

Report No:
12164

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker: **Executive and Resources PDS
Executive**

Date: **21 November 2012
28 November 2012**

Decision Type: Urgent Executive Key

Title: **Technical reforms of Council Tax**

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Chief Officer: Peter Turner

Ward: All

1. Reason for report

The Local Government Finance Bill currently going through the Parliamentary process empowers local authorities to decide the level of council tax discount to be awarded on classes of property where the rate was previously set nationally. The change is due to be effective from the 01 April 2013.

This report sets out the potential amount of additional income that can be raised and requests a decision from Members as to the level (if any) of council tax discount that should be awarded in certain circumstances

2. **RECOMMENDATION(S)**

Members are agreed to consider options and agree the below recommendations

- 0% discount be applied to Second Homes from 01 April 2013
- 0% discount be applied to "Class A" exemption from 01 April 2013
- 0% discount be applied to "Class C" exemption from 01 April 2013
- No change be made in respect of "Class L" exemption
- The Empty Homes Premium not be applied for the financial year 2013/14

Corporate Policy

1. Policy Status: New Policy:
 2. BBB Priority: Not Applicable:
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Financial

1. Cost of proposal: None – Unless public consultation undertaken
 2. Ongoing costs: Not Applicable:
 3. Budget head/performance centre: 400002 & 400003
 4. Total current budget for this head: £6.7m
 5. Source of funding: Not applicable
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Staff

1. Number of staff (current and additional): 2.5 full-time equivalents plus Liberata staff
 2. If from existing staff resources, number of staff hours: Approximately 30 hours (not including any used on public consultation)
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Legal

1. Legal Requirement:
 2. Call-in: Applicable Not Applicable: Further Details
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): Approx 1700 households directly affected by the proposal. Approximately 136,000 properties on the Council Tax register.
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments:

3. COMMENTARY

3.1 Background

The response to consultation issued in late May confirmed that in most areas the Government wished to proceed in line with the Department for Communities and Local Government (DCLG's) original proposals.

The proposed changes will be included in the local Government Finance Act 2012 that received the Royal Assent on 1 November .

The proposed legislation, allowed LA's to vary the discount, but not to apply different levels over the period of time. Several councils contacted the DCLG advising that they would like discretion to vary the rates over a period of time, in order that they could avoid landlords/housing Associations becoming liable for Council Tax in respect of short periods between "lets".

The DCLG in Council Tax Information Letter 2/2012 recently advised:
"Ministers have carefully considered these representation. In keeping with the spirit of the proposed reforms, the Government intends to allow councils complete discretion over the level of council tax discount and the time-period for which it might apply to an empty home."

Now that the Authority has been given discretion to vary the level of discount over a period of time; there is likely to be extensive lobbying by Housing Associations and private landlords requesting that a "grace period" be put in place before council tax becomes payable on an empty property.

3.2 Major Changes

3.2.1 Second Homes

As from 2013/14 Local Authority's will be able to levy full Council Tax on second homes

Bromley has around 500 properties classified as a Second Home. Currently, a 10% discount is awarded and based on an average band "D" property this equates to a total annual discount of £65k

3.2.2 Empty dwellings undergoing major repair – "Class A" exemption

Currently the property is exempt for a maximum of 12 months.

As from 2013/14 the "Class A" exemption will be abolished and the Local Authority (LA) able to replace it with a discount of 0 – 100 per cent. This will be for a period of 1 year, after which the LA can award a discount of 0 – 50 per cent

Bromley has around 230 properties with a "Class A" exemption in place.

With a full exemption currently being awarded, based on an average of a band "D" property this equates to a total exemption of £300k

3.2.3 Vacant dwellings – "Class C" exemption

Currently the property is exempt from Council Tax for a maximum of 6 months. As from 2013/14 the "Class C" exemption will be abolished and the Local Authority (LA) able to replace it with a discount of 0 – 100 per cent.

Bromley has around 940 properties with a “Class C” exemption in place. With a full exemption currently being awarded, based on an average of a band “D” property this equates to a total exemption of £1,220k

3.2.4 Liability of Mortgagees in Possession – “Class L” exemption

Currently this class is exempt for as long as the situation applies. In these cases the intention is that the mortgagees in possession (normally a bank or building society) be made liable for the Council Tax on the property. The Liability will only arise in respect of empty dwellings and the provision relating to the granting of discounts for such properties will apply. Whilst the Government intends to continue with this proposal, they have provided a commitment that “the measure will not be introduced without detailed discussion with the mortgage lenders sector about their issues, leading to satisfactory and workable administrative arrangements”.

