

SOUTH HOLLAND DISTRICT COUNCIL

REPORT TO: COUNCIL – 15 DECEMBER 2004

BY: HEAD OF FINANCE

SUBJECT: Council Tax – Local Discretions and Tax Base

PURPOSE: To decide:

- (i) the level of discounts on second homes and long term empty properties
 - (ii) the 2005/2006 tax base for council tax setting purposes.
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In accordance with Article 4 of the Council's Constitution, deciding the tax base for council tax setting purposes currently forms part of the Council's Budget and Policy Framework. Technically, this means that the setting of the council tax base should follow the procedures set out in the Budget and Policy Framework Procedure Rules (BPFPR) and it would normally go to the January Cabinet meeting first. However, the requirements of the BPFPR cannot be met for this reason:

Although the Cabinet meets on 21 December 2004 and 25 January 2005, there is not another scheduled meeting of the full Council until 2 February 2005. However, the tax base must by law be set no later than 31 January 2005. This means that the tax base must be set at tonight's meeting because it will not be possible for any Cabinet recommendation to be submitted to full Council for consideration within the statutory timeframe.

There is no legal requirement to consult upon the tax base. Bearing in mind that the tax base is a factual figure over which the Council has little control, it is considered that failing to comply with the BPFPR will not prejudice the aims of the framework in any way. In the circumstances, it is considered acceptable for the tax base to be decided by full Council without reference to the BPFPR.

(i) LOCAL DISCRETIONS – DISCOUNTS ON SECOND HOMES AND LONG TERM EMPTY PROPERTIES

1.0 Introduction

- 1.1 The Local Government Act 2003 gave billing authorities new **discretionary** powers to reduce council tax discounts in respect of second homes and long term empty properties. South Holland's intentions regarding Second Homes are covered in our medium term financial strategy approved by Cabinet on 7th September this year. No decision has yet been taken in respect of long term empty properties or locally defined discounts.
- 1.2 The purpose of this report is to formally decide to what degree and from what date we will operate these new discretions. In turn, these matters can affect our tax base figures and so a decision is needed **before** the tax base can be approved [see part (ii) of this report]. The law requires us to set our tax base each year no later than 31 January.

- 1.3 By law, if we want to operate these new discretions, we have to make that decision before the start of any new financial year we want it to have effect from. We are then required to advertise our decision in a local newspaper within 21 days. In addition, it would be very good practice to write to all council tax payers that have second homes and long term empty properties in our area to give them advance notice of the effect our decision will have on their bills.
- 1.4 Specifically, these are the discretionary areas to decide **before** proceeding to set the tax base:
- whether to reduce the statutory 50% council tax discount for second homes
 - whether to reduce or remove the statutory 50% council tax discount for long term empty properties
 - whether to adopt any locally defined discounts.
- 2.0 **Discounts for second homes**
- 2.1 Second homes are defined in the regulations as **dwelling which are furnished but not used as anyone's main home**. For the purposes of using the discretion to reduce the council tax discount on these homes, regulations break them down into 2 classes:
- Class A - those where occupation is restricted by a planning condition preventing occupancy for a continuous period of at least 28 days
 - Class B - those without such a planning restriction on occupancy (which could therefore be lived in all year round).
- 2.2 We have the discretion to reduce the council tax discount for all such second homes for the whole of our area or even for any part of it. The extent of this discretion is to reduce the discount on either or both of the above classes from 50% to a minimum of 10% or anything in between (an exception is where the liable person is required to live in "job related accommodation" as part of his job). If we decide to operate this discretion, owners of furnished let property **will** be caught by this **between leases** even though most people would not think of such property as being a "second home" in the everyday use of the phrase. However, service personnel living in armed forces accommodation in England will keep the 50% discount if they have a second home in England too. In the same way, the 50% discount will also be retained for most clergy with second homes.
- 2.3 If we choose to reduce the discount on second homes, the additional revenue raised will be retained locally and shared between ourselves, the County Council and the Police **without any restrictions on how we choose to spend our shares**. The extra revenue will be divided up in proportion to the shares of the overall council tax amount for the relevant year.
- 2.4 In Lincolnshire, all the other District Councils are intending to reduce the discount for second homes to 10%. We interpret this to mean Second Homes Class B only as it seems unfair to charge the maximum if year round occupation is prohibited. In South Holland, there are only about 15 such properties and so it does not seem justifiable or worthwhile altering the statutory entitlement to the 50% discount for them when no-one could live in them as their main home anyway. The view is likely to be different for those authorities with large concentrations of such property – for example seaside resort areas with lots of holiday chalets.
- 2.5 The county-wide approach is on the understanding that the County Council and Police Authority will spend their shares of the additional revenue, which we'll be collecting for them at our expense, on additional services within our area. In South Holland, we expect this will be achieved by the County Council and Police Authority supporting the Local Strategic Partnership. We have had confirmation of this from the County Council and we await confirmation from the Police Authority.
- 2.6 We currently have 172 second homes in the South Holland area. Of these, we estimate that 15 are in Second Homes Class A and 157 are in Second Homes Class B. The experience of other Council's in the country suggests that there could be a reduction in second homes as a consequence of operating the new discretion. We think it would be prudent to assume about a 15% reduction throughout the first year. [We have allowed for this likely reduction by netting it off the "additions line" of the tax base calculation which is the subject of part (ii) of this report.]

