

**Manchester City Council**  
**Report for Resolution**

**Report to:** Resources and Governance Scrutiny Committee, 6 December 2018  
Executive, 12 December 2018

**Subject:** Proposed Changes to Council charges levied on empty properties

**Report of:** City Treasurer

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**Summary**

In November 2018, the Government introduced powers for Councils to charge increased Council Tax Premiums for long term empty (LTE) properties that have been unoccupied and unfurnished for over two years. These powers extend the existing 50% premium introduced in April 2013.

These powers would allow Councils to charge progressively higher rates of Council Tax for properties that are unoccupied and unfurnished for more than two years, five years and ten years. This report proposes the Council adopt the new powers.

The report also revisits the decisions made in 2012 to give a 100% Council Tax discount for one month if a property is unoccupied and unfurnished and a 50% discount for up to 12 months if a property is undergoing major works or structural alterations. The report proposes that the Council remove these discounts.

**Recommendations**

1. Scrutiny Committee is requested to consider and comment upon the contents of the report.
  2. Executive is requested to;
    - i Approve the proposals contained in the report and agree to the start of a formal 4 week consultation exercise to commence in December 2018.
    - ii Note that the outcome of the consultation will be reported back to Executive on 13 February 2018.
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**Wards Affected:** All

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<b>Manchester Strategy outcomes</b>	<b>Summary of the contribution to the strategy</b>
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	n/a
A highly skilled city: world class and home grown talent sustaining the city's economic success	n/a
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	Where possible the proposals have been considered to ensure that they do not have a negative impact on the transition into work or maintaining employment
A liveable and low carbon city: a destination of choice to live, visit, work	The changes to Council Tax discounts and will have an impact on the city's property market, as by charging for empty homes and premiums for long term empties it is aimed that properties will be let and occupied promptly.
A connected city: world class infrastructure and connectivity to drive growth	n/a

**Full details are in the body of the report, along with any implications for:**

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

#### Financial Consequences – Revenue

Based on current figures and assuming there are no changes to the numbers of unoccupied properties and the periods they have been unoccupied, the three proposed changes could bring in increased revenue as follows:

- Changes to the Long Term Empty premium - £575,500. However, as owners change the status of their property (to occupied or furnished unoccupied) to mitigate exposure to higher Council Tax, this will reduce. A more prudent estimate would be £195,700. However this would be offset by an increase in the New Homes Bonus currently paid by central government.
- Removing the 100% discount for the first month a property is left unoccupied and unfurnished - £635,000

- Removing the 50% discount for properties undergoing major repairs or structural changes - £166,745
- Total revenue implications - Between £997,445 and £1,455,595 depending on the extent of behavioural change.

Financial Consequences – Capital

None

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**Background documents (available for public inspection):**

- Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018
- <https://services.parliament.uk/bills/2017-19/ratingpropertyincommonoccupationandcounciltaxemptydwellings.html>
- Report to Finance Overview and Scrutiny Committee on 6 September 2012 and Report to the Executive Committee on 12 September
- Report to Finance Overview and Scrutiny Committee on 10 January 2013 and Report to the Executive Committee on 16 January 2013.

## **1. Introduction**

This report outlines legislation introduced by Central Government in November 2018 that gives councils the power to increase the amount of Council Tax that can be charged for unfurnished properties that have been unoccupied for more than two years.

It also proposes that two other Council Tax discounts for empty properties should also be changed (these are within our long-standing powers):

1. The 100% discount for one month when a property first becomes unoccupied and unfurnished is still appropriate.
2. The 50% discount for up to 12 months when a property is undergoing major repairs or structural changes.

The rationale for these changes is that reducing discounts will act as an incentive for owners to bring domestic properties back into occupation and will increase revenue to the Council.

## **2. Background**

In January 2013, the Council considered new powers within the Council Tax legislation and agreed to adopt the current system of Council Tax discounts and premiums for unoccupied properties from 1 April 2013. These included:

- A 50% LTE premium to be charged on properties that have been unoccupied and unfurnished for more than two years (this meant that the liable owner would pay 150% of the normal rate of Council Tax while the property remained unoccupied and unfurnished)
- A 100% discount for the first month that a property is unoccupied and unfurnished.
- A 50% discount for up to 12 months when a property is undergoing major repairs and/or structural alterations.

These are set out in the table below.

