

## CABINET ITEM COVERING SHEET PROFORMA

**AGENDA ITEM**

**REPORT TO CABINET**

**4 OCTOBER 2012**

**REPORT OF CORPORATE  
MANAGEMENT TEAM**

### **CABINET DECISION**

**Corporate Management & Finance – Lead Cabinet Member – Councillor Harrington  
Housing & Community Safety – Lead Cabinet Member – Councillor Nelson**

#### **CHANGES TO COUNCIL TAX CHARGES FOR EMPTY DWELLINGS**

1. Summary

The Local Government Finance Bill provides councils with more flexibility over the Council Tax charges that can be levied on certain empty dwellings and second homes. The changes will support councils' strategies to bring empty dwellings back into use and offer the potential to raise additional Council Tax revenue. This report describes the new powers, which take effect from 2013/2014. It presents a draft scheme, which implements the changes to maximum effect and a draft consultation plan for approval.

2. Recommendations

1. That Cabinet approve the draft scheme for Council Tax charges on empty dwellings and second homes described in paragraph 5 of the report as the scheme that will go out for consultation.
2. That Cabinet approve the draft consultation plan and consultation document/questionnaire attached at **Appendices 1 and 2** of the report. Approval of the final consultation documentation and approach to be delegated to the Corporate Director of Resources in consultation with the Cabinet Members for Corporate Management & Finance and Housing & Community Safety.
3. That Cabinet note the timetable for implementation described at paragraph 8 of the report, which will ensure that the new arrangements are in place in time for the 2013/2014 financial year.

3. Reasons for the Recommendations/Decision(s)

The introduction of new Council Tax charges for certain empty dwellings and second homes will support the Council's work to bring empty dwellings back into use in order to improve neighbourhoods and reduce homelessness, and will contribute to reducing the Council's forecast budget gap. Consulting over the proposed changes will help to assess the potential impact and provide an opportunity for the views of interested parties to be considered when Cabinet agrees the final scheme.

#### 4. Members' Interests

Members (including co-opted Members) should consider whether they have a personal interest in any item, as defined in **paragraphs 9 and 11** of the Council's code of conduct and, if so, declare the existence and nature of that interest in accordance with and/or taking account of **paragraphs 12 - 17** of the code.

Where a Member regards him/herself as having a personal interest, as described in **paragraph 16** of the code, in any business of the Council he/she must then, **in accordance with paragraph 18** of the code, consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest and the business:-

- affects the members financial position or the financial position of a person or body described in **paragraph 17** of the code, or
- relates to the determining of any approval, consent, licence, permission or registration in relation to the member or any person or body described in **paragraph 17** of the code.

A Member with a personal interest, as described in **paragraph 18** of the code, may attend the meeting but must not take part in the consideration and voting upon the relevant item of business. However, a member with such an interest may make representations, answer questions or give evidence relating to that business before the business is considered or voted on, provided the public are also allowed to attend the meeting for the same purpose whether under a statutory right or otherwise (**paragraph 19** of the code)

Members may participate in any discussion and vote on a matter in which they have an interest, as described in **paragraph 18** of the code, where that interest relates to functions of the Council detailed in **paragraph 20** of the code.

#### **Disclosable Pecuniary Interests**

It is a criminal offence for a member to participate in any discussion or vote on a matter in which he/she has a disclosable pecuniary interest (and where an appropriate dispensation has not been granted) **paragraph 21** of the code.

Members are required to comply with any procedural rule adopted by the Council which requires a member to leave the meeting room whilst the meeting is discussing a matter in which that member has a disclosable pecuniary interest (**paragraph 22** of the code)

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**SUMMARY**

The Local Government Finance Bill provides councils with more flexibility over the Council Tax charges that can be levied on certain empty dwellings and second homes. The changes will support councils' strategies to bring empty dwellings back into use and offer the potential to raise additional Council Tax revenue. This report describes the new powers, which take effect from 2013/2014. It presents a draft scheme, which implements the changes to maximum effect and a draft consultation plan for approval.

**RECOMMENDATIONS**

1. That Cabinet approve the draft scheme for Council Tax charges on empty dwellings and second homes described in paragraph 5 of the report as the scheme that will go out for consultation.
2. That Cabinet approve the draft consultation plan and consultation document/questionnaire attached at **Appendices 1 and 2** of the report. Approval of the final consultation documentation and approach to be delegated to the Corporate Director of Resources in consultation with the Cabinet Members for Corporate Management & Finance and Housing & Community Safety.
3. That Cabinet note the timetable for implementation described at paragraph 8 of the report, which will ensure that the new arrangements are in place in time for the 2013/2014 financial year.