- 2.7 Therefore, for tax base and budget purposes, the number of second homes in Second Homes Class B is likely to be about 135. Assuming they are in valuation band B on average, this equates to an average number of band D properties of 105, each bringing in up to an additional 40% council tax (which increases our overall tax base by about 0.15%). We do not know what the level of next year's council taxes will be so, in the table below, this year's amounts have been used to illustrate the likely extra revenue and how it would be split.

Additional revenue raised by reducing council tax discount for second homes	South Holland	County Council	Police Authority	Total
2004/2005 Band D Council Tax	£128.46	£857.79	£112.23	£1,098.48
Likely Number of Second Homes (in Band D equivalents)	105	105	105	105
Additional Revenue (50% - 10% = 40% of Band D)	£5,395	£36,027	£4,714	£46,136

- 2.8 Clearly there are sound financial reasons for reducing the discount on second homes as illustrated in the above table. However, that would hardly seem sufficient justification alone to the owners of such property. They are likely to perceive that they benefit from certain council services to a much lesser extent than those who occupy their homes all the time and so therefore they would argue that they should get more than the new minimum 10% discount. However, the Government has introduced this discretionary power specifically to ensure that billing authorities can ask second home owners to contribute a greater amount towards the cost of council services – they can achieve this through reducing their council tax discount. The increased council tax burden will raise more money locally, act as a disincentive to keeping a second home or result in a combination of both of these.
- 2.9 There is reasonable justification for using our discretion to reduce the discount for second homes to the minimum of 10%. Second homes, which by definition are not occupied all the time (some only very occasionally), reduce the demand on local services (for example buses, shops and pubs). They can also drive property prices up where demand is high and effectively price local people out of the housing market. In addition, some would no doubt argue that people with second homes can afford to pay full council tax and so continuing to grant the statutory 50% discount is perceived to be unfair.

