



## COMMUNITY OVERVIEW AND SCRUTINY PANEL

### *Panel Report*

**Public**

**Date of Meeting:** 22nd November 2012

**Title:** PROPOSALS FOR IMPLEMENTATION COUNCIL TAX  
TECHNICAL REFORMS TO DISCOUNTS AND EXEMPTIONS

**Report of:** Director of Resources

**Report reference:** RD 48/12

**Summary:**

The Local Government Finance Act 2012 contains a number of 'technical' changes which give councils greater freedom to vary existing discounts and exemptions. The government consider that this would be a suitable means of helping to offset the cost of a Local Support for Council Tax Scheme (LSCT) as the additional income, would be shared between the precepting authorities in the same proportions they are funding the LSCT.

This report suggests changes to empty rate Council Tax discounts to fund in part the cost of reduced LSCT grant income.

**Questions for / input required from Scrutiny:**

To scrutinize the proposals set out in section 4 of the report.

**Recommendations:**

The Executive is recommended to consider the proposals set out in the report and summarised in para 5.2 as a means to fund in part the grant reductions to be introduced from 1<sup>st</sup> April 2013 in funding the cost of the localisation of Council Tax Benefits (discounts).

Any recommendation made by the Executive will be progressed to Council as part of the 2013/14 budget considerations.

**Contact Officer:** Peter Mason

**Ext:** 7270

**Appendices attached:** N/A

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

## Impact assessments

Does the change have an impact on the following?

Equality Impact Screening	Impact Yes/No?	Is the impact positive or negative?
Does the policy/service impact on the following?	No	N/A
Age	No	N/A
Disability	No	N/A
Race	No	N/A
Gender/ Transgender	No	N/A
Sexual Orientation	No	N/A
Religion or belief	No	N/A
Human Rights	No	N/A
Health inequalities	No	N/A
Rurality	No	N/A



# REPORT TO EXECUTIVE

## PORTFOLIO AREA: FINANCE, GOVERNANCE & RESOURCES

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Date of Meeting: 19<sup>th</sup> November 2012

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Public

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Key Decision: Yes

Recorded in Forward Plan:

Yes

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Inside

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**Recommendations:** The Executive is recommended to consider the proposals set out in the report and summarised in para 5.2 as a means to fund in part the grant reductions to be introduced from 1<sup>st</sup> April 2013 in funding the cost of the localisation of Council Tax Benefits (discounts).

Any recommendation made by the Executive will be progressed to Council as part of the 2013/14 budget considerations.

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## **1. BACKGROUND INFORMATION AND OPTIONS**

- 1.1. The Local Government Finance Act 2012 received Royal Assent on 31 October 2012 and contains a number of 'technical' changes which give councils greater freedom to vary existing discounts and exemptions. The government consider that this would be a suitable means of helping to offset the cost of a Local Support for Council Tax Scheme (LSCT) as the additional income would be shared between the precepting authorities in the same proportions they are funding the LSCT.
- 1.2. The details of the proposed LSCT along with early consideration of the Technical Reforms to Council Tax were considered by the Executive on the 6<sup>th</sup> August (CD 39/12).
- 1.3. In terms of public perception, there are advantages to making any Council Tax technical reform changes, from April 2013, to align with the reduction in Government funding to support the LSCT. The Council as the Billing Authority will be empowered to make decisions on changes to appropriate Council Tax discounts/exemptions.
- 1.4. It should be noted that the Local Government Finance only recently received Royal Assent and the Regulations have still not been made to enable the changes to take place. Therefore any recommendations by the Executive on Council Tax discount amendments will need to be fed into the 2013/14 budget process for consideration by full Council.

