Inverclyde council

AGENDA ITEM NO: 13

Report To:	**Policy & Resources Committee**	**Date: 15 November 2011**
Report By:	**Corporate Director Education & Communities and Chief Financial Officer**	**Report No: PR042/11/JA/DH**
Contact Officer:	**Drew Hall**	**Contact No: 01475 714272**
Subject:	**Proposed Review of Council Tax Discount on Empty Homes**	

1.0 PURPOSE

1.1 This report seeks Committee approval to amend the levels of Council Tax discount granted on long-term empty properties with a view to generating increased revenue to support housing projects in the Inverclyde Council area.

2.0 SUMMARY

2.1 The Council Tax (Discounts for Unoccupied Dwellings) (Scotland) Regulations 2004 allowed Councils to modify the amount of discount awarded to certain classes of dwelling from 1 April 2005. The decision of Inverclyde Council at that time was to modify only the level of discount in respect of second homes. Following Committee approval, the discount for second homes was reduced to 10%. The discount in respect of long-term empty dwellings remained at 50%.

2.2 Income from Council Tax charged on second homes currently amounts to around £90k per annum, which is used by Inverclyde Council to support the development of affordable social housing. Projects are selected on an annual basis and agreed with the Scottish Government Housing Supply Division as the Council's direct financial contribution to the housing association (RSL) development concerned.

2.3 In March 2011, the Scottish Government wrote to the Chief Executive regarding the level of discount applied to second homes and long-term empty properties in the Inverclyde area. It was pointed out that Inverclyde is among a small number of Councils that have retained higher levels of discounts. Appendix 1 shows the level of discounts in place in all Councils across Scotland as at March 2011. Appendix 1

2.4 The Scottish Government (SG) is encouraging all local authorities to review the levels of Council Tax discount on second homes and on empty properties in order to increase revenue, which can then be used to support the development of affordable housing, or to return empty properties to productive use. Recent changes to the funding regime for new social housing developments have resulted in a substantial reduction in the available budget and local authorities are being asked to assist in making up the shortfall.

2.5 It is proposed that additional revenues from Council Tax receipts are used to service prudential borrowing to allow for more substantial support for housing projects rather than the present system of relatively small sums being applied to projects on an annual basis.

2.6 There is also a SG paper out for consultation which proposes to introduce a Council Tax Levy on long-term empty (LTE) properties, which is a policy and manifesto commitment arising out of the *Homes Fit for the 21st Century* discussion paper. The proposal is to introduce legislation allowing local authorities to remove the discount for LTE properties and to charge an additional Council Tax levy of up to 100%. The SG estimates that an additional

£30m per annum in revenues could be generated across the whole of Scotland through these measures.

2.7 The consultation paper also proposes to remove the legislation that currently requires the SG to provide funds through a 'Housing Support Grant' to Councils in order to ensure that SG funding can be targeted at supporting key Housing Priorities. The Council's response to this consultation will go to a future meeting of the Safe, Sustainable Communities Committee for approval.

3.0 RECOMMENDATIONS

3.1 That Committee:

a) Agree to alter Council Tax discount levels as set out in paragraph 5.1 of this report;
b) Agree that additional revenues generated by the above be used to fund housing projects that will be subject to specific reports to the relevant Committees; and
c) Note the current Scottish Government consultation that is underway in relation to proposals for Council Tax on Long-Term Empty Properties and the Housing Support Grant, which will be the subject of a future report to Committee.

Albert Henderson,
Corporate Director Education & Communities

Alan Puckrin,
Chief Financial Officer

4.0 BACKGROUND

4.1 The Council Tax (Discounts for Unoccupied Dwellings) (Scotland) Regulations 2004 allowed Councils to modify the amount of discount awarded to certain classes of dwelling from 1 April 2005. However there were certain limitations to the powers conferred on Local Authorities:

1. The level of discount set must be between 10% and 50%;
2. Certain categories of specified dwelling cannot be altered: and
3. Certain classes of specified dwelling must receive 50% discount for 6 months prior to the modified discount being applied.

The decision of Inverclyde Council at the time was to modify only the level of discount in respect of second homes. Following Committee approval, the discount applied to second homes was reduced to 10%. The discount for LTE dwellings remained at 50%. As shown at Appendix 1, as at March 2011 only 7 Councils now award a 50% discount on LTE properties and of those, 4 are in the process of reviewing this level in response to the letter from SG (see paragraph 2.3 above).

