

**CYNGOR SIR POWYS COUNTY COUNCIL.
CABINET EXECUTIVE
4th February 2022**

REPORT AUTHOR: Councillor Aled Davies – Portfolio Holder for Finance

REPORT TITLE: Council Tax Premiums on periodically occupied properties

REPORT FOR: Decision

1. Purpose

1.1 The purpose of the report is to advise Cabinet of the current situation around the Council Tax premium for periodically occupied properties and to propose increasing the premium charged from the current 50% to 75% with effect from the 1st April 2023.

2. Background

2.1 At the Council meeting on the 9th of March 2016, Members resolved to introduce a Council Tax premium of 50% for Properties that are periodically occupied. A periodically occupied property (second/holiday home) is defined in the Local Government Finance Act 1992 as "a dwelling which is not a person's sole or main home and is substantially furnished".

2.2 Regulations allow for a premium of up to 100% to be charged, so this would see a total charge to the liable party of 200%.

2.3 Welsh Government policy intention for introducing the premiums is to help bring homes back into use to provide safe, secure and affordable homes and support local authorities in increasing the supply of affordable housing and enhancing the sustainability of local communities.

2.4 The table below shows actual number of periodically occupied properties as of April for each financial year since the introduction of the premium. The numbers of homes have gradually risen each year.

Date	No: second homes
April 2017	1,186
April 2018	1,117
April 2019	1,288
April 2020	1,330
April 2021	1,311

- 2.5 The current average charge per periodically occupied property is £2,837.53 (£1,891.69 Council Tax plus a premium of £945.84).
- 2.6 The current premium raised for these properties is £1,240,000.
- 2.7 Council approved a motion on the 24th September 2020 which resolved to call:
- for the current premium to be increased to 75% in the next financial year thus generating an extra circa £350,000 for the authority
 - and for the authority to work with other rural authorities through the WLGA to ensure that Welsh Government and Valuation Office have a consistency of approach in assessing Business Rates applications for such properties in that they have to be let for 140 days in order to have a genuine business.
- 2.8 Following that decision Cabinet agreed a series of consultations to get the views of key stakeholders around the impact of these properties in the community. The full results of this consultations can be found at Appendix A.
- 2.9 The consultation on periodically occupied properties generated 780 responses to the consultation. 74% of those that replied were paying Council Tax on one of these homes.

The vast majority used the property personally as a second home or a personal holiday home with only 5% using it as a holiday let and another 4% used it as a combination of personal holiday home and holiday let.

On occupation, 27% of respondents occupy the property over 4 months or more during the year. 73% would only see the property occupied for anywhere between 1 night and up to 4 months a year.

On the question of what the owner would do with the property if a premium increased, the majority view of 32% said they would not change the use of the property.

40% (accumulative across all the different answers) would bring the property into a different use that the Council would view as positive so for example, "I would consider moving into the property as my main residence".

17% gave some very mixed and individual replies and 12% said they would move the property into a holiday let business which would be a negative outcome for Powys. This is because Powys Council would lose Council Tax revenues from this move.

- 2.10 For everyone who took the survey on the broader questions about the impact that periodically occupied properties **have currently**: -

- on key issues of tourism and the economy
- on supporting a vibrant local community generally

the majority (62%) felt it was positive and between 21% were neutral on the matter and only 17% were negative.

2.11 That was a more mixed response when the consultation asked similar broader questions about the impact of periodically occupied properties, if the premium charge **was increased**: -

Impact if premium increased on:-	Majority View
the number of periodic occupied homes in Powys	57% negative
Availability of affordable housing	58% neutral
the local community generally	48% negative
tourism	59% negative
the local economy	58% negative

2.12 The Regeneration lead states that from a regeneration perspective, empty and underused properties are considered to have a negative impact on the vitality and sustainability of local communities and the economy. The availability of good quality, affordable homes and business premises are an important aspect of maintaining vibrant communities, retaining a local workforce, and supporting economic growth. Measures that would help enable the productive, year-round use of properties, bring empty buildings back into use and generate investment in local communities are encouraged. The Council, for example, is actively supporting the refurbishment of empty and underused properties in town centres through the Welsh Government Transforming Towns Regeneration Programme.

2.13 The Tourism Officer states that the reasoning for putting an additional premium on second homes is understood, and it is acknowledged that other local authorities have or are planning to do this. Where holiday accommodation is concerned, given the difficult last 15 months experienced by the tourism accommodation sector due to the Coronavirus pandemic, concern is raised that a change such as this could potentially be very damaging just as they are starting to see the return of visitor bookings. Those tourism accommodation businesses impacted would be those who are not within the business rates scheme, and because they are not registered for Business Rates, are unlikely to have received NNDR grant support through the Covid-19 crisis either.