	First year			Second year	More than 2 years
	0 - 1 month	1 - 6 months	6 - 12 months		
Major repairs/ structural alterations	----- 50% ----- >			---- 100%---- >	--- 150% --- >
Unoccupied and unfurnished	-- nil -- >	-- 100% -- >	-----100%----- ---- >	---- 150% --	

Properties that are unoccupied and furnished (usually second homes and furnished rental properties temporarily empty between tenants) currently receive no discount and owners are liable to pay 100% of the Council Tax from the moment it becomes empty. The Council has no powers to introduce a LTE premium for these properties.

The stated purpose of the introduction of the 50% premium was to encourage owners to bring their properties back into use, increasing the supply of housing.

This appears to have worked. In September 2012 there were 1,300 properties that would have attracted LTE premium, currently there are 483. However, there are other factors which may have contributed to the decrease which are outlined in the remainder of this document.

### 3. Government Proposals

In the 2017 Budget, the Government announced their intention to allow Councils to increase the LTE premium to 100% so that owners would be charged 200% of the Council Tax for properties that had been unoccupied and unfurnished for more than two years.

This was subsequently amended and the revised proposal was included in the Rating (Property in Common Occupation) and Council Tax (Empty Property Bill) Act 2018 which received Royal Assent on 1 November 2018. The Act gives Council's discretion to apply increased LTE Premiums on unoccupied and unfurnished properties as follows:

- unoccupied for more than two years - 100% premium from 1 April 2019 (so the owner would pay 200% of the normal Council Tax).
- unoccupied for more than five years - 200% from 1 April 2020 (so the owner would pay 300% of the normal Council Tax).
- unoccupied for more than 10 years - 300% from 1 April 2021 (so the owner would pay 400% of the normal Council Tax).

Exemptions to these increased charges set out by the Government include homes that are unoccupied due to the occupant living in armed forces accommodation for job-related purposes and annexes being used as part of the main property.

The stated purpose of offering these wider powers to Councils is to further encourage owners of long term unoccupied properties to find ways to bring them back in to use. These powers are not specifically designed to increase revenue.

#### **4. Financial Impact of the revised long term empty premium**

The changes as proposed would have an impact on the amount of Council Tax payable and the New Homes Bonus.

##### **4.1 Long term unoccupied and unfurnished property premiums**

There are currently 483 properties in the city that have been unoccupied and unfurnished for more than two years. However, 107 of these properties are owned by the Council and are being held unoccupied for a variety of reasons. Increasing the LTE premium on these properties will not generate any extra income.

The table below shows the expected income from LTE properties once all the proposed increases have been introduced by 2021. It excludes Council owned properties and makes the following assumptions: All properties are in band A and have a Council Tax liability of £1050 (2018/19 figure); there is no decrease in the number of LTE properties; and 100% of the liability is collected.

<b>unoccupied period</b>	<b>Number of properties</b>	<b>Council Tax liability</b>
2 to 5 years (new scheme)	148	£310,800
5 to 10 years (new scheme)	96	£302,400
10 or more years (new scheme)	132	£554,500
<b>Total (new scheme)</b>	<b>376</b>	<b>£1,167,700</b>
<b>Over two years (current scheme)</b>	<b>376</b>	<b>£592,200</b>

The total increase in potential revenue assuming there are no changes to the numbers or spread of unoccupied properties between bands and excluding the revenue from Council owned properties is £575,500 using the current year's Council Tax charge. However, it is virtually certain that the number of LTE properties will continue to fall as owners bring them back into use or adopt contrivance and evasion techniques to minimise their exposure to the higher Council Tax.

A more prudent estimate of increased revenue would assume a collection rate of 93.2% (2017/18 collection rate) and a significantly reduced number of properties in each band, especially those properties unoccupied and unfurnished for more than ten years. In the short term, based on 350 properties being unoccupied and unfurnished

and a 93.2% collection rate, around £171,200 additional revenue will be generated in 2019/20.

The table below shows the increased revenue once all the LTE premiums have been introduced and where the number of LTE properties has further reduced to 180.

