

<b>DECISION-MAKER:</b>	CABINET COUNCIL		
<b>SUBJECT:</b>	DISCOUNTS AND EXEMPTIONS FOR SECOND HOMES AND EMPTY PROPERTIES		
<b>DATE OF DECISION:</b>	15 JANUARY 2013 16 JANUARY 2013		
<b>REPORT OF:</b>	CABINET MEMBER FOR RESOURCES		
<b><u>CONTACT DETAILS</u></b>			
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<b>STATEMENT OF CONFIDENTIALITY</b>			
N/A			

### **BRIEF SUMMARY**

New regulations contained in the Local Government Finance Act 2012 allow the Council to make significant changes to the discounts and exemptions that are currently offered on Council Tax. These technical reforms are in line with the Government's stated policy aims to promote localism and address the housing shortage by encouraging owners of unoccupied properties to bring them back into use more quickly; either through sale or renting. This report sets out for approval the policy for discounts for empty homes (to replace the existing Class A and Class C exemptions), long term empty homes and second homes to be implemented from 1 April 2013, and also the introduction of a discretionary hardship relief scheme.

Due to technical changes resulting from the outcome of the local government funding review, which are also contained within the Local Government Finance Act 2012, the approval process for the National Non-Domestic Rates (NNDR) Return which sets out the estimated level of NNDR income the Council will collect in the coming year (the NNDR 1), needs to be formally delegated by Council.

### **RECOMMENDATIONS:**

#### **CABINET**

#### **It is recommended that Cabinet:**

- (i) Recommends that Full Council
  - a) Approves the policy that the empty homes discount is left at 100% for Class C empty properties but that the discount is reduced from six months to one month from 1 April 2013.
  - b) Approves the policy that the empty homes discount is reduced from 100% to 50% for Class A empty properties from 1 April 2013.
  - c) Approves the introduction of a long term empty properties premium set at 50% from 1 April 2013.

- d) Approves the removal of the second home discount so that Council Tax will be payable in full on these properties from 1 April 2013.
- e) Approves the introduction of discretionary hardship support under section 13A of the Local Government Finance Act 1992 with effect from 1 April 2013 as set out in Appendix 1.
- f) Delegate authority to the Chief Financial Officer (CFO) following consultation with the Cabinet Member for Resources to approve the NNDR 1 return for the City Council from 2013/14 and for future years.

## **COUNCIL**

### **It is recommended that Council:**

- a) Approves the policy that the empty homes discount is left at 100% for Class C empty properties but that the discount is reduced from six months to one month from 1 April 2013.
- b) Approves the policy that the empty homes discount is reduced from 100% to 50% for Class A empty properties from 1 April 2013.
- c) Approves the introduction of a long term empty properties premium set at 50% from 1 April 2013.
- d) Approves the removal of the second home discount so that Council Tax will be payable in full on these properties from 1 April 2013.
- e) Approves the introduction of discretionary hardship support under section 13A of the Local Government Finance Act 1992 with effect from 1 April 2013 as set out in Appendix 1.
- f) Delegate authority to the Chief Financial Officer (CFO) following consultation with the Cabinet Member for Resources to approve the NNDR 1 return for the City Council from 2013/14 and for future years.

## **REASONS FOR REPORT RECOMMENDATIONS**

1. The new regulations contained in the Local Government Finance Act 2012 allow the Council to make significant changes to the discounts and exemptions that are currently offered on Council Tax.
2. Having considered the options presented by these changes the proposed changes will raise additional revenue for the Council and preceptors to help protect local services at a time when national funding for local Councils is being withdrawn, and should encourage bringing empty homes back into use.
3. Due to technical changes resulting from the outcome of the local government funding review, which are contained within the Local Government Finance Act 2012, the approval process for the NNDR Return which has previously been a responsibility of the CFO now needs to be formally delegated by Council to the CFO.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

4. Clearly there are a huge number of variables and alternative options that could be implemented. Alternative packages have been considered and the key factors that have been taken into account in reaching this final set of proposals are set out in paragraph 14.

5. These proposals aim to balance increases in Council Tax income against the risk of non-collection and any possible loss of grant funding and also consider the housing needs of the City.
6. There are no alternative options to the delegation of the approval of the NNDR 1 return as the return must be completed in line with regulations. The ability of Members to directly influence the estimate of NNDR is very limited.

