

**Council**

11 December 2014

**Agenda Item 53**

Brighton &amp; Hove City Council

<b>Subject:</b>	<b>Council Tax Empty Property Discounts 2015/16</b>		
<b>Date of Meeting:</b>	<b>11 December 2014</b> 4 December 2014, Policy & Resources Committee		
<b>Report of:</b>	<b>Executive Director Finance and Resources</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Paul Ross-Dale</b>	<b>Tel:</b> 291969
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<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE****1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 From 1<sup>st</sup> April 2013, the government provided local authorities with discretion to vary or remove certain discounts applied to Council Tax. One of these is the empty and unfurnished property discount, which in the 2014/15 tax year the council set at a 100% discount for four weeks. The proposal in this report is that the council withdraws the discount with effect from 1 April 2015. This is consistent with our housing strategy which aims to make the best use of the city's housing stock, particularly in the context of high levels of housing need.
- 1.2 Another locally applicable discount which the council can vary is the uninhabitable property discount. In 2014/15, council tax payers in Brighton & Hove receive a 100% discount for up to 12 months if their property is uninhabitable or undergoing structural repair, or for 6 months after works are completed (whichever is sooner). There is a separate consideration of a 100% discount for up to 6 months after a newly built property is completed. The proposal in this report is that the council withdraws both of these discounts with effect from 1 April 2015.
- 1.3 The withdrawal of these discounts will contribute savings towards meeting the difficult financial challenges in 2015/16 including a projected budget gap of between £21.3m and £26.4m. Policy & Resources Committee is asked to consider these recommendations in advance of a decision being made at the Full Council meeting on 11 December 2014.

**2. RECOMMENDATIONS:**

That the Committee recommends that Council -

- 2.1 Approves the reduction of the Class C (empty and unfurnished) Council Tax discount to zero (i.e. full withdrawal) with effect from 1 April 2015.
- 2.2 Approves the reduction of the Class D (uninhabitable) Council Tax discount to zero (i.e. full withdrawal) with effect 1 from April 2015.

- 2.3 Approves a discretionary Council Tax 4-week discount to cover exceptional circumstances.
- 2.4 Note that to enable the recommendations in 2.1 – 2.3, Appendix 1 sets out the formal determinations and decisions for the financial year commencing 1 April 2015 and in subsequent financial years.
- 2.5 Grants delegated authority to the Executive Director of Finance & Resources to take all appropriate steps to implement and administer the recommendations in 2.1 - 2.3, including the publishing of any related data or information in accordance with statutory requirements.

### **3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 The government introduced a new discretion for local authorities for some categories of property discount for Council Tax, with effect from 1 April 2013. The council used this discretion to reduce empty and unfurnished discount from 6 months to 6 weeks. The discount was for 100%, meaning that there was nothing to pay for those weeks. In 2014/15, the discount was adjusted to 4 weeks in line with many other Local Authorities.
- 3.2 At present there is a 100% discount available for empty and uninhabitable properties undergoing structural and repair work. The discount lasts for up to 12 months, or 6 months after work has been completed, whichever is sooner. Newly built properties also receive 6 months 100% discount once work is completed on them.
- 3.3 In 2013/14, there were 20,400 Class C (empty and unfurnished) discounts. Of these, around 8,930 were for less than 14 days; and 5,938 were for less than 7 days. Around 5,800 used the maximum amount of discount available in that year's scheme (6 weeks), implying that there were nearly 6,000 properties that were empty for a minimum of 6 weeks in 2013/14.
- 3.4 The recipients of the Class C discount could be:
- Landlords, where the property is empty between lets, including private landlords of all sizes, Registered Social Landlords and the Local Authority;
  - Property owners, moving to a new property whilst still remaining responsible for their old one temporarily;
- 3.5 In 2013/14 the uninhabitable discount was awarded to 389 council tax payers. There were 548 recipients of the 6 month discount for newly built properties. The recipients included:
- Property developers;
  - Landlords, including private, Registered Social Landlords and the Local Authority;
  - Property owners.
- 3.6 In a survey of 2014/15 discounts, 21 out of 55 local authorities had zero discounts for both empty/unoccupied and uninhabitable properties (all the unitary authorities, plus our geographical neighbours in East and West Sussex). Their proposals for the 2015/16 year are as yet unknown.

