

## **Cabinet – 12 December 2012**

### **Council Tax discounts for empty properties**

**Portfolio:** Councillor Christopher Towe, Finance and Personnel

**Related portfolios:** Councillor Adrian Andrew, Deputy Leader, Regeneration

**Service:** Resources - Revenues

**Wards:** All

**Key decision:** No

**Forward plan:** No

#### **1. Summary**

1.1 This report is about the options that the council has to make changes to discounts applied to empty properties for the purpose of council tax liability from April 2013, as a result of impending legislation.

#### **2. Recommendations**

2.1 That cabinet recommends to council to change the level of discount from council tax for an unoccupied and unfurnished property to 100% over a 3 month period (class C exemption).

2.2 That cabinet recommends to council to change the level of discount from council tax for uninhabitable properties requiring structural repairs to 50% over a 12 month period (class A exemption).

2.3 That cabinet recommends to council to change the level of discount from council tax for a property that is no one's sole or main residence, but still furnished to 0% (second home).

2.4 That cabinet recommends to council to introduce an additional 50% premium for properties that have remained unoccupied and unfurnished for greater than two years.

2.5 That cabinet recommends to council to delegate to the Chief Finance Officer authority to amend the discounts or premium being applied to reflect any changes required by legislation and/or government guidance, in consultation with the portfolio holder.

### 3. Report detail

3.1 Currently there is a system of exemptions and discounts from Council Tax for when a property is not the sole or main residence of an individual. These exemptions and discounts are taken into account when determining an authority's tax base which in turn is used in the calculation of the authority's grant from central government.

3.2 From 2003, an authority had the discretion to change the discount on long term empty properties (no one sole or main residence and unfurnished) and second homes (no one sole or main residence but still furnished). They were given the power to reduce the discount from 50% to 0% and 10% respectively for the different scenarios. In 2009, Walsall Council used their discretionary powers and reduced the discount to the minimum allowed under legislation.

#### 3.3 **There are four proposed changes**

In a consultation paper issued in October 2011 on reforms to Council Tax, the Government asked for views on a number of matters and in particular the possibility of giving extra discretionary powers to local authorities to adjust all or any of the matters outlined below. The paper set out that if the authority used its discretion to adjust any of the relief or exemptions then it would be able to retain any extra income generated. The exemptions and discounts that may be affected are as follows.

Legislation is currently in the drafting stage. The government have given a statement of intent and this is reflected in this report, but this remains subject to change.

1. Class C exemption – the first six months that a property is unoccupied and unfurnished - currently there is a full exemption for the six months. The council is likely to be able to reduce the time limit between 0 - 6 months and/or the amount of relief between 0 - 100%.

2. Class A exemption – the first twelve months that a property requires or is undergoing structural alteration or repair to render the property habitable - currently there is a full exemption for the twelve months. Councils are likely to have the power to reduce the amount of relief between 0 - 100%, but not the time limit, which would remain set at twelve months.

3. Second Homes Discount– No one's sole or main residence but still furnished - currently a 10% discount applies. It is likely that councils will be able to further reduce the discount from 10% to 0%.

4. Long Terms Empties Discount – Unoccupied and unfurnished - currently no discount is available. It is likely that the council will be able to charge a premium of 50% of the full liability on properties which have been empty over 2 years.

3.4 **Item 1: Class C Exemption** (the first six months that a property is unoccupied and unfurnished). The calculation of the effect of any changes is based on the actual exemptions granted for 2011/12.

