

COMMITTEE	CORPORATE SCRUTINY COMMITTEE
DATE	20 OCTOBER 2016
TITLE	COUNCIL TAX PREMIUM ON LONG-TERM EMPTY HOMES AND SECOND HOMES
PURPOSE OF THE REPORT	TO GIVE THE COMMITTEE AN OPPORTUNITY TO SCRUTINISE AND CONSIDER THE BENEFITS AND RISKS OF RAISING A PREMIUM
HEAD OF RELEVANT DEPARTMENT	DAFYDD EDWARDS, HEAD OF FINANCE
CONTACT OFFICER	DEWI MORGAN, SENIOR MANAGER REVENUES AND RISK

1. WHAT IS THE MATTER THAT NEEDS TO BE CONSIDERED AS A SCRUTINY ITEM?

- 1.1 The Scrutiny Inquiry on Taxes and Second Homes reported to the last meeting of the Corporate Scrutiny Committee held on 16/06/2016. The Cabinet Member for Resources accepted the recommendations during the meeting.
- 1.2 During the meeting the Cabinet Member asked the Scrutiny Members to extend the investigation by looking at the risks and benefits of placing a premium on holiday homes. As the timetable for the work involved in 'considering raising a premium' is extremely short, and the area is very complex and technical, the Scrutiny Members decided not to extend the inquiry further. The Cabinet Member was asked instead for a report outlining the options and the risks/benefits of raising a premium, to be submitted to the Corporate Scrutiny Committee on 20/10/2016 so that it would be scrutinised before the Council considers the matter at its meeting in December 2016.

2. WHAT CAN THE SCRUTINY COMMITTEE CONSIDER?

- 2.1 **Explain in brief what are the rights held by Councils with regards to raising a premium (and what are the requirements for the implementation of this)?**
 - 2.1.1 The Housing Act (Wales) has added Sections 12A and 12B to the Local Government Finance Act 1992 (the Act which introduced Council Tax) to include a discretionary right for Councils to raise an additional premium of no more than 100% on long-term empty homes (Section 12A) and second homes (Section 12B).
 - 2.1.2 The Act defines a long-term empty property, for the purposes of raising a Council Tax Premium, as follows: ***“a dwelling is a “long-term empty dwelling” on any day if for a continuous period of at least 1 year ending with that day it has been unoccupied, and it has been substantially unfurnished”***.

2.1.3 The terminology used in Section 12B is not “second homes” or “holiday homes” but rather “*dwelling occupied periodically*”. The Act states that the conditions for a property to be subject to a “second home” Council Tax premium is, “***there is no resident of the dwelling, and the dwelling is substantially furnished***”. That is, the property is not anyone’s main home, but it has been furnished. The Act does not include any provision to be able to distinguish on the basis of where the owner lives, or if it is used for the purposes of holidays.

2.1.4 However, the Act contains a provision giving the Welsh Ministers the right to impose certain exceptions (in classes) where a Council Tax premium cannot be imposed. This was done through the Council Tax (Exceptions to Higher Amounts) (Wales) Regulations 2015 which came into force on 31 January 2016. The table below outlines the exemptions where a Premium **cannot** be raised:

Classes of Dwellings	Definition	Type of property that is eligible for an exemption from paying the premium
Class 1	Dwellings being marketed for sale – time-limited for one year	Long-term Empty Properties and Second Homes
Class 2	Dwellings being marketed for let – time-limited for one year	
Class 3	Annexes forming part of, or being treated as part of, the main dwelling	
Class 4	Dwellings which would be someone's sole or main residence if they were not residing in armed forces accommodation	
Class 5	Occupied caravan pitches and boat moorings	Second Homes
Class 6	Seasonal homes where year-round occupation is prohibited	
Class 7	Job-related dwellings	

2.2 What is the situation in other Councils? Have others raised a premium and is the impact of the implementation known?

2.2.1 Pembrokeshire, Ceredigion, Isle of Anglesey and Conwy councils determined before the end of March 2016 that they would raise a Council Tax Premium from 1 April 2017 onwards. These are the levels announced:

Pembrokeshire	Premium of 50% on second homes; a decision on long-term empty homes to be made during 2016/17.
Ceredigion	Premium of 25% on long-term empty homes and second homes from 1 April 2017.
Anglesey	Premium of 25% on long-term empty homes and second homes from 1 April 2017, to be reviewed during 2018/19.
Conwy	Premium of 100% on long-term empty homes and second homes from o 1 April 2017 (but the % to be reconsidered).