2.14 Evidence was also sought from research that has been done on the potential impact on empty and periodic occupied homes on community, housing, and the economy and is provided in Appendix B for information and reference. Its conclusions are summarised here as follows:

The Impact of Empty, Second and Holiday Homes on the Sustainability of Rural Communities by York University concluded that there is very little known about the impact of empty or periodic occupied properties on many of the key domains of sustainability. Instead, the focus of much research attention has been on the impact of second home ownership on rural housing markets. It also concludes that second homes must be seen as part of a wider process of social and economic change affecting rural areas. It goes on to say that in a housing context, any assessment of the impact of second homes needs to be part of broader housing market analysis. More recent work it reflects, emphasises commuting and retirement are equally, if not more important sources of external demand for rural housing. Also, it considers that there has historically been proportionally less social rented housing in rural areas compared to national and regional averages. It goes on to suggest there was little evidence of conflict between second homeowners and residents, though this varies in different areas. The outward migration of young people from rural areas is more closely allied to a lack of appropriate employment, education, and leisure activities than to a lack of housing. Finally, it suggests that second home ownership was seen in many studies to make a useful contribution to local economies as part of the tourist industry, but there were differences in levels of contribution.

The Ceredigion Council second homes and holiday lets data report concluded to introduce planning controls on holiday lets and to introduce a 100% premium, though the evidence produced on the report was not able to directly relate these home types to be the main driver of the problems identified.

The Cardiff and Gwynedd report on managing the use of dwellings as holiday homes, concluded that the increased numbers of holiday homes as a local trend in Gwynedd, did have associated detrimental social, environmental and cultural impacts and so it recommended greater controls but also considered it needed to balance that with the wider economic benefit that the tourism economy provided. Some evidence was offered to confirm this, but analysis of the data showed that these home types are one key local driver of the issues in Gwynedd amongst several. It would have been helpful if more research had been done to get underneath the data to confirm the impacts and their causes more directly.

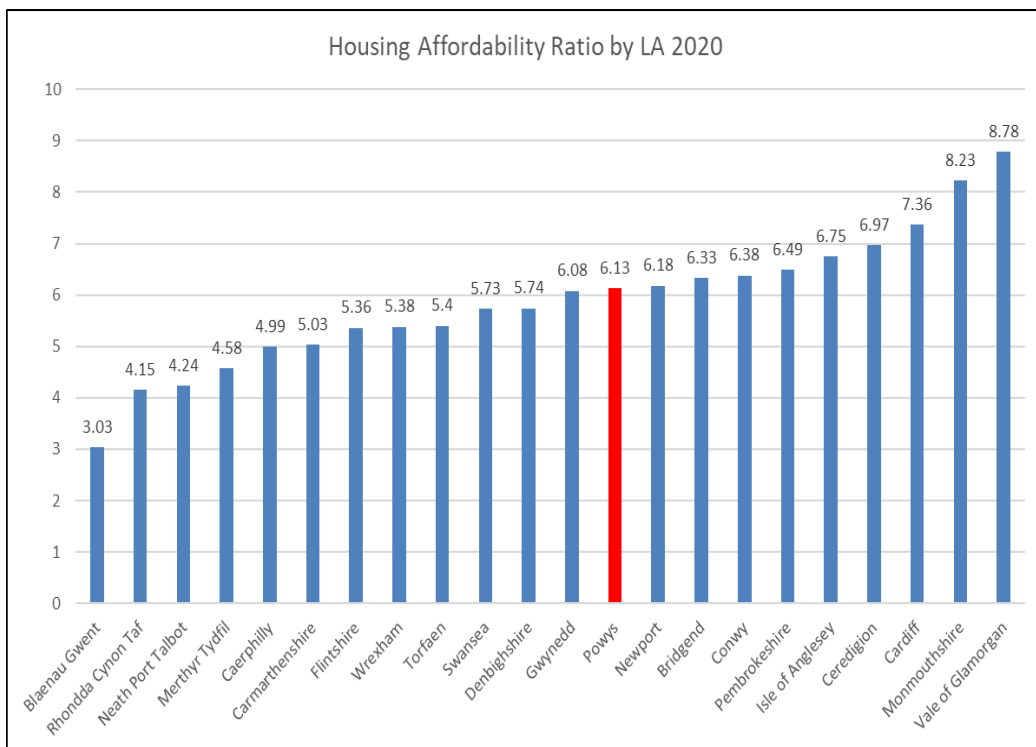
The Swansea University report for Welsh Government on second homes: Developing new policies in Wales, concludes that there are still some assumptions on the data on impact of second homes in communities and therefore it should be considered as one cause amongst several, and then finally concludes that increasing the premium on second homes should be done in parallel with policy introduction by Welsh Government on Land Tax and in Business Rates legislation.

