

# Report

## Council

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### Part 1

Date: 27 November 2018

### Subject **Council Tax Discounts - Long-Term Empty Properties**

**Purpose** To review the current policy of allowing 50% Council Tax discount on long-term empty homes and recommend that this stop from April 1st, 2019 and introduce full Council Tax from this date. In conjunction with investment in housing, legal and revenues sections to enable a more co-ordinated and robust interaction with owners of long-term empty homes; to use this policy change to reduce the number of long-term empty homes in the city and bring them back into use.

**Author** Head of Finance

**Ward** All

**Summary** The city has over 1,000 long-term empty homes, the owners of which receive 50% Council Tax discount, which is discretionary. This report provides council with details of the current policy and options for using discretionary powers to amend the current level of council tax discount applicable to long term empty properties.

It recommends the current discount stops from April 1st 2019 and alongside investment in housing, legal and revenues sections to enable a more co-ordinated and robust interaction with owners of long term empty homes; to use this policy change and approach to reduce the number of long-term empty homes in the city and bring them back into use.

**Proposal** That Council approve a change in policy and approach which will assist in bringing more long-term empty homes back into use in the city by:

1. **Resolving to stop the current policy of giving 50% Council Tax discount on long-term empty homes from April 1st 2019 and charge the full rate from that date.**
2. **Invest a proportion of the anticipated increase in Council Tax this will generate into a small number of posts and other costs in the housing, legal and revenues teams to enable a more co-ordinated and robust support and interaction with owners of long-term empty homes to get them back into use.**

**Action by** Head of Finance

**Timetable** Effective from April 2019

This report was prepared after consultation with:

- Leader of Council

- Cabinet Member for Regeneration & Housing
- Chief Executive
- Heads of 'Regeneration, Investment & Housing and 'Law & Regulation'

**Signed**

## Background

### Current Provision

1. Council tax is payable on all dwellings shown in the valuation list that are not exempt. A number of statutory exemptions applying to unoccupied properties lasting for various periods of time are available provided the circumstances prescribed in the regulations are met. The most common exemptions are shown in the table below:

Exemption	Description	Maximum Period
Class A	Property requiring or undergoing major structural works	12 months
Class C	Property that is unoccupied and substantially unfurnished.	6 months
Class E	Property left empty by a person in a care home, hospital or hostel.	Indefinite
Class F	Property that is part of the estate of a deceased person.	Indefinite, then 6 months following the grant of probate.
Class G	Occupation prohibited by law.	Indefinite.
Class L	Property in the possession of a mortgage lender.	Indefinite
Class Q	Property where the liable person is a trustee in bankruptcy	Indefinite

- 1.0 If the ownership of the property changes, the period of statutory exemption is not extended and therefore the maximum statutory period cannot be increased, so a new owner will only be entitled to the balance of the statutory exemption not yet claimed.
- 1.1 A long term empty property is described as an unoccupied and substantially unfurnished property that is not exempt. Historically local authorities had no option other than to award a 50% reduction in respect of long-term empty properties where the exemption period had expired. This has since changed as explained further in the report.
- 1.2 Currently, empty properties in Newport, after the statutory exemption period from council tax has expired, pay 50% of the relevant full council tax rate payable for that property i.e. they receive a 50% discount until such time that the property is re-occupied.
- 1.3 There are currently 2,544 empty properties in the Newport City area, of which 1,483 are exempt and 1,061 are subject to a 50% discount due to still being empty and unoccupied after the statutory exemption has expired.
- 1.4 A property that is in a particularly poor state of repair and is considered by the Valuation Office Agency not to be 'wind or watertight' is ordinarily removed from the valuation list. No council tax is charged indefinitely for these properties until such time as they are considered to be capable of beneficial occupation and re-entered in the valuation list. Consequently, any changes to the

council tax discount in respect of empty properties will not apply to any property that is removed from the valuation list due to its poor state of repair.