**DETAIL**

1. The Department for Communities and Local Government (CLG) published the *Technical Reforms of Council Tax* consultation paper in October 2011. The consultation sought views on a number of proposed changes to the Council Tax system, which included giving Councils greater discretion over the reliefs to apply on second homes and certain empty dwellings. The consultation also invited views on whether an "Empty Homes Premium" would help to reduce the numbers of long-term unoccupied dwellings.
2. CLG has published a *Summary of Responses* document confirming the intention to legislate for a number of changes. The changes are included in the Local Government Finance Bill, which is expected to receive Royal Assent in the autumn. In summary, the changes will allow councils to:
  - Reduce the discount for second homes to 0% (currently this can be set between 10% and 50%)

- Give a discount of between 0% and 100% for up to 12 months whilst a dwelling is uninhabitable/undergoing major repairs (currently these dwellings are exempt from Council Tax for up to 12 months)
  - Give a discount of between 0% and 100% for up to 6 months on dwellings that have become empty and unfurnished (currently these dwellings are exempt for up to 6 months)
  - Charge an “empty homes premium” of up to 50% on top of the full charge after a dwelling has been empty for more than 2 years (currently these dwellings pay councils’ normal long-term empty charges)
3. In addition, councils already have powers to reduce the standard 50% discount that applies after a dwelling has been empty for 6 months, down to 0%, or any percentage between 0% and 50%.
4. The proposals do not offer the degree of flexibility that councils asked for in their responses to the consultation, although there have been some recent concessions. The current situation is understood to be:
- Uninhabitable dwellings – whatever discount amount is set, it must be allowed for a period of up to 12 months whilst the dwelling remains uninhabitable;
  - Dwellings that are empty for up to 6 months – Councils will have discretion over the level of discount and the time period it may apply (up to 6 months) before the set long-term empty charge takes effect;
  - No provision to set different discount percentages for different sets of circumstances.
5. The Council is seeking to identify ways of:
- Bringing empty dwellings back into use in order to improve neighbourhoods and reduce homelessness lists (currently being considered through a Scrutiny Review); and
  - Reducing a budget gap, currently forecast at £11.6m in 2016/2017.

Implementing changes to Council Tax discounts and exemptions to maximum effect would make a positive contribution to both of these priorities and it is recommended that the discount amounts/charges shown in the final column of the table below form a draft scheme to go out for consultation, with a view to implementation for the 2013/2014 financial year.

Description		Discount awarded in 2012/2013	Discount Amount for 2013/2014
<i>Uninhabitable</i> - Dwellings that are empty, unfurnished and require or are undergoing major structural work to make them habitable ( <i>exact definition will be prescribed in Regulations</i> )		Exempt for 12 months (legislative requirement)	0%
<i>Empty</i> - Dwellings that are no-one’s sole or main residence, are unfurnished and do not fall into one of the classes of dwellings that are exempt from Council Tax	Up to 6 months	Exempt for 6 months (legislative requirement)	0%
	6 months to 2 years	50%	0%
	In excess of 2 years	50%	Charge empty homes premium at 150%
<i>Second Homes</i> – Dwellings that are furnished but are no-one’s sole or main residence		10%	0%

6. There are a number of specific circumstances where empty dwellings attract an exemption from Council Tax. These exemption categories are **not** affected by the proposed changes. They are listed at **Appendix 3**.
7. The estimated number of dwellings that would fall within each category, together with indicative additional revenue if all discounts/exemptions are removed and the maximum Council Tax is levied is shown in the table below. It excludes short-term (less than 6 months) empty dwellings owned by charities, as these continue to be exempt. It is predicted that it will be more difficult than usual to collect sums due from non-resident owners and that there will be an element of avoidance and these factors have been built into the estimates.

Change	Est no of dwellings	Indicative additional Council Tax collected based on 2012/13 charges (SBC share)
Uninhabitable	71	47,200
Empty up to 6 months	1106	746,100
Empty 6 months to 2 years	561	196,400
Empty > 2 years	372	201,700
Second homes	397	29,400
<b>Total</b>		<b>£1,220,800</b>

#### Impact on Council Tax payers

8. Although councils' responses to the consultation exercise asked for the new arrangements to provide as much flexibility as possible in terms of the ability to set different discount percentages for different periods depending on different circumstances, it is disappointing that the provisions in the Local Government Finance Bill do not offer this degree of flexibility.
9. Dwellings are left empty for a wide variety of reasons. This type of information is not held on the Council Tax system, unless specifically volunteered by the owner. The examples below illustrate the potential impact of the proposed changes on local Council Tax payers:
- Mr A has to move out of a dwelling for a month following fire damage and moves in with family. Currently an exemption can be applied on dwellings deemed uninhabitable for up to 12 months. *Full Council Tax will be payable on properties deemed uninhabitable/requiring structural repairs or adaptations.*
  - Mr B is an owner of a dwelling that has been damaged by absconding tenants. The dwelling cannot be let until repairs have been carried out. *At the end of the tenancy period, the landlord would immediately become liable for payment of Council Tax.*
  - Mrs C inherits a dwelling from her father after his death. Probate is granted and the property is transferred into her name. However, the property can't be sold and remains on the market. Normally, if the dwelling was emptied of furniture, the 6 month Class C exemption would apply. *Under the changes, any vacant dwellings will attract a full Council Tax charge immediately the ownership transfers; there is no six-month period of grace.*
10. In exceptional circumstances, where properties are empty and on the market for sale and the owner is facing financial difficulties paying the new charges, a solicitor's undertaking that any outstanding Council Tax will be paid from the proceeds of sale would usually be accepted to prevent enforcement action, should the account fall into arrears. This practice is already in place for owners that are liable for the existing 50% empty property charge.
11. The Council also operates a discretionary "hardship relief" policy under Section 13A of the Local Government Finance Act 1992, and this will be reviewed to ensure that it can accommodate applications from those who find that the new charges are causing exceptional financial hardship.

