

WIRRAL COUNCIL

CABINET

9 DECEMBER 2010

REPORT OF THE DIRECTOR OF FINANCE

COUNCIL TAX DISCOUNTS

1. EXECUTIVE SUMMARY

- 1.1 This report reviews Council Tax charges for Second Homes, long-term empty homes and the annual option for the Council to set locally defined discount schemes. The report requests Members to decide if any amendments to current discounts should be brought into operation.

2 INTRODUCTION

- 2.1. The Local Government Act 2003 empowers a local authority to amend the level of charge made on Second Homes and long term empty properties, and allows for locally set discounts. Cabinet last considered this issue on 9 December 2009 when the discounts remained unchanged.
- 2.2. This report sets out the impact on the level of Council Tax for 2010/11, the volumes involved and the impact on the Housing Market Renewal Strategy. Members are requested to consider each of these factors whilst deciding on how discounts should be applied for 2011/12.

3. SECOND HOMES

- 3.1. Second Homes are properties that are not a “sole or main” residence. They are usually furnished and because of that attract a 50% charge to cover the property element of Council Tax. However, as they are not a sole or main residence there is no personal charge to pay and so the bill is therefore 50% of a fully occupied property. This category also covers furnished property let by landlords.
- 3.2. The Government has acknowledged that in some holiday areas it was becoming impossible for local people to purchase properties locally. Furthermore out of season the holiday areas were unable to sustain such basic amenities as village shops and Post Offices. The Government has attempted to redress the balance by allowing Councils to reduce the discounts on second homes from 50% to as little as 10%.
- 3.3. The only people excluded from any change are people who live elsewhere and are liable to pay Council Tax on a property owned by an employer, i.e. tied accommodation.

- 3.4. Wirral agreed to reduce the discount from 50% to 25%. 25% was recommended as this was the figure that would represent the Council Tax payable if one resident resided and stop claims that the property ceased to be a Second Home and had become occupied. This change raised some negative comment from landlords of furnished properties.
- 3.5 There are currently 651 properties in receipt of the Second Homes discount (25%). This is a 4% increase from the previous year and represents 0.5% of the properties on Wirral (145,717). Wirral could reduce the discount further, by a maximum of 15%. This would bring in a maximum extra £106,000. Increasing to this level is beyond that of a property occupied by a single person and thus it would be more likely that this maximum would never be reached as second homeowners either install or claim the property to be occupied by a single person.
- 3.6. If the Council amends the provisions a notice is required to be published locally 21 days after the determination, and any amended charge would come into force on 1 April 2011.

4. LONG TERM EMPTY HOMES

- 4.1. The Government aim is to help Local Authorities bring long-term empty homes into occupation, by encouraging owners to sell or let the properties faster than at present.
- 4.2. Long-term empty homes are defined as properties that have been empty for more than six months. For the first six months providing the property remains substantially unfurnished the taxpayer is free from paying Council Tax. Thereafter a charge of 50% applies until a property is reoccupied. This is known as Class C exemption.
- 4.3. Long-term empty properties quite often require major structural work or substantial repairs to make them habitable. Those properties, providing they satisfy the criteria can be exempt from Council Tax for up to 12 months. This is known as Class A exemption, after 12 months they attract a charge of 50%.
- 4.4. The legislation allows the Authority to charge up to the full level of Council Tax for Class C after 6 months and after 12 months for Class A. Enquiries made with other metropolitan councils who operate this scheme show that there may be a small reduction in Empty Properties in the first year of the discount removal but overall since 2004 when the legislation was amended to allow this change the overall effect on Long Term Empty properties is nil.
- 4.5. Wirral has been addressing the growing problem of empty properties in the Borough since 2005 when the first Empty Property Strategy "Tackling and Preventing Dereliction in Wirral" was approved.