The council awarded a total of £1,687,360 in exemption class c last year. This amount came from 8,544 awards . The breakdown is;

#### By Band

Band	No of Awards	Total
A	5,771	£1,008,020.15
B	1,524	£323,141.88
C	698	£172,075.38
D	310	£88,037.13
E	150	£51,009.72
F	65	£30,572.60
G	23	£12,640.04
H	3	£1,863.48
Total	8,544	£1,687,360.38

#### By Ward

Ward	No of Awards	Total
Aldridge Central & South	363	£ 74,814.06
Aldridge North & Walsall Wood	314	£ 56,031.40
Bently & Darlaston North	442	£ 78,397.42
Birchills Leamore	521	£ 80,595.29
Blakenall	440	£ 85,772.12
Bloxwich East	380	£ 75,697.82
Bloxwich West	383	£ 74,050.24
Brownhills	400	£ 80,369.11
Darlaston South	455	£ 86,686.59
Paddock	348	£ 92,720.91
Palfrey	631	£ 121,990.70
Pelsall	167	£ 55,426.09
Pheasey Park Farm	193	£ 52,348.75
Pleck	754	£ 146,480.41
Rushall -Shelfield	304	£ 69,947.80
Shorth heath	267	£ 56,050.07
St Matthews	891	£ 160,953.21
Streetly	218	£ 61,075.32
Willenhall North	326	£ 63,164.96
Willenhall South	647	£ 114,788.11
Total	8,544	£1,687,360.38

#### Options

The options available are varied but below are 3 variations to show possible outcomes:

**Option 1** - Remove the exemption completely for 8,544 residents to generate a gross value of £1,687,360 and a predicted net annual income of £538,051.

**Option 2** - Reduce the period to 3 months from the original 6 months for 3,222 residents to generate a gross value of £452,399 and a predicted net annual income of £133,872.

**Option 3** - Reduce the period to 28 days from the original 6 months for 6,261 residents to generate a gross value of £1,158,557 and a predicted net annual income of £434,906.

The gross value will not be the actual income to the council as it will be affected by the following :

- all social housing properties will be excluded (28% of the gross value)
- properties become occupied (30% of gross value)
- of the properties that become occupied a third will gain single person discounts
- bad debt provision
- increased cost of collection

3.5 **Item 2: Class A Exemption** (the first twelve months that a property requires or is undergoing structural alteration or repair to render the property habitable). The calculation of the effect of any changes is based on the actual exemptions granted for 2011/12.

The council awarded a total of £237,137 in exemption class A last year. This amount came from 465 awards. The breakdown is;

**By Band**

Band	No of Properties	Total
A	230	£ 85,054.44
B	81	£ 45,792.39
C	71	£ 38,060.73
D	39	£ 27,331.13
E	27	£ 23,709.47
F	11	£ 10,942.60
G	6	£ 6,246.57
H	0	£ -
<b>Total</b>	<b>465</b>	<b>£ 237,137.32</b>

**By Ward**

Ward	No of Properties	Total
Aldridge Central & South	20	£ 15,987.91
Aldridge North & Walsall Wood	34	£ 20,077.70
Bentley & Darlaston North	15	£ 6,700.34
Birchills Leamore	32	£ 14,851.93
Blakenall	15	£ 6,452.25
Bloxwich East	22	£ 10,575.60
Bloxwich West	11	£ 4,093.98
Brownhills	15	£ 9,366.85
Darlaston South	26	£ 12,207.33
Paddock	32	£ 21,605.86
Palfrey	26	£ 12,969.32
Pelsall	13	£ 8,460.77
Pheasey Park Farm	18	£ 9,358.46

Pleck	23	£ 11,074.58
Rushall -Sheffield	21	£ 4,549.59
Shorth heath	15	£ 6,032.55
St Matthews	48	£ 15,278.15
Streetly	35	£ 23,610.21
Willenhall North	21	£ 11,961.09
Willenhall South	23	£ 11,922.86
Total	465	£ 237,137.32

### The options

The options available are to alter the percentage of relief only.

**Option 1** - Remove the exemption completely for 465 residents to generate a gross value of £237,137 and a predicted net annual income of £189,709.

**Option 2** - Reduce the relief percentage to 50% for the full 12 month period for 465 residents to generate a gross value of £118,568 and a predicted net annual income of £94,854.

