

Scrutiny Committee Report: Cabinet Report



Report of Head of Finance

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To: SCRUTINY COMMITTEE

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**AGENDA ITEM
NO 5**

Council tax exemptions and discounts

Recommendation

That the Council be recommended

- (a) That in accordance with the Local Government Finance Act 1992 (as amended by the Local Government Finance Act 2012)
 - (i) The council tax discount to be applied on second homes be reduced from ten per cent to nil from 1 April 2013
 - (ii) The council tax discount to be applied on unoccupied and unfurnished dwellings for up to six months (class C) be reduced from 100 per cent to 25 per cent from 1 April 2013
 - (iii) The council tax discount to be applied on dwellings requiring or undergoing structural repair for up to 12 months (class A) be reduced from 100 per cent to 50 per cent from 1 April 2013
 - (iv) That a premium of 50 per cent (on top of the 100 per cent currently payable) be applied to long term empty dwellings which have been empty and unfurnished for longer than two years from 1 April 2013

Purpose of Report

1. The purpose of this report is for Cabinet to recommend to Council the level of council tax discount to be applied to second homes, unoccupied and unfurnished dwellings, and dwellings undergoing or requiring structural repair.
2. Cabinet will also recommend to Council the level of premium to be applied to long-term empty dwellings.

Strategic Objectives

3. In accordance with the strategic objective “effective management of resources” by reviewing and varying the levels of discounts that can be applied to second homes, unoccupied and unfurnished dwellings, and dwellings undergoing or requiring structural repair, we can contribute to the corporate priority of providing high quality services that meet the need of our residents and service users – by keeping the council tax low as possible.
4. By reviewing and varying the levels of discount that can be applied to empty properties it may encourage owners to bring dwellings back into use and therefore contribute the strategic objective of “meeting housing need”.

Background

5. Second homes, defined as a furnished dwelling which is no one’s sole or main residence, currently receive a council tax discount of ten per cent. Unoccupied and unfurnished dwellings are currently exempt from council tax, for up to a maximum period of six months. Dwellings undergoing or requiring structural repair are currently exempt from council tax, for up to a maximum period of 12 months. Long-term empty dwellings that have already received any relevant discounts or exemptions are currently charged 100 per cent of the council tax due.

Options

6. Under the Local Government Finance Act 1992 (as amended) the Government propose to introduce regulations to allow councils to:
 - reduce the current statutory minimum discount of ten per cent for second homes to nil
 - award a discount of between zero and 100 per cent to unoccupied and unfurnished dwellings. The period of the discount can also be between zero and six months
 - award a discount of between zero and 100 per cent to dwellings undergoing or requiring structural repair. There are no changes to the maximum duration which remains at 12 months
 - apply a premium to long-term empty dwellings of up to an additional 50 per cent of the council tax due, where that dwelling has been empty for at least two years.

7. Table 1 below sets out the number of dwellings which currently fall into the above categories:

Table 1

	Second homes	Unoccupied and unfurnished	Requiring or undergoing structural repair	Long-term empty
Number of dwellings	414	433	129	504

8. There is a lack of available housing within the district and both second homes and long-term empty dwellings could be put to better use in easing the pressure on housing stock. Reducing the discounts on second homes might discourage second home ownership in the district, thereby increasing the supply for local people and applying a premium to long-term empty dwellings should encourage owners to bring them into occupation.
9. Whilst the current exemptions for unoccupied and unfurnished dwellings and dwellings requiring or undergoing structural repair are only for finite periods, once the exemptions have run their course they become long-term empty properties and can remain so for many years. Therefore, by allowing a discount of less than 100 per cent for these dwellings it should encourage owners to bring them back into use quicker.
10. Additionally, by reducing discount levels and applying premiums it will increase the district “council taxbase”. This will mean that the council can decide to either lower the Band D rate of council tax, without reducing the total amount of tax raised, or keep the Band D council tax at the same rate and raise more tax, without increasing the burden on individual households. This equally applies to both the local precepting authorities (towns and parishes) and the major precepting authorities (Oxfordshire County Council and the Police and Crime Commissioner).
11. When the Government’s intention to allow authorities to vary council discount levels on certain categories of property became known, Oxfordshire leaders agreed (in March 2012) that each District should undertake work to calculate the effect of the proposals for potential savings. It was also felt that uniform levels of discount would be the best approach to ensure county-wide consistency. It is therefore proposed that the levels of discounts/premiums detailed in **Table 2** below are adopted for the 2013/14 financial year:

Table 2

	Second homes	Unoccupied and unfurnished (Class C)	Requiring or undergoing structural repair (Class A)	Long-term empty
Amount of discount or premium	0% discount	25% discount	50% discount	50% premium

**These levels are consistent with those being adopted by the other district councils in Oxfordshire, although the City council is currently planning to set Classes A & C at 25% discount and is not planning to levy the Empty Homes Premium

Financial Implications

12. As stated above, by reducing discount amounts and applying premiums it will increase the district “council taxbase”, which, in turn, will increase the taxbase for both the local precepting authorities (towns and parishes) and the major precepting authorities (Oxfordshire County Council and the Police and Crime Commissioner).
13. From South’s point of view the annual financial benefit of applying the discount levels in Table 2 is **£60,657** based on current property figures. (See **Appendix 1**)
14. The Government has made it clear that the flexibility it is introducing into discount levels could be used to help offset the impact of the reduction in the new council tax support (i.e. Council Tax Reduction Scheme - CTRS) funding from 2013/14. The estimated increase in costs of the council’s CTRS (assuming a two per cent increase in take-up) is **£37,389**, which would be more than offset by applying the recommended discount changes.

Legal Implications

15. The recommendations to vary existing discount levels and apply a premium are in accordance with proposed regulations under the Local Government Finance Act 1992 (as amended).

Risks

16. There are some low risks in adopting the levels of discount as recommended. These include the possibility that an increase in council tax enforcement action may be required to recover this new debt. However, as the number of cases will be relatively low and recovery was not an issue when previous changes were made to second homes and long term empties in 2005, it may not prove to be an issue. Officers will monitor the situation.
17. There is a risk of owners avoiding the 150% premium on long term empty properties by just moving furniture into the property and claiming they are second homes (which will pay 100% council tax). This being the case, it is prudently

recommended that the taxbase is not adjusted and any additional income will be absorbed and distributed to the collection fund recipients at year end.

18. Although improbable, there is a very low risk that the impending regulations will not allow the councils to make the changes which have been recommended. If this did arise, the councils would need to revisit their plans accordingly.

Other implications

19. From the 2013/14 budget consultation (where 92 responses were received) 82 per cent of respondents agreed with an option to remove the current ten per cent discount for second homes, whilst 80 per cent agreed with the option to increase the charge for properties empty for two or more years, with reducing the number of empty properties when there is a shortage being an important factor.
20. Slightly smaller proportions (75 per cent for both) agreed with proposals to remove the six and 12 month 100 per cent exemptions and replace them with discounts of around 50 per cent respectively. Some concerns were expressed about unfairly penalising those whose properties might be empty in difficult circumstances such as property might being empty for some time due to a relative moving into care or the length of time it might take to sell it. However, it should be noted that additional exemptions are applied in such circumstances. It should also be noted that the increased council tax revenue will represent a tiny proportion of any sale proceeds.

Conclusion

21. The technical reforms introduced by the Government allow the council to contribute to its “effective management of resources” strategic objective. It may encourage the owners of long term empty properties to bring them back into use as well as increase the supply of dwellings generally by discouraging second home ownership thus contributing to the “meeting housing need” strategic objective. At the same time, as indicated by Government, the new flexibilities can offset the impact of the reduction in the funding the council will receive under the new local CTRS arrangements.

Background Papers

22. None

Positive effect of changing discounts and exemptions				
Options	Discount levels	Increase in taxbase	Band D council tax	Additional revenue (A)
Second homes	0%	502.8	£120.64	£60,657.79
Class C exemptions	25%			
Class A exemptions	50%			
Second homes	0%	374	£120.64	£45,119.36
Class C exemptions	50%			
Class A exemptions	50%			
Second homes	0%	408.2	£120.64	£49,245.25
Class C exemptions	50%			
Class A exemptions	25%			
Second homes	0%	536.1	£120.64	£64,675.10
Class C exemptions	25%			
Class A exemptions	25%			