2.2.2 This is a summary of the outcome of consultation work in the neighbouring authorities who have already decided to raise premium:

- | | |
|---------------|--|
| Pembrokeshire | Consultation period between 27 January 2016 and 22 February 2016. 1,057 responses were received. Of those who responded to the consultation 887 (84%) stated that they are the owner of a second home in the County. 74% of the respondents to the consultation either disagreed or strongly disagreed with raising a premium. |
| Ceredigion | Consultation period between 11 February 2016 and 2 March 2016. 50 responses received, with 74% owning a second home or long-term empty property. However, 40% were against raising premium, with 58% in favour and 2% neutral. |
| Anglesey | Consultation period between 16 February 2016 and 4 March 2016. 331 responses were received. 78% of the respondents to the consultation either disagreed or strongly disagreed with raising the premium. |
| Conwy | There had been no public consultation before making the decision, but one was undertaken afterwards. It is expected that the result of this will be considered during 2016/17. The Premium level from 1 April 2017 can be amended during 2016/17, as only the first decision must be made at least a year in advance. |

2.2.3 Since the premiums will not become operational until 1 April 2017, it is believed that the true impact of the premium will not become fully apparent until the bills for 2017/18 have been sent out.

2.3 What are the options for raising the premium in Gwynedd and what are the risks/benefits associated with those options?

Option 1 – allowing a discount

- 2.3.1 Current Regulations gives the Council discretion to charge full Council Tax, or allow a discount of 25% or 50% to second homes, and to allow a 50% discount, or a smaller rate, or no discount at all, to long-term empty properties that have been empty for 6 months or more.
- 2.3.2 For several years, Gwynedd Council has decided not to allow any discount for long-term empty homes or second homes. The full Council must take this decision annually; the decision not to allow a discount for 2016/17 was made at the full Council meeting on 10 December 2015.
- 2.3.3 These Regulations remain in force, and therefore it remains an option for the Council offer the discount described above. However, offering this now would run counter to a policy that has been in place for several years, not to mention the serious financial effect.

Option 2 – no discount or premium

- 2.3.4 There is no legislative change that would prevent the Council from continuing what it is currently doing, namely raising 100% Council Tax on long-term empty properties and second homes.

Option 3 – raising a premium

- 2.3.5 If the Council is to raise a premium, the extra Council Tax would be limited to 100% of the full Council Tax. Also, the Council cannot raise a Council tax premium if it is unable to raise "basic" Council Tax in the first place (e.g. on homes full-time students).

Numbers: Second Homes

- 2.3.6 The table below shows the number of class B second homes (i.e. those where a premium could be raised), on 1 July 2016:

Council Tax Band	Number of Properties	Tax
A	538	£532,087
B	752	£864,906
C	873	£1,146,099
D	1043	£1,538,620
E	822	£1,481,150
F	564	£1,201,715
G	210	£515,831
H	25	£73,887
I	14	£48,292
Total	4841	£7,402,586

2.3.7 In accordance with the annual Council decision (the latest on 10 December 2015), no discount is allowed for second homes, which means that these properties generate a Council Tax income of £ 7.4 million.

Numbers: Long-term empty properties

2.3.8 On 1 July 2016, the number of long term empty properties was:

Council Tax Band	Number of Properties	Tax
A	339	£ 335,588
B	373	£ 431,276
C	263	£ 347,203
D	205	£ 303,264
E	143	£ 258,360
F	62	£ 132,624
G	19	£ 46,739
H	5	£ 14,800
I	2	£ 6,851
Total	1429	£ 1,876,706

2.3.9 The definition of "long-term empty" varies within the legislation. In normal Council Tax calculations, property is empty in the long term if it has been empty for 6 months, but for the purposes of raising the premium, the property must have been vacant for at least 12 months. The 1,429 properties shown above has been empty for 6 months – 1,115 of these that have been vacant for a year or more. It is estimated that the current Council Tax income of the 1,115 property that has been vacant for a year or more is £1,464,706.

2.3.10 Although the total Council Tax income from second homes and long term empty homes is £8,867,292 (£7,402,586 + £1,464,706), we cannot expect that a premium of 100% would attract close to this amount of additional income. This total does not include any of the exceptions referred to above, nor does it consider further dwellings that may might transfer to be self-catering units, and thereby coming under the business tax regime.

Threats and Opportunities – Self-catering Units

2.3.11 The Scrutiny Committee is well aware, in the light of the comprehensive inquiry that it carried out during 2015/16, of the threat of property transferring from being households that are the subject of Council Tax to being Self-catering Units. These are the numbers that have transferred in the last full 5 year:

Financial Year	Net transfer from CT to NDR
2011/12	106
2012/13	110
2013/14	82
2014/15	188
2015/16	166
Total	652

2.3.12 Considerable attention was given to these transfers during the Scrutiny Inquiry and it was seen that the Valuation Office Agency must receive evidence that the property has been available to let for about 140 days within the previous year with actual letting for 70 days, and that there is an intention to let the property for 140 days over the next year. However, there was concern about the capacity within the Agency to carry out thorough checks.