3.0 Discounts for long term empty properties

- 3.1 Long term empty properties are defined in the regulations as being in Class C if they are **unoccupied, substantially unfurnished and not exempt** from council tax. Generally speaking, most empty properties will fall into this class once they have been unoccupied and substantially unfurnished for a period in excess of 6 months (since they are exempt for the first 6 months).
- 3.2 We have the discretion to reduce the council tax discount for all such long term empty properties for the whole of our area or even for any part of it. The extent of this discretion is to remove the statutory 50% discount completely on Long Term Empty Class C, keep it at 50% or reduce it to any figure in between. If we decide to operate this discretion, the Council **will** be caught too in respect of any of our council houses that have been empty for more than 6 months and this will be an additional cost falling on the Housing Revenue Account. However, the management of our housing stock is such that we only ever have properties falling into this class where we have deliberately planned to keep them vacant to create refurbishment opportunities and such like.
- 3.3 Unfortunately, for long term empty properties, local authorities (including major precepting authorities) will **not** retain any of the additional income received by reducing or removing this discount. This is because the government will take it into account in the tax base they use for revenue support grant calculations. However, the extra resources will be kept by local government at a national level and redistributed. This provision is designed to ensure that decisions on changing the discount are taken on housing grounds rather than on financial grounds. It also recognises that there may be places where applying full council tax on long term empty property may not be helpful to the local housing market (for example, in certain districts or wards where housing demand is low).

- 3.4 It should be remembered that this Council will have to put the resources in to collecting this additional money and into dealing with the inevitable complaints arising from our decision to operate this discretion to charge more than the statutory minimum. Not allowing us even a cost of collection allowance acts as a real disincentive to operating this discretion. However, there are overriding corporate reasons why we should consider reducing this discount. These are in essence connected with our housing strategy, empty homes strategy and affordable housing policy which are designed, amongst other things, to encourage empty homes being brought back into use. Increasing the council tax burden on such homes may well have the desired effect to some degree.
- 3.5 A key issue to bear in mind though is how we would justify operating the second homes discretion in full and not operating the long term empty discretion at all, especially when the long term empty discretion allows us to increase the council tax burden on those home owners to a greater degree. It has been argued that long term empty properties can cause considerable blight to local communities and act as a honey-pot for crime or anti-social behaviour. They deny homes to those in housing need, are a drain on local resources and, in large concentrations, can create ghost towns. One of the main messages that can be sent by operating the discretion to charge full council tax on long term empty homes is that this Council will not condone such properties being unavailable for use by the District's residents.
- 3.6 We currently have 315 long term empty homes. For tax base and budget purposes, if we assume they are in valuation band B on average, this equates to an average number of band D properties of 245, each bringing in up to an additional 50% council tax (which would increase our overall tax base by about 0.45%). We do not know what the level of next year's council taxes will be. Therefore, in the table below, this year's amounts have been used to illustrate the likely extra revenue and how it would be split **even though this would not be retained locally as it will reduce our likely grant settlement to some degree.**

Additional revenue raised by removing council tax discount for long term empty property	South Holland	County Council	Police Authority	Total
2004/2005 Band D Council Tax	£128.46	£857.79	£112.23	£1,098.48
Likely Number of Long Term Empty Props. (in Band D equivalents)	245	245	245	245
Additional Revenue (50% - 0% = 50% of Band D)	£15,737	£105,079	£13,748	£134,564

- 3.7 As mentioned earlier, there are no direct financial advantages that would encourage us to reduce or remove the discount on long term empty property. However, given our general wish to reduce the number of such properties in our area by getting them brought back into use, increasing the tax burden on them may have the desired effect. Unlike second homes though, there is a very strong possibility that many of these properties would require a lot of work to make them fit to occupy, especially bearing in mind how long they could have been empty. It would therefore seem sensible to give such property owners a longer period of notice of our intention to reduce or remove their council tax discounts. Then, if they thought that intention would cause financial hardship to them, they could use the longer notice period to either budget for higher council tax bills, sell the property to avoid the tax burden or carry out repair works so that the property could be lived in again.
- 3.8 In view of the above comments, there is reasonable justification for using our discretion to remove the discount for long term empty properties completely – but only after a longer period of notice than we intend to give to second home owners. Such a decision can only take effect from the start of any future financial year that we may decide at this stage. In conclusion though, it should be reassuring to bear in mind that empty properties **that are also exempt will not** be caught by this discretion. Such properties include those where the former occupier has gone into a care home or where the former occupier has passed away and the property is part of their estate.

