

THE LOCAL GOVERNMENT ACT 2003 IMPLICATIONS FOR COUNCIL TAX

1. INTRODUCTION

- 1.1 The Local Government Act 2003 comes into effect from 1 April 2004 and brings with it many new regulations and powers. Part 6 of the Act contains several new provisions relating to the council tax.
- 1.2 In particular, Local Authorities are now able to reduce the council tax discount on second homes and long-term empty property and to introduce local discounts and exemptions.

2. BACKGROUND

- 2.1 The Council tax was introduced in 1993 and replaced the former community charge (or 'poll tax'). The Council tax was presented as a charge that comprises 50% property tax and a person tax of 25% per adult occupying the home, subject to a maximum of 2 persons being charged.
- 2.2 Thus the council tax bill for any dwelling currently varies according to the occupancy i.e.
 - 2 or more persons living there pay 100%
 - 1 person living there pays 75%
 - Where no one lives there (second homes and empty property), only the 50% property element is currently payable.

3. SECOND HOMES

- 3.1 From 18 December 2003 Billing Authorities have the discretionary power to change the discount on second homes and long-term empty property, in accordance with new Regulations.
- 3.2 The Regulations set out two classes of second homes:

Class A: Dwellings that are not the sole or main residence of an individual and the occupation is restricted by a planning condition preventing occupancy for a continuous period of at least 28 days. Purpose built holiday homes or chalets subject to a planning condition restricting year round occupancy fall within this class.

Class B: As above but where occupation is **not** restricted by a planning condition etc.
- 3.3 The Regulations provide that a billing authority may reduce the council tax discount from the nationally set 50% to a minimum 10% in some or all of its area, except where the liable person is required to live in job related accommodation as part of his job.

- 3.4 Second homes can have a significant impact on the nature and sustainability of local communities. This impact varies considerably between areas and the flexibility now available allows decisions on discounts to reflect local circumstances in a way that helps to address associated problems, especially housing.
- 3.5 Where a Billing Authority chooses to reduce the second home discount both the billing authority and the precepting authorities (the County Council, Police, Fire Authorities and Local Councils) will benefit from the increase in the tax base. The tax base used in the calculations of the revenue support grant will not be increased.
- 3.6 This means that any additionally proceeds raised locally by virtue of a Billing Authority's decision to reduce the second homes discount will be shared with the precepting authorities in proportion to their council taxes (and not be off-set by a corresponding reduction in government grant).
- 3.7 Approximately, 85% of any additional income raised will pass to the major precepting authorities (County, Police and Fire) because their council taxes account for the major part of the council tax bill. However, any additional administration costs will fall on the billing authority. N.B. The cost of administering council tax falls entirely on billing authorities.
- 3.8 For this reason authorities in Hampshire are in the process of developing a protocol to adopt a common charging policy for second homes and for the utilisation of the additional income by all authorities for use on agreed priorities.
- 3.9 It is on this basis that this report recommends that the discount on second homes (for Classes A and B) should be reduced from the nationally set 50% to a locally determined 10%.
- 3.10 For illustrative purposes a 10% discount will increase the council tax payable on a Band D second home in the District from £533 to £960 based on current year's figures.
- 3.11 There are currently over 2100 council tax dwellings in the District that are not used as a sole or main residence. Over 1500 of these are second homes.
- 3.12 In a relatively small number of these cases the discount cannot be reduced because the liable person is required to live in job related accommodation. The actual number of such cases is not known and this will have to be determined as part of the administrative process.
- 3.13 Some representations have been received in response to the Council's Forward Plan of Key Decisions supporting the reduction in the discount awarded to second homes.

4. LONG TERM EMPTY PROPERTIES

- 4.1 New Regulations also give Billing Authorities the discretion to replace the council tax discount on long term empty properties (Dwellings which are unoccupied and substantially unfurnished) from the nationally set 50% to a lower discount or by no discount at all, in some or all of its area.
- 4.2 However, where the billing authority changes the discount in these cases, this is also taken into account in the revenues support grant calculations in the normal way. Authorities will not, therefore, receive the direct financial benefits in the way that they will with second homes.
- 4.3 There is no recommendation to change the council tax discount on long-term empty properties from the nationally set 50% at this stage. The position can be reviewed each year. Some further analysis of these properties may be appropriate.

