

 <b>Finance &amp; Audit – 4<sup>th</sup> January 2017</b>		<b>Agenda Item No. 5</b>
<b>Title</b>	Student Accommodation and Houses in Multiple Occupation	
<b>For further information about this report please contact</b>	David Leech Exchequer Manager 01926 456052 email: david.leech@warwickdc.gov.uk	
<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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?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>	N/A	
<b>Background Papers</b>	N/A	

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	No
<b>Included within the Forward Plan? (If yes include reference number)</b>	No
<b>Equality Impact Assessment Undertaken</b>	No

<b>Officer/Councillor Approval</b>		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Chief Executive/Deputy Chief Executive	20/12/16	Andy Jones
Head of Service	20/12/16	Mike Snow
CMT	20/12/16	Chris Elliot, Bill Hunt and Andy Jones
Section 151 Officer	20/12/16	Mike Snow
Monitoring Officer	20/12/16	Andy Jones
Finance	20/12/16	Mike Snow
Portfolio Holder(s)	20/12/16	Cllr Whiting
<b>Consultation &amp; Community Engagement</b>		
<b>Final Decision?</b>	No	
<b>Suggested next steps (if not final decision please set out below)</b>		

## 1. **Summary**

- 1.1 This report details the statutory position in respect of student accommodation/houses in multiple occupation in relation to Council tax liability and the effect such property has on the Council's finances.

## 2. **Recommendation**

- 2.1 It is recommended that the Committee note the contents of the report.

## 3. **Reasons for the Recommendation**

- 3.1 This report has been produced at the request of the Chair of Finance and Audit Scrutiny Committee.

## 4. **Policy Framework**

- 4.1 Council tax liability is governed by statute and offers little scope for the Council to act within a particular policy framework.

## 5. **Budgetary Framework**

- 5.1 There has been a growth in student accommodation and as detailed in the report this does have a consequence in terms of what the Council is able to collect from Council Tax.

## 6. **Risks**

- 6.1 A rise in student accommodation will reduce the amount collectable via Council Tax leading to an uncertain effect on the Council's overall finances given the complexity of Local Government finance.

## 7. **Alternative Option(s) considered**

- 7.1 This report is for information so no other options considered.

## 8. **Background**

### 8.1.1 Student Accommodation

Student accommodation generally falls under one of two circumstances;

a) A single property occupied by students living effectively as one household where they live communally. In this case there will be one council tax banding placed upon the property.

b) A property that is a purpose built block of self-contained units occupied by the students. In this case there will be a number of separate council tax bands attributable to the property.

- 8.1.2 In either of the above circumstances, if the property is solely occupied by students then it will be exempt from council tax and the Council will receive no income. This is the case regardless of who may own the property.

- 8.1.3 As at 31st October 2016 there were 1725 properties classified as student accommodation and therefore exempt from Council tax. This equates to just

under £3 million in lost revenue. This £3m is shared between the precepting authorities in proportion to the precepts, this being a charge on the collection fund (the account to which council tax is paid, and precepts are paid out of). This means WCC pay 78%, WPCC 12% and WDC 10% (excluding the parish/town element).

8.1.4 As with any council tax exemptions or discounts, these reduce the Council's Council Tax Base. The Tax Base is an important component in the calculation of revenue support from Central Government, primarily Revenue Support Grant (RSG). With the tax base being reduced in respect of students, in the past this has served to increase the amount of RSG that the Council receives, on the basis that it is able to raise less council tax locally because of the student residences. However, with the current 4 year grant settlement (2016/17-2019/20), this is based on the Tax Base in 2015 with no allowances for changes factored in to the future years' figures. This means that for any increase in student exemptions in the short/medium term will not be compensated by increased RSG.

8.1.5 Revenue Support Grant for the current year is just over £1.5m, reducing to £800k next year, £300k 2018/19, and zero thereafter. This is from over £6m 5 years ago (with Retained Business rates being on top of this). Local Government finance is invariably very complex and subject to changes such as:-

- Introduction of Business Rate Retention from 2013/14
- 2017 Business Rate Revaluation
- 2020/21 (?) introduction of 100% Business rate Retention

8.1.6 All these factors make year on year comparisons difficult to predict and compare. At some stage the local tax base used in the calculations of local government funding will be updated (probably for the 100% retained business rate system, when a "reset" of the system will be due), which means any change in the cost of such things as student exemptions should be accounted for. Here, the tax base will be one of many factors that drive any future funding settlement (the tax base reflecting what resources that we can raise locally by way of council tax). Unfortunately, due to the complexity of the system, there is an apparent lack of transparency over the figures.