4.0 **Adopting locally defined discounts**

4.1 We also have the discretion to adopt **locally defined council tax discounts** for council tax purposes. This power can be exercised in respect of any individual case or by deciding classes of case we want it to apply to as we see fit. The discount can be for any amount up to the value of the council tax bill that would otherwise have to be paid. However, the **full cost** of locally defined discounts has to be met by this Council as billing authority – even the County Council and Police Authority shares (which add up to 88%) of any bills we may choose to reduce.

4.2 In view of these adverse implications (the fact that less than one eighth of the council tax is for us), our budget pressures, the wide number of council tax discounts, exemptions and benefits already available and our excellent collection rates, no circumstances are presently envisaged whereby we would want to recommend using the discretion to define a class of cases for local discounts. Instead, individual cases should be decided on their own merits – they ought to at least demonstrate some exceptional circumstances though if we are to use this discretion. Any such cases that emerge in the future will be reported to Cabinet for decision. To conclude, this particular discretion has therefore been reported for information only at this stage and there is no recommendation to operate it as part of this report.

5.0 **Alternative Options**

5.1 We could continue with only the statutory discounts (which apply nationally) and not operate these new discretions at all. Alternatively we could implement the discretions in parts of the area only, or reduce the discounts but not to the maximum extent allowed. Clearly, there are an infinite number of permutations with the three discretionary areas reported above.

5.2 However, the alternative options in respect of the second homes are not recommended because they would be contrary to our previously approved medium term financial strategy, be inconsistent with the intended county-wide approach and they would not maximise income. Furthermore, the alternative options in respect of long term empty property are not in keeping with our rationale on second homes and neither would they fully encourage the “bringing back into use” of empty property as much as the recommended approach. The recommended options at the end of the report do follow a clearer rationale and they also combine fairness with administrative simplicity.

6.0 **Financial and Resource Implications**

6.1 The financial implications have been covered in the tables shown in sections 2 and 3 above. The resource implications are mainly in connection with staff collecting higher charges from people currently paying at a reduced council tax rate of 50%. We expect to contain those staffing implications within the existing establishment.

7.0 **Legal Implications**

7.1 These have been covered in section 1 above.

(ii) **2005/2006 TAX BASE FOR COUNCIL TAX SETTING PURPOSES**

1.0 **Introduction**

1.1 The purpose of this part of the report is to decide the 2005/2006 tax base for council tax setting purposes. The recommended tax base is on the basis that the recommendations from the first part of the report above are approved.

2.0 The tax base calculation

- 2.1 Each year we have to estimate our tax base for the coming year. We need to do this so that we can go on to set our council tax in March. The tax base is a theoretical figure which expresses all the differently banded homes that we expect to have next year in terms of a common denominator known as *band D equivalent homes*. To work out our band D council tax, we simply divide the spending we want to be met from council tax by our tax base (number of band D equivalent homes). The council tax for homes in other bands can then be worked out by multiplying the band D council tax by the fraction for that other band. We have shown the fractions of band D for each of the other council tax bands towards the end of the table in Appendix A.
- 2.2 The next paragraph explains how we convert all the homes in our area to band D equivalents and so arrive at our tax base for next year. The figures and steps used in the calculation are shown in the table in Appendix A. Where actual figures are not known, we have used our best estimates.
- 2.3 We start with the current number of homes shown for each band in the Valuation List for our area. We then subtract the homes that are **Exempt** from council tax. We also make adjustments for homes that qualify for **Disabled Relief**. These are given relief by charging them at the band below their actual band. We now arrive at our first sub-total which is called the number of **Chargeable Homes**.
- 2.4 This figure for chargeable homes has to be reduced to allow for **Discounts** - this is where a home is occupied by less than two adults. These discounts are 25% where there is only one adult occupier and 50%, where there are no adult occupiers, except in the case of second homes this year where it is recommended that the discount should be only 10% [see par1 (i) of this report]. As we want to arrive at a number of homes that will pay a full charge, we have to convert the discounts into an equivalent number of homes so we can deduct them from the number of **Chargeable Homes**. For example ten homes getting a 10% discount each is equivalent to one home paying nothing. Similarly, four homes getting a 50% discount is equivalent to two homes paying nothing. These discounts have to be removed from the tax base because they don't produce any council tax income.
- 2.5 Having made the deductions for discounts, we then make adjustments for the estimated changes in the number of properties, exemptions and discounts that we are likely to have in the coming year. These are netted off and are shown as **Adjustments** – however, they will usually be net additions to the tax base as a result of the new properties being built in our area. The next sub-total represents the number of **Net Homes** (paying a full charge). These can then be converted into **Band D Equivalents** by multiplying them by the fraction shown in the table. The final step is to add all the **Band D Equivalents** together and multiply the total by our anticipated **Collection Rate** that we expect to achieve over time. This gives us our **Tax Base**. For 2005/2006, we have used a collection rate of 99.6%, reflecting our excellent collection rates and top quartile performance nationally.
- 2.6 The following figures show the 2005/2006 Band D Equivalents (rounded and extracted from the bottom of the table in Appendix A), followed by the figures for 2004/2005 which are for comparative purposes:

