

Subject: REVIEW OF THE DECISION TO CHARGE A COUNCIL TAX PREMIUM ON SECOND HOMES IN THE COUNTY FROM 1ST APRIL 2024

Meeting: Council

Date: 18th January 2024

Divisions/Wards Affected: All

1. PURPOSE:

1.1 The purpose of this report is to:

- Review the decision to charge a 100% council tax premium on second homes in the county from 1st April 2024.
- Consider the likely effect that a council tax premium on second homes will have on the tourism industry in the county.

2. RECOMMENDATIONS:

2.1 That Council go ahead with the decision to introduce a 100% council tax premium for second homes from 1st April 2024.

2.2 That Council use its discretionary powers under Section 12B of the Local Government Finance Act 1992 to introduce a specific exception to help support businesses moving from the commercial list to the domestic list. The exception will exempt these businesses from the second home council tax premium for a period of 12 months. During this time standard council tax will still be payable.

3. KEY ISSUES:

3.1 On 9th March 2023 Council decided to use their discretionary powers, under Section 12A and 12B of the Local Government Finance Act 1992 as inserted by the Housing (Wales) Act 2014, to charge a council tax premium on both long term empty properties and second homes in the county.

3.2 From 1st April 2024, for long term empty properties a 100% premium will apply to properties empty for 1 year, a 200% premium to properties empty for 2 years and a 300% premium to properties empty for 3 years or more.

3.3 For second homes, it was agreed that a 100% council tax premium would apply. However, Council wanted to review this decision ahead of implementing these premiums as more time was wanting to be taken to consider the wider effects of changes introduced by Welsh Government as well as economic conditions prevailing at this time on the tourism industry in Monmouthshire.

- 3.4 The decision to implement council tax premiums in Monmouthshire followed a period of public consultation. Responses received to the consultation were largely in favour of introducing council tax premiums with 63% of respondents in favour of a premium for long term empty properties and 54% in favour of a premium for second homes.
- 3.5 For second homes the general response in favor of a premium was if someone could afford a second home then they could afford to pay more council tax. For those who responded no, responses touched on the relatively small number of second homes in the county and the potential impact the premium may have on the tourism sector in the county.
- 3.6 In making these determinations and in line with the legislation, Council gave households and businesses likely to be affected by the premium 12 months' notice. This gave those affected time to plan and to determine the future use of their property.

4. Second Homes

- 4.1 A second home is determined as a dwelling which is not a person's sole or main home and is substantially furnished. These dwellings are referred to in the Local Government Finance Act (LGFA) 1992 as dwellings occupied periodically but they are commonly referred to as "second homes".
- 4.2 Work continues to identify the exact number of second homes in the county. There are currently 188 properties listed on the Council's council tax system. However, this number is changing daily. We also expect the number to continue to fall as owners make decisions ahead of the premium being introduced.
- 4.3 Letters were sent to households listed as a second home drawing owners attention to last year's consultation and again in September 2023 providing owners with details of the potential premium and how they could apply for any relevant exceptions. Information has also been provided through the councils web site. These communications also signposted owners to our Housing Options Team who can provide help and advice in bringing properties back into use.
- 4.4 From the information currently held it is not possible to accurately determine how many of the 188 properties are being used in a private capacity or as a business.
- 4.5 Appendix one provides a breakdown of these properties by band and by parish.

5. Impact to the local economy

- 5.1 When Council made the decision to introduce premiums, they were aware of certain specific external factors which combined, had the potential to have a detrimental effect on the local tourism sector and subsequently a knock on effect to the county's wider economy.
- 5.2 From 1st April 2023 Welsh Government changed the thresholds owners had to meet for self-catering properties to qualify for business rates. Prior to April 2023 a property had to be available to let for 140 days or more in the previous/current year and be actually let for 70 days in the previous 12 months. Post April 2023, the threshold was raised to a property being available to let for 252 days or more in the previous/current year and be actually let for 182 days in the previous 12 months.

