

 <b>Executive 08 August 2012</b>		<b>Agenda Item No.</b>  <b>4</b>
<b>Title</b>	Technical Reform of Council Tax	
<b>For further information about this report please contact</b>	Mike Snow, David Leech	
<b>Wards of the District directly affected</b>	All	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>		
<b>Background Papers</b>		

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	Yes
<b>Included within the Forward Plan? (If yes include reference number)</b>	No
<b>Equality &amp; Sustainability Impact Assessment Undertaken</b>	Yes/No (If No state why below)

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive		Andy Jones
Head of Service		Mike Snow
CMT		Chris Elliott, Andy Jones, Bill Hunt
Section 151 Officer		Mike Snow
Monitoring Officer		Andy Jones
Finance		Mike Snow
Portfolio Holder(s)		Andrew Mobbs
Consultation & Community Engagement		
Satnam Kaur – Housing Strategy Manager Dave Ward – Housing Manager Warwickshire County Council		
Final Decision?		Yes/No
Suggested next steps (if not final decision please set out below)		

## **1. SUMMARY**

- 1.1 The purpose of this report is to advise that the Government has released its intentions in respect of the proposals set out in the consultation paper – “Technical Reforms of Council Tax”. The stated purpose of the changes is to allow billing authorities greater discretion over the discounts from Council Tax available in respect of second homes and other empty properties in order to maximise revenue. These changes will take effect from 01 April 2013

## **2. RECOMMENDATION**

- 2.1 That the Executive note the Government intentions on the proposed technical reforms of council tax planned for 2013-14 onwards and the operational and financial issues likely to be involved.
- 2.2 That the Executive recommend that Council supports the reduction in the level of discount in second homes from 10% to nil.
- 2.3 That the Executive recommend that Council supports a 0% discount in place of the soon-to-be abolished exemption A (uninhabitable properties).
- 2.4 That the Executive agree to delegating responsibility for agreeing the discount to replace the soon-to-be abolished exemption C (empty properties) to the Head of Finance in consultation with the Finance Portfolio Holder.
- 2.5 That the Executive recommend that Council supports the introduction of a council tax premium of 50% in respect of properties that have been empty in excess of 2 years.

## **3. REASONS FOR THE RECOMMENDATION**

- 3.1 The proposals represent opportunities in which the Council may raise additional Council tax revenue on empty properties by increasing liability for certain ratepayers and levying charges on others that are currently exempt in order to keep down overall levels of Council Tax.
- 3.2 Introducing discounts as proposed and a premium on properties that have been empty in excess of 2 years should help to encourage greater occupancy of dwellings in line with the Council’s Empty Property Strategy.
- 3.3 Clarification from the Government is awaited on whether it will be possible to vary the discount in respect of exemption C (empty properties up to six months) and the outcome will influence the recommendation for this class of property.

## **4. POLICY FRAMEWORK**

- 4.1 Setting minimum discounts and levying a premium on empty properties should encourage owners to make better use of empty properties which would assist with meeting the Housing need in the area.

## **5. BUDGETARY FRAMEWORK**

- 5.1 The Government’s intention is to abolish entirely certain exemptions on empty properties and allow the Council the flexibility to award discounts between 0-

100%. Depending upon the level of discount the Council agrees, there will be opportunity to raise considerable additional Council Tax revenue to be distributed in proportion to the precepts levied across Warwick District Council, Warwickshire County Council, Warwickshire Police Authority and the parish/town councils. This council would retain approximately 10% of the total additional income generated.

Clearly any decisions made will impact upon certain taxpayers who would have previously been exempt from Council Tax on their empty property. As a consequence it has been predicted by professional bodies that avoidance measures will become an issue placing burdens on administrative and inspection resources to ensure the council receives the full benefit from these measures.

- 5.2 One of the reform proposals is to grant council tax payers a legal right to pay by 12 instalments and to ensure they are informed of this right. The default position will remain as 10 months however there is the potential for a drift of taxpayers moving across to payment by 12 instalments rather than 10. Spreading payments to March rather than January for these taxpayers will affect the cash flow the Council currently enjoys and will result in some loss of interest. If 50% of taxpayers were to switch to 12 months it is calculated that there will be approximately £18,000 in lost interest.