- 3.7 As part of its broader housing strategy, the council has a cross-service approach to empty properties, involving among others the Empty Property team, Private Sector housing, Council Tax teams, Planning and Building Control teams. Any strategy adopted in Council Tax should be consistent with encouraging good use of housing stock in the city. Having reduced the discount for Class C (empty and unfurnished) over the previous two years, there is no evidence to suggest that this has had a detrimental impact on the housing market.
- 3.8 One of the impacts of the government introducing increased local discretion is that the empty property strategy can be influenced by the policy adopted. On 1 April 2013, a Council Tax “long term empty premium” was introduced, so that unfurnished properties that remain unoccupied for 2 years are subject to an additional Council Tax charge and must pay 150%. This is the maximum that can be charged under the legislation and this is designed to act as an incentive to bring properties back into use faster. It is possible that by removing the discounts for empty properties, owners may be influenced to find ways of bringing them back into use more quickly.
- 3.9 Property owners and landlords have assets and it is a natural part of the business model to maintain those assets and minimise void periods. There will be individual landlords who experience more difficulty than others. However, having to pay Council Tax during the void period is a comparatively low burden compared to the cost of having an empty property that is not attracting rental income, or having one that attracts a lower rental income because it has not been refurbished to a high enough standard. Therefore, it is in landlords’ interests to maintain the properties appropriately, regardless of the Council Tax discount.
- 3.10 The proposal is therefore to withdraw the Class C (empty and unfurnished) Council Tax discount and the Class D (uninhabitable) Council Tax discount with effect from 1 April 2015. The savings associated with the proposals in this paper will contribute £1.125m (£0.825m for Class C and £0.300m for Class D) to meeting the council’s projected budget gap next year and will be reflected in the budget proposals for 2015/16.
- 3.11 A discretionary four week discount would be available for exceptional circumstances. For example this might be where there is flood or fire damage that is not covered by insurance or where a delay in any insurance payment might create financial hardship..

#### **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 The budget gap next year is very substantial and therefore all options must be considered carefully. The budget gap leaves no option but to review the money that we do not collect due to discounts being awarded.
- 4.2 The uninhabitable discount could be reduced, rather than removed. A selection of local authorities in our sample check allowed a 50% or 25% discount. However, to keep the discount at any level would cost money that will mean a spending cut elsewhere and an associated impact on council services.

- 4.3 Withdrawal of the discounts could have a potential impact on resourcing the customer service and collection activities of the Council Tax teams, because a large number of new bills, some of them for small amounts, will have a knock on effect on the numbers of people contacting the service. The potential for this to impact on our collection rate has been factored into the savings estimate.
- 4.4 Awarding a nominal 7 day discount for the empty and unfurnished properties was also considered. This would rule out billing for some very small debts and would give only a very modest amount of support. The value to each property would therefore be negligible but would still cost in the region of £0.075m overall. Furthermore, due to the number of empty periods that exceed 7 days, there would still be a large number of bills for small amounts (e.g. if a property is empty for 10 days, it would be necessary to bill for 3 days once the 7 day discount had expired).

## **5. COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 A consultation was held on the proposals contained within this report.
- 5.2 There were 524 respondents, of whom 67% were private sector landlords. 34% identified as Brighton and Hove residents.
- 5.3 89% disagreed with the proposal to remove the empty and unfurnished (Class C) discount and 81% disagreed with the proposal to remove the uninhabitable (Class D) discount.
- 5.4 Among the comments received for the Class C discount, respondents felt that landlords required longer than four weeks to turn empty properties around, particularly if they were undertaking refurbishment work and arranging the practicalities around such works. Some respondents felt that this would lead to costs being passed on in rent to tenants, or that properties would simply not be refurbished and that the quality of housing stock would reduce as a result. It was also felt by respondents that the idea was either generally unfair, or unfair because no services were being used in an empty property. There was a feeling from respondents that landlords were being penalised. Some also commented that the administrative cost of billing for short periods would outweigh the saving.
- 5.5 Regarding the Class D discount, respondents felt that there would no longer be an incentive to renovate properties and make them habitable. They felt that properties would be let at a lower quality and that housing stock would deteriorate in quality and number. As with the Class C proposals, some respondents felt that the proposal was inherently unfair, or that it was unfair because council services were not being used in empty properties. It was also suggested that there would be a resultant increase of rents and that the removal of the discount penalised landlords.
- 5.6 91% agreed with the proposal to have a discretionary discount for exceptional circumstances.
- 5.7 The results of the consultation have been considered. It is accepted that there is an impact on landlords and property owners, but this impact was known and fully considered when the proposals were drafted. The severity of the budget gap over

the medium term means that all areas of council discretion have to be examined carefully. If the discount proposals did not go ahead, there would have to be a corresponding impact on other services, potentially affecting vulnerable service users and those who do not have any resources.