2.15 The Office for National Statistics publishes the Housing Affordability ratio each year. This looks at the house prices by taking the median price

paid for residential property. It then looks at earnings for the residents and then works out the median workplace-based gross annual earnings for full-time workers.

In Wales, in 2020, a full-time employee could typically expect to spend around 5.9 times their workplace-based annual earnings on purchasing a home, which is not significantly different to 2019. In Powys, the ratio is 6.13 for 2020 and has been slightly decreasing over recent years. The highest ratio for 2020 is to be found the Vale of Glamorgan at 8.78.

Whilst this demonstrates an above average affordability issue across Powys, it does not necessarily correlate directly with empty home or periodic property levels. This is because we would expect the authorities with the highest levels of such properties as periodic occupied properties (Gwynedd, Pembrokeshire, Anglesey) and empty homes (Carmarthenshire, Rhondda Cynon Taf, Swansea) to have higher levels of affordability issues. This lack of correlation, therefore, suggests a range of other factors impact upon affordability not specific and caused only by these home types.



2.16 In Appendix C the location of each property type is shown at Town and Community Council level. Each one was considered as to the percentage of that home type in comparison to the total number of dwellings in that area.

For periodic properties none exceeded 20% and only 3 exceeded 10% (Erwood and Llanwrthwl and Llangynog).

3. **Advice**

When considering the application of a premium consideration should be given to the following positive outcomes for Powys. Will the decision: -

- a) Increase the Council's ability to provide safe, secure, and affordable homes?
- b) Increase the supply of affordable housing generally?
- c) Enhance the sustainability of local communities?
- d) Will it help sustain or improve the economy of Powys?

Options:

Option 1 - Leave the premium at the current 50%.

Option 2 - Increase the Premium from 50% to 75%

Implementation Effective from the 1st April 2023

- 3.1 A billing authority can make, vary, or revoke a determination made under sections 12A and 12B of the 1992 Act, but only before the beginning of the financial year to which the decision applies. So, whilst there is no legal requirement to give the public a year's notice like the Council did with the introduction of the premium, to be fair to customers who would have to pay any potential increase, the Council should ensure that it gives fair notice to taxpayers of any decision to vary the charge.
- 3.2 It can be argued that as the consultation results show, most owners spend less than 4 months in occupation in the property and that suggests limited engagement into community life and limited local economic spend or need on services that would ordinarily occur in a fully occupied property.

Also, only 9% of properties have a tourism intention to them so again this is suggestive of limited tourism gain or any wider economic benefit to be derived from this class of properties.

Also, many of the outcomes mentioned in the consultation if a potential increase in premium took place, could move homes to being used more.

- 3.3 However, anecdotally some property owners have advised and shown Income & Awards of community engagement and family ties and future intention to move to the property which is born out in some of the consultation comments too.

There would also conversely be less demand on some Council services by 2nd homeowners as their main home is judged to be elsewhere and that is where they receive those services.

There is also a minority that occupy the property for much longer periods than 4 months a year and of course for all, whether high or low

occupation there does end up in some level of community engagement and some local economic and tourism gain through that, though the values are unknown and there is no means to measure this. There is also no Local Housing Market assessment for Powys to help measure current and future demand.

Also, the evidence in section 2 and analysis of the research does not show that second homes are proven to be **the** main cause or driver behind the complex rural issues that Powys faces around affordable homes demand or housing demand generally and around the sustainability of local communities.

- 3.4 Therefore, recognising that periodically occupied properties are only one cause or issue amongst many other bigger and complex drivers that need to be resolved, it is acceptable to say that there is potentially less housing supply in Powys and potentially less community sustainability because of them. However, increasing the premium is not necessarily going to mean the rural issues Powys face are then resolved. Also, the current premium forecasts show a gross liability of £1,240,000. This could be argued that it already compensates for any negative difference and can help support plans to grow the supply of affordable housing, any local economy gain needed and keep Powys communities vibrant.
- 3.5 Welsh Government have recently undertaken a consultation exercise “Local taxes for second homes and self-catering accommodation” which ended on the 17th November 2021. The consultation sought views on the current criteria and thresholds for defining property as self-catering accommodation and liable for non-domestic rates. Some properties used for this purpose are treated as businesses and are liable for non-domestic rates rather than council tax. On average in a year, we see 120 moves into Business Rates from owners of second homes. Some of this is offset with moves back in from the Business Rates List and from other new additions to the list but potentially without changes to this legislation, an increase in the premium could see more properties move across with subsequent revenue loss for Powys.
- 3.6 The responses to this consultation are currently being reviewed by Welsh Government. Details of the outcome will be published in due course.

4. Resource Implications

- 4.1 The impact of the change and how it influences property owners actions is difficult to predict and property numbers, band values and owner’s circumstances also change throughout the year. The proposed change in the level of premium charged is modelled and included in the tables below.