- 5.3 Based on the recommendations, the additional revenue is set out below:-

	Second homes to Nil discount	Exempt A to Nil discount	Exempt C to Nil discount	Premium to 50%	Total per Authority
WDC	£6,160	£7,440	£45,360	£7,280	£66,240
WCC	£49,280	£59,520	£362,880	£58,240	£529,920
WPA	£6,160	£7,440	£45,360	£7,280	£66,240
TOTAL per Recommendation	£61,600	£74,400	£453,600	£72,800	£662,400

The figures above have been dampened in order to take a prudent estimate of the likely increased revenue given the uncertain trends in empty property.

- 5.4 As part of the Fit for the Future report in April 2012, the updated financial projections allowed for £50,000 additional revenue to the Council from these reforms to council tax. Accordingly, based on the recommendations, there would be a further £16,000 revenue to be included in the financial projections and so help the Council ensure it has a sustainable budget for the future. If the changes to the discounts are not approved, the financial projections will need to be updated to remove this £50,000 revenue already included.
- 5.5 Removal of discounts and the levying of premiums has the potential to encourage occupation of long term empty properties. The New Homes Bonus scheme recognises the increase in these properties as well as the newly built homes and would yield additional income for a 6 year period for every property brought back into use.

## 6. **ALTERNATIVE OPTION(S) CONSIDERED**

- 6.1 The council could adopt a 100% discount position for empty properties, keep discount at 10% for second homes and not levy a premium which would have the cumulative effect of leaving the current situation unchanged. This would be a missed opportunity to raise additional revenue and, in respect of the premium, could undermine the Council's stated aim to address the problem of empty properties.

## 7. **BACKGROUND**

- 7.1 In summary the key changes arising from the impending legislation that require a Council decision are as follows;

### a) Second homes

**Currently:** Billing Authorities (BAs) have discretion to award a discount between 10 -50 % for owners of a second home. With effect from 01 April 2011 Warwick District Council resolved to award 10%.

**Government Intention:** To extend the discretion for BAs to allow discount between 0 – 50%. WDC could potentially remove the discount altogether and share the additional 10% revenue with the other major billing authorities, i.e. Warwickshire County Council and Warwickshire Police Authority (as happens currently with the additional revenue generated from the second homes being reduced from 50% to 10%)

### **Potential Increased Revenue:**

No of Second homes at 01/06/12	Approx Increased revenue from removing 10% discount (WDC share in brackets)
564	£61,600 (£6,160)

### b) Exemption A (Uninhabitable)

**Currently:** Owners of properties the Council deem as uninhabitable are entitled to a maximum of 12 months exemption from Council Tax.

**Government Intention:** To abolish the exemption and allow BAs discretion to award a discount between 0 and 100 per cent for a maximum period of 12 months. The additional revenue generated here would again be shared by the other major precepting authorities.

### **Potential Increased Revenue:**

No of Uninhabitable properties at 01/06/2012	Approx Increased revenue from applying following discounts (WDC share in brackets)				
61	0%	25%	50%	75%	100%
	£77,400 (£7,740)	£58,050 (£5,805)	£38,700 (£3,700)	£19,350 (£1,935)	£0 £0

c) Exemption C (Empty for less than 6 months)

**Currently:** Owners of empty properties are exempt from Council Tax for 6 months (before property then becomes a long term empty).

**Government Intention:** To abolish the exemption and allow BAs discretion to award a discount between 0 and 100 per cent for a maximum period of 6 months. If WDC chose to award a discount less than 100% we would get to keep additional revenue although it would be shared by the other major precepting authorities.

**Potential Increased Revenue:**

No of Exempt C properties at 01/06/2012	Approx Increased revenue from applying following discounts (WDC share in brackets)				
	0%	25%	50%	75%	100%
558	£453,600 (£45,360)	£340,200 (£34,020)	£226,800 (£22,680)	£113,400 (£11,340)	£0 £0

Clarification is still awaited from the Government that it is possible to vary the discount within the 6 month period. If this is an allowable option then the recommendation would be to introduce a maximum discount for 1 month followed by a nil discount for the next 5 months and the above figures have been calculated on that basis. If the Government confirm that a single discount must be used for the whole 6 months then the recommendation would be a nil discount for 6 months (which would generate additional revenue to the figures quoted above).

