

CABINET

3<sup>rd</sup> December, 2003

COUNCIL TAX DISCOUNTS

REPORT OF THE DIRECTOR OF FINANCE

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RECENT REFERENCES:

None

EXECUTIVE SUMMARY:

This paper reports on possible changes to Council Tax discounts with the introduction of the Local Government Act 2003 in the following areas: second homes, long term empty homes and locally defined discounts, including pensioners. In this latter regard, commentary is also made on the Notice of Motion from Councillor Lipscomb to Council on 29<sup>th</sup> October, 2003.

There are approximately 45,000 homes within the District – about 300 properties are classified as second homes and 600 as empty properties.

Council Tax on second homes is levied with a 50% discount. From April, 2004, councils will be able to reduce this discount to a minimum of 10% and retain the additional income produced. Income generated from reducing the discount is shared with major precepting authorities. The County Council has proposed that districts reduce the discount and that the income generated is used for County-wide priorities through the Hampshire Local Strategic Partnership (LSP). In order to satisfy the County and Police requirements, a focus on community service officers is likely. The report suggests that the level of discount that is applied to second homes be reduced and that Members enter discussions with the Winchester LSP about the use of the additional funding.

From April 2004 the discount for empty property can also be reduced from 50%. Unlike second homes, the income generated is not retained by local councils. Because of the way in which Revenue Support Grant (RSG) is calculated there is a potential cost to the Council of reducing the discount of £25,000. As well as financial considerations, there are also housing matters to be heeded. However, the scale of the issue is small and Members are advised not to change the level of discount that is applied to empty property.

Locally defined discounts will also be possible under the new arrangements. One such circumstance is that of pensioners with the specific argument that, as pensioners' income

only increases by the rate of inflation, council tax rises for them should be held at the rate of inflation only. For various reasons outlined in the paper Members are recommended not to support the proposal to allow selective discounts to pensioners.

Other locally defined discounts may be possible under the new arrangements and it is suggested that such discounts are considered in detail as and when circumstances warrant it.

#### RECOMMENDATIONS:

1. That a decision in principle be taken to reduce the discount for second homes to 10% with effect from April 2004 and that discussions be commenced with the major precepting authorities and the Winchester Local Strategic Partnership on the services that may be provided from the additional income raised.
2. That the reduction in discount for second homes to 10% be included in the tax base calculations to be considered by Cabinet on 18<sup>th</sup> December.
3. That satisfactory assurances be sought from the other authorities that the additional funding arising from reducing the discount for second homes would be used through the Winchester LSP within the Winchester District.
4. That the reduction of the discount for second homes to 10% be confirmed or otherwise by Council on 5<sup>th</sup> January, 2004.
5. That no action be taken at this time to alter the discount applied to long term empty property.
6. That it be recommended to Council in respect of the Notice of Motion raised by Councillor Lipscomb that no action be taken to give particular groups or classes of property council tax discounts at this time.

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##### DETAIL:

##### 1 Purpose

1.1 The purpose of this paper is to report on possible changes to Council Tax discounts in the following areas:

- a) Second homes
- b) Long term empty homes
- c) Pensioners (locally defined discounts)
- d) Other groups (locally defined discounts)

1.2 Decisions on changes to discounts are required before the Council sets its tax base for next year. The Government has requested that decisions on these be notified to them by 31<sup>st</sup> December, albeit the taxbase does not have to be set until 31<sup>st</sup> January, 2004. A report on the tax base will be presented to Cabinet on 17<sup>th</sup> December and to Council on 7<sup>th</sup> January, 2004. The Winchester Local Strategic Partnership (LSP) meets on 18<sup>th</sup> December.

1.3 Commentary is also made on the Notice of Motion from Councillor Lipscomb to Council on 29<sup>th</sup> October, 2003.

1.4 There are approximately 45,000 homes within the District and the tax base (that is the number of homes expressed as band D equivalents) is also about 45,000. Currently, about 300 properties are classified as second homes and 600 as empty properties. In considering the financial impact of proposals the spread of these homes across the bands is assumed to be even – the relatively small numbers involved means that the financial effect is not significantly under or over stated.