### **Provisions for Empty Property Discount to be Changed**

1. The Local Government Act 2003 contained provisions which permit local authorities to vary the discount for long term empty properties so that between 0% to 50% could be awarded.
- 2.1 Most councils opted to continue with a 50% discount; however over time with increased pressure to encourage empty homes back into use that has changed and in 2018 less than ten Welsh councils still award the 50% empty property discount, of which this Council is one.
- 2.2 The main reason why the level of discounts for empty properties needs to be reviewed now is the requirement to reduce the number of empty homes across the city

### **Reducing the Number of Empty Homes**

- 2.3 Empty properties can be a blight on neighbourhoods and can be a magnet for anti-social behaviour as well as causing issues for local residents with vermin, damp and the detrimental visual effect on the street scene. The Council's performance in bringing these properties back into use is reported annually and historically it has been challenging to get some owners to take steps to bring properties back into use.
- 2.4 The discount for empty homes whilst not in itself an incentive to leaving a property vacant can be interpreted as a subsidy for owners of more than one property and is at odds with the Council's policy of encouraging these properties to be used again and thus increasing the supply of available housing.
- 2.5 Increasing the council tax payable in respect of empty dwellings may be sufficient action to prompt owners to take action to bring their properties back into use. When Torfaen County Borough Council stopped offering a discount on empty property they saw a significant reduction in the number of long term empty properties for example.
- 2.6 However, in conjunction with the financial incentive this introduces, it is proposed to invest £190k of the additional Council Tax this should generate in 4 posts and other costs in the housing, legal and revenues teams to enable a more co-ordinated and robust approach and liaison with owners of long-term property to help them bring properties back into use. This would also include more robust enforcement action where there are Council Tax arrears in order to maximise the financial incentive of this change of policy.
- 2.7 It is proposed that a detailed policy and process is drawn up by officers in terms of how support and enforcement will work in relation to these kinds of properties which the Cabinet Member can formally approve in due course, but key aspects will include:
  - Assistance with advice and helping access grants and loans to bring homes back into use.
  - Provision of short-term repayable grants. They would be secured against the property in question to ensure security of funds and would be repayable on the sale of the property.
  - Robust approach to ensuring arrears of Council Tax are paid to maximise the financial incentive.

## Other issues

### Consultation

2. In 2016, a consultation on stopping the current 50% discount and introduce a 'premium' Council Tax charge was undertaken. There was widespread support in stopping the 50% discount but not for a 'premium charge'.

This proposal would only remove the 50% discount and therefore, there is support for that.

### Council Tax collection rates / arrears

3. Removing the empty home discount is not risk free, the owners of empty properties are typically more difficult to collect council tax from can take longer for the council tax to be paid. For example, there are currently 65 empty properties which despite court action are still proving difficult to collect council tax from, collectively these properties owe in excess of £143,000, an average of around £2,200 for each empty property.

If the amount of council tax charged per empty property is increased by removing the discount, it follows that the level of arrears may also increase. In the short-term, this will make hitting collection targets more challenging and in the longer term may result in Council action to recover the unpaid council tax.

Additional resources in the revenues and legal and housing team should help mitigate this, to an extent, through support and ultimately, more robust arrears action.

## Financial Summary

4. Based on current figures, by removing the empty property discount, the overall income from Council Tax will increase by c£580k, following the increase in the Council's 'tax base' this will bring about. While this will be subject to an equalisation process (where Welsh Government adjust the Revenue Support Grant for relative gains and losses in Council Tax bases across Wales), it is likely the overall net gain will be able to support the investment in posts proposed to support the change in policy.

For example, the WLGA exemplified the impact of introducing this policy change for the current 2018/19 financial year and it showed that even having lost Revenue Support grant of c£260k, there was still a net gain of c£350k from resulting increase in Council Tax income. This scenario will differ from year to year as the equalisation adjustment will differ each year but the investment 'top slice' from the increased Council Tax income should leave sufficient margin to deal with a decrease in RSG from any equalisation adjustment.

5.1 This policy change would be supported by more resources in the housing, legal and revenues team to work with owners of long term empty properties. Loan schemes to support them in doing this will be one option in the policies / process to do this. Funding for loans will come via Welsh Government grants – the 'Safe, Warm & Secure' scheme.

- 5.2 Welsh Government were due to mandate that empty property discounts be removed from the Council Tax base calculation for RSG purposes but this was delayed and a decision on this will be taken in April 2019 – in time for implementation of the 2020/21 RSG calculation. If implemented, this would mean the Council would lose out on RSG, and unless it removes the discount would face a pressure equivalent to this reduction, currently estimated at c£250k - £300k.

## Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Empty homes are not bought back into use	M	M	<p>Maximise publicity and lead-in period for any changes</p> <p>Provide advice to help owners overcome barriers to re-use of properties</p> <p>Robust arrears process</p>	Housing & Assets Manager
Lower collection rates and increase in council tax arrears	L	M	<p>Maximise publicity and lead-in period for any changes</p> <p>Provide advice to help owners overcome barriers to re-use of properties</p> <p>Have clear and robust recovery procedures in place and resources to deliver.</p> <p>Review monitoring and enforcement processes prior to implementation.</p>	Head of Finance

## Links to Council Policies and Priorities

6. The council's mission is to improve people's lives and the corporate plan contains four well-being objectives to support this goal. Returning empty homes to use is particularly relevant for two of these:

6.1 Objective 2 – to promote economic growth and regeneration whilst protecting the environment

Returning long-term empty homes to use is a regeneration opportunity, improving the streetscene and contributing to the vitality of the neighbourhood, as well as raising the value of nearby property.

6.2 Objective 4 – to build cohesive and sustainable communities

A study in England found that, where there were concentrations of long-term empty homes within a particular local authority area, these localities were commonly associated with more anti-social behaviour, high population turnover, more crime, a high proportion of private rented accommodation and a high proportion of private rented accommodation that was in poor condition. The report also noted that such areas 'often have groups of residents who are committed to the area' and 'some of these residents have along family history in the area, while others are more recent arrivals.' In Newport, there are concentrations of empty homes in areas

where similar conditions exist; tackling empty homes is integral to building cohesive and sustainable communities in those areas as well as increasing the housing options across the city.

### **Options Available and considered**

#### **7.0 Option 1 - Leave the 50% discount for long term empty properties in place.**

The 50% discount could be left unchanged and owners of empty properties continue to pay 50% council tax.

7.1 However if this option is taken it might also be seen as an indication that the Council is not serious about tackling the problem of long term empty properties in the City.

7.2 Whilst the discount for long term empty properties continues to be available there is no financial incentive for owners to take steps to bring properties back into use.

7.3 If this option is taken there would be no increase in the amount of council tax collected and the additional resources needed to reduce the number of empty homes across the city would need to be funded from core budgets.

#### **Option 2 - Remove the Discount for Long Term Empty Properties**

7.4 The effect of removing the long term empty property discount would be to charge 100% council tax from 1<sup>st</sup> April 2019 for all properties that are no longer exempt.

7.5 Removing the discount could encourage owners to take steps to occupy or let empty properties, which would be beneficial to the city as fewer properties would be left empty and the supply of housing would increase.

### **Preferred Option and Why**

7.6 Option 2 - to remove the 50% discount for long term empty properties from 1 April 2019. The reasons for this being:

7.7 To allow an indefinite council tax discount on empty homes gives owners a perverse incentive to keep their properties empty rather than return them to occupation

7.8 The increase in council tax income can partly be used to provide resources that would enable the Council to work with owners and other partners in a coordinated approach to help bring properties back into use.

### **Comments of Chief Financial Officer**

The main financial issues associated with this policy change are included in the main body of the report. There is a risk to lower collection rates and arrears increasing from these inherent 'challenging' properties but the policy change, in conjunction with resources to support and engage with owners is a helpful step forward to try and bring more of these homes back into use.

The proposal should be at least be 'cost neutral' though that cannot be guaranteed as the budget impact will come into being in 2020/21 when the impact on the 'tax base' and the equalisation adjustment will be made. The proposed investment of some of the increased Council Tax income is relatively small compared to the increased income and allows a reasonably sizeable net gain in income to offset any reduction in the Council's Revenue Support Grant.

## **Comments of Monitoring Officer**

The proposed action is in accordance with the Council's statutory powers under the Local Government Finance Act 1992 (as amended by the Local Government Act 2003). Since 2013, the Council has a discretion to award council tax discounts for long-term empty properties and it is no longer mandatory to award a continuing 50% discount after the initial 6 months exemption has expired. Therefore, the Council is able to either reduce the amount of the discount or remove the discount altogether. Although the Council has previously continued to allow the 50% discount, this is becoming increasingly difficult to justify in the light of Welsh Government policy and Council priorities for bringing back empty homes into meaningful occupation. The proposed removal of this discount would provide a disincentive for owners to keep properties vacant for long periods and increase the availability of housing, and the additional income generated can be used to assist and facilitate this process.

