

Subject:	Council Tax Discounts and Exemptions reform		
Date of Meeting:	12th July 2012		
Report of:	Director of Finance		
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Ward(s) affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 The Local Government Resource Review has three elements: local retention of business rates, replacement of council tax benefits with local council tax support schemes and technical reforms to council tax. This report covers technical reforms to council tax following the Government's publication of its consultation response at the end of May 2012. There are a number of areas originally proposed for reform that the government is not taking forward at this stage due to complexity. However there will be changes from April 2013 to the flexibilities that the council has in relation to second home discounts, homes undergoing structural work and empty properties. There are no changes to Single Person Discounts for council tax which will continue to be set at 25% under national legislation. There are no changes to student exemptions for council tax.
- 1.2 This report sets out the council's proposals in relation to second home discounts, homes undergoing structural work and premiums on properties that have been empty for more than two years. It does not at this stage make recommendations in relation to the discount that would be applied in the first six months of a property being empty. This is because the council had been planning to propose a particular approach based on its understanding of the government's original intentions that is not now possible because of the way that the legislation is drafted. Therefore this report simply sets out the issues that are being considered in this area.
- 1.3 The report sets out the council's proposed approach to consultation on these matters, which is not subject to any statutory requirement or government prescription. The final proposals will be presented to Policy & Resources Committee on 11th October with decision making by Full Council on 25th October 2012.

2. RECOMMENDATIONS:

- 2.1 That the following changes to council tax discounts and exemptions are proposed from 1 April 2013:
- the removal of the 10% second Homes discount so that all second homes are liable for full council tax

- the giving of 100% discount on properties undergoing structural work for up to 12 months (or 6 months after the works are completed whichever is the earlier) to replicate the existing Class A exemption;
 - the levying of the maximum allowable premium of 50% on properties that have been empty for more than two years.
- 2.2 That the issues in relation to discounts that might be applied in the first six months of a property being empty be noted.
- 2.3 That the proposed approach to consultation be agreed.
- 2.4 That a further report be brought back to this committee on 11th October 2012.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

- 3.1 Following a national consultation, the government published its policy decisions on 28 May 2012, with most changes being made through the Local Government Finance Bill 2012, currently at committee stage following its second reading at the House of Lords. This is part of a package of reforms to local government finance which has at its heart a policy intention of increasing local choice.

Second Home Discounts

- 3.2 Local authorities will have discretion to levy full council tax on second homes from 1 April 2013. Currently they are eligible for a 10% discount. This affects 1,846 homes in Brighton & Hove. It is proposed that the council take advantage of this new flexibility in order to promote effective use of the city's housing stock. The estimated additional income to the council from this change is £0.212m per annum.

Properties undergoing structural work

- 3.3 Currently properties undergoing structural work are eligible for a "Class A exemption". This means they are fully exempt from council tax when there are major repairs underway or structural alterations. This lasts for up to 12 months, or 6 months after the works are completed, whichever is the shorter.
- 3.4 In 2011/12 there were 847 Class A exemption awards, relating to 821 properties. Only a very small number (under 30) were under 12 weeks. Nearly 170 used up the maximum possible allowance of 12 months. The rest were evenly spread between 12 weeks and 52 weeks, suggesting that the length of time needed for development work is very variable. The value of class A exemption awarded during 2011/12 was £0.441m of which £0.388m related to 2011/12..
- 3.5 It is considered that the council should provide a reasonable but not excessive exemption in order to promote property development, particularly supporting major upgrading and improvements to poor quality housing stock. Under the new legislation, the council now has the option of setting its own level of discount, between 0% and 100%. However, this needs to be balanced against encouraging property development. We also have an inspection regime to ensure that the system is operating effectively, and that Council Tax is brought in

and charged at the earliest and fairest point. If we changed the amount of discount, we would be introducing Council Tax bills for a landlord, homeowner or developer from the start of their projects, therefore introducing extra overheads from the beginning.