<b>unoccupied period</b>	<b>Number of properties</b>	<b>Council Tax liability</b>	<b>Revenue with 93.2% collection</b>
2 to 5 years (new scheme)	100	£210,000	£195,700
5 to 10 years (new scheme)	50	£157,500	£146,800
10 or more years (new scheme)	30	£126,000	£117,400
<b>Total (new scheme)</b>	<b>180</b>	<b>£493,500</b>	<b>£459,900</b>
<b>Over two years (current scheme)</b>	<b>180</b>	<b>£283,500</b>	<b>£264,200</b>

#### **4.2 New Homes Bonus (NHB)**

The New Homes Bonus is a Government scheme to encourage Councils to increase the supply of housing in their area. This can either be done by building new homes which are then occupied or bringing unoccupied and unfurnished homes back into use. Reward is received for the 'Band D equivalent' number of houses brought into use above the national baseline (a threshold of 0.4% in 2018/19). The in year reward grant is equivalent to the national average Council Tax in England for each applicable property. The total grant is made up of the current year allocation plus three legacy years.

A consultation is expected on the future of New Homes Bonus from 2020/21, it seems likely it will be replaced with a new scheme aiming to incentivise plans that meet or exceed local housing need.

This means that if introducing the Government's changes to the LTE premium reduces the number of LTE properties as set out in the table above, the Council will benefit significantly (assuming the average Council Tax is £1,150 pa and the 0.4% national baseline threshold has already been met) so long as the NHB is paid.

<b>Properties back into use</b>	<b>Annual NHB</b>	<b>Total NHB</b>
<b>76</b>	£87,400	£349,600
<b>132</b>	£151,800	£607,200
<b>188</b>	£216,200	£864,800

## **5. Removing the 100% Council Tax discount that is awarded for up to one month when a property becomes unoccupied and unfurnished**

### **5.1 Background**

In 2013 the Council agreed to offer a Council Tax discount of 100% for up to one month when a property initially becomes unoccupied and unfurnished. This was designed to give landlords a window of opportunity to do whatever refurbishment may be necessary between tenants as well as a little bit of time to find a new tenant.

This discount is for a total of one month and does not begin again on change of ownership. To qualify for a further one month the property in question would need to have been occupied for 42 days. This causes some confusion.

### **5.2 Financial Impact of removing the discount**

In 2017/18, this discount was awarded on 9,086 occasions for an average of around 15 days each time. If this discount had not been awarded, an additional £635,000 of Council Tax would have been collected. The average additional amount that they would have to pay would have been £46.

### **5.3 Other considerations**

As well as increasing revenue, removing this discount would reduce the burden of work on staff and simplify the scheme. It would also end arguments where a new tenant thought they should be entitled, only to find that the previous tenant had already claimed the discount. There will be an increase in small debts that will have to be recovered from private landlords, owners and tenants, but this will normally be done as part of the automated recovery process.

Unoccupied unfurnished properties owned by Registered Social Landlords would not be affected if this discount was withdrawn as they qualify for a separate 100% discount due to their charitable status. However, some registered providers give tenants overlapping tenancies when they move from one RSL property to another. Under these circumstances, tenants would be left with a small liability at one property or the other which would not be eligible for Council Tax Support.

Given the Council's financial situation, it is unable to subsidise Council Tax payers, usually owners, who leave a property unoccupied and unfurnished for short periods. Again, removing this discount would act as an incentive to bring properties back into occupation as soon as possible.

## **6. Removing the Council Tax discount of 50% that is awarded for up to one year when a property is undergoing major repairs or structural alterations**

In 2012 the Council agreed to offer a 50% discount for up to one year where a property was undergoing major repairs or structural changes that met specified criteria that is covered within the existing Council Tax legislation.

## **6.1 Impact of removing the discount**

In 2017/18 the discount was awarded on 844 occasions for an average of 114 days on each occasion. If the discount had not been awarded an additional £166,745 of Council Tax would have been charged. The average additional amount each liable person would have had to pay would have been £197.

## **6.2 Other considerations**

As well as increasing revenue, removing this discount would reduce the workload of staff as the process of requesting supporting evidence and subsequent arguments over eligibility are time consuming as the burden of proof in terms of what constitutes major repairs and structural alterations is technical and open to interpretation. This often requires visits to the property and repeated engagement with the liable person.

Given the Council's financial position, it is unable to subsidise owners who are improving their property that, in turn, will increase in value.

## **7. Other exemptions**

There are a range of other unoccupied property exemptions from Council Tax available, including when a person has died and probate is being requested.

A full list of these exemptions is contained in appendix 2.

## **8. Other GM authorities**

### **8.1 New Long Term unoccupied premiums**

Most other GM authorities and core cities are considering whether to adopt the Government's' new discretionary powers for long term unoccupied properties.