- 5.8 Some respondents have said that costs will be passed on in rents. It is not possible to predict with certainty whether or not this would happen. Market forces are complex and the loss of a council tax discount may not necessarily be a determinative factor in deciding rents across the city, other factors being of much greater significance. Similarly, respondents predicted a deterioration in housing stock, both in quality and quantity. Existing monitoring will now incorporate consideration of whether Council Tax burdens are making a material difference in respect of these points.
- 5.9 Respondents said that they would reconsider refurbishment and in some cases not maintain properties to their current standards. This would be a choice for individual landlords, but it would not appear to make business sense to market a lower quality property. The cumulative loss associated with having to charge lower rent for a lesser quality property would likely outweigh the cost of paying for several weeks of Council Tax.
- 5.10 For more substantial works rendering a property uninhabitable, it is accepted that there is a potentially greater financial loss, because the Council Tax discount can currently last for up to a year. However, as mentioned above, the impact of not going ahead with the proposals would be that spending on other services would need to be reduced. It is anticipated that the cost of Council Tax will now have to be incorporated into overall plans around property development.
- 5.11 Regarding the comments about administrative cost, the proposals had already allowed for a potential increase of administrative complexity when calculating the potential saving.

## **6. CONCLUSION**

- 6.1 The grounds for these decisions are outlined in the sections above.

## **7. FINANCIAL & OTHER IMPLICATIONS:**

### Financial Implications:

- 7.1 The report is proposing to reduce the discount to zero on council tax discounts for empty and unfurnished, uninhabitable and new build properties. The zero discount on Class C discount is estimated to generate additional resources for the council of £0.825m. The zero discount on uninhabitable and new builds is estimated to generate additional resources for the council of £0.300m. If approved, the additional resources for 2015/16 will be reflected in the final tax base calculation reported to P&R in January 2015.
- 7.2 The savings are net of a discretionary fund of £0.025m to cover the award of up to 4 weeks discount in exceptional circumstances for either Class C or Class D discounts.

Legal Implications:

- 7.3 Section 11A of the Local Government Finance Act 1992 and associated regulations (Statutory Instrument 2003/3011) confer powers on the council to limit or withdraw completely any discount payable under section 11(2) of the 1992 Act in respect of unoccupied dwellings. This permits the council to agree recommendations 2.1 and 2.2 above.
- 7.4 Under section 67 of the 1992 Act, it is a requirement that determinations under section 11A be made by the authority itself, i.e. full Council. It is appropriate for these matters to be considered first by Policy & Resources Committee, for referral to Council for approval.
- 7.5 The power to operate a discretionary discount scheme – as referred to in recommendation 2.3 above – is conferred by section 13A(1)(c) of the 1992 Act. Although this particular power may be exercised by Policy & Resources Committee alone, it is advisable for P & R to refer the matter to Council as it forms part of the same package of measures as recommendations 2.1 and 2.2.

*Lawyer Consulted:*

*Oliver Dixon*

*Date: 07/11/14*

Equalities Implications:

- 7.6 An Equalities Impact Assessment has been carried out. The findings were that no protected group was likely to be adversely affected. However, individuals could be affected in any group. A number of exemptions already exist in Council Tax to cover some of these situations, for example there is an exemption if the property is occupied by somebody who is severely mentally impaired. A further example is the exemption for properties solely occupied by somebody who has now moved permanently into a residential home or hospital to receive care.

It is possible that elderly residents are more likely to own property and therefore might be affected by the removal of the empty discount. However, this effect would be mitigated by officer knowledge of advice and signposting to available support such as Age Concern, Adult Social Care and the Pension Service.

There could also be potential occupancy issues around properties not being suitably adapted and the time frame involved in doing so. In these instances we could consider referrals to Private Sector Housing for a disabled facility grant. We also have the option of looking at individual cases to see whether they qualify for the discretionary extension of the empty and unfurnished discount.

Sustainability Implications:

- 7.7 There are no specific sustainability issues.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. Council Tax Property Discounts Determinations

### **Documents in Members' Rooms**

None

### **Background Documents**

None