4.2 The Innovation and Investment Fund (IIF) for new social housing introduced in April 2011 severely curtailed the development plans of our RSL partners as this is a challenge fund based upon competitive bids for the reduced budget available. Inverclyde Council, in common with many other local authorities, has been approached by RSLs asking whether we can provide direct financial assistance to support continued development. The principal financial commitment that we have made to date is the annual disbursement of Council Tax receipts on second homes, amounting to around £90k per annum. There is an expectation on the part of SG that local authorities will provide funding from their own resources to support the development of new housing in line with identified priorities in their Local Housing Strategies and Single Outcome Agreements.

4.3 The proposed Regeneration Plan for the Clune Park area of Port Glasgow requires Inverclyde Council to make a direct financial contribution to the costs of acquisition and demolition of the properties concerned. The generation of additional revenues through reductions in the level of discount on empty homes together with the possible levy on LTE properties could allow the Council to support further prudential borrowing of £2m to £3m. This capital investment could then be used for agreed priorities, such as the regeneration of the Clune Park area and other housing projects requiring council support.

Min Ref: SSC Cttee, 24/05/11, Para 376

5.0 CURRENT PROPOSALS

5.1 In line with the SG recommendation and the letter issued to Inverclyde Council's Chief Executive, it is proposed that the level of discount applied to dwellings that have been lying empty and unfurnished (LTE) for longer than 6 months have a maximum discount of 10% applied. Under current legislation LTE dwellings will still require to have a six month period of exemption.

5.2 It is proposed that these changes take effect from the new financial year (i.e. 2012/13) as we are legally obliged to provide all Council Tax payers with advance notification of the changes to discount levels. It is proposed that this notification is provided as part of the annual billing process that takes place in February each year. This should give sufficient notice to allow owners to budget accordingly and to consider bringing empty homes back into use.

5.3 Should this proposal be approved by Committee, reducing the discount to 10% on LTE dwellings would lead to additional Revenue in the region of £72k per annum. This figure has been based on an analysis of properties that would have had the discount reduced to 10% if the change had been in place during 2010/11.

6.0 FUTURE PROPOSALS

6.1 The SG is proposing to bring forward legislation that would give local authorities flexibility to increase the amount of Council Tax charged on LTE properties. If enacted, the legislation would allow councils to make a full charge for LTE properties and to apply an excess charge of up to 100% of the Council Tax payable on the properties. This means that owners of LTE properties could be charged up to double the standard rate of Council Tax. This proposal is designed to encourage home owners to bring empty properties back into use, for rent or for sale, and to raise additional revenue for local authorities to fund affordable housing in their areas. Consultation on this proposal is ongoing as there are issues around verification and enforcement procedures that have still to be resolved.

6.2 The Council will also be involved with the consultation on the proposal to remove the legislation that currently requires the SG to provide funds through a 'Housing Support Grant' to Councils in order to target SG funding to support key housing priorities. The Council's response to this issue will be submitted to the appropriate Committee for approval.

7.0 CONSULTATION

7.1 The proposed changes to Council Tax discount levels will directly affect RSLs as they can have houses lying empty for more than six months where:

- They are awaiting demolition but have not been 'closed' for Council Tax purposes;
- They are being held for rehousing purposes as part of a wider programme of works (e.g. new house building);
- They are awaiting upgrading or substantial repairs to bring them back into a condition suitable for letting; or
- They are in a difficult to let area and unsuccessful attempts have been made to find new tenants.

7.2 The locally-based RSLs have been consulted to obtain their views on how the proposed Council Tax changes might affect them, particularly where they have substantial numbers of LTE houses. The prospect of capital investment being available to finance housing projects has received a cautious welcome, particularly in view of the recent SG funding changes. However the changes would undoubtedly lead to increased expenditure for some RSLs with high levels of LTE houses and this has not been budgeted for in 2012/13 and beyond. Nevertheless the general principle of increased revenues being used to service prudential borrowing is accepted as a means of augmenting the amount of investment available for housing projects.

