

Item No. 11.	Classification: Open	Date: 23 October 2012	Meeting Name: Cabinet
Report title:		Local Taxation Reform – Second Home Discount	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Finance, Resources and Community Safety	

FOREWORD - COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY

In May, the government indicated its intention to allow councils to withdraw some discounts and exemptions within the council tax system. Although we are still waiting for Parliament to agree the legislation to permit this, this report recommends that we agree our approach now in readiness for those flexibilities being granted.

Given the large scale of the financial pressures facing the council as a consequence of government cuts, the report proposes that we end the council tax discount for second homes. Whilst the additional revenue generated through this is modest, it is important that we are using this opportunity to raise revenue given the pressures that the council's budget faces. It is also inequitable for those who can afford more than one home to face less taxation than other residents in the borough.

The report also recommends that further work is undertaken to look at whether we should remove exemptions for empty properties. It is clearly undesirable to have empty homes in the borough when demand for housing is so high. However, we also need to carefully assess what the impact of removing these exemptions might be on the costs of regeneration projects that require properties being emptied in preparation for demolition. As a landlord, we will also want to consider what the potential impact on the housing revenue account would be.

It should also be noted that removing these discounts and exemptions in full would generate additional revenue that is still significantly less than the lost funding to the council for council tax support and is likely to be only a small proportion of the cuts and new financial pressures facing the authority in 2013/14.

RECOMMENDATIONS

That Cabinet:

1. Note the intended technical reform changes to council tax legislation with regard to the new discretion to amend certain council tax discounts and exemptions.
2. Recommend to council assembly that they agree to remove the existing ten percent discount awarded for second home properties with effect from the 1 April 2013, subject to consideration of the outcomes of the Equality Impact Assessment.

3. Request that officers submit a further report in November with recommendations on the approach to any changes in respect of council tax discounts and exemptions.

BACKGROUND INFORMATION

4. On 31 October 2011, the government issued its technical reforms of council tax consultation document with proposals to give greater discretion to allow reliefs from council tax in respect of second and empty homes.
5. The government sought responses on the following proposals:
 - (a) giving billing authorities power to levy up to full council tax on second homes
 - (b) replacing exemption Classes A and C with discounts, the amount of which would be for billing authorities to determine
 - (c) abolishing Class L exemption, and making mortgagees in possession of empty dwellings liable to council tax in respect of them
 - (d) allowing billing authorities to levy an 'empty homes premium' in respect of dwellings which have been left empty for two years or more.
6. In addition to these, there were further changes proposed on the council tax instalment scheme and publication of electronic information to be sent with council tax bills.
7. On 28 May 2012, the government issued its response to the consultation and its intention to bring in legislation to give effect to the changes with effect from 1 April 2013.

Second Homes – Property that is not the sole or main home of someone

8. Local authorities will have discretion to charge the full council tax on second homes.

Class A - Property that requires or is undergoing major repair

9. Abolish the Class A exemption and allow local authorities to set a discount between 0–100 percent. It is not anticipated at this time that there will be any discretion to vary the period of the award from the existing twelve months and therefore any discount other than 100 percent would result in a council tax charge being payable immediately.

Class C - Property that is unoccupied and unfurnished up to 6 months

10. Abolish the Class C exemption and allow billing authorities to set a discount between 0–100 percent. Following responses to the consultation and a Council Tax Information Letter from the DCLG issued on 27 July, it is anticipated that there will be discretion to vary the period of the award from the existing six months and would allow for a period of 100 percent discount prior to a council tax charge being payable.

Class L – Liabilities of mortgagees in possession

11. The government has decided not to proceed with any changes to the existing exemption from council tax at this time but will continue discussions with the mortgage lenders sector.

Empty Homes Premium – Property that has been empty for 2 years or more

12. Allow local authorities to charge an additional 50 percent on properties that have been empty for two years or more thereby creating a 150 percent liability for council tax.

KEY ISSUES FOR CONSIDERATION

13. Cabinet will want to consider two key issues as part of this process being:
 - a) The removal of the second home discount (10 percent) for a some properties within the borough
 - b) The option to review the existing provision of exemptions for properties empty & unfurnished or uninhabitable.

Second homes discount

14. There are currently 607 second home discounts claimed within Southwark. The existing value equating to £94,005.
15. It is proposed that this could be further reduced to zero and therefore no longer applicable (subject to legislation) with effect from 1 April 2013.