- 5.3 The Wales branch of the Professional Association of Self Caterers recently surveyed its members on the 182 day occupancy rule. The survey closed in October 2023 having received 1,500 responses. The key findings were as follows:
- 50% of operators said they met the 182 day occupancy threshold for 2022/23.
 - 70% of operators are offering discounts.
 - 25% of operators think that they will meet the 182 day occupancy threshold for 2023/24.
 - 42% of operators are either selling or considering selling because of the 182 day occupancy threshold.
- 5.4 Self-catering operators represent a significant proportion of Monmouthshire's accommodation businesses (75% of non-serviced accommodation operators and 64% of total accommodation operators) and in recent years non-serviced accommodation has outperformed other types of visitor accommodation in rural parts of Wales, helping recovery from the Covid pandemic.
- 5.5 It is anticipated that this rule change will bring some self-catering properties back into the domestic list. Many of these are currently within the small business rate relief threshold and pay no business rates. In moving to the domestic list, they will be required to pay council tax and therefore any council tax premium.
- 5.6 To date only a handful of properties have moved from the commercial list (NDR) across to the domestic list (Council tax). However, there are 176 self-catering businesses on the current commercial list that, if the survey data were to be reflected on the ground, would result in a significant number of properties moving across to the domestic list and therefore having to pay both council tax and a council tax premium.
- 5.7 Another factor is Welsh Government's decision to move forward with the introduction of a Visitor Levy in Wales following a public consultation exercise. Draft legislation for a Visitor Levy is expected to be introduced in the Senedd in Autumn 2024. If approved this would give councils in Wales the power to introduce a levy. The tourism sector is concerned that this will have a negative impact on the viability of self-catering operators in future, especially for border counties such as Monmouthshire.
- 5.8 Whilst tourism data from Monmouthshire 2022 STEAM indicates that the tourism sector in the County recovered after the Covid pandemic, industry sources indicate that 2023 has been a challenging year. UK real disposable income has been affected by high inflation and the cost of living crisis. Poor summer weather and the world opening up again after Covid is likely to result in lower bookings this year as families who could afford a holiday decided to holiday abroad rather than stay in this country.

6. Legislation and Guidance

- 6.1 Section 12A and 12B of the Local Government Finance Act 1992 as inserted by the Housing (Wales) Act 2014 give Welsh Government Ministers powers to prescribe classes of dwellings for which a council tax premium cannot apply. There are 7 exceptions applicable to second homes. These are detailed in Appendix Two.
- 6.2 The same legislation allows a billing authority to determine the particular type and classes of property to which it will or will not apply a premium. Local authorities can use these powers to reduce or disapply a premium.

7. OPTIONS APPRAISAL

- 7.1 The above confirms that it is too early to determine with any certainty the full impact a council tax premium or any of the other factors identified in section 5 will have on the

county's tourism economy. However, Cabinet recognise the importance of the sector to the county's economy and do not want to jeopardise its future.

7.2 The following options were therefore considered:

1. Continue with the original decision and go ahead and charge a 100% second home premium from 1st April 2024.
2. Reverse the decision to charge a second home premium from 1st April 2024.
3. Reduce the percentage of second home premium.
4. Go ahead with a 100% second home premium and introduce an exception to exempt properties that move across from the commercial list to the domestic list from paying a council tax premium for a period of 12 months. Standard council tax would still apply.

7.3 Due to the ongoing uncertainty, option 4 was considered the preferred approach. This will give businesses affected by the self-catering rule change some extra time to plan and adjust their business model to the council tax regime and would be relatively straightforward for our Revenues Team to administer. It also compliments the councils aim of addressing the housing needs of the county.

8. EVALUATION CRITERIA

- Data from Wales branch of the Professional Association of Self Caterers
- Review of tourism data from Monmouthshire 2022 STEAM
- Welsh Government guidance for council tax premiums
- Council Tax and Business Rate data held by our Revenues Shared Service

9. REASONS

9.1 Council determined to review the decision to charge a council tax premium on second homes ahead for its implementation, giving further consideration to the impact on the local economy.

10. RESOURCE IMPLICATIONS

10.1 Any additional revenue generated from council tax premiums is intended to:

- help bring long term empty properties back into use to provide safe, secure and affordable homes.
- support councils in increasing the supply of affordable housing and enhancing the sustainability of local communities.

10.2 Revenue generated from council tax premiums will be ring fenced to a specific reserve to be used in the future to help address both the above and other specific housing needs of the County.

10.3 In adopting option 4 and providing a specific exception to self-catering businesses affected by the rule change, this will reduce the overall revenue generated. We will only be able to determine the exact amount of this once properties start moving between the two lists. However this will not have a direct effect on the council's budget for 2024/25 as a prudent approach has been taken to premiums when setting the Council Tax base for next year and council tax premium revenue will be ring-fenced for future use.

11. WELLBEING OF FUTURE GENERATIONS IMPLICATIONS (INCORPORATING EQUALITIES, SUSTAINABILITY, SAFEGUARDING AND CORPORATE PARENTING)

- 11.1 An Equality Impact Assessment was completed as part of the original decision in March 2023. This has been updated to reflect this review of the decision to charge a second home premium and can be found in Appendix Three.
- 11.2 The introduction of council tax premiums will help to address some of the housing issues the county faces and in doing so contributes to the delivery of Corporate Plan priorities and well-being goals as set out in the Well-being of Future Generations Act. The recommended exception does not affect this desired outcome.

12. CONSULTEES:

- Cabinet
- Strategic Leadership Team
- Chief Officer for Resources and Deputy Chief Executive
- Head of Finance

13. BACKGROUND PAPERS:

Appendix One: Second Homes by council tax band and parish

Appendix Two: Council Tax Exceptions Second Homes

Appendix Three: Updated Future Generations Evaluation

14. AUTHORS:

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