## **2. Local Support for Council Tax Scheme (LSCT)**

- 2.1 The Council's proposed scheme for the Localised Support for Council Tax was considered by the Executive on 6<sup>th</sup> August. It was agreed that for 2013/14 the local scheme adopted would be identical to the DCLG default scheme. This in effect replicates the existing benefit scheme as far as claimants are concerned and so claimants will see no changes to their benefits. There will however be significant technical and accounting changes arising from the change in the award from a benefit to a discount for the precepting Councils. For Carlisle the funding gap of LSCT (before considering the potential mitigations of Council Tax Technical Reforms) is estimated at c. £120,000 in 2013/14 but could rise to £190,000 depending on take up.
- 2.2 The County Council and the Police authorities have been consulted on this proposal and their responses were largely positive and supportive of the Council's reasons for the proposals it had made. There was predictable concern however over the funding gap that arises from the proposals, which for the County amount to between £4.2m and £6.3m, before any mitigations which could be made from the Council Tax Technical Reforms. Both the County Council and the Cumbria Police authority have

asked the Council to consider mitigating the loss of grant by reviewing discount and grants as allowed under the technical changes proposals.

### **3. Council Tax Technical Reforms**

- 3.1. In the Communities and Local Government (DCLG) impact assessment for the Technical Reforms to Council Tax, published 20<sup>th</sup> December 2011, the DCLG have stated, “it is unlikely that authorities would think it appropriate to use their new flexibilities to reduce these discounts to zero.....That said, if authorities exercise the flexibilities to maximise revenue, the extra revenue generated would relieve pressure on Council Tax .....” The current understanding is that it is therefore entirely the decision of Councils as to what to set their discount levels at. The Government has given a strong indication that it expects authorities to use the new Council Tax discount powers as one way for Councils to fund the cost of their LSCT schemes. Nationally it is estimated that LSCT may cost local authorities about £500m whilst the extra income from the Council Tax Discounts could raise about £400m.
- 3.2. The different Council Tax Discounts available for consideration are considered in more detail in paragraph 4 below.
- 3.3. A number of other changes are to be made to Council Tax, the main ones are:
  - (i) Council Taxpayers will be given a legal right to pay by twelve instalments on request, although the default will still be ten instalments
  - (ii) Councils will no longer need to provide each Council taxpayer with a hard copy of the information that supports the Council Tax Bill.
- 3.4. There are a number of other discounts that the Government has not given the Council any discretion on altering including the Single Person discount and this will continue to be set nationally by the Government at 25%. This is despite lobbying by a number of Councils to be allowed to set this discount locally.

### **4. Detailed Council Tax Technical Reform – Considerations and Proposals**

- 4.1. **Exemption Class A** – these exemptions apply to uninhabitable properties which are unfurnished and in the course of renovation. These are generally properties in need of significant modernisation, requiring works to remedy structural defects or affected by natural disaster e.g. flood or fire.
  - 4.1.1. **Currently, these properties can receive a 100% exemption from Council Tax for a period up to 12 months.** They are primarily owned by private individuals, rather than builders, and allow the purchaser to acquire the property at a cheaper market value in lieu of the cost of work required to render it habitable. They also

include owners who move out (e.g. live in a caravan on site) in order to remedy structural defects or substantially alter the dwellings e.g. add on another floor.

- 4.1.2. Setting the discount at less than 100% would require the buyer/owner to factor in the additional costs of Council Tax when purchasing the property and could impact adversely on the first time buyer market or in any strategy to reduce the number of unfit homes within the City.
- 4.1.3. There may be some impact on businesses involved in renovating properties.
- 4.1.4. **It is suggested that the current discount of 100% for 12 months should be reduced to 75%. There is no option to alter the time period on this exemption. The estimated value of this reduction is £45k of which the City Council would receive c. £6k.**
- 4.2. **Exemption Class C** – these apply to short term unoccupied and unfurnished properties.
  - 4.2.1. **Currently these properties can receive a 100% exemption from Council Tax for a period up to 6 months.** They are primarily properties that are changing owner or changing tenant and the six months allows for the exchange of contracts/new tenancy agreements to take place. They can also include property left under the terms of a will.
  - 4.2.2. This category includes all property that is rented as unfurnished and includes the majority of Registered Providers of Social Housing (although this is under review). It can also apply to properties that have enjoyed Class A exemption for 12 months and qualify to transfer into Class C exemption for a further period of up to 6 months.
  - 4.2.3. All persons affected would have to factor any discount reduction/increase in liability into their budgets. It might encourage faster re-letting or re-occupation of empty homes. Conversely it may lead to more sub-standard housing where the cost of repairs/redecoration increases with the increase in liability.
  - 4.2.4. There may be some impact on businesses involved in house-building as a newly completed but unoccupied dwellings would normally enjoy a period of 6 months before liability arises.
  - 4.2.5. **It is suggested that the current discount of 100% for 6 months should be reduced to 50% for 6 months. The estimated value of this reduction based on the current 6 months is £524k of which the City Council would receive c. £69k.**

4.3. **Second Home Discount** – this applies to furnished but unoccupied properties.

