

## **TECHNICAL REFORMS TO COUNCIL TAX SUPPORT**

**Submitted by:** Head of Revenues & Benefits

**Portfolio:** Finance and Budget Management

**Ward(s) affected:** All

### **Purpose of the Report**

The Local Government Finance Act 2012 introduces certain changes with regard to the operation of Council Tax in England. Some of the changes are to be applied generally across the scheme but others allow for individual local authorities to apply discretion around how they will be applied in their own area.

### **Recommendations**

**(a) That with respect to the discretion allowed by reforms to Council Tax legislation detailed within The Local Government Finance Act 2012 for charges in respect of Second Homes, former Class A exemptions and the Empty Homes Premium, alterations are made to existing arrangements to maximise income.**

**(b) That with respect to the discretion allowed by reforms to Council Tax legislation detailed within The Local Government Finance Act 2012 for charges in respect of Class C exemptions, that a 100% discount be introduced for the first 56 days and thereafter this is reduced to 0%.**

### **Reasons**

Where discretion is applied, a decision on how this will operate is needed in order to calculate the Council Tax Base, which must be set by 31 January each year for the following financial year.

#### **1. Background**

- 1.1 On 31 October 2011, the Secretary of State for Communities and Local Government launched a consultation paper concerning proposals for technical reforms of Council Tax.
- 1.2 The consultation paper set out the government's general proposals for reforms of Council Tax which form part of its agenda for decentralisation and localism. Council Tax is a local tax and the Government seeks to further empower local communities.
- 1.3 Some of the proposals contained within the consultation paper have not progressed at this stage, with the government requiring further time to consider implementation but those that have advanced have been included in The Local Government Finance Act 2012, to take effect from 1 April 2013. It is suggested by the Secretary of State that full implementation of the reforms would have the affect of raising £20 for each Council Tax Band D equivalent property across England.

#### **2. Issues**

- 2.1 Although the decision around the implementation of these reforms lies with the billing authority, it will also impact upon the major precepting bodies for the area. Based on 2012/13 figures the proportion of the total income generated by Council Tax is distributed as follows:

- Staffordshire County Council 70.9%
- Staffordshire Police and Crime Commissioner 12.2%
- Newcastle-under-Lyme Borough Council 12.2%
- Stoke-on-Trent & Staffordshire Fire Authority 4.7%

2.2 Local precepting authorities will also be impacted by these changes although there are additional considerations needed for them because of other reforms linked to the Localisation of Council Tax Support. For 2013/14 local precepting authorities will obtain part of their funding via Council Tax and part, by negotiation with the billing authority, from changes made with regard to Business Rates Retention.

### 3. **Options Considered**

#### 3.1 **Second Homes:**

Since April 2004, billing authorities have had the discretion to vary the discount rate applied in respect of second homes. The maximum discount allowed was 50% but this may be reduced to any point to a minimum of 10%.

Prior to April 2011, Newcastle allowed the maximum discount rate of 50% but reduced this for the 2011/12 financial year to 10% and has continued at this rate since.

The new legislation now enables the minimum discount to be reduced to 0%.

#### 3.2 **Class A Exemptions:**

Class A exemptions relate to properties requiring or undergoing major repair work or structural alterations or where these works have been recently completed and can last for up to 12 months in total.

When Council Tax was first introduced in April 1993, this exemption class could apply without a time limit but the 12 month maximum period was introduced with effect from April 2000.

The new legislation removes Class A exemptions but replaces them with a discretionary discount of between 100% and 0%.

#### 3.3 **Class C Exemptions:**

Class C exemptions relate to properties that are unoccupied and substantially unfurnished and can last for up to six months. This exemption class had been unchanged since Council Tax was first introduced.

The new legislation removes Class C exemptions but replaces them with a discretionary discount of between 100% and 0%.

A substantial number of Class C exemptions are for relatively short periods, typically following changes in ownership and occupation. The introduction of a 0% discount for the entire six month period would therefore result in a high proportion of small account balances, which would potentially lead to dispute and be difficult to collect. In practical terms, this could be mitigated by granting an initial discount period equivalent to the current exemption followed by removal after a prescribed time limit. The suggested time for removal to a 0% discount is therefore 56 days.

### 3.4 Empty Homes Premium:

Central government is very concerned at the number of empty properties there are within the national housing stock. For Council Tax purposes a property is classed as long term empty after a period of six months.

Council Tax legislation stipulates that a long term empty property can receive a discount of 50%, although it has been possible to vary this to between 50% and 0% since April 2004. Newcastle implemented a 0% discount with effect from April 2011 and it has continued at this rate since

An Empty Home Premium would enable billing authorities to charge more than 100% after a property had been empty for two years. The premium could be between an additional 0% and 50%.

## 4. **Proposal**

- 4.1 In respect of items 3.1, 3.2 and 3.4 above, the Council would look to exercise its discretion to maximise the potential additional income generation allowed by this new legislation. In respect of item 3.3, the Council would continue with a 100% discount for the first 56 days that a property became empty and thereafter reduce the discount to 0%. This initial charge free period would avoid a large number of small difficult to recover amounts being created in respect of small gaps of occupation when properties change owners/occupiers. Appendix A details the additional revenue these changes would realise.

## 5. **Reasons for the Preferred Solution**

- 5.1 At a time of severe restriction on local authority finances, the technical reforms offer a means of generating additional resources to run services whilst impacting on the minimum number of Council Tax payers.

## 6. **Outcomes Linked to Sustainable Community Strategy and Corporate Priorities**

- 6.1 Council Tax links to all local authority strategies and priorities because it is one of the major sources of funding for local government services.

## 7. **Legal and Statutory Implications**

- 7.1 The core legislation establishing Council Tax was contained within the Local Government Finance Act 1992. The amendments affecting the current changes are contained within the Local Government Finance Act 2012.

## 8. **Equality Impact Assessment**

- 8.1 An Equality Impact Assessment already exists for this area. It will be reviewed to take account of these changes

## 9. **Financial and Resource Implications**

- 9.1 The potential additional income generated by each of the proposals is shown in Appendix A.
- 9.2 Although regulations stipulate the way income generated from Council Tax is distributed to the precepting authorities (see paragraph 2.1 above), the decisions made by the billing authority with regard to these reforms will obviously provide additional resources for them. It

is proposed therefore to engage with these precepting bodies to ensure any additional resources are channelled, as far as possible, into schemes for the benefit of this Council area.

10. **Major Risks**

- 10.1 Although the changes proposed will impact on a small number of Council Tax payers, these individuals are likely to be aggrieved by their implementation. There is a two fold risk in that some of this money will undoubtedly be difficult to collect, potentially adversely impacting on collection rates and it may encourage some individuals to develop evasion strategies.

11. **Key Decision Information**

- 11.1 Exercising discretion in the areas allowed by this new legislation moves Council Tax further away from the core principles of the scheme as it was originally introduced. It is becoming more focused on maximising income generation. With restrictions being placed on public sectors budgets in general, the opportunities available to make these locally applied changes offers limited scope to enable current service delivery to be maintained and/or improved.

12. **Earlier Cabinet/Committee Resolutions**

None.

13. **List of Appendices**

Appendix A –Technical Reforms to Council Tax - Potential Income Generated

14. **Previous Reports**

None

15. **Background Papers**

Technical Reforms of Council Tax – Consultation Local Government Finance Act 2012