Table 1 : shows the current position

properties subject to premium	standard council tax Income	Premium Income (50%)	Total C.Tax Income	average charge per property	premium charge per property	average TOTAL Ctax charge per property
1,311	£2,480,000	£1,240,000	£3,720,000	£1,891.69	£945.84	£2,837.53

Table 2 : shows the increase in Gross Council Tax generated by increasing the premium

Financial modelling for an increase in premium %							
premium %	council tax Income	Premium Income	total ctax income	gross increase	average charge per property	premium charge per	TOTAL Ctax charge per
50%	£2,480,000	£1,240,000	£3,720,000	0	£1,891.69	£945.84	£2,837.53
75%	£2,480,000	£1,860,000	£4,340,000	£620,000	£1,891.69	£1,418.76	£3,310.45

Table 3 : shows the potential financial risk if owners choose to transfer to Business Rates or occupy or sell their property moving it out of the premium.

Risk of loss in numbers due to a premium increase				
Potential drop in C.Tax revenue	5%	10%	15%	20%
Move into Business Rates	£217,000	£434,000	£651,000	£868,000
Change to Primary residence (no premium payable)	£93,000	£186,000	£279,000	£372,000
	£310,000	£620,000	£930,000	£1,240,000
75% premium estimated gross income	£4,340,000	£4,340,000	£4,340,000	£4,340,000
estimated loss revenue due increase	£310,000	£620,000	£930,000	£1,240,000
	£4,030,000	£3,720,000	£3,410,000	£3,100,000
current income:	£3,720,000	£3,720,000	£3,720,000	£3,720,000
change in net Income	£310,000	£0	-£310,000	-£620,000

Table 4 : Potential financial risk if property owners act in the way indicated in the consultation

Consultation responses indicated much higher levels of change

40% said they would bring the property into a different use.	
12% said they would move the property into a holiday let business	
potential drop in c.tax revenue	
12% Move into Business Rates	£520,800
28% Change to Primary residence (no premium payable)	£520,800
	<u>£1,041,600</u>
75% premium estimated gross income	£4,340,000
estimated loss revenue due increase	£1,041,600
	<u>£3,298,400</u>
current income:	£3,720,000
change in net Income	<u>-£421,600</u>

- 4.2 Increasing the Premium to 75% will increase the average Council Tax liability for each property to £3,310.45 (Council Tax of £1,891.69 plus a premium of £1,418.76).
- 4.3 The tables above show that an increase in the premium charged can have a significant financial impact if owners act and move these properties out of the premium element.
- 4.4 The risk this presents to the Councils budget and its future financial sustainability must be considered carefully when considering this proposal. There is significant risk that the action of owners as a result of increasing the premium would limit or eliminate any of this gain.
- 4.5 The impact of any changes will also need to be considered when setting the Council Tax Base in the Autumn of 2022. The 12 month period before implementation of the change will give us sufficient time to review the impact of the change on the actions of property owners.
- 4.6 The Head of Finance (Section 151 Officer) notes the potential gross additional Council Tax revenue generated by increasing the premium to 75%, however there is significant risk that the action of owners as a result of increasing the premium would limit or eliminate any of this gain. The proposal to implement the change from the 1st April 2023 provides sufficient time to assess this potential impact fully, and it will also allow time to consider the outcome of the Welsh Government Consultation and any potential changes that may be imposed. The financial implications

of the change will be reconsidered as the budget is developed for 2023/24.

- 4.7 There is no legal requirement to give a year's notice of any change, as was the case when the premium was introduced, but the proposed implementation date of the 1st April 2023 ensures that fair notice is given to taxpayers.

5. Legal implications

- 5.1 Legal: the recommendations can be accepted from a legal point of view.
- 5.2 The Head of Legal and Democratic Services (Monitoring Officer) has commented as follows: " I note the legal comment and have nothing to add to the report".

6. Data Protection

- 6.1 None required.

7. Comment from local member(s)

- 7.1 None required.

8. Integrated Impact Assessment

- 8.1 Impact Assessment completed and provided with this report.

9. Recommendation

- 9.1 That Cabinet notes the views of Council expressed at its meeting on the 24th September 2020.
- 9.2 That Cabinet approve an increase to the Council Tax premium for periodically occupied properties from 50% to 75% with effect from 1st April 2023, and:
- Determine that this decision shall remain effective each financial year unless varied or revoked.
 - To publish the determination within 21 days in at least one local newspaper in accordance with Section 12 of the Local Government Finance Act 1992
- 9.3 That the financial implications of the change will be reconsidered as the budget is developed for 2023/24.

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Appendix A – Consultation Results

Appendix B – Summary of research into empty homes and period homes

Appendix C – Town and Community Council areas that have empty or periodically occupied properties.