The gross value will not be the actual income to the authority as it will be affected by the following:

- properties become occupied (16% of gross value)
- of the properties that become occupied a third will gain single person discounts

3.6 **Item 3 - Second Home Discount** (no one's sole or main residence, but still furnished). The calculation of the effect of any changes is based on the relevant discounts and exemptions as at 24 April 2012.

The authority currently gives £28,560 discount on 240 properties. Therefore if the discount was be totally removed the authority would save this amount as a net value. The breakdown is as follows;

By Band

Band	No of Properties	Total
A	148	£ 15,113.76
B	31	£ 3,693.34
C	26	£ 3,540.42
D	18	£ 2,757.42
E	11	£ 2,059.53
F	4	£ 885.08
G	2	£ 510.62
H	0	£ -
Total	240	£ 28,560.17

By Ward

Ward	No of Properties	Total
Aldridge Central & South	15	£ 2,008.42
Aldridge North & Walsall Wood	7	£ 919.12
Bently & Darlaston North	12	£ 1,310.55
Birchills Leamore	16	£ 1,719.04
Blakenall	40	£ 4,118.84
Bloxwich East	8	£ 987.19
Bloxwich West	5	£ 663.81
Brownhills	4	£ 408.48
Darlaston South	5	£ 561.67
Paddock	11	£ 2,025.49
Palfrey	12	£ 1,361.63
Pelsall	2	£ 238.28
Pheasey Park Farm	5	£ 612.74
Pleck	20	£ 2,331.77
Rushall -Sheffield	8	£ 1,021.25
Shorth heath	8	£ 919.10
St Matthews	44	£ 4,850.75
Streetly	10	£ 1,548.90
Willenhall North	4	£ 510.61
Willenhall South	4	£ 442.53
Total	240	£ 28,560.17

- 3.7 **Item 4: Long Term Empties** (greater than 2 years). The calculation of the effect of any changes is based on the relevant discounts and exemptions as at 24 April 2012.

If the authority decided to charge the maximum premium on properties that have been empty for more than 2 years then it would raise an extra £310,979.59 in council tax from 509 properties. The breakdown is;

By Band

Band	No of Properties	Total
A	266	£ 135,830.24
B	97	£ 57,787.27
C	67	£ 45,617.29
D	37	£ 28,340.52
E	23	£ 21,531.91
F	14	£ 15,489.39
G	5	£ 6,382.98
H	0	£ -
Total	509	£ 310,979.59

## By Ward

Ward	No of Properties	Total
Aldridge Central & South	16	£ 8,510.67
Aldridge North & Walsall Wood	20	£ 11,829.82
Bently & Darlaston North	22	£ 13,531.95
Birchills Leamore	29	£ 16,851.12
Blakenall	28	£ 18,297.91
Bloxwich East	18	£ 11,319.18
Bloxwich West	9	£ 5,021.29
Brownhills	20	£ 11,829.83
Darlaston South	24	£ 14,553.24
Paddock	40	£ 25,191.55
Palfrey	49	£ 29,617.10
Pelsall	16	£ 10,553.23
Pheasey Park Farm	13	£ 7,829.82
Pleck	47	£ 31,149.01
Rushall -Sheffield	12	£ 7,063.86
Shorth heath	9	£ 6,127.68
St Matthews	61	£ 37,191.58
Streetly	32	£ 20,510.73
Willenhall North	10	£ 5,361.72
Willenhall South	34	£ 18,638.36
Total	509	£ 310,979.59

## Options

The option available is to add up to 50% on to the existing 100% liability - this is designed to encourage restoration and occupation of a long term empty property, The gross value will not be the actual income to the authority as it will be affected by the following :

- all social housing properties will be excluded
- properties become occupied (10% of gross value)
- of the properties that become occupied a third will gain single person discounts
- bad debt provision
- increased cost of collection
- furniture is added to circumvent the premium charge

It is estimated that any gross value will be removed to nil as a consequence. However, one unintended consequence would be that new home bonus would be available for all those furnished long term empty properties as they would then be classed as second homes, it should be noted that grants could then be used to encourage restoration and occupation.