2.3.13 There is a real threat, therefore, that the trend of property transfer could speed up if a premium is introduced. However, we expect the Valuer's Office to take strong action when assessing if a property is a home or business, and ensure appropriate evidence to support any application. Further, if the Council increased the tax on second homes, we expect that we will gain more financially than we will lose.

Threats and Opportunities – Exemptions

2.3.14 Another threat is the risk of owners of long-term empty properties and second homes claiming one of the exceptions listed in part 2.1.4 above. As can be seen, there are 4 exception for long-term empty properties, and 7 for second homes. Unlike properties that transfer to being self-catering units, we will still be able to raise Council Tax on these properties, but not the premium.

2.3.15 There is a time limit to some of these exemptions as well. For example, an exemption due to of a house being for sale or available for let can only be claimed for a year.

2.3.16 A copy of the Statutory Guidance, which provides more details about the exemptions in addition to other mandatory requirements, is included as Appendix 1.

Analysing The Impact Of Raising a Premium

2.3.17 To model the impact of raising a Premium, a series of assumptions must be made on and the impact of these then analyse. Here are two example based on sensitivity analysis. **It is emphasised that these figures are for illustrative purposes only.**

Example 1

- Premium: **100% from the start**
- The number of second homes additional transfers to self-catering units (business rates): **500**
- The number of second homes changing to being the "main home": **300**
- The number of second homes receiving the different classes of exemption –
 - Dwellings being marketed for sale – time-limited for one year (Class 1): **200**
 - Dwellings being marketed for let – time-limited for one year (Class 2): **100**
 - Annexes forming part of, or being treated as part of, the main dwelling (Class 3): **50**
 - Dwellings which would be someone's sole or main residence if they were not residing in armed forces accommodation (Class 4): **50**
 - Occupied caravan pitches and boat moorings (Class 5): **20**
 - Seasonal homes where year-round occupation is prohibited (Class 6): **10**
 - Job-related dwellings (Class 7): **30**
- The number of long-term empty homes receiving the different classes of exemption –
 - Dwellings being marketed for sale – time-limited for one year (Class 1): **100**
 - Dwellings being marketed for let – time-limited for one year (Class 2): **50**
 - Annexes forming part of, or being treated as part of, the main dwelling (Class 3): **30**
 - Dwellings which would be someone's sole or main residence if they were not residing in armed forces accommodation (Class 4): **30**
- The number of long-term empty properties that remain empty after 6 months of raising a premium: **90%**

Based on the assumptions above, the additional Council Tax would be:

Second Homes	£4,035,822
Empty Property	£794,513
Total	£4,830,335

Example 2

- Premium: **50% from the start**
- The number of additional second homes transferring to being self-catering units (business rates): **250** (i.e. fewer than if the Premium were 100%)
- The number of second homes changing to being the "main home": **150** (i.e. fewer than if the Premium were 100%)
- The same exemptions as in Example 1.

Addition Tax:

Second Homes	£1,972,443
Empty Property	£794,513
Total	£2,766,956

2.5 What are the next steps if action is to be taken to raise a premium?

Timetable

2.5.1 This is the timescale if the Full Council is to come to a decision at its meeting on 8 December 2016:

Date	Action
11/10/16	ENGAGEMENT PERIOD OPENS <ul style="list-style-type: none">• Issue of a press release to launch the engagement period• Article in Rhaeadr to inform members• The launch of the online information pack; the engagement pack available on the Council website• The launch of the information pack in the county's libraries; the paper survey distributed to libraries
11/10/16 onwards for a period of 4 weeks	PROMOTION <ul style="list-style-type: none">• A series of messages through Twitter and Facebook
04/11/2016	Public Engagement period closes
07/11/16 – 11/07/16	Analysis and production of a report of the results
21/11/2016	Scrutiny Workshop or a special meeting of the Corporate Scrutiny Committee
22/11/2016	The Cabinet to discuss the results of the consultation and scrutiny and decide on a recommendation to be presented to the Full Council
30/11/2016	Publish the Full Council Agenda
8/12/2016	FULL COUNCIL decides on the Council Tax Premium for 2018/19

Public Consultation

- 2.5.1 As with all far-reaching decisions, the Council must give due consideration to their statutory duties to conduct Equality Impact Assessments under the Equality Act 2010 and the Welsh Public Sector Equality Duties 2011 and to all other material considerations.
- 2.5.2 Welsh Government guidance also state that **“the local authority should also give consideration to engagement and consultation with key stakeholders, including the local electorate, before taking a decision as to whether or not to charge one or both of the premiums”**.
- 2.5.3 A public consultation was launched on 11 October 2016, and will be open until 4 November 2016, a period of approximately 4 weeks. The outcome of the consultation will be collected and analysed before the Scrutiny Workshop or a special meeting of the Corporate Scrutiny Committee on 21 November.
- 2.5.4 **A copy of the questionnaire is contained in Appendix 2, and the background document available with the questionnaire is in Appendix 3.**