	2005/06	2004/05
Band AA (homes in band A and getting a disabled band reduction)	14	12
Band A	7,956	7,897
Band B	5,349	5,212
Band C	7,903	7,345
Band D	3,365	3,888
Band E	1,774	1,683
Band F	410	392
Band G	140	139
Band H	11	12

Total Band D Equivalents	<u>26,922</u>	<u>26,580</u>
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2.7 As explained in paragraph 2.5, the total of Band D Equivalents is multiplied by the Collection Rate to give the recommended tax base as follows:

	26,922
	<u>x0.996</u>
Tax Base for 2005/2006	<u>26,814</u>

The tax base that we set last year was 26,474 and so the proposed tax base for 2005/2006 represents an increase of 1.3% over the previous year.

2.8 Separate tax bases are also needed for each parish and for Spalding. This is because of the spending that is specific to those areas. These separate tax bases are worked out in exactly the same way as the tax base for South Holland, but only using the homes in each area, and the results are shown in Appendix B. Again, for comparative purposes, the figures for 2004/2005 have been given too.

RECOMMENDATIONS

- 1 That with effect from 1 April 2005 and until further notice, the Council will use its discretion to reduce the council tax discount on Second Homes Class B (those where occupation is NOT prohibited by law for a continuous period of at least 28 days in a relevant year) from 50% to 10%.
- 2 That with effect from 1 April 2006 and until further notice, the Council will use its discretion to remove completely the 50% council tax discount on Long Term Empty Properties Class C.
- 3 That the 2005/2006 tax base calculations for the South Holland area as set out in the reports and Appendices be approved.
- 4 That in accordance with the report of the Head of Finance and the Local Authorities (Calculation of Tax Base) Regulations 1992 (as amended), the amounts calculated by South Holland District Council as firstly, the tax base for the whole billing authority for the year 2005/2006, and secondly, the tax base for each part of the billing authority area for 2005/2006, shall be as follows:

Whole billing authority area:	26,814
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**Parts of billing authority
area:**

Cowbit	414
Crowland	1,340
Deeping St Nicholas	558
Donington	849
Fleet	704
Gedney	738
Gedney Hill	219
Gosberton	932
Holbeach	3,280
Little Sutton	39

Long Sutton	1,618
Lutton	404
Moulton	1,160
Pinchbeck	1,738
Quadring	427
Spalding	8,095
Surfleet	449
Sutton Bridge	1,286
Sutton St Edmund	208
Sutton St James	321
Tydd St Mary	300
Weston	625
Whaplode	857
Whaplode Drove	253
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TOTAL	<u>26,814</u>

Background papers: schedule of tax base calculations for parts of the area.