1.5 The changes are governed by the Local Government Act, 2003. The Regulations are still awaited so some assumptions have been made but these should not affect the principle of the decisions Members are being asked to make.

##### 2 Second Homes

2.1 Council Tax on second homes is levied with a 50% discount. From April, 2004, councils will be able to reduce this discount to a minimum of 10% and retain the additional income produced. The Act allows the Council to apply the policy in either the whole or part of its District. There seems to be no good reason for applying differential discounts and it is suggested that, if discounts are to be reduced, that these be applied consistently across all second homes.

- 2.2 Whilst it is the decision of the Billing Authority (that is, the district council) to make such a reduction, the income generated is shared with major precepting authorities (that is the County and the Police and Fire authorities) in proportion, it is believed, to the respective amount of council taxes. It is not known how the parish element will be treated - whether it will be retained by the billing authority or passed to the parishes. Accounting for the different sums involved at a parish level would add to the cost of administration.
- 2.3 There are about 300 second homes in the District. If the discount is reduced to 10%, approximately £130,000 additional income may be generated. Of this, about £12,000 relates to the District Tax and about £5,000 to the parish element. The cost of collection will fall solely to this Council and the income (£12,000 or maybe £17,000) is too small to make the administration of the scheme sensible. However, the costs of collection, compared to the total amount of income that may be generated, mean that there could be merit in levying for the total amount.
- 2.4 The County Council has proposed that districts do reduce the discount and that the income generated is used for County-wide priorities through the Hampshire Strategic Partnership. The County envisages that the income raised would not necessarily be spent in the district from which it came.
- 2.5 An alternative approach would be to insist that, if this Council makes arrangements for such billing, then the income generated should be used solely within the Winchester district and that this could be done through the Winchester LSP. That is, spending of the money raised would be determined by the Winchester LSP. In order to satisfy the County and Police requirements, a focus on community service officers is likely.
- 2.6 In addition to the financial considerations, the impact of second homes on the District is also a consideration. Second homes create a demand for council services – such as refuse collection and street cleaning – and potentially reduce the number of homes available for others in the District. The number of second homes is less than 1% of the total in the District.
- 2.7 Although the discount can be reduced to 10%, there is merit in considering a reduction to 25% as this is the level of discount applied to a property where there is only one sole resident. The reasoning is that owners may declare that there is one person in sole residence rather than declaring that the property is a second home. This will be difficult to determine and monitor, making the cost of administering less favourable against the potential benefits. It is also possible that owners may seek to swap their first and second homes, depending upon the approach that other councils are taking towards discounts. Again, this would be difficult to determine and monitor.
- 2.8 Changes to the discount levied would be reflected in the Council's tax base that is used for determining the Council Tax. In order to retain the additional income from the changes they will not be reflected in the tax base for grant purposes – thus avoiding any reduction in Revenue Support Grant (RSG). However, there are two concerns with this. Firstly, there is no certainty about how long such an arrangement might continue. Secondly, if second homes are re-designated – for single person discounts or as the main residence – the properties will become part of the tax base for RSG purposes and any additional income generated will be lost to the Government. Indeed, there may be a cost to the Council if this happens, given that our tax is less than the Assumed National Council Tax (ANCT) – see para 3.3 below.

