

Committee/Meeting: CABINET	Date: 9th January 2013	Classification: Unrestricted	Report No: CAB 66/123
Report of: Chris Naylor - Corporate Director of Resources Originating officer(s) Alan Finch –Service Head, Financial Services, Risk & Accountability Roger Jones, Head of Revenue Services		Title: Calculation of Council Tax Base 2013/14 and Technical reforms to Council Tax & Section 13A Local Discounts Wards Affected: All	

Lead Member	Councillor Alibor Choudhury
Community Plan Theme	All
Strategic Priority	All

1. **SUMMARY**

- 1.1 The Coalition Government, via the Department of Communities, Localities and Local Government, (DCLG) has proposed a number of technical reforms to the current Council Tax legislation which will come into effect from 1st April 2013. This paper sets out the options for the Council to amend it's policies and the issues that need to be resolved, together with initial findings around the potential increase in the yield from the tax base which will be further developed over the coming months.
- 1.2 The calculation of council tax base for 2013/14 with or without the proposed abolition of discounts outlined in section 5 of this report.

2. **DECISIONS REQUIRED**

- 2.1 The Mayor in Cabinet is recommended to consider and agree that:
 - in relation to second homes, furnished empty properties, properties undergoing refurbishment, and new properties, the Council can charge up to 100% of the full Council Tax payable;
 - for properties empty for more than 2 years, a levy of 1.5 times the full Council Tax payable be charged; and
 - agree the policy on "Section 13a Council Tax Reductions"

- 2.2 Approve, in accordance with the Local Authorities (Calculation of Council Tax Base) Regulations 1992, that the amount calculated by the London Borough of Tower Hamlets as its Council Tax Base for the year 2013/14 shall be 71,531 including the technical changes.

3. REASONS FOR THE DECISION

- 3.1 To provide a simplified Council Tax policy and promote occupation of empty properties
- 3.2 The scheme for calculation of council tax established under the Local Government Finance Act 1992 requires local authorities to agree their Council Tax Base and to notify it to the preceptors (GLA) by 31st January 2013.
- 3.3 If the tax base is not agreed and notified to the Preceptor by 31st January 2013, this may prejudice the calculation of Council Tax for 2013/14.

4. ALTERNATIVE OPTIONS

- 4.1 The Council is obliged to consider the Government's technical reforms and agree its response to them.
- 4.2 The recommendations contained within this report are made in line with the statutory requirements outlined in sections 3.2 and 3.3 of this report; and the alternative options in setting its Council Tax Base.

5. BACKGROUND

Technical reforms to Council Tax

- 5.1 Setting the agenda for decentralisation and localism is one of the Coalition Government's core objectives. In the consultation document on these technical reforms the goal is clearly to redistribute the power and funding from government to local people and to deliver what they want for their communities. It is acknowledged that there are many pressures that will impact on the level of Council Tax and that there are a number of new Government initiatives that will mitigate the impact on the Council's revenue streams. The proposals below must therefore be seen in the context of:

- Stringent local government finance settlements for the next few years
- Proposals regarding the localisation of business rates; and
- Proposals to replace council tax benefit with local Council Tax Support, which Members have already considered.

In summary, the changes being put forward include:

- giving billing authorities power to levy up to full council tax on second homes;
- replacing some current exemption categories with discounts, the amount and period of which would be for the Council to determine.
- allowing billing authorities to levy an 'empty homes premium' in respect of dwellings which have been left empty for two years or more.

5.2 The proposed technical changes to council tax provide an opportunity for the Council to increase the yield from the existing council tax base.

5.3 Although there is potential to increase the yield from the Taxbase, it should be recognised that the figures in this report should only be seen as a guide as to what is currently classified as entitled to relief. The current estimates of properties that will be impacted by proposed changes are detailed below.

5.4 Second Homes

Currently second homes are charged 90% of the full council tax. As of 1 August 2012 1,795 properties fell into this category, giving a total relief of £261,448.70.

