

EXETER CITY COUNCIL

EXECUTIVE
20 NOVEMBER 2012

TECHNICAL REFORMS TO COUNCIL TAX

1 PURPOSE OF REPORT

1.1 This report sets out the Technical Reforms to Council Tax that the Government is introducing from April 2013. The reforms give billing authorities more flexibility on some of the discounts that can be granted which will provide the opportunity to generate additional income. This flexibility relates to:

- Second Homes
- Empty Properties
- Properties undergoing or requiring structural works

1.2 In addition, there are some other reforms which include;

- The right to pay council tax by 12 monthly instalments
- Enabling billing authorities to publish council tax information on their website rather than in paper format.
- Making the mortgagee (the lender) responsible for paying the council tax when a property is repossessed.

2 BACKGROUND

2.1 These reforms will provide billing authorities the opportunity to make local decisions on some of the council tax discounts and to generate additional income for all the precepting authorities. It should also encourage landlords and homeowners to bring properties into use more quickly.

2.2 The Government consulted on these reforms in October 2011 and published its summary of responses and conclusions in May 2012.

2.3 These reforms are now contained in the Local Government Finance Act 2012, which has recently gained Royal Assent. The regulations that will set out the technical changes are unlikely to be made until late November/December 2012.

3 SECOND HOME DISCOUNTS

3.1 Billing Authorities will be able to charge full council tax on second homes from 1 April 2013. Currently the maximum Billing Authorities can charge in council tax for a second home is 90%.

3.2 A second home for the purpose of council tax is a property that is unoccupied (not someone's sole or main residence) but is furnished. This means that properties that are being marketed for sale but are furnished are treated for the purpose of council tax as a second home. This would also apply to furnished tenancies where there are gaps in occupation.

3.3 As at 1 November 2012 the Council had 471 properties classified as second homes for the purpose of council tax. The additional income this could generate if the discount was set at 0% would be in the region of £59,000, with Exeter's proportion being about £5,000.

4 EMPTY PROPERTIES – CLASS C EXEMPTION

- 4.1 Properties that are empty (unoccupied and unfurnished) are currently eligible for up to six months' exemption. This is referred to as a Class C exemption. The Government is abolishing this exemption and replacing it with a discount, between 0% and 100%. There will also be flexibility over the time-period which allows billing authorities the ability to be able to retain a period where there is no charge being levied.
- 4.2 It is worth noting that the current Class C exemption is mainly granted for one of the following reasons:
- The property is empty between tenancies
 - The property is being sold and the owner has moved out
 - The property has been purchased and the owner or tenant has not yet moved in
 - Newly built properties after they have been completed but remain empty
- 4.3 The majority of the exemptions are for short periods and therefore the sums are relatively small. When the Government consulted on this reform the main argument against this measure came from landlords, who felt that it was unfair that they should instantly become liable for council tax when a tenancy ended.
- 4.4 The additional burden for Landlords where there are gaps between tenancies could potentially mean this cost being passed direct onto tenants in the form of higher rents. A number of our Landlords are also being impacted by other welfare changes.
- 4.5 From an administrative perspective it would not be cost effective in having to bill, collect and recover very small amounts of money and inevitably there would be challenges over liability.
- 4.6 However, in contrast 6 months exemption is more generous than what empty shops/offices get under business rates which is limited to 3 months.
- 4.7 As at 1 November 2012 the Council had 170 properties in receipt of the Class C Exemption for the purpose of council tax. It is proposed that from 1 April 2013, the discount be set at 100% for the first 2 months and then 0% for the next 4 months. The additional income this could generate would be in the region of £184,000, with Exeter's proportion being £16,000.

5 LONG TERM EMPTY PROPERTIES

- 5.1 The Government has introduced a provision whereby a billing authority can levy a premium of up to 50% of the council tax payable on top of the normal council tax for properties that have remained empty for a period of 2 years or more. For the purposes of council tax a property is classified as empty when it is unoccupied and unfurnished. The premium could not be applied to properties that are exempt from council tax.
- 5.2 The intention behind this change is to encourage owners of long term empty properties to return them into use.
- 5.3 The Government issued a further consultation document on 28 September 2012 where they believe that there are circumstances where a premium would be inappropriate to apply, these are:
- A dwelling which is genuinely on the market for sale or letting
 - A dwelling which is the sole or main residence of a member of the armed forces, who is absent from the property as a result of such service

- An annex deemed unoccupied because it is being treated by the occupier of the main dwelling, as part of that main dwelling

- 5.4 The consultation will close on 9 November 2012 and within the consultation document it states 'It is the Government's intention that the premium will be able to be levied from 1 April 2013 and properties which will not be liable for the premium will be finalised by this date'.
- 5.5 Members may wish to consider whether there are other circumstances in which they would not wish to levy the Premium.
- 5.6 The Council is committed to bringing empty homes back into use. The premium could provide the Empty Homes team with an important tool in achieving this aim.
- 5.7 As at 1 November 2012 the Council had 223 long term empty properties and of these 61 had been empty for more than 2 years. The premium could generate additional income in the region of £65,000, with Exeter's proportion being £6,000.
- 5.8 It is proposed that the premium of 50% be levied on empty homes from 1 April 2013 (excluding those that the Regulations will not apply to).
- 5.9 It is also proposed that the 10% discount currently granted to long term empty properties be removed from the 1 April 2013. The Local Government Finance Act 2003 gave local authorities the powers to grant either no discount or a 10% discount. The Council previously agreed that from the 1 April 2004 the 10% discount would be granted on long term empty properties. By removing this discount additional income of £31,000 would be generated, with Exeter's proportion being £3,000.

