

Council Tax charges on second homes and empty properties

Report by Saty Kaur, Chief Officer Corporate Solutions

Report for Decision

1 Recommendations

Council is asked to:

- Agree to apply a 100% increase in respect of Council Tax charges for second homes as proposed in 3.8.
- Agree that no discount be applied for empty properties as referred to in 3.12 and 3.13.
- Agree to extend the initial six-month grace period on empty homes referred to in 3.12 for up to a maximum of an additional six months, therefore in total up to 12 months grace period can be applied as proposed in 3.13.
- Delegate authority to the Executive Director Place to apply the discretionary six-month extension to the grace period on empty properties referred to in 3.12, on a case-by-case basis following recommendation from the Chief Officer Corporate Solutions as proposed in 3.13.

2 Purpose of Report/Executive Summary

To provide Council with information on the recent legislative change on Council Tax charges for second and empty homes and present a recommended policy for approval.

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3 Background

- 3.1** On 14 December 2023, Scottish Parliament agreed amendments¹ to the current legislation, resulting in new powers enabling Local Authorities to increase the amount of council tax payable on second homes by a levy up to 100%, which brings this in line with the current 100% levy already applied to empty homes.
- 3.2** In relation to empty homes there is also specific provision in the amended legislation for any property which has been unoccupied for at least 12 months, has been purchased by a new owner within the past six months, and which a local authority is satisfied is the subject of repairs or renovations with a view to improving the property. These properties will not be subject to 100% increase (levy) and the Council can also grant a discount of between 10% - 50% or no discount i.e. owners pay the standard Council Tax rate. The Council also have discretion to extend the period for which the exclusion from 100% levy applies, where they consider that it is appropriate to do so, for example, in order to enable works to be completed.
- 3.3** Local Authorities will be able to effect these changes from 1 April 2024. Therefore prior to the commencement date, Council are required to determine its policy on these new powers.

Main Report

Second Homes

- 3.4** A second home is a home which is furnished and lived in for at least 25 days in a 12-month period but is not someone's sole or main residence. Currently Local Authorities have the discretion to apply a discount of between 10% to 50% to Council tax charges for second homes or apply no discount.
- 3.5** Midlothian Council currently applies a discount of 10% (except for purpose-built holiday homes and job-related properties where a 50% discount applies).
- 3.6** As of 1 April 2024, Local Authorities have powers to increase the Council Tax payable on second homes by a levy of up to 100%.

¹ Council Tax (Variation for Unoccupied Dwellings) (Scotland) Regulations 2013/45 as amended by Council Tax (Variation for Unoccupied Dwellings) (Scotland) Amendment Regulations 2023/389

- 3.7** It is anticipated that the introduction of the 100% levy would incentivise sales of second homes to bring them back into use as main residences therefore reducing the potential additional income that would be generated. To provide an illustration of potential additional revenue, Table 1 details the number of second homes in Midlothian and what the impact of a 100% increase in Council Tax would be, using the figures for the last three financial years (noting that 2023/24 financial year figures are based on the property numbers as of end December 2023 and assumed to remain static to the 31 March 2024).

Council Tax Band	No of properties		
	2021/22	2022/23	2023/24
A	-1	0	0
B	8	11	6
C	17	9	12
D	21	33	17
E	9	9	8
F	4	4	5
G	1	1	3
H	0	0	0
Total no of properties	59	67	51
Potential additional Council Tax billed (annual total) (£)	75728.84	93175.50	99197.98
Potential additional income (at average 97% collection rate)			96222.05

*Table 1 – Second homes at 100% levy (2021/22-2023/24) *illustrative purposes only*

- 3.8** Council are asked to agree to implement a 100% increase or levy of the Council Tax payable for all second homes, with the exception of purpose-built holiday homes and job-related properties which will still be subject to a 50% discount.
- 3.9** The intention of this proposal is to encourage second homes to be brought back into use as main residential properties, helping to alleviate the current housing crisis. Furthermore, fully occupied homes in Midlothian will generate income through local spend, participation in local life and can regenerate communities whereas vacant/long term empty properties can be less visually appealing.
- Empty properties
- 3.10** Where a property has been unoccupied for a continuous period of more than twelve months and is not actively being marketed for sale or let, the Council can apply a levy of up to 100% (deemed as long-term empty properties). If the property is being actively marketed for sale or let, then the 100% levy can only be applied where the property has been unoccupied for two years or more.

