

REPORT TO EXECUTIVE

PORTFOLIO AREA:

Date of Meeting: 28 January 2002

Public

Key Decision:

No

Recorded in Forward Plan:

No

Inside Policy Framework

Title: DTLR CONSULTATION PAPER - PROPOSED CHANGES TO COUNCIL TAX ON SECOND AND LONG-TERM EMPTY HOMES

Report of: The City Treasurer

Report reference: Financial Memo 2001/02 No 127

Summary:

This report advises the Executive on the impact of proposals in the DTLR Consultation Paper to allow Councils to raise additional Council Tax Income by reducing or removing the 50% exemption on second and long-term empty homes in Carlisle. Also options on how any additional income raised should be allocated (and spent) by local authorities.

Recommendations:

The Executive is asked to consider endorsing the draft response to the Consultation Paper "Proposed Changes in Second Homes and Long-Term Empty Homes" as detailed in Appendix 1 of this report.

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Note: In compliance with Section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: DTLR Consultation Paper "Proposed Changes to Council Tax on Second and Long-Term Empty Homes".

CITY OF CARLISLE

To: The Executive Financial Memo

28 January 2002 2001/02 No 127

DTLR CONSULTATION PAPER

PROPOSED CHANGES TO COUNCIL TAX ON SECOND AND LONG-TERM EMPTY HOMES

1. BACKGROUND INFORMATION

1. The Government issued its consultation paper on proposed changes to Council Tax for second homes and long-term empty homes at the end of November. A copy has been deposited in the Members' Room.
2. The paper opens by recognising that second homes and long-term empty homes can have a significant impact on the nature and sustainability of local communities. Since that impact varies considerably between areas, local authorities should have the flexibility to choose the best Council Tax options for their communities.

In some areas, second homeowners bring a much needed boost to the local economy but, in other areas, a high demand for second homes is pricing local people out of the property market and undermining the viability of local services (of particular relevance in popular tourist destinations). Equally, homes left empty for long periods can blight local communities and encourage crime and anti-social behaviour.

2. PROPOSALS SET OUT IN THE WHITE PAPER SUBJECT TO CONSULTATION

1. The main proposals are to give local authorities discretion to:
 - Remove or reduce the existing 50% Council Tax discount for second homes.
 - Remove or reduce the existing 50% Council Tax discount for unfurnished long-term empty homes, and to decide how long a property remains empty before Council Tax is due.
 - Grant additional Council Tax exemptions or discounts in response to local factors (eg flooding) or on a case-by-case basis. The cost of these would be met by the local authority.

No changes are proposed for holiday homes subject to business rates (i.e. subject to commercial letting).

1. The Council's views are invited on how any additional Council Tax raised by local authorities from removing the discounts should be distributed and

whether the proceeds should be ring-fenced for housing purposes. Four possible methods are outlined in the paper:

- A. The additional proceeds would normally lead to a reduction in an individual Council's grant entitlement. The grant 'saved' nationally would then be distributed back to authorities, favouring shire districts.
- B. Billing authorities (eg district councils) would be allowed to retain the additional proceeds without grant loss and they would be free to spend them on housing and/or other local priorities such as bus or tourism services.
- C. Billing authorities would retain the additional proceeds which would be ring-fenced for housing purposes.
- D. The additional revenue would be spent through the Housing Corporation's Approved Development Programme (ADP). Initially allocations would be broadly matched to the regions where additional resources were raised, with the possibility of a guarantee that an individual council would receive resources equivalent to (say) 80% of the amounts raised in its area, subject to need.

2. IMPACT OF PROPOSALS ON CARLISLE

1. The aim of the proposals is to assist authorities:
 - i. with high housing demand and a significant problem with homes that have been empty for long periods of time, such empty properties causing considerable blight to local communities and acting as a honey pot for crime and anti-social behaviour. The paper suggests that some inner city authorities, eg Birmingham, Liverpool etc, could potentially benefit by over £4m annually.
 - ii. with high demand for second homes which affects property prices driving locals out of the housing market and reduces demand for local services, eg village shops and pubs. The paper suggests that some rural authorities, eg South Lakeland, Berwick etc, could potentially increase their resources by a fifth of their present budget requirement.
1. Whilst Carlisle has areas of high housing demand and pockets of deprivation caused by long-term empty housing, the number of second homes at 159 and the number of long-term empty properties (say over 12 months not earmarked for demolition) at approximately 400 is not excessive.
2. Revenue raising opportunities would be in the region of £200,000 if the Council opted to remove all discounts on second and long-term empty homes. (But a significant element of this would fall on the HRA or future RSL unless an exemption was granted for empty properties subject to social lettings – in which case there would also be a significant fall in the anticipated income).
3. Of the options for how additional income raised should be spent (see 2.2 above) Option B, ie allowing the Council to retain the additional proceeds without grant loss and be free to spend them on housing and other local priorities such as bus or tourism services, appears to target the Council's key priorities of

- promoting sustainable transport
- satisfying housing need.

Option C could also be supported although, due to the spend available, it could only be ring-fenced to minor housing projects. Options A and D appear complicated and it would be difficult to explain to Council Taxpayers what the additional Council Tax raised would be spent on (or the amount available in respect of Option A).