### **8.2 Discount for newly unoccupied and unfurnished properties**

There is a range of approaches to properties that become unoccupied and unfurnished amongst other GM Authorities. These goes from a 100% discount for up to three months to no discount at all.

### **8.3 Discount for properties undergoing major works or structural changes**

Again, there is a range of approaches from other GM Authorities ranging from no discount at all (Bolton, Tameside) up to 100% discount for 12 months (Trafford).

## **9. Consultation**

This report is recommending an external four week consultation exercise. The results and appraisal of the consultation responses along with the final proposals will be bought back for comment by the Resources and Governance Scrutiny Committee and for approval by the Executive at a future meeting.

## **10. Proposals**

### **That the Council uses its discretion to:**

Increase the amount of Council Tax that is charged for unoccupied and unfurnished properties by charging an additional premium

- From 1 April 2019, increase the existing 50% LTE premium to 100% (so the owner would pay 200% of the standard Council Tax).
- From 1 April 2020, introduce the 200% premium for properties that have been unoccupied and unfurnished for more than five years (so the owner would pay 300% of the standard Council Tax).
- From 1 April 2021, introduce the 300% premium for properties that have been unoccupied and unfurnished for more than ten years (so the owner would pay 400% of the standard Council Tax).

### **That the Council changes its existing policy and removes the following Council tax discounts**

1. Remove the existing 100% Council Tax discount that is awarded to unoccupied and unfurnished properties for up to a month.  
This means that 100% of the Council Tax due will be charged for any unoccupied and unfurnished property that does not meet the requirements of the statutory exemption class for unoccupied properties.
2. Remove the existing 50% Council Tax discount that is awarded for up to one year when a property is undergoing major repairs or structural alterations

## **11. Equality Impact Assessments**

The requirements of Section 149 of the Equality Act state that public bodies must have due regard to the need to:

- i. Eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act.
- ii. Advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- iii. Foster good relations between people who share a protected characteristic and people who do not share it.

The Council is undertaking an Equality Impact Assessment of the proposals. The assessment will consider in detail what impact the proposals could have on the protected characteristics: age, disability, gender reassignment, pregnancy, maternity, race, religion or belief, sex and sexual orientation.

Outcomes from the consultation will be reported to the Executive on 13 February 2019 for a decision and will be accompanied by the equality impact assessment.

## **12. Key Policies and Considerations**

### **12.1 Risk Management**

Risk management will be considered once the results of the consultation are received and analysed.

### **12.2 Legal Considerations**

Legal advice recommended that consultation is undertaken on this change as people will be worse off due to their increased Council Tax liability.

## **13. Conclusions**

The introduction of the 50% LTE premium in April 2013 has resulted in behavioural change by property owners that has seen a significant drop in the number of LTE properties in the city and increased the supply of available housing. This has been achieved at a faster rate than if there had been no 50% premium.

The new proposals build on these changes and provide the opportunity to charge additional premiums. Considering the benefit of bringing LTE properties back into use and the additional revenue implications, these powers should be adopted.

It is right to review the one month unoccupied property discount and the major works discount in the light of the Council's financial situation.

## **14. Recommendations**

1. Scrutiny Committee is requested to consider and comment upon the contents of the report.
2. Executive is requested to;
  - i Approve the proposals contained in the report and agree to the start of a formal consultation exercise to take place between December 2018 and January 2019.
  - ii Note that the outcome of the consultation will be reported back to Executive in February.

## Appendix 1 - unoccupied property exemptions

The following table shows details of all other exemption codes pertaining to unoccupied properties and the numbers of each type in the city at 1 April 2018.

Exemption class	Description	Period	Numbers
B	Unoccupied, owned by charity	No time limit	410
D	Due to person being in prison	No time limit	34
E	Person gone to live in care home	No time limit	158
F	Council Tax payer deceased	No time limit	810
G	Occupation prohibited by law	No time limit	309
H	Dwelling held for minister of religion	No time limit	14
I	Person living elsewhere to receive personal care	No time limit	30
J	Person living elsewhere to provide personal care	No time limit	5
K	Dwelling left empty by a student	No time limit	0
L	Mortgagee in possession (Repossessed property)	No time limit	41
Q	Left empty by bankrupt person Where liability rests with trustee	No time limit	5
R	Caravan pitches or boat moorings not in use	No time limit	20
T	Unoccupied annex to an occupied dwelling that cannot be let separately	No time limit	5