Exemptions

16. Subject to legislation the council will be able to reduce or remove council tax exemptions for properties undergoing major repair/structural alteration or empty & unfurnished dwellings (Classes A & C) giving effect to them from 1 April 2013. An enabling measure has been included in S.10 of the Local Government Finance Bill currently before parliament, and if enacted will amend section 11A of the Local Government Finance Act 1992 so that the Secretary of State may define a class of property in respect of which an authority may determine a discount in the range zero percent to 100 percent.
17. It needs to be determined whether there should be a short period of discount in respect of properties that are unoccupied and unfurnished (Class C) or full council tax charged immediately. Analysis of these exemptions for 2011/12 has indicated that 45 percent of all awards were for less than 28 days and 65 percent less than 56 days. If there is no discount for a short period, amounts to be billed and collected could be, individually, relatively small.
18. In the absence of discretion of award periods for properties requiring or undergoing major repairs or structural alteration (Class A), it needs to be determined whether the full amount of council tax should be charged immediately. Analysis of these exemptions for 2011/12 has indicated that 67 percent are in excess of 182 days and over 50 percent relate to Council properties. If there is no discretion to change the period, the options would be

to retain the current status and award 100 percent discount for the full twelve months or vary the discount between 0 -100 percent.

19. Legal opinion is currently being sought in respect of council tax exemption Class B which is not included in the proposed changes. This class of exemption relates to properties that are empty and owned by a charity which could result in many Registered Social Landlords being entitled to this class of exemption in place of the existing Class C (empty & unfurnished) exemption.
20. Southwark as a landlord are currently liable to pay council tax in respect of both Class A (uninhabitable) and C (empty & unfurnished) so there is a potential impact on the Housing Revenue account. Analysis undertaken indicates that over 50 percent of Class A exemptions were awarded in respect of properties on the Heygate estate with the majority of the remainder being awarded to developers. With regard to Class C, most awards for council properties were for less than one month. Further analysis is required to determine the full impact of any changes on the Housing Revenue account.

Properties in receipt of exemptions

21. In relation to Class C, empty and unfurnished exemptions, there were 1299 exemptions granted with a value equating to £1,184,463.
22. Empty but furnished properties which attract a 10 percent discount equated to 1,141 discounts with a value of £121,690.
23. Class A exemptions were granted to 134 properties with a value of £125,774.

Community impact statement

24. An Equalities Assessment (EA) for the proposed changes to the council tax is being developed. This will review those likely to be affected by any change within the borough and determine any mitigating action that may be recommended as part of any change.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Legal Services

25. Cabinet is advised that recommendations 1 and 3 may be agreed and cabinet will await the next report from officers.
26. Cabinet is alerted to the fact that the second recommendation to council assembly is predicated upon legislation that has not yet been passed through Parliament. The proposed legislation enables the council to proceed with the removal of the 10 percent discount on second homes. The Local Government Finance Bill is currently at the Report stage in the House of Lords and due for reading on 10 October 2012, parliamentary commentary indicates the intention of government to complete the passage of the Bill before the end of the year. Cabinet is advised that it may agree the recommendation to council assembly in spite of the absence of the legislation; the relevant decision as to whether to agree the recommendation rests with council assembly under Part 3A of the council's constitution.

27. Cabinet will be made aware of the equality implications of the proposal following an Equality Impact Assessment, in the updating officer report. Cabinet will note that the decision makers at council assembly must give due regard to the outcomes of the assessment when making a decision.

Strategic Director of Finance and Corporate Services

28. This report requests that the cabinet agree to remove the 10 percent discount on second homes with effect from 1 April 2013, and note the technical reform changes that will be the subject of a further report.
29. The strategic director notes that it is estimated at current volumes, that the proposal to remove the second homes discount will generate approximately £95k per annum at current council tax levels. If agreed this will be factored into the 2013/14 council tax base and would then be factored into the collection rate to be agreed by Council Assembly in January 2013.

BACKGROUND DOCUMENTS

No.	Title
None	

AUDIT TRAIL

Cabinet Member	Councillor Richard Livingstone, Finance, Resources and Community Safety		
Lead Officer	Duncan Whitfield, Strategic Director of Finance & Corporate Services		
Report Author	Norman Lockie, Operations Manager (Revenues)		
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CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
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	Director of Legal Services	Yes	Yes
	Strategic Director of Finance & Corporate Services	Yes	Yes
	Cabinet Member	Yes	Yes
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