

## PLYMOUTH CITY COUNCIL

**Subject:** Council Tax Technical Reforms

**Committee:** Cabinet

**Date:** 11 December 2012

**Cabinet Member:** Councillor Lowry

**CMT Member:** Adam Broome (Director for Corporate Services)

**Author:** Martine Collins (Strategic Manager Revs and Benefits)

**Contact:** Tel: 01752 304118  
email: martine.collins@plymouth.gov.uk

**Ref:**

**Key Decision:** No

**Part:** 1

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### **Purpose of the report:**

To seek approval for changes to current Council Tax exemptions in preparation for main billing in April 2013.

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### **Corporate Plan 2012-2015:**

The Revenues and Benefits service significantly contributes to the inequalities agenda ensuring that the most vulnerable residents of Plymouth receive the appropriate benefit entitlement.

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### **Implications for Medium Term Financial Plan and Resource Implications: Including finance, human, IT and land**

National Welfare reform changes will place additional pressures on Council Tax collection which is estimated at £1m less than current collection. The proposed recommendations will provide more opportunity for local authorities to set council tax levels more appropriately for its citizens by relieving the burden of council tax in relation to second homes and empty properties where the authority feels that properties receiving this relief do not merit it.

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### **Other Implications: e.g. Child Poverty, Community Safety, Health and Safety, Risk Management and Equality, Diversity and Community Cohesion:**

- An effective Revenues and Benefits service helps address inequalities through ensuring that those able to pay Council Tax contribute appropriately to relieve the overall Council Tax burden.

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**Recommendations & Reasons for recommended action:**

It is recommended that Cabinet recommend to Full Council to:

- Remove the current 10% discount on second homes and charge the full Council Tax
- Charge 50% Council Tax for properties undergoing major repair for as long as the property remains in that state up to the maximum period of 1 year
- Reduce the 100% discount on empty and unfurnished properties from 6 months to 1 month
- Charge a 50% premium on homes that have been empty for more than 2 years, taking the total Council Tax due to 150%.

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**Alternative options considered and reasons for recommended action:**

The alternative to adopting the changes would be to leave all discounts and exemptions as they are currently.

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**Background papers:**

None

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**Sign off:**

Fin	DJN1 213.0 14	Leg	TH0 063	HR		Corp Prop		IT		Strat Proc	
Originating SMT Member: Malcolm Coe											
Have you consulted the Cabinet Member(s) named on the report? Yes											

## **I Introduction**

- 1.1 The proposals for technical reform to Council Tax are set against a backdrop of the Government's agenda for decentralisation and localism. The aim is to redistribute power and funding from Government to local people to deliver what they want for their communities.
- 1.2 As a local tax, Council Tax forms part of the Government's agenda and the changes proposed seek to provide greater flexibility to local authorities whilst allowing them to manage pressures on council tax.
- 1.3 The Government's aim is that the changes to legislation will come into effect for 2013-2014 and subsequent years.
- 1.4 The rationale for the changes is given as:
  - Tight local government finance settlements for the next few years as the fiscal deficit is tackled
  - To address some technical issues that have arisen in recent years.
- 1.5 The changes being proposed are:
  - Giving billing authorities power to charge up to full council tax on second homes
  - Replacing the exemptions for dwellings undergoing major repair (Class A) and empty and unfurnished properties (Class C) with discounts, the amount of which would be for billing authorities to determine
  - Allowing billing authorities to charge an 'empty homes premium' in respect of dwellings which have been left empty for 2 years or more
  - Retain the default position that payment of Council Tax by instalments will be over ten months but to grant tax payers with a legal right to pay by twelve months if they request it.
  - Allowing authorities to publish online the 'information to be supplied with demand notices' but with a duty to supply it in hardcopy to any council tax payer requesting it, as an efficiency measure, and to encourage the take up of electronic billing
  - Changes to eliminate potential tax complications from arrangements involving third party suppliers where solar panels are placed on the roofs of dwellings without coming into the paramount control of the resident

## **2 Second Homes**

- 2.1 Currently Councils can choose to charge between 50% to 90% of the full Council Tax from the date the property becomes empty. Plymouth currently charges the full available council tax of 90%.
- 2.2 The Government has stated its intention to extend the range of discount available to local authorities to allow them to charge the full 100% Council Tax on second homes. Second home properties are those that are unoccupied but remain furnished. The proposed change would place the properties on the same basis as normal homes for Council Tax.
- 2.3 During 2011/2012 Plymouth had 2483 second homes. It is recommended that Plymouth maximises income and levies the full Council Tax on second homes. See Appendix A for table of discounts and estimated income.