- 3.6 It is therefore proposed that the current Class A exemption be replicated in full from 1 April 2013 in the form of a 100% discount.

Empty properties

- 3.7 Currently properties that are empty and unfurnished are eligible for a “Class C exemption” which gives them full exemption from council tax for up to 6 months regardless of change in ownership. The government is providing some new discretion over this award and also the opportunity to levy a premium of up to 50% on homes that have been empty for more than two years.
- 3.8 It is proposed that the council takes advantage of the new discretion to levy the maximum premium of 50% on homes that have been empty for more than two years. This is in order to promote effective use of the city’s housing stock and will be an important tool for the council’s empty property team in bringing those units back into use. The council will not budget for any income associated with that premium as the aim would be for all properties to be brought back into use before that deadline. This would of course have positive implications for the council’s taxbase but they are marginal and not possible to quantify at this stage. Should any premium be levied it is recommended that some or all of that income be set aside to support the empty homes strategy.
- 3.9 The situation in relation to Class C exemptions is more complex. In 2010/11, there were 16,884 awards, although nearly 1,400 of those are consecutive, signifying a change of liable party. 70% of awards lasted less than 42 days / 6 weeks, averaging 13.4 days each. 30% lasted longer than 42 days and these ones averaged 121.2 days (about four months). The maximum possible award was six months. The value of class C exemption awarded during 2010/11 was £2.282m of which £2.200m related to 2010/11. The value of class C exemption awarded during 2011/12 was £2.310m of which £2.288m related to 2011/12. The vast majority of recipients are in the private sector. 1,169 exemptions were for Brighton and Hove City Council properties and 416 were for Registered Social Landlords.
- 3.10 The policy aims for reforming the former Class C exemptions to a new empty property discount are to:
- Allow a reasonable but not excessive exemption to support standard voids between tenancies
 - Encourage faster turnaround times on empty homes
 - Reduce the number of long term empty properties

- 3.11 Prior to the government publishing its consultation response, the council had prepared options for awarding a 100% discount, but limiting that award to 42 days (or other similar options) instead of 181. This would have been more than sufficient for 70% of the typical caseload. It was felt that this approach would be the most efficient and effective device to achieve the policy aims. However the legislation as drafted does not allow for flexibility in the length of the exemption granted, only in the percentage granted.
- 3.12 This appears to present the council with a significant difficulty because any change in the percentage of discount awarded must be applied from day 1. This means that even if there was a turnaround time of a matter of 5 days, the landlord would have to be billed some amount. This would create a very large number of new council tax bills often for very small amounts and time periods with inevitable challenges about collection. This would also be a significant additional burden for landlords that would potentially be passed directly onto tenants in the form of higher average rents. Further consideration therefore needs to be given to this flexibility and technical advice is being sought from CIPFA as well as legal advice and information from other local authorities to ensure that we fully understand all the potential options available.

Other technical matters

- 3.13 A range of other exemptions will be unaffected. These exist to protect people in certain vulnerable or complex situations, such as those awaiting probate, or who have temporarily gone into care. A full list of exemptions appears in Appendix 1. There is no change to the 25% Single Person Discount which will still be prescribed in national legislation. There is no change to student exemptions.
- 3.14 The government has given consideration to whether council tax should be payable over a 12 month period rather than 10. It has decided to leave 10 months as the default position but allow householders a right to request spreading their payments over 12 months. This is broadly consistent with the approach already taken in Brighton & Hove and therefore no significant implications are envisaged from this change.
- 3.15 Billing authorities will no longer be required to publish the quantity of information currently provided in the council tax leaflet supplied to all households with the annual demand, most of this can now be supplied on-line. The council will need to consider how best it wishes to communicate with householders and has increased flexibility over the means.