2nd Homes	No.	Relief (p.a)	Total Relief
Band A	33	£79.48	£2,622.84
Band B	88	£92.73	£8,160.24
Band C	245	£105.97	£25,962.65
Band D	367	£119.22	£43,753.74
Band E	423	£145.71	£61,635.33
Band F	352	£172.21	£60,617.92
Band G	245	£198.70	£48,681.50
Band H	42	£238.44	£10,014.48
	1795		£261,448.70

From 1 April 2013, it is proposed that the maximum 100% of the full Council Tax payable is charged to properties in this category.

5.5 Furnished Empty Properties

These are mainly empty properties between tenancy periods and are currently charged at 90% of the full council tax payable. It is proposed, to encourage landlords to let their properties as quickly as possible, to charge 100% of the full Council Tax payable. As of the 1st August 2012, 2,831 properties fell into this category, giving a total relief of £363,154.96.

Furnished Voids	No.	Relief (p.a)	Total Relief
Band A	55	£79.48	£4,371.40
Band B	297	£92.73	£27,540.81
Band C	698	£105.97	£73,967.06
Band D	716	£119.22	£85,361.52
Band E	618	£145.71	£90,048.78
Band F	297	£172.21	£51,146.37
Band G	127	£198.70	£25,234.90
Band H	23	£238.44	£5,484.12
	2831		£363,154.96

5.6 Empty Dwellings

Dwellings requiring/undergoing major repair or structural alteration.

The proposal is to abolish this current exemption and require payment of 100% of Council Tax. Few properties fall into this category historically and the aim of raising this charge is to encourage completion of the work and therefore, make accommodation available for re-occupancy. As of the 1st August 2012, 72 properties fell into this category, giving a total relief of £81,602.25.

Exempt A	No.	Relief (p.a)	Total Relief
Band A	1	£794.83	£794.83
Band B	24	£927.30	£22,255.20
Band C	21	£1,059.77	£22,255.17
Band D	12	£1,192.24	£14,306.88
Band E	9	£1,457.18	£13,114.62
Band F	4	£1,722.12	£6,888.48
Band G	1	£1,987.07	£1,987.07
Band H	0	£2,384.48	£0.00
	72		£81,602.25

New properties unoccupied and substantially unfurnished and dwellings becoming unoccupied by virtue of there being no one living there.

This category of empty property currently attracts an exemption for up to 6 months. As Members will be aware, Tower Hamlets has more new properties being created than anywhere else in the country.

Council Tax Base Increase					
October 2008	October 2009	October 2010	October 2011	September 2012	%Increase
100,053	104,082	107,059	109,932	113,274	13.3%

The proposal is to abolish this current exemption and require payment of 100% of the full Council Tax payable. As of the 1st August there are 1,262 properties falling into this category, giving a total relief of £1,116,507.04.

Exempt C	No.	Relief (p.a)	Total Relief
Band A	32	£794.83	£18,816.80
Band B	292	£927.30	£196,079.51
Band C	450	£1,059.77	£371,944.84
Band D	272	£1,192.24	£265,719.54
Band E	152	£1,457.18	£172,681.79
Band F	38	£1,722.12	£50,262.34
Band G	19	£1,987.07	£28,047.63
Band H	7	£2,384.48	£12,954.59
	1262		£1,116,507.04

Properties empty for more than 2 years.

The new technical changes allow a billing authority to levy an 'empty homes premium' in respect of dwellings which have been left empty for two years or more. There are a small number of properties but Members may wish to agree a levy of 1.5 times the full Council Tax charge for such properties, again as an incentive for landlords to ensure properties are re-let as soon as possible. It is likely that a large proportion will become occupied if this premium is adopted so very little potential additional income will be realised.

Void over 2 years	No.	Charge	Additional charge	Potential Increase in income
Band A	9	£794.83	£397.42	£3,576.74
Band B	61	£927.30	£463.65	£28,282.65
Band C	37	£1,059.77	£529.89	£19,605.75
Band D	23	£1,192.24	£596.12	£13,710.76
Band E	18	£1,457.18	£728.59	£13,114.62
Band F	10	£1,722.12	£861.06	£8,610.60
Band G	36	£1,987.07	£993.54	£35,767.26
Band H	13	£2,384.48	£1,192.24	£15,499.12
	207			£138,167.49

Repossessions.