4.3.1. **Currently these properties can receive a 10% reduction in Council Tax liability for an indefinite period.** They are generally 2<sup>nd</sup> homes or properties between tenancies that are let furnished.

4.3.2. The disadvantage of reducing the discount to zero is that there would be no incentive for owners to declare their houses as second homes and the record of second homes may therefore become less accurate over time.

4.3.3. A further consideration is that there is also a ten year agreement (started April 2009) between the County Council and all the Cumbrian Districts. Under this agreement the County granted back to each District a third of the extra Council Tax raised for the County by the Districts (as Billing Authorities) of reducing the discount from 50% to 10%. For Carlisle this is **£63k per annum**. The agreement was made to ensure that part of the total Council Tax raised by second homes was retained within the district in which it arose. Members will note that the County Council consultation response makes reference to this grant and that 'the current income sharing agreement may also require review late in the year as the legislation and regulations through which they are financed changes and the full impact becomes clearer'. The County have indicated informally that they are not planning to reconsider the income sharing agreement at this time however Members will need to be clear on the implications of a potential change in the grant back conditions before it makes any decision.

4.3.4. **It is suggested due to the reasons set out above that the discount should remain at 10%.**

4.4. **Standard Empty Discount** – this applies to longer term unoccupied and unfurnished properties.

4.4.1. **Currently these properties can receive a 50% reduction in Council Tax liability for an indefinite period.** Existing legislation allows the Authority to set this discount at a percentage it determines. Also to make a determination varying or revoking a determination but only before the beginning of the financial year.

4.4.2. This category contains a mix of circumstances e.g.

- Additional property acquired under the terms of a will
- Additional property in need of modernisation but not bad enough to be classed as uninhabitable
- Property which remains unsold or untenanted

- Property which is an asset but where the owner does not want to be involved in the business of renting it out
- Property being held for future occupation

- 4.4.3. Reducing the discount may fit with wider Council strategy or policy objectives around increasing the local housing provision by bringing empty homes back into use or increasing funding through the New Homes Bonus Scheme.
- 4.4.4. However, there may be a number of cases where the owner does not have the financial capacity to bring the home back into use and increasing the Council Tax liability could cause hardship.
- 4.4.5. **It is suggested that the discount for standard empty properties be reduced to 25%.**
- 4.5. **Long Term Empty Premium** – this applies to long term unoccupied and unfurnished properties.
- 4.5.1. **Currently these properties can receive a 50% reduction in Council Tax liability for an indefinite period.** The current proposal allow for a premium to be charged on these properties in future.
- 4.5.2. Similar profiles to standard empty discount properties (detailed above), similar considerations and potential for greater impact if premium applied on top of erasing the current discount.
- 4.5.3. Figures on long term empties are not currently available as the authority does not treat them differently to other empty properties receiving a 50% discount and regulations do not require separate reporting. Investigations will be undertaken to identify the current and trend figures for this category.
- 4.5.4. The regulations allow the Council to not only reduce the discount but if so minded introduce of 50% premium meaning that long term empty properties would be charged up to 1½ time current Council Tax rates.
- 4.5.5. **It is suggested that no discount be granted but no premium on the Council Tax rate is introduced.**

## 5. **Financial Impact**

- 5.1. Council Tax technical reforms are due to take effect on 1<sup>st</sup> April 2013 and, under the new proposals, local authorities will have limited discretion to reduce the exemption/discounts (increase the Council Tax liability) on empty dwellings and



second homes. The changes could have a significant impact upon the funding gap resulting from the introduction of LSCT.

