ABSTRACT: This report recommends reducing the level of Council Tax discount awarded to long term empty properties.

1. RECOMMENDATION(S)

It is recommended that the Committee

(i) note the contents of this report and in particular the benefits and issues associated with a change in policy as outlined in Section 5;

(ii) approve a reduction in Council Tax discount on long term empty properties from 50% to 10% effective from 1 April 2012.

2. BACKGROUND

Report No 152/05, Changes to Council Tax Discounts was approved by the Resources & Central Services Committee on 3 February 2005.

The report provided details of new Council Tax legislation, which from 1 April 2005, gave local authorities discretion to vary the level of council tax discount on most second homes and long term empty properties from the existing 50% to between 10% and 50%.

The report also advised that any additional income collected from reducing the discount must be retained locally and routed through Registered Social Landlords for the provision of new build affordable social housing to meet locally determined priorities.

The committee approved a policy of reducing the discount on all second homes in the Angus Council area to 10% with effect from 1 April 2005.

At that time the discount on long term empty properties was retained at the 50% level because of concerns over the adverse effect it could have on both local authority and private sector owners who have properties which are hard to let or sell or require a lengthy period of repair.

After 6 years in operation and in response to concerns raised locally and by the Scottish Government about vacant properties and the lack of affordable housing it is considered appropriate to review the existing policy on council tax discounts for long term empty properties.

No change is proposed to the existing policy on Council Tax discounts for second homes which will remain at 10%.

3. CURRENT POSITION

At present including Angus Council, only 7 Scottish local authorities have retained the 50% discount on long term empty properties. Four of these authorities are also currently reviewing their policy in light of significant demand for affordable housing across Scotland.

An analysis based on the position regarding Council Tax discounts for 2010/11 has identified the following levels of discount were granted by the Council:
a) 38 properties which receive a 50% discount were excluded by legislation from having the level of discount modified which amounts to £21,559. Examples of the excluded properties are dwellings owned/tenanted by a person who is required to live elsewhere to meet the requirements of their own/spouses employment or purpose built holiday homes which are not used or are unfit for habitation throughout the whole year.

b) 482 properties were classified as 2nd homes with the discount already reduced to 10% amounting to £48,561, which generates additional income of £194,247.

c) 1,273 properties received a 50% discount amounting to £375,591.

4. REVIEW OF THE EXISTING POLICY

On 9 March 2011 the Scottish Government wrote to the Council’s Chief Executive to encourage the Council to consider making full use of the flexibility available to reduce the discount on both second homes and long term empty properties. The letter pointed out that the additional revenue raised could make an important contribution to increasing affordable housing supply in the area and help to meet current housing need. In response to this letter it was decided that a review of the current discount policy would be carried out.

Options

As a result of this review a number of options have been identified as follows:

I. **No Change**

Continue granting 50% discount to long-term empty properties. There is reduced incentivisation to achieve occupation of empty properties. It represents a missed opportunity in the current financial climate to take advantage of an additional source of revenue which can be used to help meet the identified need for affordable housing. The Council remains in the minority of Councils not to have reduced the relevant discounts to 10%.

II. **Reduce the Discount**

The legislation allows the Council to vary the Council Tax discount on second homes and long term empty properties to any level between 10% and 50%. The table below shows the amount of potential additional income that could be raised based on Council Tax for 2010/11. Members are asked to note that this is a snapshot position and that the number of properties affected will vary throughout the year.

From time to time the Council itself may also have a number of empty properties which would be affected by any change in the discount policy and therefore any change in policy would give rise to additional costs to the Council as well as other Council taxpayers. During 2010/11 the Council had 81 properties which would fall into the long term empty property category, the vast majority of which are owned by the Housing Division. Properties can be empty over a longer period to provide flexibility for decant during upgrades or in some cases may be difficult to let or may be awaiting policy decisions which will ultimately lead to demolition. The estimated cost of reducing the level of discount on these properties is also shown below.
<table>
<thead>
<tr>
<th>Reduce Discount To</th>
<th>Discount Awarded</th>
<th>Additional Income (if 100% collection achieved)</th>
<th>Cost to Council for Council Properties</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>£75,118</td>
<td>£300,473</td>
<td>£21,784</td>
</tr>
<tr>
<td>20%</td>
<td>£150,236</td>
<td>£225,355</td>
<td>£16,338</td>
</tr>
<tr>
<td>30%</td>
<td>£225,355</td>
<td>£150,236</td>
<td>£10,892</td>
</tr>
<tr>
<td>40%</td>
<td>£300,473</td>
<td>£75,118</td>
<td>£5,446</td>
</tr>
</tbody>
</table>

It must be emphasised that amounts shown above are only potential additional income. There would be a significant increase in the amount of Council Tax billed which would have to be paid and collected.

III. Create exceptions to the reduction in level of discount

To date no Council has chosen to exclude its own properties from the reduced level of discount on long term properties. In the current economic climate to exclude Council properties from this policy would not seem fair to all other Council Tax payers and for this reason it is considered any change in policy would need to be applied consistently regardless of who the taxpayer was.

In principle the Council could also implement an amended policy on long term empty properties where a variable level of discount could be applied depending on the circumstances involved. Such an approach is not however recommended given the complexity and significant administrative burden such an approach would create.