#### **DETAIL (Including consultation carried out)**

##### **CONSULTATION**

7. Whilst there is no requirement to consult on these changes to discounts and exemptions, which will be effective from 1 April 2013, the changes were set out in the General Fund Revenue Budget 2013/14 to 2015/16 report which was approved by Cabinet on 20 November 2012.
8. The publication of this report marked the start of an extensive consultation process on the initial draft budget and therefore included these proposals.

##### **BACKGROUND**

9. The new regulations contained in the Local Government Finance Act 2012 allow the Council to make significant changes to the discounts and exemptions that are currently offered on Council Tax. These technical reforms are in line with the Government's stated policy aims to promote localism and address the housing shortage by encouraging owners of unoccupied properties to bring them back into use more quickly; either through sale or renting.

##### **Empty Dwellings**

10. The regulations allow Councils to change discount awards relating to a number of classes of empty property, which were subject to statutory limitations. These discretions will be available from 1 April 2013 when the Council will be able to reduce the discount currently awarded to a property where it qualified for a discount under the legislative classifications of Class A and C:
  - Class A – A dwelling is exempt for a maximum of 12 months if it requires or is undergoing major structural repair or alterations. The property must be unoccupied and substantially unfurnished. Exemptions for this class have been replaced by a discount that local authorities will set. The discount can be between 0% and 100% based on local discretion.
  - Class C – A dwelling is exempt for a maximum period of six months from the date it is both unoccupied and unfurnished irrespective of any change of ownership. Exemptions for this class have been replaced by a discount that local authorities will set. The discount can be between 0% and 100% based on local discretion.

In 2011/12 approximately £0.7M was granted for these exemptions impacting on up to 1,680 properties on average.

### **Empty Homes Premium**

11. Long-term empty homes are properties that have been empty longer than two years and the new regulations give Local Authorities the option to levy a premium of 50% on top of the full Council Tax charge on these properties. A snapshot at the end of May showed that 191 properties had been empty for more than two years which could theoretically generate approximately £112,000 of additional Council Tax income

### **Second Homes**

12. Local Authorities were able to give a discount of between 10% and 50% on second homes which are not job related, and the new regulations now allow a discount of between 0% and 50% to be granted. Southampton currently allows a 10% discount and in 2011/12 approximately £93,000 was granted for 840 properties on average.
13. Removing in full the discount from Classes A and C, the remaining 10% discount on second homes and charging an empty property premium on properties that are long-term empty of up to 50% on top of the full Council Tax has the potential to generate an additional £0.9M in gross Council Tax income, impacting on approximately 2,700 properties.
14. However, these figures take no account of a number of other factors which need to be considered:
  - a) Currently the formula for calculating government grant assumes exemption on some classes of empty properties. If empty properties were not notified to us by residents, it would result in a loss of grant to the Council. Any proposal therefore needs to consider offering an incentive for notification.
  - b) If a person notified as a sole adult resident claiming 25% discount, it would result in a loss of grant and mean that a discount of at least 25% would be claimed. A differential between empty property and single person discount would help to avoid this issue.
  - c) Charging Class C properties for a short empty period would create additional costs (bills, disputes, postage, administration, bad debt etc), for small periods in between moving out and tenancy ending or sale of property.
  - d) The Council's own properties will be affected by any reduction in discounts.
  - e) The legislation does not allow for flexibility in the length of the exemption granted for Class A properties only in the percentage granted.
  - f) The Council needs to consider if it should provide a reasonable but not excessive discount in order to promote property development, particularly supporting major upgrading and improvements to poor quality housing stock.
  - g) These figures take no account of the additional challenge of collecting Council Tax on empty properties.

- h) The legislation includes a provision whereby a dwelling which is genuinely on the market for sale or letting should not be made liable to the empty homes premium. This effectively means that very few premiums would be charged and therefore limited if any additional income would be raised.