8.1.7 It is also worth mentioning that purpose built student accommodation such as has been built within the area currently, will benefit the Council through our New Homes Bonus allocation. We receive money for each new dwelling built in the Warwick District area and we currently continue to receive that money for a further 5 years. To give some financial context to this a new band D student accommodation banding can raise approximately £8,700 in New Homes Bonus (NHB). However, it should be noted that the results of the recent Government Consultation over NHB have just been announced and the term of payment is to be reduced firstly to 5 years in 2017/18 and then 4 years in 2018/19. In addition there will be an assumed growth rate over which the Council must achieve to receive NHB.

#### 8.2.1 Houses in Multiple Occupation

For Council Tax purposes, a house in multiple occupation (HMO) is defined as:

- a property that has been built or adapted for tenants or licensees to live in, who are not living as a single household, or

- a property lived in by a person or persons, each of whom has a tenancy or license to live in only part of the property or who pays rent or a fee for only part of the property

8.2.2 For most properties it is the rental arrangements that determine whether a property falls under the Council tax definition of a HMO and thereby establishing whether the landlord or tenants are liable for the Council Tax.

8.2.3 As a general rule, a property will be classed as a HMO with the owner liable to pay the Council Tax, where each tenant has his or her own tenancy agreement and only pays rent for part of the property.

8.2.4 The tenants will be liable where there is only one tenancy agreement, with all the tenants names included for the whole of the property, and all of the rent due.

### 8.3 Classification of Student Accommodation and HMOs (Council Tax or Business Rates)

8.3.1 The Valuation Office Agency (VOA) is an executive Agency of HM Revenues and Customs and they have the responsibility for valuing properties for the purposes of council tax and non-domestic rates. In respect of domestic properties a banding is placed upon the property whilst a commercial property will attract a rateable value. The billing authority issues bills in respect of these valuations.

8.3.2 The Council has responsibility to notify the VOA of any new domestic or commercial premises or any changes to these properties although it has no power or authority to instruct the VOA on which properties should be commercial or domestic. The VOA is governed by legislation which dictates the classification of a particular property and whether it ultimately attracts a liability for Council Tax or Business rates.

8.3.3 The key to whether a property is deemed domestic or commercial relies on the definition of a dwelling as defined within Section 3 of the local Government Finance Act 1992. A dwelling is referenced from the now repealed General Rate Act 1967 in which it is defined as a hereditament which is used wholly for the purposes of a private dwelling or private dwellings. There would seem to be no argument that given this definition student accommodation or HMOs fall under the category of dwelling and therefore are subject to a council tax banding.

8.3.4 Furthermore the legislation describes a particular category of property (akin to student accommodation) where a council tax banding is applicable as "a property which has been constructed, physically converted or structurally adapted, so as to provided separate units of accommodation for several occupiers with significant degrees of self containment".

8.3.5 This contrasts with that of a hotel where the bedrooms are used on a very temporary casual basis and not used solely for an individual's private accommodation. In this situation the hotel is classified as commercial as it does not meet the definition of a dwelling. If however the hotel contained accommodation where an on-site manager lived then this part of the hotel would attract a council tax banding.

8.3.6 In response to an Executive motion on the classification of such property in 2012 opinions were sought from both the VOA and the Institute of Rating,

Revenues and Valuation as to whether these properties could be classified as Commercial. Both concluded that there was no legislation to support a reclassification from domestic to commercial.

- 8.3.7 Factors that decide whether a property is valued as domestic or commercial are governed by legislation that has been established for many years. The legislation is quite clear in defining such properties as student accommodation as dwellings therefore any change to this stance would require a change to primary legislation and political will from the Government.
- 8.3.8 The figure of 1,725 properties classified as student accommodation is the number of student properties and not HMOs. Of course not all student properties are HMOs and actually it is difficult to identify the HMOs from the council tax system. Housing and Property Services have provided recent figures for HMOs of 1,585 (453 licensed and 1,132 unlicensed).