This provision will allow Local Authorities to reduce or withdraw the period of exemption offered to properties having been re-possessed by the mortgagor. Currently the bank or building society does not become liable for council tax on taking possession and the owner becomes exempt under class L.

The Government intention is that the mortgagee will be made responsible and that the local authority will be able to charge the mortgagee in possession rather than allowing a council tax exemption.

There are 16 properties falling into this category, giving a total relief of £18,248.00.

Mortgagee in possession		
	No.	Total Relief
Band A	0	0
Band B	3	£2,344.93
Band C	4	£3,327.39
Band D	5	£5,598.63
Band E	2	£2,515.13
Band F	0	0
Band G	0	0
Band H	2	£4,461.92
	16	£18,248.00

5.7 Discount

- 5.8 Under S13A of the Local Government and Finance Act 1992, the Council has discretion to reduce the amount of Council Tax payable that is not covered by statutory set discounts and exemptions. This discretion can be exercised in relation to particular cases or by determining a class of case. The reduction can be for a specific period of time and the liability can be reduced by any amount the Council thinks fit. In the last 3 years, the Council has twice agreed such a discount in relation to Pensioners. To ensure these discounts are managed appropriately, alongside the technical changes discussed above, it seems an opportune time to review our Section 13a policy on awarding local discounts.
- 4.9 The Council has the option to reduce the amount of Council Tax an individual person is liable to pay by any amount, from nil to 100% and for any period. The amount and duration of the reduction and whether to allow a local discount is at the discretion of the Council and can be by delegation.
- 5.10 With the many changes to how local government is funded, it is essential that the Council has a clear policy on the decision making process in terms of giving local discounts from payment of Council Tax.
- 5.11 Under the Act, there is no right of appeal against the Council's use of discretionary powers; however, the Council will accept a customer's request for a further review of its decision.

5.12 Attached at Appendix A is the draft Policy for comment and agreement.

6. ISSUES

The starting point for proposing these changes has been recognition of the significant financial pressure on the Authority and the commitment to have all suitable accommodation within the borough occupied, and consequently, raising maximum income from the Tax Base. As such, the proposals are all setting the Council's discretion at the maximum end of the spectrum. This however, will produce significant challenges administratively, and will require investment in terms of resources, to collect and enforce the additional income. It may well be worth continuing to give an exemption period of 1 month for new and substantially unfurnished properties, and properties undergoing structural alterations, to allow landlords and developers to complete the work and find new occupiers or owners. It is noted though that if minded, Members could reduce the tariffs suggested in this report.

The suggested changes will bring some challenges:-

- The need for additional resources to undertake inspections and to issue completion notices for all new banded properties
- The increased in costs for social landlords. On current reliefs awarded, for Tower Hamlets Homes, this could amount to over £145,000.

7. SUMMARY OF ESTIMATED ACHIEVABLE INCOME

Exemption/ Discount	Current Position	Proposed Position from 1/4/13	Estimate of Additional Income
Class A Uninhabitable Properties	12 Months Exemption	To be charged full Council Tax.	£40,801.12
Class C – empty unfurnished properties	6 Months Exemption at 100%	Reduce exemptions to 1 month then full charge, but 434 are RSL owned and 166 THH owned.	£502,428.15
Class L – mortgagees in possession	6 months exemption at 100%	Charge the Mortgagor full charge & assume 97% collection rate	£17,700.56
Second Homes	10% discount	Remove Discount & assume 97% collection	£253,605.24
Empty Furnished Properties	10% discount	Remove Discount & assume 97% collection	£352,259.38
Long Term Empty Properties	Currently pay full charge	Will pay additional 50% premium. Assumed only 10% may remain unoccupied	£13,816.74
Total estimated potential extra yield			£1,180,611.19
GLA Share (25.7%)			£303,417.07
LBTH Share (74.3%)			£877,194.12