Consultation with the Housing Manager and Housing Strategy Manager has been sought in respect of the potential changes and the favoured option of a varied discount rate has been arrived at based on their responses. Whilst a nil discount for 6 months would attract greater revenue the other option is preferred for the following reasons;

- i) Warwick District Council Housing Revenue Account properties which are empty for any period between tenancies will attract a charge if a nil discount is applied for 6 months. Often there are gaps between tenancies to allow remedial works to be undertaken and last year there were 333 occasions where a Council property became empty at an average of 31 days per property. This would equate to a cost to the Housing Revenue Account of approximately £37,000. Applying a varied rate with the first month at a full discount would reduce these additional charges to approximately £15,600 based on 10/11 void figures.
- ii) Introducing a full charge from day one that a property becomes empty would also affect private sector landlords and this is a major concern for Housing Strategy. Private sector landlords are seen as a valuable resource to assist in meeting housing need for the District as well helping the Council to discharge its duty to homeless households. To that end Housing Strategy are working hard to engage with these landlords in order to seek a partnership in the aforementioned areas. It is considered that any additional Council Tax liability for these landlords will be counterproductive to these aims.

d) Empty Homes Premium

**Currently:** Owners of properties that have been empty for a period in excess of 6 months are liable for a full Council Tax charge as resolved by the Council with effect from 01 April 2011.

**Government Intention:** The Government are to allow the billing authority the discretion to introduce a Council tax premium. The premium will not become payable until a dwelling has been empty and unfurnished for at least 2 years and the maximum premium which an authority will be able to adopt is 50%. The additional revenue generated here would be shared by the other major precepting authorities.

**Potential Increased Income:**

No of Properties empty in excess of 2 years at 01/06/12	Approx Increased revenue from introducing premium of 50% (WDC share in brackets)
131	£72,800 (£7,280)

7.2 There are 2 other changes within the Technical Reform of Council Tax paper for which a decision is not required although there is the capacity for some impact.

a) Payment by Instalments

Having considered the issue of instalments the Government intend to take forward its proposal to grant council tax payers a legal right to pay by 12 instalments and ensure that they are informed of this right. The default position will remain as 10 instalments however if a taxpayer elects to pay by 12 instalments then this will become their default method of payment. Over a period of time it is possible that there could be a significant shift of taxpayers moving to 12 instalments.

The change for the default number of Council tax payments to 12 will have an adverse effect on the cash flow and therefore the level of interest earned. It is estimated that approximately £18,000 would be lost in interest. There is also likely to be an impact on the in-year collection rate.

b) Council tax demands

Currently statutory information from the District, County and Police are currently supplied with the Council Tax bill in form of leaflets or booklets. For those taxpayers that have elected to issue bills electronically a link is provided so that the information can be accessed on line. From April 2013 the Government intend that Councils should be able to discharge their duty to provide the information that must currently be supplied with demand notices by publishing it online regardless of whether a taxpayer has elected to receive their bill electronically. The taxpayer will still retain the right to request a hard copy of the information.

Whilst this measure removes a burden from the Council the current booklet that we issue is cost neutral to the Council as it is funded by external advertisers. If we no longer produce a booklet it should make the whole process of annual

billing simpler and a saving of £4,000 is estimated to be made by bringing the process back in-house.

- 7.3 Whilst allowing billing authorities greater discretion over discounts in respect of second homes and other empty properties will provide opportunities for increasing revenue there is likely to be unwelcome side issues which need to be considered.

It is generally accepted by professional bodies such as the IRRV that removing discounts and introducing a premium is likely to lead to avoidance tactics from taxpayers. It can now be more advantageous for a taxpayer to state that he is occupying a property rather than declare it as being empty. In order to ensure we receive the maximum benefit from the changes this may lead to increased inspection activity.

- 7.4 It is not clear in the paper whether there are restrictions on how the additional revenue is spent however there is a clear implication that Councils are expected to manage pressures on council tax and keep overall levels of council tax down.