- 2.9 If the discount is reduced, a thorough review of the classification of both second homes and empty properties will need to be undertaken to ensure that the properties are in their correct class. Since initial classification there may have been changes between the two classes that have not been notified to the Council. This could affect the amount of income that could be raised.
- 2.10 The income generated will need to be ring-fenced for the specific LSP purposes and monitored to ensure that, if it reduces, there is a consequent reduction in the services funded from this source. Equally, if it increases the additional income should be made available to the LSP. Additionally, there must be regard to the cost of administration and if this becomes significant it will need to be met from the total income raised before being spent by via the LSP.
- 2.11 Although there are difficulties with the proposal, additional community services provided with the sanction of the LSP are possible and the benefits of these could outweigh the costs of administering the scheme. Members are advised to support the proposal to reduce the discount in principle (to 10% is suggested) and to enter discussions with the precepting authorities and the Winchester LSP on the additional services that may be provided. These discussions need to be sufficiently advanced to enable the decision in principle to be confirmed or otherwise by 31<sup>st</sup> December, so that appropriate arrangements can be made for finalising the tax base calculations and the administration arrangements and for reporting the tax base to Council on 7<sup>th</sup> January, 2004. The consequent budget implications will be included in the report due to be presented to Cabinet in February, 2004.

### 3 Long Term Empty Homes

- 3.1 Empty homes that are unfurnished are entitled to an exemption for the first six months – that is, no council tax is levied for the first six months and 50% is levied thereafter. Empty homes that remain furnished are not entitled to an exemption and council tax is levied at 50% immediately. From April 2004 the discount can be reduced from 50% – there is differing advice as to whether there will be a minimum of 10% as with second homes or no minimum. The exemption period remains the same. As with second homes the Act allows the Council to apply the policy in either the whole or part of its District. There seems to be no good reason in this case either for applying differential discounts and it is suggested that, if discounts are to be reduced, that these be applied consistently across all empty properties.
- 3.2 Unlike second homes the income generated is not retained by local councils. Reducing the discount will increase the Tax Base and increase the income generated from the Council Tax levy but it will also reduce the amount of revenue support grant (RSG) that the Government pays. The net financial position for the Council is also complicated by the parish precepts.
- 3.3 RSG is calculated on the assumption that the Council will raise a certain amount of income from an Assumed National Council Tax (ANCT) - this amount includes the parishes' amount. For the current year the ANCT is £182 – the District tax is £99 and the parish average is £42 – a total of £141. For every property by which the tax base increases the RSG is reduced by £182 and the income raised by the District is £99 – a shortfall of £83. On the basis that 600 properties are empty the potential cost to the Council of reducing the discount to nil is £25,000 (600 x 50% x £83).
- 3.4 The parishes will benefit by an increased tax base and, if the precepts were unchanged, a lower tax would be levied.

- 3.5 As with second homes the considerations are not merely financial but housing matters need also to be heeded.
- 3.6 There are currently 600 empty properties, just over 1% of the total in the District. This figure is fairly static. Of these about 100 have been empty for more than three years. The average length of time that a property is eligible for council tax at 50% is about three months – that is an average of nine or three months, depending upon whether the property was furnished. It is suggested therefore that reducing the discount is likely, at best, to encourage back into use 100 properties. Of these, some may continue to remain empty despite the increased financial cost. The increased cost – 50% of the total tax bill of about £1,000, that is £500, is considered insufficient penalty to encourage owners to return these properties to use.
- 3.7 Bearing in mind the foregoing Members are advised not to change the level of discount that is applied to empty property.

#### 4 Pensioners

- 4.1 Locally defined discounts will also be possible under the new arrangements. One such circumstance receiving attention in the media recently is that of pensioners with the specific argument that, as pensioners' income only increases by the rate of inflation, council tax rises for them should be held at the rate of inflation only. Various issues in this regard are considered, those of principle followed by those of cost and administration.
- 4.2 Any reduction in council tax for pensioners will need to be funded by others – either the general tax payer through Government support – or the local tax payer through increased council tax. Alternatively, the loss of income would require the Council to make service reductions.
- 4.3 Whilst some pensioners will have only minimal income, others will be in receipt of occupational pensions, will have savings or capital, or a combination of these income sources. Some pensioners will have higher income levels than some people who are not yet pensioners but are employed.
- 4.4 For pensioners and others there is a system of state benefits, including council tax benefit, which are applied with a certain equity across all groups. Poor pensioners, in common with poor employed or unemployed people, may (and do) claim such benefits.
- 4.5 Pensioners generally do not have dependants to support. People with young families, often on low wages, or at early stages in their earning career, can be in the same or worse financial position that pensioners.
- 4.6 Pensioners' basic income increases by the rate of inflation each year. This is no different to many both employed and unemployed. Indeed, there are sections of the employed community who receive no automatic increases for inflation.
- 4.7 The idea for pensioner discounts has been heavily promoted by Kent County Council and five other counties, including Hampshire. However, it is now understood that they do not intend to proceed with the idea – following legal advice which indicated the possibility of legal challenge from other interest groups as to the fairness of a discount to one particular class of persons provided in this way. It is also reported in