### **Proposals**

15. Taking these factors into consideration, along with the need to get empty properties back into use quickly and the Council's financial position, the proposed changes are as follows:
- Empty homes discount left at 100% for Class C empty properties but the discount to be reduced from six months to one month.
  - Empty homes discount to be reduced from 100% to 50% for Class A empty properties.
  - Long term empty properties premium set at 50%.
  - Removal of the second home discount so that Council Tax will be payable in full.

These discounts will be allowed under section 11A of the Local Government Finance Act 1992 as amended by clause 9 of the Local Government Finance Act 2012.

### **Discretionary Hardship Support**

16. In addition to these changes, the Executive recognises that there may on occasion be particular cases of hardship which are not adequately covered by the existing and proposed exemptions and discounts.
- The Executive are therefore also proposing to put in place discretionary hardship support under section 13A of the Local Government Finance Act 1992, although it is anticipated that this would only apply in limited exceptional circumstances.
17. The details of the discretionary hardship support which is to be approved are contained in Appendix 1.

### **Summary**

18. These proposals aim to balance increases in Council Tax income against the risk of non-collection and any possible loss of grant funding and also consider the housing needs of the City. As a consequence the potential savings from the allowable changes would not reach the maximum possible figure of £0.9M and these recommendations were forecast to raise additional Council Tax income of £0.5M which was built into the forecast position as set out in paragraph 52 of the report approved by Cabinet on 20 November 2012 entitled General Fund Revenue Budget 2013/14 to 2015/16.
19. Approval is needed for the proposals in order that the impact can be factored into the Council Tax base calculations for 2013/14 which in turn will impact on the final general fund revenue budget proposals.

20. With the exception of the level of discounts the ability of Members to influence the estimate of the Council Tax Base is very limited and for that reason this was delegated to the CFO following consultation with the Cabinet Member for Resources by Council in January 2006.
21. Due to technical changes resulting from the outcome of the local government funding review, which are contained within the Local Government Finance Act 2012, the approval process for the NNDR Return which sets out the estimated level of NNDR income the Council will collect in the coming year (the NNDR 1), now needs to be formally delegated by Council to the CFO. This is because under the new funding arrangements the estimated level of NNDR income for the coming year has the potential to impact on the Council's budget position in a similar way to the Council Tax Base. Going forward Councils will be able to retain a proportion of their growth in business rates and will also be taking the risk for reductions in business rates, although there are 'safety net' arrangements in place to protect against large reductions.
22. This return has to date been approved by the CFO. Given that the return must be completed in line with regulations and that the ability of Members to directly influence the estimate of NNDR is very limited, it is proposed that this is treated in the same way as the approval of the Council Tax Base and that approval is delegated to the CFO following consultation with the Cabinet Member for Resources.

## **RESOURCE IMPLICATIONS**

### **Capital**

23. None

### **Revenue**

24. The changes were forecast to generate additional Council Tax income of £0.5M and this was built into the forecast position as set out in paragraph 52 of the report approved by Cabinet on 20 November 2012 entitled General Fund Revenue Budget 2013/14 to 2015/16.

25. The final financial impact of these changes which will be assumed within the revenue budget for 2013/14 is set out below:

	<b>Estimated Additional Income</b>	
	<b>£</b>	<b>£</b>
Empty Dwellings Class A	43,100	
Empty Dwellings Class C	458,600	
Empty Homes Premium	0	
Second Homes	72,600	
Loss Due to Other Discounts	(66,200)	
Subtotal		508,100
<b>Assuming 2% Council Tax Increase</b>		518,300
Collection Rate @ 97.9%		(10,900)
Discretionary Hardship Support		(20,000)
<b>Net Total</b>		<b>487,400</b>

26. There are no additional financial implications from the delegation of the approval of the NNDR 1 to the CFO following consultation with the Cabinet Member for Resources.

#### **Property/Other**

27. None

#### **LEGAL IMPLICATIONS**

##### **Statutory power to undertake proposals in the report:**

28. The Local Government Finance Act 2012 amends the Local Government Finance Act 1992 allowing local discretion over the implementation of certain discounts and charges applied within the Council Tax regime.

