

## Report to the Executive



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<b>PORTFOLIO</b>	<b>Resources &amp; Performance Management</b>
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### Council Tax - changes to charges for empty properties and second homes

#### PURPOSE

1. This report sets out proposals for changes to Council Tax introduced by the Government. These reforms give billing authorities like Burnley more flexibility on the discounts to Council Tax they award for empty properties and second homes.

#### RECOMMENDATION

2. That subject to the consultation response, the Executive recommends that full Council adopt the following changes to the Council Tax charged on empty properties and second homes
  1. End the full Council Tax exemption for properties that are empty for less than six months and replace it with a 50% discount
  2. End the full Council Tax exemption on empty properties that are undergoing major structural repair and replacing it with a 50% discount for up to 12 months
  3. End the 50% discount on properties that have been empty for longer than six months (or 12 months if undergoing structural repair)
  4. End the 50% discount on second homes/furnished and unoccupied properties
  5. Introduce an additional Council Tax premium for properties that have been empty for over 2 years. Owners of all properties that have been empty for over 2 years will have to pay 150% Council Tax for these properties

#### REASONS FOR RECOMMENDATION

3. To bring empty homes back into use in line with the Council's empty homes strategy

To raise additional revenue for the Council and preceptors to help protect local services at a time when national funding for local Councils is being withdrawn.

#### SUMMARY OF KEY POINTS

##### 4. Background

Since Council Tax was introduced in 1993, taxpayers have in certain circumstances been entitled to pay an amount of Council Tax which is reduced by a discount. There are also a

wide variety of circumstances where dwellings are subject to an exemption from Council Tax, appendix 1

The full Council Tax charge is based on two or more adults being resident in a property. Discounts are available when there are fewer than two residents, the most common being the single person discount of 25% of the full charge. Some people are disregarded when counting the number of residents, e.g. students. Discounts are also available for unoccupied properties.

Since 2004, billing authorities have also had some discretion in reducing or removing discounts for properties that have been empty for over six months and for second homes. **This discretion has not been exercised by Burnley Council to date, but it is suggested that this should now be considered along with the new opportunities that will become available next April.**

5. The Local Government Finance Act 2012 will give new powers to authorities to change the exemptions for empty properties in their areas and to apply locally determined discounts. Most discounts and exemptions are unaffected by the technical reforms. The government proposes to give discretion to local authorities to change two exemptions and one discount and to introduce an Empty Homes premium. These proposals are

- a) A second home i.e. a furnished dwelling which is not the sole or main residence of any individual, attracts a **discount** of between 10% and 50%. Burnley currently awards the 50% discount to the properties classified in this way. The government proposes that billing authorities will be able to reduce the discount to 0% and levy full council tax on second homes.
- b) Class A **exemption** is currently available for up to 12 months in respect of a vacant property which requires, is undergoing, or has recently undergone major repair work to render it habitable, or structural alteration. The government proposes that this exemption will be replaced with a discount which billing authorities can set in the range of 0% to 100%
- c) Class C **exemption** is currently available for up to six months after a dwelling which is substantially unfurnished becomes vacant. The government proposes that the exemption be replaced by a discount which billing authorities can set in the range of 0% to 100%
- d) The government has given Councils the option to apply an **Empty Homes Premium** of 50% for properties that have remained empty and unfurnished for longer than two years.

6. The Government consulted on the Technical Reforms before Christmas 2011 and has published its response to the consultation and, more recently, draft Regulations. The Government sees the Technical Reforms in the context of decentralisation and localism. Relaxing prescriptive controls on empty property will allow the council to increase its income by either removing entitlement to certain discount and exemptions entirely or by reducing current entitlement. This approach could also serve as a mechanism to reduce Burnley's number of empty homes thus supporting the Council's empty homes strategy. Burnley Council has 3.72% of its housing stock classified as long term empty (1,503 of 40,440 properties) compared with the national figure of 1.21%, so this legislation gives members an opportunity to create leverage to bring empty properties back into use.

## 7. Second Homes

Burnley currently has 42 properties classified as second homes. The Council currently applies a 50% discount to these dwellings. The government believes that the discount could be reduced to 0% for these properties, (except for those where the taxpayer is required to live elsewhere as a condition of his job where a 50% discount would still apply), because those holding second homes can afford to make a useful contribution to the local economy.

It is important to note that the definition for second homes is 'furnished houses that are not the sole or main residence of an individual' and this definition also brings in properties that are furnished and between lets and furnished properties for sale where the owner has vacated. These properties would have to be subject to the same discount as second homes. It would perhaps be more appropriate to classify these properties as unoccupied and furnished rather than second homes.

If the Council were to reduce the discount to 0%, there would be no incentive for the taxpayer to declare a property as a second home. Currently the properties we have identified as second homes are ones where the owner has declared them to be second homes in order to benefit from the discount. The Council has 1637 homes currently classified as zero occupancy and these incorporate properties that are:

- unoccupied and unfurnished for over six months,
- second homes
- unoccupied and furnished.

If the Council were to change the discount for unoccupied and furnished properties/second homes, a survey of the existing discounts awarded would be appropriate to differentiate between these properties and properties that were empty and unfurnished particularly if different discounts were to apply to empty and unfurnished homes compared with unoccupied and furnished properties.

Unoccupied and furnished Properties/second homes	Current system	Proposed system
For full period where unoccupied and furnished/second home	50% discount	0% discount (full charge payable)

Table 1

## 8. Empty Homes

Under the existing legislation, Class A and Class C exemptions apply to empty and unfurnished properties.