6 PROPERTIES UNDERGOING STRUCTURAL/MAJOR REPAIR WORK – CLASS A EXEMPTION

- 6.1 Currently properties that are empty (unfurnished) and require or are undergoing structural or major repair works are eligible for a Class A exemption. This means that they are fully exempt from council tax for up to 12 months, or 6 months after the works are completed, whichever is shorter.
- 6.2 This exemption is being abolished and the Billing Authority is required to set its own level of discount, between 0% and 100% for the 12 month period. Unlike Exemption C the Government are not intending to allow Billing Authorities the flexibility of setting different levels of discount over the 12 month periods.
- 6.3 Members need to consider whether they should replicate the current level of relief or provide some level of discount in order to promote property development, particularly supporting major upgrading and improvements to poor quality housing stock or properties that are considered a blight in our communities.
- 6.4 If Members set the discount at lower than 100% this would mean that you would be introducing council tax bills from the start of their projects, therefore introducing extra overheads from the beginning.
- 6.5 It is proposed that Members set the discount at 50% from 1 April 2013. This percentage is what the majority of other Devon Authorities are proposing to their Councils for approval. As at 1 November 2012 the Council had 50 properties in receipt of the Class A Exemption for the purpose of council tax. The additional income this could generate would be in the region of £35,000, with Exeter's proportion being £3,000.

7 FINANCIAL SUMMARY

7.1 The following table shows the additional council tax income that could be generated by making the proposed changes:

Technical Reform	Additional income	Exeter's proportion
Second Homes	£59,000	£5,000
Exemption C	£184,000	£16,000
Long Term Empty Premium	£65,000	£6,000
Exemption A	£35,000	£3,000
Removal of Long Term Empty discount	£31,000	£3,000
TOTAL	£374,000	£33,000

8 OTHER REFORMS

8.1 Paying council tax over 12 months

8.1.1 The Government has given consideration to whether council tax should be payable over a 12 month period rather than 10. The Government intends to leave the default position at 10 months but allow council taxpayers the right to request to pay over 12 months. This is due to come in from April 2013.

8.1.2 Clearly if a significant proportion of our customers opted to pay by 12 instalments then this would cause a financial implication on interest received as the majority of council tax is collected by January of each financial year. It would also impact on how money is paid out to the major precepting authorities.

8.1.3 The Council has always allowed customers to pay by 12 instalments on request. This is not something that has been promoted on council tax bills, but is now likely to be made a legal requirement. It is expected that a number of working age benefit customers (because of localising council tax support /less funding) may opt to pay by 12 months, especially those that have never paid council tax before.

8.2 Publishing council tax information on our website

8.2.1 From next year it will no longer be a requirement to publish the quantity of information currently provided in the council tax leaflet that is sent out with the council tax bills. This can now be made available on-line, subject to the right of any customer, who requires a hard copy. The council will need to consider how best it wishes to communicate with householders in view of this change.

8.3 Mortgagee (lender) in possession

8.3.1 The current exemption Class L which applies to a Mortgagee in Possession is to be abolished and will mean the lender will be liable to pay the council tax. This only applies where the property is unoccupied. As at 1 November 2012 we had 4 customers in receipt of this exemption.

9 RESOURCE IMPLICATIONS

- 9.1 The reforms will initially be controversial and generate additional correspondence and telephone calls from those customers affected. However, it is expected that this work would be absorbed within the general work of the Council Tax Section.
- 9.2 In order to implement these reforms the Council will need to update council tax billing stationery, website and leaflets. We will also need to communicate the changes ahead of annual billing especially for those customers where they will see an increase in their bills.
- 9.3 Our software supplier has indicated that the software will be updated for these changes in January 2013, which should be in time for annual billing in February/March 201

10 RECOMMENDATION

It is recommended that the following changes to council tax are made from 1 April 2013:

- (1) Reduce the current Second Home discount from 10% to 0%.
- (2) For properties that would fall under Class C exemption set a discount of 100% for the first 2 months and then reduce the discount to 0% for the next 4 months.
- (3) Impose a premium levy of 50% council tax on properties that have been empty for more than 2 years.
- (4) Reduce the current long term empty property discount from 10% to 0%.
- (5) For properties that would fall under Class A exemption set a discount of 50%.

ASSISTANT DIRECTOR FINANCE

STRATEGIC DIRECTOR

Local Government (Access to Information) Act 1985 (as amended)
Background papers used in compiling the report:

None.