. The Government does not intend to impose a new duty on the taxpayer to declare that a dwelling is a second home.*

### **Empty dwellings undergoing major repair –**

*The Government's response to the consultation is to confirm its intention to abolish class A exemption, and instead to empower billing authorities to give 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.*

### **Vacant dwellings –**

*The Government's response to the consultation is to confirm its intention to abolish class C exemption, and instead to empower billing authorities to give 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.*

**Liability of mortgagees in possession –**

*The Government's response to the 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 discussion with the mortgage lenders sector about these issues, leading to satisfactory and workable administrative arrangements.*

**Empty homes premium –**

*The Government's response to the consultation is to seek the necessary primary legislation to implement the empty homes premium, and this has been included as 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%.*

*The document also covers*

- *The definition of 'relevant person'*
- *Payment by instalments*
- *'Rent a Roof' solar photovoltaic installations on domestic properties*

*Annexes to dwellings*