

## Warm Homes Bill briefing series - Autumn 2017

This is one of a series of briefings proposing measures for inclusion in the forthcoming Warm Homes Bill. We wish to ensure the Bill addresses barriers and creates opportunities to bring low-carbon and affordable warmth to all households in Scotland.

### Legislative proposal – Fiscal incentives

*The Warm Homes Bill should place a duty upon Ministers to review the operation of relevant fiscal levers to help deliver wider government objectives on climate change and fuel poverty.*

We call for the Warm Homes Bill to include duties on Scottish Ministers to review within a specified timescale:

- a) The operation of Council Tax and the *energy efficiency discount schemes* introduced by the Climate Change (Scotland) Act 2009 (CCA).
- b) A potential for relief to be introduced under the Land and Buildings Transaction Tax (Scotland) Act 2013 (LBTT) to incentivise investment in energy efficiency.

Duties should require the development of proposals by an agreed date to ensure those taxes operate to support statutory climate change targets. Proposals should include linkages to other financial incentives and support available under the Scottish Energy Efficiency Programme (SEEP) and fuel poverty programmes in order to maximise impacts and support low-income households.

### Rationale

To meet the scale of the challenge laid out in the Draft Climate Change Plan and SEEP, and to help eradicate energy inefficiency as a driver for fuel poverty, it is vital all avenues are explored.

Energy Saving Trust (EST) work noted that it saw the use of fiscal incentives, such as Council Tax, ‘... as a way of encouraging those who would not necessarily respond to traditional means of financial encouragement (i.e. loans and grants) alone to install energy efficiency measures (i.e. in combination with other financial support they have the potential to provide the “nudge” necessary to get certain householders to take action).’<sup>1</sup> However, EST also noted a need for further research in this area, particularly in order to ‘review the international experience of using local and property systems of taxation to encourage the take up of energy efficiency measures.’<sup>2</sup>

Additionally, in its response to SEEP, The Association for the Conservation of Energy noted it believed ‘... that using financial and fiscal incentives to support energy efficiency in domestic ... buildings can encourage individuals ... to act before standards are applied, which in turn can smooth the development of market and the supply chain and increase public acceptance of the standards.’<sup>3</sup>

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<sup>1</sup> EST, *Energy Efficiency and Local Taxation: A paper for the Commission on Local Tax Reform (2015)* pg.5

<sup>2</sup> EST, consultation response to *Scotland’s Energy Efficiency Programme (SEEP)*

<sup>3</sup> ACE, consultation response to *Scotland’s Energy Efficiency Programme (SEEP)*

Soon to be published research by Citizens Advice Scotland found that whilst owner occupiers were unlikely to favour loans or equity release to fund energy efficiency improvements, a majority of owner occupiers report themselves as more likely to respond to incentivisation through a Council Tax rebate.<sup>4</sup>

Therefore, fiscal incentives could act in tandem with other measures to encourage action and private investments by householders and help drive market development.

### Details

Strathclyde University's response to the SEEP consultation supports the principle of incentivising investment in energy efficiency through fiscal measures as these deliver public benefits in relation to the economy and the environment, '*... if the home owner is going to do work for the public good, then offsetting the EE investments via tax deductions could be a sensible approach. The home owner is delivering the desired result and will have an interest in doing so at best value.*'

This approach is well established, for example in VAT reductions on specified materials, and through the Council Tax discount schemes mentioned below. In the context of the Warm Homes Bill there are two main fiscal incentives which might be used by the Scottish Government to encourage and support such investment.

#### *Council Tax*

Under the Climate Change Act 2009 local authorities were required to establish an *energy efficiency discount scheme* which incentivised investment in improvements to homes to help meet targets in the Act.<sup>5</sup>

In their submission to the consultation on Local Tax Reform, EST noted there seemed to be little sign of success for those schemes and little information available surrounding their continued operation. This led EST to note '*There appears to be a real need to evaluate the success, or otherwise, of these schemes to date and the reasons for this and to explore whether the relevant provisions in the Climate Change (Scotland) Act 2009 could be used more effectively.*'<sup>6</sup>

Therefore, we propose the Bill should set out requirements on Scottish Ministers to review the operation of the energy efficiency discount scheme element of the 2009 Act and ensure the original aims are met.

#### *Land and Building Transaction Tax*

The Land and Building Transaction Tax (Scotland) Act 2013 enables Ministers to add a relief to that tax.<sup>7</sup> Such a relief could be related to the energy performance of a building.

ExHA believes there is potential for LBTT to incentivise household investment in energy efficiency and support the wider economic, environmental and social objectives of the Scottish Government.

A report from the UK Green Building Council noted '*... such an incentive would have the key advantage of impacting at the point of sale - a time at which retrofit is often undertaken - and could quite conceivably feed through into property value if implemented successfully. To further utilise this trigger, the system could be designed to allow buyers to claim a rebate ... if they undertook energy efficiency work within a given period of purchasing... it could also be fiscally neutral for Government.*'<sup>8</sup>

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<sup>4</sup> CAS, *Consumer Participation in Energy Policy (2017)*

<sup>5</sup> Part 5, Chapter 3, s65 requires local authorities to '*... establish a scheme for reducing the amounts which persons are liable to pay in respect of council tax where improvements are made to the energy efficiency of chargeable dwellings.*'

<sup>6</sup> EST, op cit.

<sup>7</sup> Part 3 s27(3)

<sup>8</sup> UKGBC, *Retrofit Incentives (2013)*

We believe it is now time to revisit this tax and call for a duty to review of the operation of LBTT and its potential to incentivise investment in energy efficiency when houses change ownership.

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*ExHA is a coalition of housing, environmental, fuel poverty and industry organisations calling for urgent action to transform Scotland's existing housing stock.*