### a) Class A – empty and uninhabitable

Class A is currently a mandatory exemption of 100% for up to 12 months for a vacant dwelling where major repair works or structural alteration are required. The Council currently has 207 homes in this category. Under the current system, if major repairs/structural alterations are required, a full exemption from Council Tax is given for 12 months. If the property is still empty after 12 months, a 50% discount applies

The Council can under the new rules, apply a discount to these properties of between 0% and 50% for a maximum period of one year. The discount cannot be varied during the 12 month period e.g 6 months at 100% discount and 6 months at 50% discount.

The table below shows the current system and proposed changes

Empty and Uninhabitable properties	Current system	Proposed system
0-12m months	100% exemption	50% discount
12 months plus	50% discount	0% discount (full charge payable)

Table 2

b) Class C – empty and substantially unfurnished

Class C is a currently mandatory exemption of 100% for up to 6 months for a vacant dwelling which is substantially unfurnished. The Council currently has 886 homes in this category. If the property is empty and substantially unfurnished, a full exemption applies for 6 months followed by a 50% discount for as long as the property remains empty. Unlike Class A changes, the government proposes that the new discount can be varied over the six month period.

c) Empty Homes Premium

This is a new government proposal designed to get long term empty properties back into use. The Council could choose to apply a 50% empty homes premium to properties empty and unfurnished for over two years. This would mean that the owner would need to pay 150% of the annual Council Tax charge. The government are currently consulting on excluding properties that are genuinely on the market for sale or letting.

The table below shows the current system and proposed changes

Empty and Unfurnished properties	Current system	Proposed system
0-6 months	100% exemption	50% discount
6-12 months	50% discount	0% discount (full charge payable)
12- 24 months	50% discount	0% discount
24 months	50% discount	0% discount + option to apply 50% empty homes premium(150% of the charge payable)

Table 3

**9. Benefits of the proposed changes**

- The policy would align with the Council’s empty homes strategy, using taxation to influence owners to bring properties back into use

- Increasing the Council Tax charges will increase Council Tax revenue although this will be split between the district and preceptors in the normal way i.e. Burnley would only receive 16% of the income. A clear picture of the income that could be realised from making these changes is detailed below

<b>Financial Impact of Proposed Council Tax Technical Changes</b>	
<b>Change</b>	<b>Additional Liability</b>
Replace Class A structural change exemption with a 50% discount for a maximum of 12 months	£132,247
Replace Class C unoccupied and furnished exemption with a 50% discount for a maximum of 6 months	£480,586
Remove the 50% discount for unoccupied and unfurnished properties that have been empty for over 6 months	£790,939
Remove the 50% discount for properties that are unoccupied and furnished (known as 2nd homes)	£28,891
Levy a premium of 50% on properties that have been unoccupied and unfurnished for over 2 years	£339,707
<b>Total</b>	<b>£1,772,370</b>

The additional revenue raised for Burnley Council would be £288,896 . There are additional caveats around assuming this level of income. These are :-

- These figures represent increased Council Tax liability and not the amount actually collected. The collection rate for unoccupied properties is less than it is for occupied properties. An estimated collection rate for these changes is 85% but this may change in reality.
- The change to Class C exemption will result in a number of bills of less than £50. These accounts will be more difficult to enforce because Council Tax liability options are limited.
- There will be a number of charities and Registered Social Landlords (RSL's who will be entitled to a class B exemption for 6 months. The likely numbers of these who currently fall into Class C are not yet known. When organisations obtain charitable status, revenue from these changes will reduce
- The increase in Council Tax liability may lead to an increase in avoidance tactics
- The reduction in 'second homes' discount does not apply when the reason for having a second home is job related.
- The 50% premium cannot be levied in respect of properties that are genuinely for sale or let. It is not known how many of these properties are genuinely for sale or let.
- A policy intention is to reduce the numbers of empty homes. Any reduction in the numbers of empty homes will lead to a reduction in the amounts raised from the changes to the amounts charged for empty homes.

10. **Problems that the proposed changes will bring**

- The changes are not likely to be popular with landlords who will have to start paying Council Tax for short periods.
- Owners may object to paying 50% council tax for uninhabitable properties from day one, particularly if they are renovating them to bring them back into use. The Council has no discretion to vary the discount to give a short term 100% discount in these cases
- The Empty Homes premium may be very unpopular as owners would see their charge triple from the current 50% charge to 150% and this could be seen as unfair. Owners could avoid the premium by placing the property on the market.
- Collecting Council Tax relating to long term empty properties is more challenging e.g. it is often difficult and time consuming to locate the owners to pursue recovery action against them. Collection rates will inevitably be lower for these properties.

11. **Consultation and Equality Impact Assessment**

The Council has consulted on these changes by running an online survey which has been promoted to landlords, residents groups and other council tax payers. The results of the consultation will be tabled at the meeting.

An Equalities Impact Assessment has been completed and is available as a background paper to the report.

**FINANCIAL IMPLICATIONS AND BUDGET PROVISION**

12. As detailed in the report.

**POLICY IMPLICATIONS**

13. As detailed in the report

**DETAILS OF CONSULTATION**

14.

**BACKGROUND PAPERS**

15. The EIA is available as a background paper

**FURTHER INFORMATION**

**PLEASE CONTACT:**

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