5. LOCAL DISCOUNTS AND EXEMPTIONS

- 5.1 The 2003 Act gives billing authorities the power to reduce the amount of council tax payable in respect of any chargeable dwelling in their area. This may be applied on an individual or class of dwelling basis.
- 5.2 This provision will effectively allow billing authorities to introduce local discounts and exemptions for local situations such as flooding and which are not already covered by the national discounts and exemptions.
- 5.3 The loss in council tax revenue resulting from the granting of local discounts and exemptions must be met by the billing authority and not passed onto the major precepting authorities.
- 5.4 This means that the billing authority (i.e. this Council and not the County Council or the Police and Fire authorities) will meet the whole cost of any discounts in its own budget requirements and council tax calculations. (The logic behind this is that billing authorities are responsible for the council tax billing, collection and benefits).
- 5.5 For this reason, it will be extremely cost prohibitive for billing authorities to apply this provision to any large class of dwelling (e.g. pensioners).
- 5.6 No recommendation is being made to apply this provision at this stage.

6. FINANCIAL IMPLICATIONS

- 6.1 As previously mentioned there are over 1500 second homes in the District. Although the number of band D equivalent second homes will be higher than this figure, any further additional income is likely to be

offset by adjustments for job related accommodation and losses in collection due to bad debts, possible evasion etc.

- 6.2 If the discount on all second homes in the District is reduced from the nationally set 50% to a locally determined 10% as recommended, the additional annual income (based on current band D council tax levels) is tentatively estimated as follows:

	£000
County	507
Police	58
District	75
Total	640

Note: Local Councils will vary and figures not shown.

- 6.3 The actual additional income will only be established at the end of the 2004/05 financial year.

7. RESOURCE UTILISATION

- 7.1 It is undoubtedly the case that a significant number of second homes within a district council area, even one of the size of the New Forest, has an impact on the long-term sustainability and vitality of that area. It creates pressure on the affordability of the housing market to local people and creates pressure on the general housing market as a significant number of second homes are in the lowest tax bands.
- 7.2 It is therefore considered appropriate and equitable that additional income that is derived from the reduction in the second homes discount should be utilised within the area in which it was generated.
- 7.3 Discussions have recently taken place between the principal local authorities in Hampshire and subject to the formal approvals the protocol outlined in paragraphs 7.4 and 7.5 below has been agreed in principle.
- 7.4 With the change to Social Housing Grant regulations the ability of district councils to fund social housing is constrained and is therefore a potential priority for most. In order to maximise the potential benefit to the community the District Council will enter into an agreement with the County Council to pass the additional income generated through a registered social landlord to invest in shared equity low cost housing. The nomination rights will be agreed between the respective parties.
- 7.5 The receipts from the sale of the equity element of the property will be recycled in order to generate further low cost housing. This will clearly require the local authorities to work closely with an RSL but should enable a funding stream to be developed in order to meet an area of significant demand that has been exacerbated by the number of second homes in the District and one that the Council is unable to meet within the resources it currently has available.

8. SUMMARY

- 8.1 The Local Government Act has given billing authorities the ability to reduce the level of discount on council tax of second homes to a minimum of 10%. Should billing authorities choose to reduce the discount from the current 50% the additional tax raised will be shared between the billing authority and the precepting bodies proportionately and will not affect the Revenue Support Grant of those authorities.
- 8.2 In light of the pressures that second homes bring to an area it is recommended that the Cabinet reduces the discount to 10% and works with the County Council and Police Authority in order to minimise the impact of second homes and maximise the benefits to the local community by developing joint and shared priorities upon which the additional resources will be utilised.

9. RECOMMENDATIONS

It is recommended that the Cabinet:

- 9.1 Reduce the level of the council tax discount on second homes to 10%.
- 9.2 Agree that the additional resources be combined with those of the County Council, the Fire and Police Authorities to be utilised on shared and agreed priorities within the District.

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Background Papers:

Part 6 of the Local Government Act 2003, subsequent Government Regulations and Information Letters