- 4.6. The current lack of finance in the housing market has resulted in more empty properties as sales turnover slows and money to finance redevelopment is difficult to secure. At the same time, a requirement to increase the supply of affordable housing is paramount. Empty properties could be used as a valuable asset to help meet housing need. Addressing Empty Properties continues to be a key objective in the Draft Housing Strategy 2011-2026 which will soon be out for consultation. The strategy acknowledges that dealing with the significant number of empty properties in Wirral is a complex issue that requires a long term strategic approach using a range of powers, close working relationships within the Council and effective partnership working with property owners and external stakeholders.
- 4.7. The Empty Property Team is undertaking a wide range of initiatives using both enforcement powers and enabling schemes. Projects include the HOUSED (home ownership using sustainable empty dwellings) Scheme, a Private Sector Leasing Scheme, an Empty Property Loan, to assist with works needed to allow premises to be reoccupied and the support of the Landlord Accreditation Team to assist with management advice and assistance.
- 4.8. The blight caused by empty properties can affect the sustainability of nearby houses in all neighbourhoods of the Borough because they can often act as a magnet for vandalism and anti-social behaviour as well as having a detrimental effect on the local housing market. As well as implementing a range of initiatives, the Empty Property Team is looking at all ways to disincentivise owners from keeping properties empty. One of the ways to do this is to make owners pay more Council Tax on their empty properties. It may act as a deterrent and an incentive for owners to seek occupation. This could be achieved by an incremental reduction in Council Tax discount for such properties. This change would assist in the implementation of the Empty Property Strategy by:-
- ensuring owners pay more Council Tax on their empty properties after the 6 or 12 months exemption which may act as a deterrent and an incentive for owners to seek occupation.
 - reducing vacant property numbers across the Borough
 - reducing the overall expenditure and resources needed by Corporate Services, Technical Services and Legal Services to repeatedly deal with empty properties and their consequential negative effects throughout the Borough.
 - sending out the message to owners of vacant properties that Wirral Council does not support this activity.
- 4.9. The current number of Class C properties is 2,982; an increase of 68 (2%) on last year, of which 2,365 are in Band A or Band B.
- 4.10. If the present charge of 50% is increased to 90% on a Band D property the amount payable based upon the charge for 2010/11 would increase from £732.10 to £1317.78.

- 4.11. The taxbase for tax setting purposes would have to reflect the additional tax raising capacity.
- 4.12. Unlike Second Homes the Council will **not** retain any additional income received from reducing the discount after the first year. For the first year however the additional revenue brought in as a result of changes to discount levels is regarded as a windfall which could be retained by the Council to offset the additional administration charges of collecting the revenue in subsequent years.
- 4.13. The windfall is only for one year as the Council Tax base will be amended the following year to reflect the change in the discount level. The Government will reduce the Revenue Support Grant by 100% of the discount reduction revenue raised.
- 4.14. Wirral has an average of 2,900 properties that are in receipt of long-term discount at any one time during a year. Taking an average of Band B, I anticipate an additional £1,321,100 could be raised based on 2010-11 charges with a loss of grant and additional administrative costs to the Council of £1,341,300 if the charge was increased to 90%. An alternative of an incremental increase of 5% raising the charge to 55% would raise income by £165,100 (cost to the Council £167,600) whilst a 10% rise in the charge to 60% would achieve £330,300 (cost to the Council £335,200).
- 4.15. St Helens, Sefton and Liverpool offer no discount for long term vacant property. If Wirral were to adopt this approach it would send a clear message to empty property owners. However it could result in an under-reporting of empty properties. Alternatively Wirral could retain some discount to ensure empty properties are still reported.
- 4.16. The benefits and disadvantages of each of the options are shown in the table below.

Council Tax Level Charged	Additional Revenue Year 1 Only	Additional Costs Per Annum	Advantages	Disadvantages
50% Charged (No change)	£0	£0	Maintaining the existing vacant property exemption rate of 50% would cause no additional work. Property owners are likely to admit to the property being vacant in an effort to receive the highest level of discount which is likely to provide accurate empty property statistics.	Sends out the wrong message to vacant property owners and raises question marks over the consistency of approach towards vacant properties. The Empty Property Team aims to return vacant properties to use. Liverpool, St Helens and Sefton all offer no discount to long term vacant property owners. Wirral would therefore not be in line with the majority of the Liverpool City Region in maintaining a 50% discount.
75% Charged	£826,000	£12,600	Discount level in line with Single Occupancy Discount and Second Home exemptions. Property owners are likely to admit to the property being vacant as there would be no additional financial incentive to claim any other exemption.	For residents who currently claim Second Home or Single Occupancy Discount exemptions there is no financial incentive to report the property as vacant. Vacant property owners are still provided with a financial incentive to leave their property vacant. Wirral would not be in line with the majority of the Liverpool City Region who employ a no discount approach for vacant property owners.
90% Charged	£1,321,100	£20,200	Property owners may register the property as vacant as there is a small financial incentive to do so. The Authority sends out a strong corporate message that vacant property owners will not benefit from wasting resources.	Discount may not be in line with alternative discount levels within the Council Tax system and system development requirements must be considered. Property owners may not register the property as vacant due to the small discount on offer in an attempt to avoid unwanted involvement from the