8 COUNCIL TAX BASE

- 8.1 The Council Tax legislation requires local authorities to agree their Council Tax Base and to notify it to the preceptors by 31st January 2013
- 8.2 The tax base is central to the Council Tax system because it is the means by which the budget is translated into tax levels. For the next financial year, the estimated tax base 71,531 inclusive of technical changes. The calculation is set out at Appendix B.
- 8.3 A simple way of looking at this is, broadly, if £1.00 is added to the band D tax, this would raise £71,531 for the General Fund Budget.
- 8.4. In the event that the Cabinet does not agree the technical changes, the Council Tax Base would be 70,518 as set out at Appendix C.

9 CALCULATION OF THE TAX BASE

- 9.1 The tax base calculation must take account of:
- the number of properties in each band, including estimated changes during the year (for Tower Hamlets this includes an estimated increase in property numbers due to the continuing regeneration of the borough);
 - the number of discounts, taking account of estimated changes during the year and; and
 - estimated collection rate; the 2013/14 tax base has been calculated on the basis of a collection rate of 96%.

10. COMMENTS OF THE CHIEF FINANCIAL OFFICER

- 10.1 The report sets out proposals for changing local discretions in relation to Council Tax in response to recent changes in legislation. As the report indicates this would mainly affect landlords, developers and occupants of second homes in the Borough. It would be very unlikely to affect those on Council Tax support.
- 10.2 The financial impact of these changes is hard to assess, and the purpose of some of the changes, particularly those around empty properties may be to disincentive landlords and developers from keeping properties empty too long, with positive effects on housing supply, as opposed to raising revenue. It is estimated that the Council's share of additional Council Tax income raised may be in the region of £877,000 per year, equivalent to just over 1% of Council Tax income in 2012/13, but this figure could be higher or lower depending upon changes in behaviour and collection rates.
- 10.3. Government Ministers have suggested that authorities make use of these changes to help fund Council Tax Support schemes in the wake of the 10% cut in funding imposed. It will be noted that this estimated additional income would not in itself be sufficient to cover the 10% reduction in funding for

dCouncil Tax support, which for Tower Hamlets stands at £2.6m. However it would assist in mitigating the gap in the MTFP.

10.4. The setting of the Council Tax base is a statutory requirement on the Council.

11 CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL SERVICES)

11.1 The Council is required by section 33 of the Local Government Finance Act 1992 (“the Act”) to calculate for each financial year the basic amount of its council tax. The basic amount of council tax must be calculated according to a prescribed formula that uses the amount which is calculated by the Council as its council tax base. The council tax base is in turn calculated by reference to a formula prescribed in the Local Authorities (Calculation of Council Tax Base) Regulations 1992 (“the Tax Base Regulations”) (as amended)

11.2 The Council is required to submit its council tax base to the GLA between 1 December and 31 January in the financial year preceding the financial year for which the calculation of council tax base is made. This is the effect of section 33(1) of the Act and regulation 8 of the Tax Base Regulations. If the Council does not submit its council tax base to the GLA, then the GLA is required to determine the calculation for itself, in the manner prescribed in the Tax Base Regulations.

11.3 The preparation, for submission to Full Council for consideration, of estimates of the amounts to be used for the purposes of calculating the basic amount of council tax is an executive function by virtue of regulations 4(9) – 4(11) of the Local Authorities (Functions and Responsibilities) (England) Regulations 2000.

12. ONE TOWER HAMLETS CONSIDERATIONS

12.1 Affects all Council Tax payers with in the borough

12.2 Calculation of the Council’s tax base is an important step towards calculation of the basic amount of council tax. The calculation of council tax is a key element of the Council’s budget, which will enable it to deliver on its Strategic Plan and, in turn, the Community Plan.

12.3 The Council’s Strategic Plan is focused upon meeting the needs of the diverse communities living in Tower Hamlets. The Key Themes reflect diversity issues and there are key equality milestones in relation to delivering One Tower Hamlets.

13. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

13.1 None.

14. RISK MANAGEMENT IMPLICATIONS

- 14.1 If the tax base is not agreed, the Council will not be able to set a legal budget for 2013/14 and notify the preceptor by 31st January 2013. Consequently the Council may be open to legal challenge and also affect the budget setting arrangements for the GLA.

15. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 15.1 None.

16. EFFICIENCY STATEMENT

- 16.1 None

17. APPENDICES

Appendix A Draft policy on Section 13a Council Tax Reductions

Appendix B Calculation of Council Tax Base Estimate 2013/14 without technical changes

Appendix C Calculation of Council Tax Base Estimate 2013/14 with technical changes

Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2012

List of “Background Papers” used in the preparation of this report

Brief description of “background papers”	Name and telephone number of holder and address where open to inspection.
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Revenues Services

Policy for determining applications for Council Tax Reduction under Section 13A of the Local Government Finance Act 1992

3rd August 2012

GUIDELINES

The Council will consider using its powers to reduce Council Tax liability for any council tax payer or class of payer and treat all applications on their individual merit.

Ordinarily, the Council would expect there to be exceptional circumstances to justify any individual reduction and that the reduction would normally only be intended as short term assistance and should not be considered as a way of reducing council tax liability indefinitely. However, with the changes to local government funding and welfare reform, there may be increasing pressure to accept applications for reductions in Council Tax.

Each case will be reviewed annually or earlier where deemed appropriate.

Requests for reduction in Council Tax liability will be required in writing from the customer, their advocate/appointee or a duly authorised third party acting on his/her behalf and submitted to the Councils Revenue Services Team.

- There must evidence of financial hardship or personal circumstances which are exceptional and justify a reduction in Council Tax liability.
- The council must be satisfied that the customer has taken reasonable steps to resolve their situation prior to application.
- The council's finances will allow for a reduction to be made.
- The customer's eligibility to Council Tax benefit/Council Tax Reduction has been applied for and checked.
- All other discounts, exemptions and relief's have been awarded to the customer for which they are eligible.
- The amount outstanding must not be the result of wilful refusal to pay or culpable neglect.
- It is reasonable to award a reduction having regards to the interests of other local Council Tax payers

Procedure for determining applications for specific classes of reduction and individual one-off applications for reduction

The procedure for determining individual applications will require the Revenue Services Manager making a recommendation to the Corporate Director of Resources.

The report will record the effect on other taxpayers, financial or otherwise, and will include whether

- It will be likely that the majority of local residents will, on the balance of probabilities, agree with the decision.
- The Council's finances will allow for the reduction to be made

The Corporate Director of Resources will determine whether a payment will be made and determine the amount and duration of the award.

However if the Corporate Director of Resources should decide that, based on an application and/or recommendation, consideration should be given to creating a specific class of reduction, a proposal should be made to Cabinet, who would accordingly have the power to create, amend or cancel any specific class of reduction.

The Council will notify a customer of its decision within 21 days of receiving sufficient information to make a decision.

Whilst under the Local Government Finance Act 1992, there is no right of appeal against the Council's use of these discretionary powers, the Council will accept a request from a customer for a re-determination of its decision within one month of the date of the letter informing the customer of the decision.

The review process will involve consideration of the request on its 'merits', the Corporate Director of Resources having regard to any additional information that will justify a change to the original decision.

Any appeal in respect of a class of reduction should be referred back to Cabinet for reconsideration with a recommendation to Full Council

The Council will notify the customer of its decision within 21 days of receiving a request for a re-determination.

There is no entitlement to withhold the payment of Council Tax pending the determination of an application for relief or request for a review. Receipt of an application for relief will not negate the taxpayer's obligation to pay the Council Tax.

The Council will consider using its powers to reduce Council Tax liability for any council tax payer or class of payer and treat all applications on their individual merit.

Policy Review

This policy will be reviewed by a meeting of the Full Council each year in March. It can be reviewed earlier should cases arise that highlight that an amendment is necessary.