

## ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1	Meeting:	Cabinet
2	Date:	21 <sup>st</sup> December 2011
3	Title:	Draft Response to Government Consultation on Council Tax Reform
4	Directorate:	Resources

### 5 Summary

The report summarises the Government's proposals for the technical reforms to Council Tax, in particular **changes to exemptions for second homes and empty properties, which will generate additional income for authorities from the 2013/14 financial year.** Other proposals relate to Council Tax leaflets and payment profiles. The possible implications for Rotherham of the proposals are set out in this report. Attached as an appendix is the Council's proposed response to the Consultation paper issued on 31<sup>st</sup> October 2011.

### 6 Recommendations

**Cabinet is asked to note :**

- **The contents of this report; and**
- **The draft response to the DCLG Consultation Paper on the Technical Reforms of Council Tax.**

## 7 Proposals and Details

7.1 The Secretary of State for Communities and Local Government, published a Consultation Paper outlining Proposals for the Technical Reform of Council Tax WEF 2013/14 on 31<sup>st</sup> October 2011. The Consultation Paper requested responses by 29<sup>th</sup> December and the Council's draft response is attached as an appendix to this report. The response is being presented to Self Regulation Select Commission for consideration on December 8<sup>th</sup> prior to being submitted to Cabinet and then to the DCLG. The Government is seeking to make changes to legislation with a view to them coming into effect from 2013/14.

### 7.2 The changes being proposed by the Government are:

- Amending the range of discounts offered for second homes to 0% to 50% (instead of 10% to 50%); this would allow authorities to levy up to the full Council Tax on second homes.
- Replacing existing **Class A** (vacant dwellings where major repair works or structural alterations are required - valid for up to 12 months) and **Class C** (vacant dwellings valid for up to 6 months) with discounts of up to 100%, the value of which will be determined by billing authorities. Also proposed is abolishing exemptions for unoccupied reposessed dwellings (**Class L** exemptions) and making the lender (mortgagee) responsible for the Council Tax.
- Allowing billing authorities to levy an **empty homes premium** in respect of dwellings which have been left empty for two years or more.
- The default assumption will be that Council Tax payment will be in installments over 12 months rather than the current 10.
- Allowing authorities to publish online the information supplied with the annual Council Tax demand (i.e. the Council Tax leaflet) with a duty to supply a hard copy if requested.
- Changes to eliminate potential tax complications from arrangements involving third party suppliers where **solar panels installations** are placed on the roofs of dwellings without coming into the paramount control of the resident.

**The Government wishes authorities to retain locally any additional revenue generated and accordingly Formula Grant will not be adjusted.** However it is also noted that proposals discussed in the consultation on Business Rates Retention may affect this.

The DCLG indicated that it has no plans to change the rules on Council Tax relief currently available for homes left empty because a person has moved into a hospital or care home, (classes E and I) has died or has moved to provide care to another.- however the Council's response to the Consultation indicates that these discounts should also be reviewed on the same basis as other properties.

### 7.3 Implications for Rotherham

#### Second Homes

Currently there are **420 properties with a 50% second home discount in Rotherham this equates to a total discount of £0.207m pa** (after allowing for

Council Tax Banding). Under the proposals the Council would have discretion to award a discount of between 0% and 50%. Given the low number of properties involved no administrative or collection issues are foreseen.

At present Formula Grant is **not** reduced to offset any additional Council Tax income received on second homes. The removal of the discount on second homes would probably result in a reduction in the number of second homes declared and consequently a decrease in the amount allocated for second homes in Formula Grant. The Government is asking in the consultation for ideas as to how this problem can be overcome.

### Empty Homes

**Class A Exemptions** - The Government proposes to abolish this exemption from Council Tax and replace this with a locally decided discount of between 0% and 100%. The additional amount raised by offering discounts below 100% would be retained by authorities.