Based on 2012/13 figures, the estimated shortfall for Carlisle is estimated at c. £120,000 - £190,000. The anticipated savings that might be made from the changes to Council Tax discounts is summarised below:

<b>Exemption / Discount</b>	<b>Proposed Reduction in Liability</b>	<b>Full financial impact £000</b>	<b>Carlisle and Parishes £000</b>	<b>County and Police</b>
<b>Class A</b> (being renovated)	From 100% for 12 months to 75% for 12 months	<b>45</b>	<b>6</b>	<b>39</b>
<b>Class C</b> Short term empties	From 100% for 6 months to 50% for 6 months	<b>462</b>	<b>61</b>	<b>401</b>
<b>Second Homes</b>	No Change			
<b>Standard Empties</b> <b>Medium term empties</b>	From 50% for an indefinite period to 25% for 18 months (2 years total)	<b>131</b>	<b>17</b>	<b>114</b>
<b>Long Term Empties</b>	From 50% discount for an indefinite period to no discount	<b>160</b>	<b>21</b>	<b>139</b>
<b>TOTAL</b>		<b>798</b>	<b>*105</b>	<b>693</b>

\*Note City Council's share £98,000, parish precepts share £7,000

## 5.2 **Social Housing**

Social Housing Providers will only be affected by the above changes if the property is left empty for more than 6 months i.e. such properties will be designated as Class B vacant dwellings owned by charities for up to 6 months.

5.3 The above table is an estimation of the impact only as the figures are based on current levels of empty properties. The potential impact also does not take fully into account any collection / avoidance issues. It is suggested that taking these factors into account, Carlisle's share for 2013/14 budget purposes would be approx £90,000.

5.4 As can be seen from the Table above (and note 5.3) the estimated maximum amount that could be raised for Carlisle if discounts were set to the proposed levels

would be approximately £90,000. This would meet of majority the estimated funding gap of £120k/£190k arising from LSCT.

- 5.5 The County Council consultation response has 'encouraged' a consistent approach to the Council Tax Technical Reforms across the Districts. As far as is currently known, all Districts are taking a slightly different approach to this issue depending on local circumstances (some planning to reduce discounts by more than being suggested in this report).

## **6. Summary**

- 6.1. The decisions to be made around setting levels of discount and premium for the wider Council Tax Technical Reforms need to be carefully considered with regard to financial, economic and wider community impact. The changes to discount suggested in this report takes the 'middle road' between making full use of the technical changes to maximize income and minimizing the impact on Council Tax payers. However owners of empty homes are unlikely to welcome any reduction in their current discounts.

## **7. Recommendations**

- 7.1 The Executive is recommended to consider the proposals set out in the report and summarised in para 5.2 as a means to fund in part the grant reductions to be introduced from 1<sup>st</sup> April 2013 in funding the cost of the localisation of Council Tax Benefits (discounts).
- 7.2 Any recommendation made by the Executive will be progressed to Council as part of the 2013/14 budget considerations.

## **8. Implications**

- Staffing/Resources – none
- Financial – The financial consequences of implementing these technical reforms are set out at section 5 of the report and will be considered as part of the 2013/14 budget process.
- Legal – The Local Government Finance Act 2012 received Royal Assent on 31 October 2012 but, as yet, the relevant Regulations made there under are still awaited. It is these Regulations which will guide the changes discussed within the body of the Report.
- Corporate – none

- Risk Management – The risks associated with the implementation of the LSCT and the technical reforms are monitored through the Council's Corporate Risk Management arrangements
- Environmental – none
- Crime and Disorder – none
- Impact on Customers – Will be monitored throughout the first year of implementation.
- Equality and Diversity – none

### Impact assessments

**Does the change have an impact on the following?**

<b>Equality Impact Screening</b>	<b>Impact Yes/No?</b>	<b>Is the impact positive or negative?</b>
Does the policy/service impact on the following?		
Age	<b>N</b>	<b>N/A</b>
Disability	<b>N</b>	<b>N/A</b>
Race	<b>N</b>	<b>N/A</b>
Gender/ Transgender	<b>N</b>	<b>N/A</b>
Sexual Orientation	<b>N</b>	<b>N/A</b>
Religion or belief	<b>N</b>	<b>N/A</b>
Human Rights	<b>N</b>	<b>N/A</b>
Health inequalities	<b>N</b>	<b>N/A</b>
Rurality	<b>N</b>	<b>N/A</b>