Impact

Any reduction in the level of Council Tax discount will be unpopular with affected taxpayers as it will increase the amount they have to pay. The proposed change in policy will impact on property owners including social and private sector landlords who have left a property unoccupied for over 12 months ie properties which become vacant & unfurnished will initially receive a 6 months exemption from paying Council Tax and if they remain vacant & unfurnished will be granted a 50% discount for the next 6 months before the proposed reduced level of discount takes affect. For existing properties which have already been granted the exemption and 50% discount periods the proposed reduced level of discount will take affect from the end of the 6 month 50% discount period or 1 April 2012 whichever is the later. Some of these properties may be hard to let or difficult to sell.

To help mitigate the impact of the proposed change to the level of Council Tax discount it is recommended that the reduction would not apply until 1 April 2012. The change in policy will be publicised. Also Taxpayers who would be potentially affected by the change to the level of discount on long term empty property would be contacted in early January 2012 to give advance notice of the change. This could afford some property owners with an opportunity to take action to change the vacant status of their property where possible and avoid the increase in Council Tax payable.

Use of Additional Income

Additional housing activities can now be supported or funded with the additional revenue raised as a result of reducing the council tax discount on long term empty properties. These are summarised below.

In addition to routing additional income through Registered Social Landlords (RSLs) for the provision of new-build affordable social housing to meet locally-determined priorities, local authorities may now use this income themselves and have further flexibility to disburse these funds to other organisations and individuals, as well as RSLs.

In addition to provision of new-build affordable housing, funding of Rural Home Ownership Grants and funding of specified elements of water and sewerage
infrastructure for new homes, this income can now be used by local authorities to support revenue and capital expenditure related to the following housing activities:

- new council house building;
- bringing empty properties back into affordable housing use;
- land acquisition for affordable housing development;
- purchasing off-the-shelf houses from private developers for affordable housing use.

Using this income to support prudential borrowing for new council house building and any of the housing activities listed above is permitted.

Local authorities may use the additional income to fund or support discrete projects or top up funding from other sources, and will need to ensure that expenditure complies with European Commission State Aid rules.

5. POLICY RECOMMENDATION

The Council has an important choice to make with regard to its policy of council tax discounts for long term empty properties. The positive effect of reducing the discount would be to generate additional income which would be put directly into providing much needed affordable housing for Angus communities. A reduction in discount may also lead to currently vacant properties being brought back into use more quickly thereby increasing the overall housing supply in the Angus area. Reducing the discount will however also increase the tax burden on the owners of long term empty properties who for a variety of reasons may be unable to bring their properties promptly back into full use. Such an increase in tax burden may also restrict the funds owners have available to prepare such properties for re-let or sale and non-payment of the increased tax would also be a risk.

On balance it is considered that the acute need to improve the supply of affordable housing in Angus outweighs the risks and issues associated with reducing the Council Tax discount on long term empty properties. The impact of the policy change only arises if a full 12 months of the property being empty has arisen so the policy change would not affect properties which are empty on a short term basis. Such a reduction in discount is being encouraged by the Scottish Government and would be in keeping with practice in the vast majority of other Council areas in Scotland. In order to maximise the benefit of the policy change it is recommended that the Council reduce the discount on long term empty properties to 10%. However in order to give the owners of such properties time to consider their options it is also recommended that this change in policy only apply from 1 April 2012 onwards.

It should be noted that in the Scottish Government’s strategy paper “Homes Fit for the 21st Century” there are proposals for the introduction of further legislation which could give a discretionary power to Councils to reduce the discount for long-term empty dwellings to 0% or allow Councils to apply an excess charge of up to 100% of the applicable Council Tax charge for that dwelling. If this legislation is implemented the policy outlined in this report will be reviewed and a further report will be submitted to Committee.

6. FINANCIAL IMPLICATIONS

Based on current council tax liabilities a reduction in discount to 10% as proposed by this report would lead to additional costs for the Council of £21,784 this being the additional Council Tax which the Council would be liable to pay on its own long term empty properties. This additional burden (which would apply for financial year 2012/13 onwards) would need to be incorporated in the budget setting for that year. There would also be costs associated with writing to Council Tax payers affected by this policy change but this would not be significant and could be absorbed within existing budgets. Likewise administration of the new policy and collection of the sums due would be handled by existing staffing in the Revenues & Benefits Service of the Finance Division.

The most significant financial effect of the change in policy would be to generate an additional £300,000 or so per annum from 2012/13 onwards to be used to improve the affordable housing supply in Angus either by the Council itself or in partnership with RSLs / developers.
7. **HUMAN RIGHTS IMPLICATIONS**

There are no human rights implications arising as a result of this report.

8. **EQUALITIES IMPLICATIONS**

The issues dealt with in this report have been the subject of consideration from an equalities perspective. An equalities impact assessment has been undertaken.

9. **SINGLE OUTCOME AGREEMENT**

This report contributes to the following local outcome contained within the single outcome agreement for Angus.

The housing needs of residents in Angus are met.

10. **CONSULTATION**

The Chief Executive, Head of Finance, Head of Housing and Head of Law and Administration have been consulted in the preparation of this report.

11. **CONCLUSION**

Angus Council is one of only a few Scottish local authorities who are not fully utilising the flexibility afforded by legislation to vary the level of discount on long term empty properties.

Dwellings classified as second homes currently only attract a 10% discount. If the discount on long term empty homes is also reduced to 10% it is recognised that there will be an adverse impact on Council Taxpayers who own properties which remain empty for more than 12 months. However, the benefits of increasing the revenue available for affordable housing provision make a persuasive argument for a change in the policy. The proposed change in policy may also have a secondary benefit if the increased council tax payable on the affected properties incentivises some owners to take action to get the property occupied.

**COLIN McMAHON**

DIRECTOR OF CORPORATE SERVICES

**NOTE:** No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.