7.3 An RSL such as River Clyde Homes (RCH) with an ongoing demolition programme and a Reprovisioning Programme delivering new build houses will be adversely affected by these proposals. However, RCH has the opportunity to "close" LTE houses and this would remove the liability for payment of Council Tax. There is also the opportunity to consider more judicious planning of the use of empty houses for decanting and rehousing purposes as liability for payment of Council Tax is only incurred where houses have been lying empty for six months or more.

8.0 IMPLICATIONS

8.1 **Strategic**

The ability to generate increased revenues and to service prudential borrowing will allow Inverclyde Council to progress various housing projects through the Strategic Housing Investment Plan 2012 – 2017. These projects will make a valuable contribution to several strategic aims and objectives as set out in the:

- Inverclyde Alliance Single Outcome Agreement;
- Community Plan; and

- Local Housing Strategy

8.2 **Financial**

The revenues that could be gained from an alteration in Council Tax discount levels are as shown in the table below.

Cost Centre	Budget Heading	Budget Year	Proposed Spend	Virement From	Other Comments
Current Council Tax Receipts	Receipts from Council Tax on Second Homes	2012/13	c. £90k	N/A	Income based on current situation
Proposed Council Tax Receipts	Receipts from CT on LTE properties	2012/13	c. £72k	N/A	Extra estimated income based on this proposal

8.3 **Legal**

Legal and Democratic Services have confirmed that all Council Tax payers have to be advised of any changes to the discount levels applied to second homes and to long-term empty properties (i.e. those that have been empty and unfurnished for six months or more). This can be done as part of the annual billing process that is carried out in February each year.

8.4 **Equalities**

When delivering services to our customers, full cognisance is taken of equality and diversity processes and procedures.

9.0 LIST OF BACKGROUND PAPERS

9.1

- Letter from Scottish Government Housing, Regeneration and Commonwealth Games Directorate re: *Local Authority Discretion to Reduce Council Tax Discount on Second Homes and Long Term Empty Properties*: March 2011
- Scottish Government discussion document – *Proposals for a Council Tax Levy on Long-Term Empty Properties*: July 2011
- Clune Park – Proposed Regeneration Plan – Special meeting of Safe, Sustainable Communities Committee, 24 May 2011 [SCS/64/11/AH/DH]

Attachment

Appendix 1 – Council Tax: 2nd Homes and Long-Term Empty Discounts by Local Authority as at March 2011

APPENDIX 1

Council Tax:
2nd Homes & Long-Term Empty Discounts by Local Authority as at March 2011

	Dec-05		Mar-11		
Local Authority	**2nd Homes Disct (%)**	**Long Tem Disct (%)**	**2nd Homes Disct (%)**	**Long Tem Disct (%)**	**Comments**
Aberdeen	10	10	10	10	
Aberdeenshire	10	10	10	10	
Angus	10	50	10	50	Under review
Argyll & Bute	10	10	10	10	
Clackmannanshire	50	50	50	50	Reviewing at present & likely to reduce to 10%
Dumfries & Galloway	10	10	10	10	
Dundee City	50	50	50	50	
East Ayrshire	50	50	50	50	
East Dunbartonshire	50	50	10	10	From 1 April 2010
East Lothian	10	10	10	10	
East Renfrewshire	50	50	10	10	
Edinburgh	10	10	10	10	
Falkirk	10	10	10	10	
Fife	10	10	10	10	
Glasgow City	50	50	10	50	
Highland	10	10	10	10	
Inverclyde	10	50	10	50	Under Review
Midlothian	10	10	10	10	
Moray	10	10	10	10	
North Ayrshire	10	10	10	10	
North Lanarkshire	10	10	10	10	
Orkney Islands	10	10	10	10	
Perth & Kinross	10	10	10	10	
Renfrewshire	50	50	50	50	Reviewing at present & likely to reduce to 10%
Scottish Borders	10	10	10	10	
Shetland	10	10	10	10	
South Ayrshire	25	25	10	10	Moved to 10% on 01/04/11
South Lanarkshire	10	10	10	10	
Stirling	10	10	10	10	
West Dunbartonshire	50	50	10	10	
West Lothian	10	50	10	10	
Western Isles	10	10	10	10	

Source: Institute of Revenues, Rating and Valuation (IRRV), Scotland and Northern Ireland, October 2011