File Ref: 2005/2006 Council Tax Base

Appendices: A – Calculation of South Holland's Tax Base
B – South Holland's Tax Base Summary Sheet for Parishes (including Spalding)

Local Government (Access to Information) Act 1985

Please contact Elizabeth Jones, the Head of Finance if you want more information about this report or the background papers. You can contact her:

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Calculation of South Holland's Tax Base for 2005/06

Description	Band AA	Band A	Band B	Band C	Band D	Band E	Band F	Band G	Band H	TOTALS
Number of homes at 30 November 2004		13,718	7,561	9,083	3,551	1,541	309	97	13	35,873
Less exempt homes	0	-350	-139	-93	-38	-25	-14	-3	0	-662
Number of disabled relief homes (-)		-27	-53	-90	-52	-18	-8	-8	-7	-263
Number of disabled relief homes (+)	27	53	90	52	18	8	8	7		263
Number of chargeable homes	27	13,394	7,459	8,952	3,479	1,506	295	93	6	35,211
Number of 2nd home discounts @ 10%	0	57	31	33	22	10	2	2	0	157
10% discount deduction (no. divided by 10) *	0.00	5.70	3.10	3.30	2.20	1.00	0.20	0.20	0.00	15.70
Number of 25% discounts	8	5,521	2,237	1,884	498	187	29	12	0	10,376
25% discount deduction (no. divided by 4) *	2.00	1,380.25	559.25	471.00	124.50	46.75	7.25	3.00	0.00	2,594.00
Number of 50% discounts	0	185	78	60	21	17	12	11	1	385
50% discount deduction (no. divided by 2) *	0.00	92.50	39.00	30.00	10.50	8.50	6.00	5.50	0.50	192.50
Less total discount deductions (-) (* includes 10%, 25% and 50% cases)	-2.00	-1,478.45	-601.35	-504.30	-137.20	-56.25	-13.45	-8.70	-0.50	-2,802.20
Adjustments - ie changes in homes, exemptions and discounts (+)		19	19	443	23	2	2	0	0	508
Net homes	25.00	11,934.55	6,876.65	8,890.70	3,364.80	1,451.75	283.55	84.30	5.50	32,916.80
Ratio to Band D	5/9ths	6/9ths	7/9ths	8/9ths	1.00	11/9ths	13/9ths	15/9ths	2.00	
Band D Equivalents	13.89	7,956.37	5,348.51	7,902.84	3,364.80	1,774.36	409.57	140.50	11.00	26,921.84
								Collection Rate		x 0.996
								Tax Base		26,814.15

South Holland's Tax Base Summary Sheet for Parishes (including Spalding)

Part of Billing Authority Area	Properties on Valuation List	Band D Equivalents (rounded)	Tax Base (rounded) 2005/2006	Tax Base (rounded) 2004/2005
Cowbit	482	416	414	395
Crowland	1,738	1,346	1,340	1,314
Deeping St Nicholas	702	560	558	533
Donington	1,179	853	849	846
Fleet	924	706	704	701
Gedney	966	741	738	737
Gedney Hill	288	220	219	219
Gosberton	1,238	936	932	928
Holbeach	4,575	3,293	3,280	3,296
Little Sutton	50	40	39	41
Long Sutton	2,196	1,625	1,618	1,609
Lutton	517	405	404	397
Moulton	1,464	1,165	1,160	1,149
Pinchbeck	2,287	1,745	1,738	1,737
Quadring	544	428	427	418
Spalding	10,977	8,127	8,095	7,955
Surfleet	577	451	449	446
Sutton Bridge	1,868	1,291	1,286	1,240
Sutton St Edmund	261	209	208	204
Sutton St James	416	322	321	311
Tydd St Mary	397	301	300	289
Weston	790	627	625	633
Whaplode	1,106	861	857	827
Whaplode Drove	331	254	253	249
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TOTAL	<u>35,873</u>	<u>26,922</u>	<u>26,814</u>	<u>26,474</u>