## **Comments of Head of People and Business Change**

There are no direct Human Resources staffing implications arising from the proposal resulting from stopping the current policy of giving 50% Council Tax discount on long-term empty homes from April 1st 2019. In terms of reinvestment resulting from the increase in Council Tax into a small number of posts there are no direct staffing implications on the current employees. The proposal and creation of these posts will be considered separately under a business case and appropriate consultation, if required, will be undertaken with the current staff group.

The proposal is intended to reduce the number of empty properties and contribute to local housing supply. It will improve the physical environment in deprived areas where there are clusters of empty homes and will help to regenerate neighbourhoods. By promoting renovation and the improvement of properties, it could also help to boost businesses in terms of turnover and employment. Furthermore, the expected changes to the calculation of the council tax base would result in increased financial pressures from empty properties and the proposal should mitigate this. Public consultation has indicated support for the proposal. A Fairness and Equality Impact Assessment has been undertaken which concludes that whilst little is known about the owners in terms of equalities the overall impact of the proposal would be to increase equality in the local housing market. It is also noted that exemptions are in place which would protect the interests of specific groups e.g. where the property is in probate or has been repossessed.

## **Comments of Cabinet Member**

The Leader and Chair of Cabinet plus the Cabinet Member for Regeneration & Housing have seen this report and considered the policy change and financial implications. They support and approve it as a means to bring more empty homes back into use across the city.

## **Local issues**

Empty properties are distributed across all parts of the city, therefore this change in policy applies equally to all parts of the city.

## **Scrutiny Committees**

Not applicable

## **Equalities Impact Assessment and the Equalities Act 2010**

The purpose of removing the long term empty discount is to act as an incentive to get the empty property back into use

The impact of this policy change will be on owners of empty second homes who currently receive 50% discount on their Council Tax costs. This group will pay more Council Tax relative to current costs but will be no higher than Council Tax costs in comparable properties.

There is very limited information known about the owners of empty properties within the city but for the purpose of the equalities assessment – they are assessed as a discrete group of those who own second homes, which are empty.

A fairness and equality impact assessment has been carried out and it concludes that the policy change will result in a 'fairer' charging policy. The consultation exercise mentioned in the report supports that. The change in policy to remove the council tax discount is anticipated will have a positive impact for the residents of the city as a whole if the overarching policy objectives of more available housing and fewer empty properties is achieved.

## **Children and Families (Wales) Measure**

Action on empty homes is particularly relevant to two of the broad aims of the Measure:

- (h) to ensure that all children grow up in decent housing, and
- (i) to ensure that all children grow up in safe and cohesive communities.

Action on empty homes helps to ensure that Newport's housing stock is kept in good order, providing decent housing for families. Homes that are left empty tend to attract anti-social behaviour or crime and to reduce the vitality of local communities.

There are no anticipated negative effects of this policy on children and families, indeed it is hoped that the removal of the council tax discount will encourage property owners to take action to bring homes back into use.

## **Wellbeing of Future Generations (Wales) Act 2015**

Newport's Well-being Plan 2018-23

Good use of our housing contributes to the priorities of Newport's Well-being Plan 2018-2023 because the more empty homes we can see returned to use as decent housing, the safer and more attractive the local environment will be. The proposed changes to council tax for empty homes demonstrate the five ways of working towards sustainable development:

5. Long-term: safeguarding the built environment and homes for future generations.
6. Prevention: deterring owners from leaving dwellings empty indefinitely.
7. Integration: empty homes are a problem that has an impact on several council service areas, as well as the communities they serve; the proposed changes to council tax aim to reduce the number of empty private homes so that people can live in a safe, attractive environment with a stable community.
8. Collaboration: implementation of the proposals in this report will be the first step in a range of collaborative projects between council services with the aim of reducing the number of long term properties across the city.
9. Involvement: returning empty homes to use requires, the commitment of owners and the proposals in this report will, it is hoped, be a catalyst for change.

## **Crime and Disorder Act 1998**

Empty homes provide an opportunity for anti-social behaviour such as fly-tipping, vandalism and drug-taking which contribute to physical disorder. Bringing empty homes back into occupation can contribute to improvements in community safety.

## **Consultation**

As noted in the report, the removal of the current discount was consulted in 2016 and there was substantial support for that.

## **Background Papers**

The Local Government Finance Act 1992, as amended; available at:

<http://www.legislation.gov.uk/ukpga/1992/14/contents>