3.5 However, some caution needs to be exercised in welcoming the proposals. Whilst they may be introduced on a 'discretionary' basis, there would be nothing to stop future regulations making them mandatory and/or taking them into the national tax base for redistribution of RSG purposes.

2. RESPONSE TO PAPER

1. Responses to the paper are due by 15 February and the LGA has asked for comments by 08 February. Detailed at Appendix 1 are the questions raised in the consultation paper and the suggested responses drawn up in liaison with the Portfolio Holder, Finance and Resources.

5. STAFFING/RESOURCES COMMENTS

Not applicable.

6. CITY TREASURER'S COMMENTS

Included within the report.

7. LEGAL COMMENTS

Not applicable.

8. COMMENTS OF THE DIRECTOR OF HOUSING

The number of long-term empty properties in Carlisle and associated rent loss has, over the years, given rise to concern. In an attempt to address this issue, Officers have implemented best practice from other Local Authorities. However, many of these practices have had a limited impact due to the problem of low demand, which exists in the North West as a whole. More recently, selective demolition has been introduced in areas where it has proved impossible to sustain the community.

Under the government's "Decent Home Standard" Local authorities are required to bring properties up to this level within 10 years to coincide with rent restructuring.

During the last financial year, the Housing Revenue Account (HRA) paid £136,000 in Council Tax payments (that sum equates to approximately a 1%

increase in the rent).

Any change to the current rules governing Council Tax could have an adverse financial effect on the HRA and consequently on the Council's ability to maintain properties, regenerate communities and achieve a reduction in the number of long-term empty properties in Carlisle if the Council opted to remove the 50% discount. It could also be beneficial if the Council increased the discount for long-term empty properties designated as social housing.

9. RISK MANAGEMENT ASSESSMENT

Not applicable.

10. EQUALITY ISSUES

Not applicable.

11. ENVIRONMENTAL IMPLICATIONS

See 3.4 of Report.

12. CRIME AND DISORDER IMPLICATIONS

See 1.2 and 3.1 (i) of Report.

13. RECOMMENDATIONS

The Executive is asked to consider endorsing the draft response to the Consultation Paper "Proposed Changes in Second Homes and Long-Term Empty Homes" as detailed in Appendix 1 of this report.

14. REASONS FOR RECOMMENDATIONS

The Council is required to respond to the Consultation Paper by 15 February. See 3.2 of Report.

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City Treasurer

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City Treasury

Carlisle

21 January 2002

PM/CH/f1270102

Appendix 1

Council Tax

Proposed Changes for Second Homes and Long-Term Empty Homes

Draft Response to Consultation Paper

Extent of Local Authority Discretion over Council Tax

Q1 Do you agree that local authorities should be given discretion to reduce or end the Council Tax discounts for second homes?

Response:

Whilst due to the low number of second homes in the district the effect on the tax base would be small, nevertheless the Council welcomes the additional discretion the proposed measure would give.

Q2 Do you agree that this discretion should also extend to long-term empty homes?

Response:

Same as for Q1 above.

Q3 Should local authorities also have powers to create their own council tax exemptions and discounts, including powers to grant relief on a case by case basis?

Response:

Yes. This would be a useful tool (used sparingly) which could tailor Council Taxes to local circumstances, eg to help relieve hardship suffered due to flooding. However the Government should compensate local authorities for these costs (see Question 9).

Q4 Should individual local authorities be able to retain the additional Council Tax raised, or should the additional money be spread across all local authorities in England?

Response:

Obviously the Council supports proceeds from reducing or removing discounts being applied locally. The Council would have difficulty in explaining to residents why income raised locally was being lost in the national grant distribution.

Q5 If you believe there should be local retention, should the proceeds be retained for just second homes, or for long-term empty homes as well?

Response:

Both.

Q6 If so, which of Options B-D in paragraph 31 would be the most appropriate means of local retention?

Response:

Whilst recognising the benefits of Option C, the Council favours Option B which ties in with the Council's key objectives of promoting sustainable transport and satisfying housing need. Option D again appears complicated to explain to taxpayers and there is no guarantee under this option that housing associations would spend the money on Carlisle-based housing projects.

Q7 Do you agree that the distinction between unoccupied furnished and unoccupied unfurnished properties is the simplest and fairest approach to defining second home and long-term empty homes? If not, please suggest an improvement.

Response:

This is an established and workable distinction which is both enforceable and explainable to Council Taxpayers.

Q8 If the proceeds are retained locally, how can we continue to ensure that the additional amount raised by removing or reducing the Council Tax discount is identified correctly in years to come? (Failure to do so will have implications for grant distribution).

Response:

This is a problem area for which officers have no ready answer. At present there is an incentive for second homeowners and empty property owners to declare their homes empty to claim a discount. If the discount were removed, owners might not bother to record their properties as second homes, in which case the income would not be separated out from the general Council Tax and grant calculations: the majority would therefore be 'lost' in the grant system and precept payments to County and Police Authority.

The Council therefore recognises that this will be a difficult task.

Q9 Do you agree that local authorities should meet the costs of any additional exemption or discounts that they grant:

Response:

It is suggested that the Government compensate local authorities for these costs, either through adjustment of the Council Taxbase or by recognising the expenditure for revenue support.

City Treasury

Carlisle

21 January 2002

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