



G

E

PRIME MINISTER

P 03503

STANDARD COMMUNITY CHARGE

[Letters to Mr Ridley from Mr Rifkind of 8 and 29 June and from Mr Walker of 20 June; letters to Mr Rifkind from Mr Moore of 20 June, from Mr Ridley of 23 and 6 July, and from Mr Major of 3 July.]

DECISIONS

The standard community charge is the charge levied on second homes, which can be at a rate of up to twice the personal community charge for the area. The standard charge is controversial in Scotland where all but two authorities are charging the maximum. Mr Rifkind wishes to reduce its impact. He has four proposals.

2. First, Mr Rifkind proposes that he should take power to prescribe the number of personal charges levied on second homes, up to a maximum of two. In itself this should be uncontroversial since similar powers already exist for England and Wales. The problem is the use which Mr Rifkind intends to make of it. He clearly wants to set a maximum of one personal charge in Scotland, so that the standard charge is at the same level as the personal charge. Both Mr Ridley and Mr Walker oppose such a reduction in the standard charge.

3. Mr Rifkind's other three proposals are:

i. to exempt domestic property which is both unoccupied and unfurnished from the standard charge. Mr Major is not in favour of this;

ii. to provide a "period of grace" before properties which are furnished but unoccupied become subject to the standard charge;



iii. to make self-catering holiday accommodation subject to non-domestic rates rather than the standard charge. A similar change is proposed for England and Wales, so this proposal is uncontroversial.

4. Mr Ridley has suggested an alternative approach: the standard charge would stay at a maximum of two but local authorities would be given more discretion to reduce or remit the charges to deal with hard cases of the sort Mr Rifkind outlines. This would apply throughout Great Britain. Mr Walker and Mr Major have made similar suggestions. But Mr Rifkind is unlikely to be satisfied. At heart the main issue is whether Mr Rifkind should be permitted to reduce the standard charge in Scotland alone, or whether he should be asked to accept Mr Ridley's proposal to give local authorities power to relieve hard cases.

BACKGROUND

5. The Green Paper "Paying for Local Government" proposed that owners of second homes should pay a standard charge equivalent to two personal community charges. Mr Rifkind subsequently proposed that the standard charge should be set at only one personal charge. E(LF) rejected this but agreed that each local authority should have discretion to set its standard charge at between one and two personal community charges (E(LF)(86)1st Meeting).

MAIN ISSUES

A different rate for Scotland?

6. Mr Rifkind believes that the standard community charge is bearing too heavily on many property owners in Scotland. He says that about 85,000 properties have been registered for the charge, although there are estimated to be only about 19,000 genuine second homes in Scotland (the rest may be for instance empty local authority housing or houses which are empty during changes of ownership or cases where elderly people are convalescing in



their relatives' homes or where people in tied housing have bought properties for their retirement). The standard charges on these properties are mostly well above their previous rate bills, in some cases as much as 10 times as high. Only two local authorities have exercised their discretion to set the standard charge at less than twice the personal charge. Mr Rifkind wishes to respond to these pressures by taking power to reduce the standard charge in Scotland to a single personal charge.

7. This is opposed by Mr Ridley and Mr Walker. They fear that they would be obliged to follow suit in England and Wales, and that this would provoke opposition from local authorities (who use the income from second homes to reduce the personal charge) and the Opposition. It would be particularly controversial in Wales. More generally it might be seen as an unwarranted concession to wealthy second-home owners. Mr Moore has also pointed out that if reduced income from standard charges means higher personal community charges there will be a housing benefit cost (although the cost would be fairly modest if a lower standard charge applied only in Scotland: perhaps some £2m).

8. Mr Ridley's alternative of giving more discretion to local authorities is unlikely to satisfy Mr Rifkind. He will point out that the local authorities already have discretion to set a lower standard charge, but are not using it; and that second homes do not appear to attract the same controversy in Scotland as in Wales or parts of England. You will wish to decide whether it would be possible to let Mr Rifkind reduce the standard charge to a single personal charge in Scotland without doing the same in England and Wales.

Empty domestic properties

9. Mr Rifkind makes two proposals about empty property: to exempt unfurnished empty property from the standard charge altogether; and to provide a period of grace (probably 3 months, but extendable at the discretion of the local authority) before



the charge applies to furnished property which becomes vacant. These proposals are designed to meet some of the hard cases which have arisen in Scotland. The disadvantage with remitting the standard charge in empty properties is that it reduces the incentive for owners to bring them back into use, particularly in areas of housing shortage. The trend under the rating system in recent years has been in the opposite direction, towards the rating of empty property. But Mr Ridley recognises that there may be cases where this is inappropriate. He therefore favours giving local authorities more discretion to remit standard charges where they decide it is appropriate. Mr Major has taken a similar line, and opposes any outright exemptions from the standard charge. You will wish to decide whether to grant statutory reliefs for empty property of the sort Mr Rifkind favours; or to give local authorities discretionary powers as Mr Ridley and Mr Major would prefer.

Self-catering holiday accommodation

10. Mr Rifkind proposes that all self-catering holiday accommodation which is genuinely available for letting should be subject to non-domestic rates rather than the standard charge. A similar amendment in the law is proposed in England and Wales. E(LF) should be able to agree this without difficulty.

LEGISLATION

11. Both Mr Rifkind's proposals and Mr Ridley's alternative would require legislation by way of amendments to the Local Government and Housing Bill, probably during Lords Committee stage, starting in mid-July. You may wish to check that the Business Managers are content.

A handwritten signature in blue ink, appearing to be 'R T J Wilson'.

R T J WILSON
Cabinet Office
7 July 1989