4. COMMUNITY ENGAGEMENT AND CONSULTATION

- 4.1 Consultation will commence on the proposals in July 2012 via the consultation portal. We will also be talking to specific groups, such as the National Landlords Association, the Social Landlords forum, and the Southern Landlords Association. We will ask the Community and Voluntary Sector forum to disseminate the consultation among its members.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 5.1 Any changes to exemptions and discounts directly impact on the tax base which has financial implications for the council, Sussex Police Authority and East Sussex Fire Authority. The removal or reduction of discounts and exemptions awarded can also potentially impact on the collection rate for council tax and this is assessed in determining the financial impact of each change.
- 5.2 The removal of the 10% second homes discount will increase the tax base and the council's share of the additional council tax from this is £0.212m per annum.
- 5.3 The class A exemption being replaced with a 100% discount replicates the current level of discount received and therefore has no financial impact.
- 5.4 It is not possible at this stage to determine the level of additional council tax that would be raised from the 50% empty property premium although any financial impact would be minimal.
- 5.5 Potential options on changes to the class C exemption will be brought to this committee on 11th October 2012 and the financial effects will be quantified at that time.

Finance Officer Consulted: Heather Bentley

Date: 19/06/2012

Legal Implications:

- 5.6 The Government is changing the rules on council tax exemptions and discounts by a combination of new regulations and new legislation. A number of the proposals are contained in the Local Government Finance Bill which has passed its third reading in the House of Commons and is going through its stages in the House of Lords. Assuming the Bill does become law, it is possible that some of the proposals may be changed between now and Royal assent.
- 5.7 Under the Bill as currently drafted, any of the determinations which the Council will be given power to make will be required to be discharged by the full Council and may not be delegated to a committee or officer.
- 5.8 The Council must exercise its functions with due regard to its general duties under the Equality Act 2010 and the Child Poverty Act 2010. The equalities impact assessment should assist in identifying any issues before the next report is made.

Lawyer Consulted: John Heys

Date: 19/06/2012

Equalities Implications:

- 5.9 A draft Equalities Impact Assessment has been undertaken and no specific impacts have been identified at this stage. However this work will be revised and updated during the consultation period and a final assessment will be provided with the report to this Committee in October.

Sustainability Implications:

- 5.10 Ensuring best use of the city's housing stock is a key consideration for these proposals as is encouraging development that improves the quality of that stock.

Crime & Disorder Implications:

- 5.11 Most applications for exemption and discount are genuine. However, in any system there are opportunities for fraud and that is true of the existing system. The Revenues Inspectors team is a flexible resource that we can call upon to police the exemptions. They are able, for example, to check whether a property is still undergoing structural work, or conduct other property visits. This helps to mitigate loss to the public purse due to fraud. The new system could reduce loss due to fraud by reducing the overall period that people are able to claim an exemption for. However, the new system could introduce new types of fraud, both foreseen and unforeseen. We intend to use the Inspectors team, in conjunction with the Empty Properties Team to monitor and intervene where necessary.

Risk and Opportunity Management Implications:

- 5.12 This report has considered issues in relation to collection of council tax, risk of fraud and the incentives that discounts and exemptions provide.

Public Health Implications:

- 5.13 There could be a cumulative, although marginal positive impact on general wellbeing if the new package of exemptions encourages properties back into usage earlier.

Corporate / Citywide Implications:

- 5.14 The approach taken to council tax discounts and exemptions has an impact on the effective use of the city's housing stock and also its quality.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 6.1 The council could choose not to take advantage of the new flexibilities in relation to second homes discounts and long term empty properties but this would not be in keeping with overall strategic housing objectives and would not raise additional income.

7. REASONS FOR REPORT RECOMMENDATIONS

- 7.1 To enable consultation to be undertaken on proposed changes to council tax discounts.

SUPPORTING DOCUMENTATION

Appendices:

1. Current List of Exemptions

Documents in Members' Rooms

None

Background Documents

1. CLG consultation documents on the Local Government Resource Review and Council Tax reform