				Empty Property Team. This would therefore affect the accuracy of the vacant property statistics.
100% Charged	£1,651,400	£25,300	<p>Largest 'windfall' income would be generated through this option.</p> <p>Maximum financial incentive for owners to return properties to use.</p> <p>Minimum disruption to the Council Tax system as there is already provision for those paying 100% Council Tax</p> <p>Wirral would be in line with the majority of the Liverpool City Region as no discount would be offered to vacant property owners.</p>	<p>There is no incentive for property owners to report a property as vacant and therefore there may be an incentive for property owners to claim a vacant property as being a Second Home for example. This would impact on the empty property statistics and not provide a true reflection of the vacancy rates</p>
<p>Notes: Where there is an effect on the accuracy of Empty Property Statistics this has an effect on local performance indicators and Government returns. Therefore it would be beneficial for some of the additional resources generated by the windfall to be invested to increase property monitoring efforts by the Revenues and Benefits Fraud team to ensure comprehensive and accurate data is gathered and reported. If this were not to be the case it could undermine the validity of statistics and hinder the efforts of the Empty Property Team in targeting resources effectively to tackle vacant properties.</p>				

- 4.17. Private landlords who could be adversely affected by the increase in Council Tax could be assisted to find tenants for their properties with the extension of schemes such as the Landlord Accreditation Scheme, Private Sector Leasing Scheme or Empty Property Financial Assistance subject to finance being made available for these services.
- 4.18. A reduced discount for long term vacant properties could also reduce the overall cost and resources needed by other Council departments to repeatedly deal with empty properties and their consequential issues within the Borough.

- 4.19. A similar scheme was last operated in Wirral under the General Rate Act in 1982 and at that time it was not found to be successful in bringing empty properties back into use and ended after one year. However, at the time, the Empty Property Team was not in place to assist owners of long term empty properties to bring them back into use.
- 4.20. Cabinet last considered this issue on 9 December 2009 (Minute 241) and decided not to amend the discount. If the Council adopts amended provisions a notice is required to be published locally 21 days after the determination. It is anticipated the charges would come into force on 1 April 2011.

5. LOCAL DISCOUNTS

- 5.1. Councils can reduce the Council Tax paid by using locally defined discounts. The discount granted can be anything up to 100%. The main driving force behind the introduction of these discounts was to allow Councils to react to local circumstances such as flooding or other natural disasters.
- 5.2. The Regulations do not require the discount to be published in advance and attempting to pre-determine classes of exemption could prove difficult. A discount could be granted to an individual in case of extreme hardship. A discount could also be granted to all empty properties within a specific area, such as a clearance area.
- 5.3. The option to determine individual cases as and when they arise gives more flexibility to the Council and does not require predetermination.
- 5.4. The Council has to fund any locally defined discounts.
- 5.5. The Cabinet on 22 July 2004, (Minute 74) awarded a local discount to Wirral Women and Children's Aid and reconfirmed this on 9 December 2009 (Minute 241). The Local Discount was awarded at the rate of 50% for the refuge and 75% for both flats on the basis of the valuable work undertaken at the premises. The circumstances have remained unaltered.
- 5.6. A decision is required as to whether this discount should continue to be awarded for 2011-2012. The amount of the discount in 2010-11 was £3,416.

6. FINANCIAL IMPLICATIONS

- 6.1. Whilst marginal additional sums could be raised through Second Home discounts being reduced further, other changes in discounts are met by Council Taxpayers.
- 6.2. Long term empty homes reduced discount is offset as grant to the Authority is reduced by any increased sums raised. After year 1 any reduction in discount will become a net increase in expenditure to the Authority.

- 6.3 Local discounts have to be funded by the Council. This is currently limited to the Women and Children's Aid with a discount of £3,416 in 2010/11.

7. STAFFING IMPLICATIONS

- 7.1. There would be an increase in administration to operate amended discounts and additional work in recovery. In total this would probably amount to one additional post.

8. LOCAL MEMBER SUPPORT IMPLICATIONS

- 8.1. There are no specific implications arising out of this report.

9. LOCAL AGENDA 21 STATEMENT

- 9.1. There are no specific implications arising out of this report.

10. PLANNING IMPLICATIONS

- 10.1. There are no specific implications arising out of this report.

11. COMMUNITY SAFETY IMPLICATIONS

- 11.1. There are no specific implications arising out of this report.

12. HUMAN RIGHTS IMPLICATIONS

- 12.1. There are no specific implications arising out of this report.

13. BACKGROUND PAPERS

- 13.1. Council Tax Information Letters 6/2003 and 7/2003.

14. RECOMMENDATIONS

- 14.1. That with regard to Second Homes and Local Discounts no amendment be made to the current discount levels for 2011-12.
- 14.2. That with regard to Long Term Empty Properties Members views are sought.
- 14.3. That the discounts of 50% for the refuge and 75% for both flats continue to be awarded to Wirral Women and Children's Aid for 2011-12.

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DIRECTOR OF FINANCE

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