the media that neither the National Pensioners' Forum nor the Is It Fair? campaign support the proposal.

4.8 The issues of cost and administration include:

- a) The definition of pensioner and the proof and checking of the same that will be required.
- b) The operational date for allowing a discount – if it is tied to the date of birth, in-year calculations and billing will be necessary.
- c) Computer software modifications will be necessary. Traditionally these do not come cheaply.
- d) The cost of billing falls to this Council and is not shared with the major precepting authorities.
- e) Only the billing authority can elect to allow such discounts. If the discount is to apply to the whole of the tax bill agreement will need to be reached, with the County and the Police and Fire authorities, for their share to be deducted from their precept. The position of the parishes is unclear, in the absence of the Regulations and advice from the ODPM – will a proportionate share of the discounts be borne by the parishes or, as seems likely, the District solely?

4.9 Councillor Lipscomb's Notice of Motion is considered:

*This Council notes:*

*notes the growing concern of pensioners and others on low incomes that levels of Council Tax increase for 2004/05 may again significantly exceed that of any pension increase and the average interest available on savings, thereby threatening the quality of their lives. While district councils precept is substantially lower than that of county and unitary authorities, this Council nevertheless resolves to aim to restrict any increase in its precept for 2004/05 to the prevailing rate of inflation and further instruct the Leader to write to the Deputy Prime Minister supporting the move of Hampshire County Council in seeking grant aid to enable a discount of 50% of the Council Tax levy payable by our senior citizens in 2004/05".*

4.10 The concern amongst pensioners, and other groups, is noted. The increase in council tax levels for the coming year has not been determined yet, but Members have always mindful of the effect of both the increases and the underlying level of Winchester's tax when determining such increases. The current year's increase was 7.5%, in line with the Government assumptions about council tax rises. The Government has indicated that council tax increases for the coming year will be capped if they are deemed to be excessive and an indicative figure of 10% has been reported as a probable limit.

4.11 For the reasons set out in this section, it is suggested to Members that the proposal to allow selective discounts to pensioners not be supported.

## 5 Other Groups

- 5.1 As stated in para 4.1, councils will be able to determine locally defined discounts. A single example of where this might apply is highlighted and relates to the flooding in 2000.
- 5.2 Occupiers of some properties that were affected by flooding left their homes but their furniture remained and the property continued as their sole or main residence. Under the current Regulations, these properties are not entitled to any reduction in council tax as there is no exemption to cover these particular circumstances. The new Regulations will allow councils to give discretionary discounts in such circumstances. The full cost of these discounts will be borne by the council.
- 5.3 It is suggested that Members consider discounts for such groups as and when circumstances warrant it.

### OTHER CONSIDERATIONS:

#### 6 CORPORATE STRATEGY (RELEVANCE TO):

- 6.1 The proposals are linked to the key priority of *Homes and Environment* and the core value of *use your money carefully*.

#### 7 RESOURCE IMPLICATIONS:

- 7.1 The direct financial implications are outlined in the paper. In addition there are staffing implications for any proposal to reduce or introduce discounts. Specifically, for second and long term empty homes there will be additional work for the Local Taxes section initially checking the list of such homes to ensure that the properties are properly classified. The staff will also need to ensure that future classification of properties is correct. If any reduced discount is given for pensioners there will be considerable staffing implications which would need to be assessed fully.

### BACKGROUND DOCUMENTS:

Working papers held within the Finance Department.

APPENDICES: None.