

Manchester City Council Report for Resolution

Report to: Resources and Governance Scrutiny Committee - 7 February 2019
Executive - 13 February 2019

Subject: Changes to Council Tax discounts for empty properties

Report of: City Treasurer

Summary

The Government has introduced further discretionary powers for councils to charge progressively higher rates of Council Tax for domestic properties that are empty for more than two years, five years and ten years. This report considers the impact of adopting these changes.

The report also revisits the decisions made in 2012 to give a 100% discount for one month if a domestic property is empty and unfurnished, and a 50% discount for up to 12 months if a domestic property is undergoing major works or structural alterations.

The purpose of this report is to provide final recommendations, following a consultation exercise about whether to adopt these new discretionary powers, and whether to retain or remove the discounts relating to properties empty for one month or undergoing major works.

Recommendations

1. Scrutiny Committee is requested to consider and comment upon the contents of the report.
 2. Executive is requested to;
 - i Note the outcomes of the consultation exercise and the Equality Relevance Assessment, both of which have informed the final recommendations.
 - ii Adopt the discretionary powers to charge higher levels of Council Tax on properties that have been unoccupied and unfurnished for two, five and ten years.
 - iii Remove the 100% discount currently available for up to one month when a property first becomes unoccupied and unfurnished.
 - iv Remove the 50% discount available for up to one year when a property is unoccupied due to major works or structural alterations.
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Wards Affected: All

Manchester Strategy outcomes	Summary of the contribution to the strategy
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	n/a
A liveable and low carbon city: a destination of choice to live, visit, work	The changes to Council Tax discounts will have an impact on the city's property market, as by charging for empty homes and premiums for long term empties it is expected 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 empty properties and the periods they have been empty, the three proposed changes could generate increased revenue as follows:

- Changes to the Long Term Empty (LTE) premium - £575,500. However, as owners change the status of their property (to occupied or empty and furnished) to mitigate exposure to higher Council Tax, this will reduce. A more prudent estimate would be £195,700. Any reduction would be offset by an increase in the New Homes Bonus paid by central government so long as it continues.
- Removing the 100% discount for the first month a property is left empty and unfurnished - £635,000
- Removing the 50% discount for properties undergoing major repairs or structural changes - £166,745
- Total revenue implications - £1,377,245

The additional income will be reflected in the Council Tax base for 2020/21 as the consultation concluded after the 2019/20 statutory deadline for setting the tax base.'

Financial Consequences – Capital

None

Contact Officers:

Name: Carol Culley
Position: City Treasurer
Tel: 0161 234 3406
E-mail: c.culley@manchester.gov.uk

Name: Julie M Price
Position: Director of Customer Services and Transactions
Tel: 0161 953 8202
E-mail: j.price2@manchester.gov.uk

Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Report to Finance Overview and Scrutiny Committee on 6 September 2012 and the Executive Committee 12 September 2012.

<https://secure.manchester.gov.uk/meetings/meeting/1728/executive>

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

<https://democracy.manchester.gov.uk/documents/g290/Public%20reports%20pack%2012th-Dec-2018%2010.00%20Executive.pdf?T=10>

Rating (Property in Common Occupation) and Council Tax (Empty Property Bill) Act 2018:

<http://www.legislation.gov.uk/ukpga/2018/25/contents/enacted>

Results of the Council Tax charges on empty homes consultation:

<http://intranet.mcc.local/cex/performance/pri/Council%20tax%20Empty%20Homes/Scrutiny%20and%20Exec%20report%20on%20LTE%20council%20tax%20premiums%20February%20version.pdf>

1. Introduction

This report follows on from the report that went to the Executive Committee on 12 December 2018, outlining possible changes to the Council Tax discounts available to owners or tenants of empty domestic properties from April 2019, specifically:

1.1 Government proposals for increasing the long term empty premium charged in addition to normal Council Tax:

- From 50% to 100% for domestic properties that are unoccupied and unfurnished for more than two years;
- to 200% for domestic properties that are unoccupied and unfurnished for more than five years; and
- to 300% for domestic properties that are unoccupied and unfurnished for more than 10 years.