STOP PRESS – The government intends to consult on introducing exclusions that will limit the potential income.

### 3.8 What do customers say about the existing reliefs?

We have contacted a number of customers currently in receipt of the empty property exemptions and asked why they use the exemption to enable us to better understand the value of the existing scheme to customers and the likely impact of removing or reducing the availability of the relief. This information can then help inform any member's decisions as to the best way to design our approach to empty property discounts in future.

We phoned 25 customers currently in receipt of either class C exemption, class A exemption or still being liable for an unoccupied property for greater than 2 years. we spoke to a mix of agents and owners. We asked why it had become empty?, How much longer before it was occupied? and what was stopping it being occupied? ;

What did the customer say about class C and class A exemptions

"usually properties are only empty for a few weeks"

"I have a tenant lined up for the property"

"because I bought it and I have no furniture so cannot move in"

"the market is OK at present - good time of year.... our referencing can delay process"

"no delays really normally quick turnaround, market quite buoyant"

"been doing up, completely renovated, hope to be in by end of month"

"oh no! we are doing it up but moved in recently"

Our data shows that most class C exemptions are utilised in the first 2 months and re occupation takes place for a variety of reasons, We can show from customers that their reasons for leaving a property empty are not due to the option of gaining up to 6 months free council tax. Their nominal value relates to time taken to do up the property and the level of work to be done.

On class A there is a link to the use of the 12 months exemption as the customers have linked the end of the exemption period with the date of completion for any work being carried out, this is creating an artificial deadline and shows for some customers that by offering 12 months exemption we are contributing to the length of time a property remains empty.

What did the customer say about still being liable for an unoccupied property for greater than 2 years?

"not had the money to do the property to the agreed standard"

"that's the flat above over the surgery, it will never be rented out"

"not had the money to do up the property"

"bought it last October, been empty for 5/7 years, needed loads work"

"my husband is a builder, he does them up"

"flat above hairdressers, we don't want to rent it out due to the noise from the business and the hassle. also the water systems all linked will cause problems with the business"

On greater than 2 years long term empty properties customers nominal value is funding and for some a judgement that they will not do up the property when it is linked to a business.

- 3.9 Having taken these factors into account it is estimated that the ongoing benefit to the council would range from zero if we decided not to change the existing arrangements through to circa £750,000 per year, assuming we maximise the changes as suggested.

Should Members decide to apply a variation of the options suggested and consider a lower percentage than that shown, then further analysis is needed as the level of income generated is dependant on length of time the existing reliefs are utilised and not simply a pro rata approach.

#### **4. Council priorities**

The opportunity to reduce the time allowed or the level of discount available will encourage occupation of empty properties, this will have a positive impact on the availability of homes, reduce the levels of empty properties within the borough, help the local economy and contribute to create and develop healthy and sustainable communities.

#### **5. Risk management**

The opportunity to generate additional income for the council by introducing the changes needs to be balanced with the impact of removing the discount to individuals and their ability to pay the council tax that become due.

#### **6. Financial implications**

- 6.1 The cost of collecting any change to the existing discounts is reflected in the predicted income for the various options across the four possible changes.
- 6.2 Each of the changes has the potential to generate additional income for the council and the potential income is reflected in each of the options outlined in this report.

#### **7. Legal implications**

Government are intending to legislate for the changes in time for the council to introduce the changes from 1 April 2013. At the time of producing this report we are still awaiting final confirmation of the regulations and they are subject to change.

#### **8. Property implications**

None.

## 9. Staffing implications

None.

## 10. Equality implications

- 10.1 The council holds data on the liable person for the empty properties but no records that might identify any disadvantaged groups from this data. As the changes would be applied across all existing council tax accounts that satisfy the criteria there would be no adverse impact.
- 10.2 No 'one' group will be disadvantaged by these changes. Any financial impact will be levied on each individual council tax payer.

## 11. Consultation

Relevant portfolio holders, cabinet members and 25 existing customer in receipt of council tax empty property exemptions.

## Background papers

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