

Committee:	Date
Finance	21 st January 2014
Subject: Council Tax – Discounts for Second Homes	Public
Report of: The Chamberlain	For Decision
Summary	
<p>From April 2013, councils have had full discretion over council tax discounts for second homes. Until then, a minimum discount of 10% was statutory. Many authorities decided to remove the discount from April 2013 but in the City the discount was retained at 10%, with the intention that it should be reviewed before April 2014 and that council tax payers should be consulted before making any changes.</p> <p>Consultation with council tax payers was undertaken during the Autumn of 2013, the results of which are contained in this paper. The response to the consultation exercise was very low so it may not fully reflect the opinion of all council tax payers.</p> <p>Of the 130, out of 5,500 potential consultees, 46 were in favour of removing the discount, 77 in favour of keeping it and the remaining 7 did not express an opinion.</p> <p>There is potential for an additional £160,000 income from council tax if the discount is removed however this may be reduced by increase in awards of single person discount, or by reduction in the grant received for second homes (given as if we were awarding 50%) if we are no longer able to properly identify second homes.</p> <p>There is no compelling evidence to retain the second homes discount and it is for Members to determine if they want to remove the council tax discount for second homes.</p> <p>Recommendation(s)</p> <p>Members are asked to agree to remove the discount for council tax on second homes with effect from April 2014.</p>	

Main Report

Background

1. Since the inception of council tax in 1993 all dwellings not constituting a sole or main residence, i.e. second homes, were entitled to a 50% discount from the full tax. The Local Government Act 2003 gave local authorities the power from 1st April 2004 to reduce the 50% discount from full council tax awarded to owners of second homes to a minimum of 10%.

2. Following consultation with tax payers, the Finance Committee reduced the discount to 25% from April 2005 and then to 10% from April 2007.
3. The Local Government Finance Act 2012 extended the discretion so that local authorities have full discretion meaning that, from 1st April 2013, the discount for second homes can be completely removed or awarded up to 100%.

Current Position

4. At the beginning of December there were 1,575 second homes receiving a 50% discount; the number in December 2012 was 1,555. The increase in second homes is due to an increase in the number of dwellings overall from 6,232 to 6,537.
5. Currently second homes in the City receive 10% discount and no changes have been made since 2007. Following a report to the January 2013 meeting of the Finance Committee, it was agreed to retain the discounts at 10% for 2013/14 but to review this again for 2014/15 after consulting with council tax payers about the level of discounts so that any changes could be made from 1st April 2014. This consultation has now taken place.
6. None of our immediate neighbours: Tower Hamlets, Islington, Camden, Westminster, Lambeth and Southwark give any discount for second homes. Neither Kensington & Chelsea nor Hammersmith & Fulham give any discount. Kensington & Chelsea is known to have a high number of second homes.
7. We are only aware of three boroughs that give any form of discount which are as follows:
 - Hillingdon 25%
 - Enfield 10% to be removed in April 2014
 - Barking & Dagenham 10% for one month only

Consultation Exercise

8. Consultation has to be with all council tax payers because the funding for the discount is ultimately part of the calculation for setting the level of charges. Letters were sent to all council tax payers asking for comments on the level of discount for second homes. The text of the letter is attached at Appendix 1. Around 5,500 letters were sent originally and further letters were issued with new accounts. Some tax payers are responsible for council tax on more than one property so there were fewer letters than the number of dwellings. The consultation also appeared on the City website.
9. There have been 130 responses in total. Of these, 46 were in favour of removing the discount and 77 were against. The remaining 7 made other comments without actually saying whether or not they were in favour of the discount. The majority of responses, where they could be identified, were from second home owners. Typical comments were:
 - that if the discount were to be removed, second home owners should obtain the full benefits of City residents, e.g. entitlement to the London Freedom Pass;

- that not all second home owners are wealthy; most retain a second home because it is essential for work “Many second homes are used by people working in the city from Monday to Friday and the special status of the city as primarily a workplace is recognised in the voting arrangements. As these second homes are being used as a pied a terre many council services will be primarily used in the local authority of the main residence and little use made of the corresponding service in the City”.
10. The respondents who were not second home owners were generally in favour of removing the discount, mainly on grounds of equity. There were suggestions that the income raised should be used to reduce the council tax slightly for everyone; it should help the homeless or elderly; or that it should fund benefits. All comments from the consultation exercise have been recorded and can be made available if required.

Options

11. The options are:
- a. leave the discounts unchanged at 10%;
 - b. remove the discount altogether; or
 - c. change the discount to another percentage.
12. Whatever option is agreed will be included in the council tax setting process for 2014/15.

Implications

13. Removing the discount completely for second homes would increase council tax revenue by a maximum of £160,000 per annum however; there may be some additional single person discounts of 25% granted if couples decide to have separate main homes. There was some evidence of this occurring when the discount was reduced from 25% to 10%, although no recent evidence. This additional income could be used to mitigate the effects of losing grant for council tax reductions (council tax benefit).
14. In determining grant levels, the Government assumes a 50% discount for second homes so any additional income is retained by the authority. If the discount is removed, in time it will become more difficult to distinguish second homes from main homes because the discount is the only method of identifying such properties. All second homes are currently reviewed on an annual basis and council tax payers of second homes have to sign a declaration that the property is a second home. If there is no financial advantage in declaring a property to be a second home, council tax payers are more likely not to sign the declaration and we shall have to treat the property as a main home. This means that long term we could lose the additional revenue of 50% of the council tax from central Government.

Conclusion

15. Retaining the discount for second homes would put us in a different position to most London Boroughs and indeed our most immediate neighbours. There is modest financial benefit in removing the discount which would be included in the calculation for the setting of the Council Tax level.
16. There is a risk of some grant being lost in the long term if we are unable to properly identify second homes.
17. It is a Member decision whether to remove, retain or amend the level of discount however there is no compelling evidence for continuing to award this discount for second homes.

Appendices

- Appendix 1 – Consultation letter sent to council tax payers

Background Papers:

Report to Finance Committee 22nd January 2013 – “Council Tax Discounts – Second Homes”

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Dear Council Tax Payer,

Council Tax - Discounts for Second Homes

The Local Government Finance Act 2012 has given local councils greater discretion in the level of discounts offered to council tax payers and the discount for second homes, which until 31st March 2013 was a minimum of 10%, may from the financial year 2013/14 be removed completely.

No changes were made by the City Corporation for the current financial year and the discount for second homes has remained at 10%. However, consideration is now being given to removing this 10% discount from April 2014. So that any decision to change the amount of discount is made on as informed a basis as possible, we are seeking the views of all tax payers now to assess the level of support for any change. Please note that any changes to discounts will not affect anyone's entitlement to an income based council tax reduction (previously called council tax benefit).

If you would like to comment on the level of council tax discount applied to second homes, you may e-mail your comments to:

ctecondhomes@cityoflondon.gov.uk

or write to:

Revenue Collection Group, Chamberlain's Department, City of London. P.O. Box 270, Guildhall. London, EC2P 2EJ
quoting "ctsecondhomes".

Your comments will be treated in confidence and will not be attributed to any individual but they will help inform the decision making process for the financial year 2014/15.

Comments should be received by 23rd December 2013.

Yours sincerely