



## **Reducing the level of Council Tax discount applied to long term empty properties**

### **SUMMARY**

- 1.1 Since 1 April 2004 local authorities have had discretionary powers to vary the amount of Council Tax discount applied to long term empty homes, which are classed as properties “unoccupied and empty for a period of more than six months”. Owners of second homes also fall into this category.
- 1.2 Derby City Council used these discretionary powers to reduce the level of discount on long term empty homes to 10% from 1 April 2004, effectively meaning a 90% Council Tax charge.
- 1.3 Council Cabinet can vary the amount of Council Tax discount applied to long term empty homes between the range of 50% and zero. Such a decision has to be made before the financial year in which it will take effect.
- 1.4 Cabinet is asked to consider increasing the discount applied to long term empty homes from 10% to 25% from 1 April 2011.

### **RECOMMENDATION**

- 2.1 To agree to increase the level of Council Tax discount applied to long term empty homes from 1 April 2011 from 10% to 25%.

### **REASONS FOR RECOMMENDATION**

- 3.1 Reducing the level of discount on long term empty homes to 10% in 2004 was the right decision at the time. There were good financial reasons for doing so where the amount of Council Tax income increased and the increased charge also incentivised owners of empty properties to sell their properties or let them out.  
  
However since the significant fall in domestic property prices, there is now more evidence of Council Tax payers being put into a position of financial hardship through this increased charge where they are genuinely trying their level best to sell on or let their properties.
- 3.2 After the first year, where there was a windfall financial effect and the Council was able to retain all the increased income, since 1 April 2005 the Council has only been able to retain the additional income where the 90% charge is levied on the owners of ‘second’ homes.

Since then, the additional income from long-term empty properties has been offset by reduced grant funding from Central Government. The financial benefits are therefore marginal and are now outweighed when compared to the practical evidence of the charge being unfair in an increasing number of cases.

- 3.3 There is also strong evidence to support this change from our Council Tax collection performance where collection from long term empty homes is relatively poor when compared to collection of Council Tax overall.

In 2009/10 the collection rate for long term empty properties as at 31 January is 47% compared with an overall collection rate of 92%. This shows our Council Tax payers appear to be encountering financial difficulties to meet their liabilities in the case of charges for long term empty properties.

- 3.4 Another good reason for reviewing the level of charge on long term empty homes is within our own housing stock where 'difficult to let' homes are incurring higher levels of charge within the Housing Revenue Account (HRA).

Increasing the Council Tax discount on long term empty homes to 25% would reduce the Council Tax charge in our HRA by an estimated £15,000 per year.

## **SUPPORTING INFORMATION**

- 4.1 In January 2004 Council approved the adoption of a 10% discount level and thereby a 90% Council Tax charge for long-term empty properties plus owners of 'second' homes. The increased charge became effective from 1 April 2004. Prior to this change the discount level was 50%.

At the same time, a delegated power was given to the Director of Finance to reduce the amount charged in individual cases where the liable person had made their best efforts to sell or let the property and where the levying of this charge would cause financial hardship.

Since the introduction of the 90% Council Tax charge on long term empty homes there has been 23 applications for the empty charge to be written-off on the grounds of hardship in respect of 15 properties. Of these, 19 have been successful resulting in £10,136.37 being written-off.

- 4.2 A further good reason the 90% charge was adopted was because it was felt that giving a 50% discount after the statutory six month charge-free period was not incentivising owners to sell on, reoccupy or let their property.

The decision also supported the Council's Empty Property Strategy in the interests of bringing more domestic properties into use where there was a high demand for homes in the City.

- 4.3 The Government carried out research to assess the impact of Local Authority decisions to reduce or remove the 50% discount and in January 2009 they reported their findings in a report “Application of Discretionary Council Tax Powers for Empty Homes”.

This report concluded that although some authorities who reduced or removed the discount on long term empty homes, did lower their empty housing stock but it could not be proved that this was purely down to the changes in levels of discount. Where reductions occurred they did so within the first year when the changes were made and there was little evidence of any impact in subsequent years.

- 4.4 Although increasing the discount from 10% to 25% for our approximate 1,200 long-term empty homes will lower our Council Tax base, this reduction in the tax base could be offset by an increase in Government Grant, since the grant calculation for 2011/12 is expected to be based on tax base projections taken from between the years 2008 and 2010. This position will be kept under review and a further report be brought back to Cabinet before implementation if necessary.
- 4.5 Currently we have only 59 properties classed as second homes. Changing the amount of Council Tax charged on such properties would therefore have a negligible effect on the tax base and on the amount of income raised.

## OTHER OPTIONS CONSIDERED

- 5.1 Option one – no change.  
Taking this option will not deliver the benefits for Council Tax payers highlighted in section three of the report.
- 5.2 Option two – vary the discount to a different amount as recommended in this report. Changing the discount to any amount between the current 10% and 24% will continue to impact on Council Tax payers and the HRA.

Increasing the discount to between 26% and 50% would go too far and would work against the desired outcomes of the Empty Homes Strategy by not providing any incentive for owners to bring empty properties back in to use.

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<b>Background papers:</b>	
<b>List of appendices:</b>	Appendix 1 – Implications

<b>IMPLICATIONS</b>
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**Financial**

- 1.1 Increasing the award of discount to 25% will marginally lower the amount of council tax we collect as the Council's tax base reduce. However, there will also be a correspondingly marginally higher Grant from Central Government settlement from 2011/12 onwards. This position will be kept under review and a further report be brought back to Cabinet before implementation if necessary.
- 1.2 Increasing the level of Council Tax discount on long term empty homes will make a saving in the HRA by an estimated £15,000.

**Legal**

- 2.1 None.

**Personnel**

- 3.1 None.

**Equalities Impact**

- 4.1 None.

**Corporate objectives**

- 5.1 There are links to the Council's Priorities, in particular:
  - Making us proud of our neighbourhoods
  - Leading Derby towards a better environment, and
  - Giving you excellent services and value for money.