

Technical reforms of Council Tax

Response by the Building Societies Association

1. The Building Societies Association (BSA) represents mutual lenders and deposit takers in the UK including all 47 UK building societies. Mutual lenders and deposit takers have total assets of over £375 billion and, together with their subsidiaries, hold residential mortgages of over £235 billion, 19% of the total outstanding in the UK. They hold more than £250 billion of retail deposits, accounting for 22% of all such deposits in the UK. Mutual deposit takers account for 34% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.
2. The BSA has not sought to answer all questions posed in the consultation, therefore our response focuses primarily on the proposals to remove the Class L exemption. We have also provided feedback on the proposals relating to Solar PV installations.

Executive Summary

- We recognise the desire to collect Council Tax where possible and so a review of the current exemptions is sensible. However, we are concerned that there has not been a detailed analysis of the impact of the proposal to collect Council Tax on repossessed homes and we do not agree with the rationale to remove the Class L exemption.
- As the property remains empty whilst in possession, we do not see why Council tax would be payable, as the lender themselves would make very limited use of the provisions and services funded by Council Tax.
- It is not known from the proposals as to how the local authority will be made aware that the lender is now liable for council tax and at which point the lender becomes liable. It is not known whether the lender themselves will be required to notify the local authority or vice versa. It is also not known how this notification process will work.
- The Government will need to consider carefully how the billing arrangements should be managed and a detailed cost benefit analysis must be undertaken prior to pressing ahead with this proposal. The BSA is very concerned that this alone could result in significant costs to local authorities as well as to lenders.
- Should Government wish to press ahead with the proposals, despite our objections, it is imperative that a full and detailed impact assessment is conducted on these proposals prior to pressing ahead with change. The assessment needs to consider:
 - How lenders make use of the services provided by Council Tax and whether this use is proportionate to the Council Tax that lenders would be required to pay.
 - How the billing arrangements will be managed from both the lender and local authority perspective.
 - A detailed cost benefit analysis
- We welcome the common sense approach taken on council tax for properties with photovoltaic panels installed as part of a rent a roof agreement. We agree that

domestic scale photovoltaic panels should be treated as a part of the domestic property, rather than being individually assessed for business rates.

Class L exemption

3. We recognise the desire to collect Council Tax where possible and so a review of the current exemptions is sensible. However, we are concerned that there has not been a detailed analysis of the impact of the proposal to collect Council Tax on repossessed homes and we do not agree with the rationale to remove the Class L exemption.

4. Under existing FSA regulation lenders can only take possession of a property as a last resort (MCOB 13.3.2), must market the property for sale as soon as possible and achieve the best price that might reasonably be paid (MCOB 13.6.1). This regulation means that lenders are not incentivised to hold on to repossessed properties and will seek to obtain a sale or rent the property as soon as possible. Adding an additional requirement for the lender to pay Council Tax whilst the property is in possession is unlikely to act as an additional incentive and is highly unlikely to result in the property coming back into use any sooner than it would be under existing regulation.

5. Furthermore, as the property remains empty whilst in possession, we do not see why Council tax would be payable, as the lender themselves would make very limited use of the provisions and services funded by Council Tax.

6. The BSA would strongly recommend that a detailed impact assessment is undertaken to understand how lenders make use of the services provided by Council Tax and whether this use is proportionate to the Council Tax that lenders would be required to pay.

7. Whilst we appreciate the assertion that requiring the repossessed borrower to pay Council Tax is likely to see this remain unpaid, we do not understand the rationale for passing this on to the lender. We are also particularly concerned with the proposal that the lender could not recoup this from the borrower. We disagree that this is a 'fair approach and does not solve the issue of the tax payer footing the bill, as this additional charge on the lender, will naturally be passed on to the lender's customers. Mutual lenders are owned by their customers and therefore any increase in expenditure will ultimately be borne by these customers.

8. The consultation does not state how the Government would propose to collect the tax from lenders and in our view this needs careful consideration.

9. The current way in which the tax is collected will not necessarily work for lenders. Properties can remain in possession for any length of time and for national lenders, they will be spread across various local authorities.

10. In addition, it is not known from the proposals as to how the local authority will be made aware that the lender is now liable for council tax and at which point the lender becomes liable. It is not known whether the lender themselves will be required to notify the local authority or vice versa. It is also not known how this notification process will work.

11. The Government will need to consider carefully how the billing arrangements should be managed and a detailed cost benefit analysis must be undertaken prior to pressing ahead with this proposal. The BSA is very concerned that this alone could result in significant costs to local authorities as well as to lenders.

12. It is imperative that a full and detailed impact assessment is conducted on these proposals prior to pressing ahead with change. The assessment needs to consider:

- How lenders make use of the services provided by Council Tax and whether this use is proportionate to the Council Tax that lenders would be required to pay.

- How the billing arrangements will be managed from both the lender and local authority perspective.
- A detailed cost benefit analysis

13. The BSA is also seeking clarity on the policy objective this change is hoping to achieve. There may well be an alternative approach which could deliver the objective, without the need to remove the Class L exemption. We are aware that the Scottish Government have recently consulted on similar changes to the Council Tax regime, but have decided to keep the exemption for properties in possession. We believe this is the right approach and we would urge the Government to ensure consistency, by maintaining the exemption in England.

‘Rent a Roof’ solar photovoltaic installations on domestic properties

14. We welcome the common sense approach taken on council tax for properties with photovoltaic panels installed as part of a rent a roof agreement. We agree that domestic scale photovoltaic panels should be treated as a part of the domestic property, rather than being individually assessed for business rates.

15. The number of homes with photovoltaic panels or other similar devices is likely to increase as energy prices rise and consumers become more aware of green improvements available to them. We therefore welcome clarity on the status of energy-generating installations to assist consumers who are currently making a decision on whether to install microgeneration units.

16. Clearly there should be a consistent approach taken to properties with solar panels to avoid properties with similar green measures being assessed separately for business rates and potentially being charged different amounts. The potential for having one’s home assessed for business rates is, in itself, likely to be off-putting for consumers and may dissuade them from making energy efficiency improvements.

17. The additional cost to Government and consumers by individually assessing and charging business rates for properties with photovoltaic panels is likely to be prohibitive. It is important that making energy efficiency improvements makes financial sense for consumers and treating domestic scale panels as part of a dwelling will go some way towards making green energy financially viable.

Contact

18. This response has been prepared by the BSA in consultation with its members. Queries should be directed to Victoria Barnard (Victoria.barnard@bsa.org.uk)