- 3.11** Currently, Local Authorities are required to apply a 50% discount to Council Tax, for six months after sale, to an empty property that requires major repair work or structural alterations to make it habitable. The discount only applies where a property is undergoing (or has undergone) major repair work or structural alteration and is uninhabitable as a consequence. Where a property prior to sale had been a long-term empty property and is then unoccupied due to renovations or repairs that are not of a structural nature, a new owner is required to pay a Council Tax premium with no discount applied.
- 3.12** As of 1 April 2024, in respect of the new regulation, the position for any property that has been unoccupied for at least 12 months, has been purchased by a new owner within the past six months, and which the Local Authority is satisfied is the subject of repairs or renovations with a view to improving the property is as follows for a period of six months:
- i. The Council cannot increase the amount of council tax payable by up to 100% for the unoccupied property. i.e. apply the levy
 - ii. The Council can grant a discount of between 10 to 50% to the standard rate
 - iii. The Council can grant no discount to the standard rate so the standard rate applies
 - iv. The Council can agree to extend the levy exclusion period, if for example, the works are continuing. It should be noted that if the Council extend the levy exclusion period, then it can also choose to extend any discount that is in place (i.e. if (ii) has been applied then this can also be granted during the extension period)
- 3.13 Council are asked to agree that:**
- a) During the first six months, as the 100% Council Tax levy does not apply, no further discount will be applied to the property i.e. adopt (iii) above.
 - b) Any extensions (as per (iv) above) would only be for a maximum of 12 months and would be at the discretion of the delegated authority of the Executive Director Place, on a case-by-case basis following recommendation from the Chief Officer Corporate Solutions.
- 3.14** It should be noted that, at the time of writing this report, work is ongoing between Scottish Parliament and Local Government to produce joint guidance on the circumstances in which the grace period will apply and types of work that will be included under repairs or renovations. The regulations, however, state that ultimately it will be for Local Authorities to be satisfied the repairs or renovations are being undertaken with a view to improving the property.
- 3.15** Furthermore, it is important to note that in terms of the Council Tax (Exempt Dwellings) Order 1997 a dwelling house which is incapable of, and is not, being lived in because it is being structurally repaired, improved or reconstructed is exempt from Council Tax and not affected by the amended regulations.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

No additional staffing resource is required to administer the recommended policy in this report. Communication and administration of the recommended policy can be delivered from existing resources in Corporate Solutions.

Table 1 illustrates the potential additional annual income that may be generated based on a static position as of December 2023. The actual income generated can only be realised after the policy is implemented.

4.2 Digital

No implications.

4.3 Risk

Councils are facing significant housing and financial challenges. The recommended policy aims to alleviate these. To do nothing would continue to put pressure on already strained services and increase the associated risks aligned to these pressures.

4.4 Ensuring Equalities (if required a separate IIA must be completed)

A separate IIA has been drafted assessing the impacts of the recommended policy presented for approval. This can be found in Members Library. If the policy is not agreed in full, the IIA will be revised to reflect the Council decision.

4.5 Additional Report Implications (See Appendix A)

See Appendix A

Appendix A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable

A.2 Key Drivers for Change

Key drivers addressed in this report:

- ☐ Holistic Working
- ☐ Hub and Spoke
- ☐ Modern
- ☐ Sustainable
- ☐ Transformational
- ☒ Preventative
- ☐ Asset-based
- ☐ Continuous Improvement
- ☐ One size fits one
- ☐ None of the above

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☐ One Council Working with you, for you
- ☐ Preventative and Sustainable
- ☐ Efficient and Modern
- ☐ Innovative and Ambitious
- ☒ None of the above

A.4 Delivering Best Value

Not applicable

A.5 Involving Communities and Other Stakeholders

The changes to Council Tax second homes and empty properties were previously subjected to national consultation. The consultation analysis can be viewed here: [Council tax for second and empty homes, and thresholds for non-domestic rates: consultation analysis - gov.scot \(www.gov.scot\)](http://www.gov.scot/council/taxation/council-tax/council-tax-for-second-homes-and-empty-properties-consultation-analysis)

A.6 Impact on Performance and Outcomes

The recommended policy aims to reduce the pressure on the current housing crisis. Having a safe and affordable home contributes to better outcomes for communities.

A.7 Adopting a Preventative Approach

The recommended policy aims to generate additional income for the Council, which contributes to reducing the current financial pressures.

A.8 Supporting Sustainable Development

Not applicable