1.2 The Council using its discretion to:

- Remove the 100% Council Tax discount for one month when a domestic property first becomes unoccupied and unfurnished.
- Remove the 50% Council Tax discount for up to 12 months when a domestic property is undergoing major repairs or structural changes

2. Background - Long Term Empty (LTE) properties

In September 2012, the Council agreed to adopt the current system of Council tax charges, discounts and exemptions for empty domestic properties (see appendix 1) from 1 April 2013.

This also introduced 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.

The stated purpose of this change was to encourage owners to bring their properties back into use, increasing the supply of housing in Manchester. On the face of it this appears to have worked. In September 2012 there were 1,300 properties attracting the LTE premium, currently there are 438. However, there are other factors which may have contributed to the decrease which are explored below.

2.1 Government Proposals

In the 2017 Budget, the Government announced their intention allow councils to increase the LTE premium charge 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 current proposal is 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 councils' discretion to apply increased LTE Premiums on unoccupied and unfurnished properties so that owners would be charged as follows:

- Empty for more than two years - 200% of the Council Tax from 1 April 2019
- Empty for more than five years - 300% of the Council Tax from 1 April 2020
- Empty for more than ten years - 400% of the Council Tax from 1 April 2021

Exemptions to these increased charges set out by the Government include homes that are empty due to the occupant living in armed forces accommodation for job-related purposes, annexes being used as part of the main property, properties genuinely being offered for sale and where the property is empty due to the death of the previous occupant. A full list of exemptions is at Appendix 2.

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

2.2 Financial Impact of these changes

There are currently 438 properties in the city that have been empty and unfurnished for more than two years. As previously reported a number of these (currently 135 are owned by the Council and are being held empty 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 £1,050 (2018/19 figure);
- there is no decrease in the number of LTE properties; and
- 100% of the liability is collected.

Empty period	Number of properties	Council Tax liability
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
Total (new scheme)	376	£1,167,700
Total (current scheme)	376	£592,200

The total potential increase in revenue, assuming there are no changes to the numbers or spread of empty properties 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 change how the property is designated for Council Tax purposes.

In the short term, based on 350 properties being empty and unfurnished and collecting 93.2% in year (the 2017/18 collection rate), around £171,000 in additional revenue will be generated in 2019/20.

A more prudent estimate of increased revenue once all the increases had been introduced in April 2021 would assume a collection rate of 93.2% and a significantly reduced number of properties in each band, especially those properties empty and unfurnished for more than ten years:

Empty period	Number of properties	Council Tax liability	Revenue with 93.2% collection
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
Total (new scheme)	180	£493,500	£459,900
Total (current scheme)	180	£283,500	£264,200

2.3 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 by bringing empty unfurnished homes back into use. There is a financial reward and for every additional occupied home, the Council receives a sum equal to the Council Tax for that property for each of the next four years.

This means if introducing the Government's proposed changes to the long term empty premium causes owners to change the status of their properties as set out in the table above, the Council will benefit (assuming the average Council Tax is £1,150 pa) as set out in the table below.

	Annual NHB	Total NHB
76 properties	£87,400	£349,600
132 properties	£151,800	£607,200
188 properties	£216,200	£864,800

3. 100% discount for up to one month when a property becomes empty and unfurnished

In 2013 the Council agreed to offer a 100% discount 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.

3.1 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 raised for collection. The average additional amount that they would have to pay for each empty period would have been £70.

As well as increasing revenue, removing this discount would reduce the burden of work on staff in the Council and would simplify the scheme. It would also end arguments where a new tenant thought they should be entitled to a discount, only to find that the previous tenant had already claimed the full discount period.

Although there will be an increase in small debts that will have to be recovered from landlords and some tenants, this will normally be done as part of the automated recovery process.

Empty 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. Where residents have overlapping tenancies/liability Council Tax will be due on both tenancies. Council Tax Support will only be paid on one property at a time.

4. 50% discount 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.

4.1 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.

As well as increasing revenue, removing this discount would reduce the workload of staff within the Council as the process of requesting supporting evidence and subsequent arguments over eligibility are time consuming.

5. Consultation

5.1 Consultation requirements

The Council determined that it was good practice to undertake a consultation exercise prior to implementing any changes.