## Timetable

12. A timetable for implementing the changes in time for 2013/2014 Council Tax annual billing is proposed below.

Report to Cabinet seeking approval to go out for consultation on the proposals	4 Oct 2012
Public Consultation	15 Oct 2012 to 6 Jan 2013
Finalise Proposals	25 Jan 2013
Charges recommended by Cabinet along with Council Tax/Budget report	21 Feb 2013
Charges approved by Council at Council Tax/Budget setting	27 Feb 2013

13. The timetable includes a period set aside for consultation. Although there is no statutory requirement to consult, it is considered appropriate to provide an opportunity for interested parties to provide feedback about the proposals and inform the decision making process. A draft consultation plan has been prepared and is included at **Appendix 1**. A draft consultation document and questionnaire has been prepared and is included at **Appendix 2**. It is recommended that approval of the final consultation documentation and approach be delegated to the Corporate Director of Resources in consultation with the Cabinet Members for Corporate Management & Finance and Housing & Community Safety.

## **FINANCIAL IMPLICATIONS**

14. The potential additional income that could be raised through implementing the changes proposed in the Local Government Finance bill to maximum effect are shown in the table at paragraph 7 of the report and amount to £1.2m.
15. There are many possible alternative schemes that reduce the current levels of discount for various categories of empty dwelling without taking it away altogether. Obviously, these would have the effect of reducing the amount of extra Council Tax income as illustrated below:

### **Reduces potential additional income by:**

- Allowing 25% discount on uninhabitable dwellings for up to 1 year £12,000 per annum
- Allowing a 50% discount for 3 months when a dwelling first becomes unoccupied and unfurnished £158,000 per annum
- Allowing a 100% discount for 2 months when a dwelling first becomes unoccupied and unfurnished £201,000 per annum
- Not charging an empty homes premium but still removing all discounts from long-term empty dwellings. £101,000 per annum

16. Introducing these new charges is likely to increase the costs of collecting Council Tax. There will be more enforcement action and some difficulties monitoring dwellings and obtaining information to raise the correct charge.

17. It should also be noted that the scrutiny review of empty properties is likely to include the development of a business case for investing some of the additional Council Tax revenue into a programme to support bringing long-term empty homes back into use and an associated recommendation. The Committee is still in the process of pulling together its recommendations, which are scheduled to be presented to Cabinet in February 2013.

## **LEGAL IMPLICATIONS**

18. The powers to increase Council Tax charges on certain empty dwellings are in the Local Government Finance Bill, which is expected to receive Royal Assent in the autumn. This will then be followed by more detailed regulations which will need to be taken into consideration during the final design of the scheme.

## **RISK ASSESSMENT**

19. The subject matter of this report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

## **SUSTAINABLE COMMUNITY STRATEGY IMPLICATIONS**

20. There is a target in the Council Plan to bring 60 empty homes per year back into use. This contributes to the theme "A cleaner, greener Stockton-on-Tees with high quality housing provision."

## **EQUALITIES IMPACT ASSESSMENT**

17. The draft scheme has been subject to an Equality Impact Assessment and has been judged to have a neutral impact. Any relevant feedback from the consultation exercise will inform the Equality Impact Assessment for the final scheme.

## **CONSULTATION INCLUDING WARD/COUNCILLORS**

18. The draft scheme has been drawn up in consultation with the Regeneration & Transport Select Committee. The Committee is undertaking a review of empty properties and what can be done to bring them back into use. The Committee considered the draft scheme at its meeting on 10<sup>th</sup> September 2012, and the Committee's response is presented at **Appendix 4** for Cabinet's consideration. There will be further consultation with the Committee when the feedback from the public consultation exercise has been analysed.

19. This report recommends a period of public consultation as part of the implementation timetable and the feedback from the consultation exercise will be presented to Cabinet when the final scheme is submitted for approval.

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Education related? No

Background Papers "Technical Reform of Council Tax: Summary of Responses Report" CLG May 2012. See [www.communities.gov.uk/publications/localgovernment/technicalreformcounciltaxors](http://www.communities.gov.uk/publications/localgovernment/technicalreformcounciltaxors)

“Review of Empty/Abandoned Properties – Council Tax Charges for Empty Properties” – Report to Regeneration & Transport Select Committee (10<sup>th</sup> September 2012)

Ward(s) and Ward Councillors: N/A

Property N/A