Bromley has around 20 properties with a “Class L” exemption in place. With a full exemption currently being awarded, based on an average of a band “D” property this equates to a total exemption of £26k

3.2.5 Empty Homes Premium

As from 2013/14 The Council Tax regime for empty properties will fall into 3 phases.

Phase 1 – A discount between 0% and 100% discount can be awarded. This is for the first 6 months if the property remains empty and substantially unfurnished (currently “Class C” exemption); or 12 months if the dwelling is undergoing major repairs etc (currently “Class A” exemption)

Phase 2 – A period during which between 0 and 50% discount can be awarded. This will last indefinitely unless the LA has implemented the empty homes premium.

Phase 3 – A period starting after the property has been empty for two years and lasting for an indefinite period. If the empty homes premium implemented, the Council Tax liability will be up to 150% of the Council Tax liability based on the property being occupied and the Single Person Discount not applying.

Bromley has around 230 properties that have been empty for in excess of 2 years. If the Authority was to invoke the Empty Homes Premium and set the level at 150% Council Tax liability, based on an average of band “D” property this would equate to potential income of £149k

3.2.6 Payment by instalments

The default method will remain at the tax payer meeting his annual liability by way of 10 payments (April – January). However, the liable person will now have the legal right to make payment by way of 12 monthly instalments. This legal right will need to be clearly conveyed to the taxpayer.

A movement to payment over 12 instalments rather the current 10 will have a negative impact on Bromley’s cash flow, the level of which will be dependant on the number of households opting to change.

3.2.7 Annexes to dwellings

Where part of a property has been constructed or adapted for separate occupation this is currently banded separately for Council Tax. This rule takes no account as to whether the property is occupied. The consultation document sought views as to whether this was the correct approach.

The Government has now announced that they will be undertaking a wider review on this issue.

4. POLICY IMPLICATIONS

In addition to the financial impact detailed in section 5 below, the policy is likely to have an influence on the level of new homes bonus received and the number of properties available for occupation.

5. FINANCIAL IMPLICATIONS

5.1 Detailed below is a summary of potential additional income (maximum) based on Bromley adopting the provision contained in the Local Government Finance Bill.

	£000's
Second Homes	65
Empty dwelling undergoing major repair (Class A)	300
Vacant dwellings (Class C)	1,220
Sub Total	1,585
Less assumed income reduction of 15% (see below)	- 238
Net total	1,347

Other Options not included above

Liability of Mortgagees in Possession (Class L)	26 *
Empty Homes Premium	149
Total	1,760

* Assuming that the detailed discussions with mortgage lenders are successful.

Members should note that additional income of £300k has already been assumed in the savings.

The savings figures cited above may be reduced as a result of additional collection costs resulting from the increased collectable debit.

5.2 Officers recommend that a 0% discount be applied to "Second Homes" and "Classes A & C" exemptions/discounts

5.3 It is difficult to estimate the number of empty properties that will become "occupied" by an individual moving in and claiming Single Person Discount. However, when added to the difficulty of collecting the debt (particularly where the tax payer is not resident) I believe that financial planning should be based on a maximum of 85% of the amount cited above.

5.4 On the basis that residents may opt to advise that a person is occupying the property; thereby attracting the Single Person Discount of 25% the number of properties considered empty could

reduce significantly. However, change in properties from empty to occupied will help support receipt of New Homes Bonus

- 5.5 It is recommended that no change be made in respect of the “Class L” exemption as the requirement for Government to have further discussions with mortgage lenders is unlikely to conclude in time for changes to be made in respect of 2013/14
- 5.6 It is not proposed that the Empty Homes Premium be introduced as this may be problematic to verify. Owners may seek to claim that the property is occupied therefore mitigating potential further income and possibly bringing about a reduction by Single Person Discount becoming applicable.
- 5.7 In the light of Council Tax Information Letter 2/2012, were Members to decide to grant a 100% discount in respect of the first 30 days a property was empty, latest estimates indicate this would reduce the level of additional income obtained by changes in class “A” and class “c” discounts by around 36%. However, it should be noted that imposing a liability from the first day on which a property is empty will incur additional collection costs, with demands having to be forwarded for relatively small amounts. Liberata have been asked to provide estimates as to the additional billing and collection costs together with the projected collection rate.

6. LEGAL IMPLICATIONS

Are set out in the body of the report

Non-Applicable Sections:	Personnel Implications
Background Documents: (Access via Contact Officer)	[Title of document and date]