29. ***Second Homes and Discounts replacing the existing Class A and Class C Exemptions***

Amendments have been made to the legislation from 1 April 2013 in respect of second homes and the replacement of the existing Class A and Class C exemptions (granted under the Council Tax (Exempt Dwellings) Order 1992). The amendments have been made by the Local Government Finance Act 2012 which inserts new legislation within the existing Local Government Finance Act 1992 as follows;

*(4A) For any financial year for which a class of dwellings is prescribed for the purposes of this subsection, a billing authority in England may by determination provide;*

*(a) in relation to all dwellings of that class in its area, or*

*(b) in relation to such description of dwellings of that class as it may specify in the determination, that the discount under section 11(2)(a) shall not apply or shall be such percentage (which may be 100) as it may so specify.*

*(4B) Where a class of dwellings is prescribed for the purposes of subsection (4A) by reference to the period of time for which a condition is met, a billing authority may not, under paragraph (b) of that subsection, specify a description of dwellings of that class by reference (wholly or partly) to a shorter such period.”*

### 30. **Long term Empty Properties**

For long-term empty premises, the legislation (Local Government Finance Act 1992) has been amended to allow for a ‘premium’ to be added to any existing charge up to a maximum of 50% based on classes of premises defined by the local authority. Section 11b of the Local Government Finance Act 1992 has been inserted as follows;

#### **11B Higher amount for long-term empty dwellings: England**

*(1) For any financial year, a billing authority in England may by determination provide in relation to its area, or such part of its area as it may specify in the determination, that if on any day a dwelling is a long-term empty dwelling —*

*(a) the discount under section 11(2)(a) shall not apply, and (b) the amount of council tax payable in respect of that dwelling and that day shall be increased by such percentage of not more than 50 as it may so specify.*

*(2) The Secretary of State may by regulations prescribe one or more classes of dwelling in relation to which a billing authority may not make a determination under this section.*

*(3) A class of dwellings may be prescribed under subsection (2) by reference to such factors as the Secretary of State thinks fit and may, in particular, be prescribed by reference to —*

*(a) the physical characteristics of, or other matters relating to, dwellings;*  
*(b) the circumstances of, or other matters relating to, any person who is liable to the amount of council tax concerned.*

*(4) Where a determination under this section has effect in relation to a class of dwellings;*

*(a) the billing authority may not make a determination under section 11A(3), (4) or (4A) in relation to that class, and (b) any determination that has been made under section 11A(3), (4) or (4A) ceases to have effect in relation to that class.*

*(5) A billing authority may make a determination varying or revoking a determination under this section for a financial year, but only before the beginning of the year.*

*(6) A billing authority which makes a determination under this section must publish a notice of it in at least one newspaper circulating in its area and do so before the end of the period of 21 days beginning with the date of the determination.*

*(7) Failure to comply with subsection (6) does not affect the validity of a determination.*

(8) For the purposes of this section, a dwelling is a “long-term empty dwelling” on any day if for a continuous period of at least 2 years ending with that day —

(a) it has been unoccupied, and (b) it has been substantially unfurnished.

(9) In determining for the purposes of this section whether a dwelling has been unoccupied for any period, no account is to be taken of any one or more periods of not more than 6 weeks, or such longer period as the Secretary of State may by regulations specify, during which it was occupied.”

**31. Discretionary Hardship Support**

Section 13A of the Local Government Finance Act 1992 as amended by section 76 of the Local Government Act 2003 provides the Billing Authority (Southampton City Council) with the power to reduce or remit council tax where it is considered that “hardship” would otherwise be caused.

**Other Legal Implications:**

32. The City Council, in accordance with the legislation, will publish the changes to the Council Tax regime within 21 days of making such a resolution.

**POLICY FRAMEWORK IMPLICATIONS**

33. This report sets out the Executive’s proposed changes to Council Tax discounts and exemptions which is forms part of budget and policy framework.

**KEY DECISION?** Yes/No

<b>WARDS/COMMUNITIES AFFECTED:</b>	ALL
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**SUPPORTING DOCUMENTATION**

**Appendices**

1.	DISCRETIONARY COUNCIL TAX SUPPORT POLICY
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**Documents In Members’ Rooms**

1.	None
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**Equality Impact Assessment**

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	Yes/No
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**Other Background Documents**

**Equality Impact Assessment and Other Background documents available for inspection at:**

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1. General Fund Revenue Budget 2013/14 to 2015/16 – Approved by Cabinet on 20 November 2012	