### **3 Empty Dwellings undergoing major repair (Class A exemption)**

- 3.1 Dwellings that are subject to major repair currently attract a 100% exemption from Council Tax for up to 1 year. There is currently no scope for billing authorities to use discretion about what is reasonable in terms of foregoing council tax in respect of such properties.
- 3.2 The Government proposes to abolish Class A exemption and replace it with a discount which authorities have discretion to set at 100% or any lower percentage which seems reasonable having regard to local circumstances.
- 3.3 The Government has stated that there is to be no local discretion in the maximum period for which a property undergoing major repair receives a discount. Therefore properties who satisfy the criteria will continue to attract whatever discount the authority determines for as long as it remains in that state, up to a maximum of one year.
- 3.4 It is reasonable that Council Tax payers should get some relief in respect of vacant dwellings that are for a time uninhabitable when undergoing major repair in order to support regeneration.
- 3.5 During 2011/2012 Plymouth had 439 dwellings subject to Class A exemption with an average exemption period of 257 days.
- 3.6 Council Tax is based around a 50% property and 50% personal tax. Whilst dwellings undergoing major repair are likely to be uninhabitable, the dwelling remains recognised as a property for valuation purposes.
- 3.7 Modelling work has been carried out to consider both a 50% and a 75% charge. A 50% charge carries a maximum income of £243,000 (assuming 100% collection). A 75% charge carries a maximum income of £364,500 (assuming 100% collection).
- 3.8 Evaluation of other authorities has shown that the majority are recommending either a 50% charge or no change from the current levels. If Plymouth were to consider a 75% charge there is a possibility that it could discourage the regeneration of properties. It is therefore recommended that a maximum charge of 50% (50% discount) be applied for as long as the property remains in that state up to the maximum period of 1 year. See appendix A for table of discounts and estimated income.

### **3 Vacant Dwellings (Class C exemption)**

- 4.1 Dwellings which become empty and are unfurnished currently attract a 100% exempt from Council Tax for up to 6 months. There is currently no scope for authorities to use discretion about what is reasonable in terms of foregoing Council Tax in respect of such properties.
- 4.2 The Government proposes to abolish the Class C exemption and replace it with a discount which authorities have discretion to set at 100% or any lower percentage which seems reasonable having regard to local circumstances.
- 4.3 During 2011/2012 Plymouth had 10,128 dwellings subject to a Class C exemption of which 5,602 were exempt for a period of more than 30 days.

4.4 The main reasons that properties remain empty are due to sales or between lettings. To support bringing empty properties into occupation and minimise the periods for which properties remain empty it is recommended that a 100% exemption be given for a period of one month after which the full Council Tax charge will become due. See appendix A for table of discounts and estimated income.

## **5 Empty Homes Premium**

- 5.1 Dwellings that have remained empty for long periods such as 2 years or more are not currently subject to any special conditions and currently attract the full 100% Council Tax charge.
- 5.2 The Government proposes to allow authorities to charge a premium of up to 50% for an indefinite period on properties empty for 2 years. The aim of this change is to help bring long term empty dwellings back into use. The maximum Council Tax charge for long term empty properties would be 150%.
- 5.3 During 2011/2012 Plymouth had 708 dwellings that were unoccupied for 2 years or longer.
- 5.4 A number of caveats are currently being considered by the Government which will take dwellings out of the premium scheme. These include:
- A dwelling which is genuinely on the market for sale or letting
  - A dwelling which is the sole or main residence of a member of the armed forces, who is absent from the property as a result of the service
  - An annex deemed unoccupied because it is being treated by the occupier of the main dwelling, as part of that main dwelling
- 5.5 It is possible that a number of dwellings could be excluded from the premium on this basis. Until more clarity is provided by Government, no income has currently been assumed for this change.
- 5.6 To encourage bringing empty properties back into use it is recommended that the full premium 50% be applied to dwellings that will still meet the criteria for long term empty.

## **6 Other Technical Changes**

- 6.1 From April 2013 Council Tax payers will have a legal right to pay Council Tax by 12 instalments. The default position will remain at 10 months unless the customer requests a change to 12.
- 6.2 Authorities will now be able to discharge their duty to provide the information currently supplied with demand notices by publishing the information on-line, with the exception of information relating to penalty charges, and subject to the right of any resident to request a hard copy.
- 6.3 Domestic scale solar photovoltaic installations (capacity limit 10kW) on domestic properties under the paramount control of a third party provider will be treated as part of those properties and therefore will not be liable for business rates.

## **7. Student Exemptions (Class N) – local practice**

- 7.1 Currently student properties are subject to a 100% exemption where the properties are occupied solely by students.
- 7.2 As a local practice and that of many authorities, Plymouth currently applies the exemption for a total 12 month period to all student dwellings. Analysis has shown that 3000 dwellings receive the exemption and during the 3 month summer period this costs £892k.
- 7.3 Investigation into the viability of removing the exemption for the summer period has shown that we are unable to identify dwellings where students remain resident, or where they have paid a retainer. In these instances the exemption would still apply.
- 7.4 Work is currently underway to look at the best approach to maximising income for empty student properties over the summer period.

## **8 Summary**

- 8.1 The proposed recommendations will provide more opportunity for Plymouth to set council tax levels more appropriately for its citizens. The changes will support hard working families and pensioners by relieving the burden of Council Tax in relation to second homes and empty properties where the authority feels that properties receiving this relief do not merit it.
- 8.2 Final regulations have yet to be set and therefore the flexibility of the changes could be subject to change.
- 8.3 Caution should be given to collection of additional income based on the possibility of further changes to regulations and potential collection complexities in some areas.
- 8.4 The City Council is recommended to approve the proposed changes to Council Tax as detailed in this report.

## Appendix A

### Recommended changes and estimated income

Exemption Type	No of dwellings	Current Exemption	Current Value	Proposed discounts	Est. value	Est. collection 70%
	2011/12	%	£	%	£	£
Class A Properties undergoing major work	439	100% For 12 months	-486k	50% (12 months)	243k	170k
Class C Empty and unfurnished	10128	100% For 6 months	-1.8m	100% (1 month only)	1.1m	750k
Second Homes	2483	10%	-176k	0%	176k	123k
				<b>Total estimated collection</b>		<b>1043m*</b>

\*These figures are estimations and dependent on final regulations being agreed by Government and collection ability.