The consultation started on 17 December 2018 and ended on 14 January 2019.

5.2 Consultation approach and content

To ensure that the 'Council Tax - Empty Homes' consultation reached as many of those affected as possible (as well as those not affected), a consultation and engagement plan was developed. The approach was digital, consisting of an online consultation form, plus emails to landlord associations, Council community engagement teams and housing associations across the city - directing people to the online form.

A comprehensive consultation narrative, explaining the scheme and why it had been proposed, and offering the opportunity to provide feedback, was used for the online consultation.

Organic social media activity also drove people to the online form. Over the period of the consultation, 8 posts across both Twitter and Facebook were made, linking people directly to the online form - each reaching an average of 5,000 people. The average amount of times each post was shared was 3, the average amount of likes each post received was 4. The average number of clicks through to the consultations homepage from each post was 30.

5.3 Consultation outcome – Full results are contained in appendix 3

344 responses were received:

- 303 (88%) from members of the public,
- 43 (13%) from landlords of a property in Manchester that isn't empty,
- 19 (6%) described themselves as 'other',
- 12 (4%) were a local business owners,
- 10 (3%) were a landlord of a property in Manchester that is empty,
- 5 (1%) from a local charity, voluntary or community organisation and
- 1 (0.5%) was a councillor.

Please note, the total does not equal 100% as this was a multiple choice question.

Respondents were asked whether they agreed or disagreed with three proposals:

5.4 Proposal 1 – Increase the Council Tax we charge for homes that are unoccupied and unfurnished for two years or more. The amount we will charge will increase the longer the property is empty.

76% of respondents agreed or strongly agreed and 19% disagreed or strongly disagreed.

5.5 Proposal 2 – Stop providing a 100% discount for the first month a home is empty and unfurnished.

54% of respondents agreed or strongly agreed and 38% disagreed or strongly disagreed.

5.6 Proposal 3 – Stop providing a 50% discount for up to a year where a property is empty for major works or structural alterations.

54% of respondents agreed or strongly agreed and 37% disagreed or strongly disagreed.

6. 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 has undertaken a Relevance Assessment as part of this process to determine whether a full Equality Impact Assessment is required. This is included as appendix 4

It should be noted that the Council is unable to collect equality data to hold against Council Tax accounts as the records held are to be used for billing purposes only. There is, therefore, limited data on which to assess any impact of these changes based on data held on Council Tax or accounts.

The Council has a Discretionary Council Tax Payment scheme for any household that can demonstrate that they have been disproportionately impacted by the changes and requires additional financial support. Each case will be considered on its own merits, cognisant of their full financial position.

7. Key Policies and Considerations

7.1 Risk Management

The principal risk is that projected increases in revenue are not achieved in full. There are two possible reasons for this:

- Continuing behavioural change by owners will reduce the number of properties where the increased premiums have to be paid, and
- The assumed collection rate of 93.2% is not achieved in future years.

These risks have been mitigated by making conservative and prudent assumptions about the increased revenue accruing from these changes.

7.2 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.

8. Conclusions

The consultation supports the Council's approach to increase Council tax charges relating to empty domestic properties. This will have a positive impact for the Council by offering a financial incentive to avoid properties being empty and unoccupied and will increase revenue to the council.

The Discretionary Council Tax Payment Scheme that is also funded by the Council will be available to respond to requests for anomalous situations and additional support from vulnerable residents or property owners.

9. Recommendations

9.1 Scrutiny Committee is requested to consider and comment upon the contents of the report.

9.2 Executive is requested to agree the following proposals for any Council tax charges from 1 April 2019.

(i) To increase the long term empty premium charged in addition to normal Council Tax.
This is from:

- 50% to 100% for domestic properties that are unoccupied and unfurnished for more than two years from 1 April 2019,
- to 200% for more than five years from 1 April 2020, and
- to 300% for more than 10 years from 1 April 2021.

(ii) The Council using its discretion to

- Remove the 100% discount for one month when a domestic property first becomes empty and unfurnished.
- Remove the 50% discount for up to 12 months when a domestic property is undergoing major repairs or structural changes.