At present there are **211 properties attracting a 100% Class A Exemption in Rotherham, which is equivalent to £0.2m** in Council Tax forgone (after allowing for Council Tax bands). Again, as the number of exemptions in Rotherham is not substantial, the replacement of the exemption should not result in any problems with tax collection and administration.

Currently properties are initially assessed for the exemption by the Council Tax Visiting Officer and inspected every 3 months to confirm that the exemption still applies. The current time limit of 1 year would seem reasonable. Allowing authorities discretion on the length and value of the discount as suggested could result in an increase in appeals and administration costs.

**Class C – Vacant and Unfurnished.** The table below shows the number of properties currently receiving a 50% Council Tax discount as a result of being unoccupied for more than 6 months.

Council Tax Band	A	B	C	D	E	F	G	H	Total
<b>Properties receiving 50% Zero Occupier Discount</b>	877	216	138	49	23	11	6	1	1,321
<b>Discount Awarded £'000</b>	360	103	75	30	17	10	6	1	601

Of these properties 349 (equivalent to discounts of £143,000) are owned by the Council itself.

**Currently 431 properties in the Borough are long term empty – vacant for at least 18 months - and receiving a discount of 50%. Ending this discount would generate an additional £0.2m pa.**

**Class L Exemption – Repossessed properties:** it is proposed that the institution taking possession of the dwelling would be liable to pay council tax on that property. Unlike the other proposals around empty homes this additional income would be taken into account when determining the authority formula grant allocation so the net effect on authorities would potentially be nil.

**Empty homes premium** - The government is also asking for opinion as to whether authorities should be given the option of charging an 'empty homes premium' on properties that have been left empty for over two years. The current proposals may be more effective than the present 50% Council Tax discount in encouraging owners to bring empty properties back into use, however there could be significant implications for the administration and collection of the premium and a charge above 100% of Council Tax could be seen as punitive.

### **Council Tax Payments**

The default assumption will be that Council Tax payment will be in installments over 12 months rather than the current 10. Currently the Council's normal payment profile is 10 monthly installments paid April to January with only Direct Debit payers being offered 12 installments. 18.2% of live accounts pay in 12 installments and a further 81.3% of live accounts pay by Direct Debit (38.6%) and cash etc (42.7%) over 10 installments (the remainder relates to Council debt e.g. for vacant council housing).

Making 12 installments mandatory and increasing the number of installments would have cash flow implications for the Council.

### **Information Supplied with Demand Notices**

Currently the authority is obliged to provide, as a hard copy, information that comes with the Council Tax demand notice – the Council Tax leaflet. The Government "would like to remove this requirement and allow authorities to publish the information online with a requirement to provide a hard copy to a resident if requested". Currently it costs around £9k to produce the leaflet.

### **Solar installations on domestic properties**

Changes are proposed to eliminate potential tax complications around arrangements with third party suppliers of panels. This should have no effect on current council tax income.

## **8. Finance**

The financial issues are discussed in section 7 above.

## **9 Risks and Uncertainties**

The costs of current discounts quoted do not include Police Fire and Parish precepts and the interaction of discounts with precepting authorities is still being assessed. The proposals would give the Council discretion to determine the actual discounts etc offered.

Problems may also arise in that if the Council offers no discount on empty homes and second homes, there will be less chance that empty homes are declared and registered, which could lead to the tax base being overstated. The proposals could also lead to additional administration being required to collect income.

Due to the changes being proposed in relation to the localisation of business rates the changes should not affect formula grant calculations for the authority

in the short to medium term. It is only when the Formula Grant system is reset under the new regime that problems may arise in determining the tax base.

## **10. Policy and Performance Agenda Implications**

The Government proposals, if moved forward would present the authority with a number of options and potential new sources of income generation as a result of reducing or ceasing some Council Tax discounts.

## **11. Background Papers and Consultation**

- Consultation Paper Technical Reforms of Council Tax – DCLG 31<sup>st</sup> October 2011
- Briefing from the LGA
- Briefing from Local Government Futures.

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