

Isle of Anglesey County Council	
Report to:	Executive
Date:	25 October 2021
Subject:	Council Tax Premium on Properties Periodically Occupied (2nd Homes) – Results of the Consultation
Portfolio Holder(s):	Cllr Robin W. Williams – Portfolio Holder for Finance
Head of Service / Director:	Marc Jones – Director of Function (Resources) / Section 151 Officer
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Local Members:	Not applicable
A – Recommendation/s and reason/s	
<p>Recommendations</p> <p>1.1 The Executive to recommend to the Council that the premium on properties that are substantially furnished but which are not deemed as the taxpayer's sole or main residence (second homes) is increased to 50% from 1 April 2022/23.</p> <p>1.2 The taxpayers which are currently identified as being subject to the premium are formally notified of the Council's intention to increase the premium to 50% as soon as possible, in order to allow them to make alternative arrangements if they do not wish to pay the increased premium.</p> <p>1.3 The Executive reaffirm their intention to:-</p> <ul style="list-style-type: none"> (i) increase the premium on properties that are substantially furnished but which are not deemed as the taxpayer's sole or main residence (second homes) to 75% from April 2023 and 100% from April 2024; (ii) continue to put pressure on the Welsh Government to do all it can to allow the Council to control the number of second homes on the Island; (iii) continue to request the Welsh Government to change the current legislation so as to ensure that the owners of second homes make a suitable tax contribution, either by means of Council Tax or through Business Rates. <p>1.4 That funding is released from the additional income generated to employ 2 additional members of staff in the Council Tax team from January 2022 to deal with the increased workload (appeals, recovery etc.) and to allow the Team to be more proactive in identifying tax avoidance. Based on the 2021/22 payscales, a sum of £65k would be sufficient to meet the cost of pay and the associated on costs.</p> <p>1.5 The Executive to determine how to utilise the additional income and that the proposals are included as part of the 2022/23 revenue budget proposals with the majority of the additional income being directed to funding schemes to help local people purchase their own home and to promote the local economy.</p> <p>The reasons for the recommendations are set out in the report attached as Appendix 1.</p>	
B – What other options did you consider and why did you reject them and/or opt for this option?	
The options available are discussed in the report in Appendix 1.	

C – Why is this a decision for the Executive?

The setting of the level of the Council Tax premium for 2022/23 for properties which are occupied periodically, forms part of the Executive’s overall budget proposals which will be agreed by the Executive at its meeting in March 2022 and voted on by the full Council in March 2022.

Ch – Is this decision consistent with policy approved by the full Council?

Not applicable

D – Is this decision within the budget approved by the Council?

The decision, although impacting on the budget for 2022/23, will not result in the incurring of any additional costs or generate any additional income in the 2021/22 financial year. As a result, the decision will not impact on the budget approved by the Council for 2021/22.

Dd – Assessing the potential impact (if relevant):

1	How does this decision impact on our long term needs as an Island?	The decision could increase the level of funding generated through the premium which can be used to provide financial assistance to local residents to purchase their first home and also to provide funding that will allow the Council to address other issues which affect the Island as a result of an increasing number of properties being used as “second homes” and holiday accommodation.
2	Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority? If so, how?	The increasing numbers of “second homes” and holiday accommodation is, potentially, increasing house prices and reducing the supply of affordable properties for local people to rent or buy. The lack of affordable housing can lead to demands on statutory Council services, including housing and social services. In addition, it can reduce the level of funding generated through Council Tax, which can also impact on the Council’s ability to provide the current range of services it provides.
3	Have we been working collaboratively with other organisations to come to this decision? If so, please advise whom.	The Council has been working with other Welsh Councils who are experiencing increasing numbers of “second homes” and holiday accommodation to find solutions to the issue, and have been working with the WLGA to put pressure on Welsh Government to provide more options that local authorities can use to address the issues.
4	Have Anglesey citizens played a part in drafting this way forward, including those directly affected by the decision? Please explain how.	The report details the results of a wide consultation that has taken place, which was open to Anglesey citizens as well as second home owners and operators of holiday accommodation who are both residents of Anglesey or who live away from the Island.
5	Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.	The decision does not impact directly on any groups protected under the Equality Act 2020.

Dd – Assessing the potential impact (if relevant):		
6	If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.	The raising of the premium for properties occupied periodically would increase the annual council tax charge for those property owners. These are not considered to be a group that are experiencing socio-economic disadvantage. The funds generated by any increase would allow people who may be considered as socio-economically disadvantaged to be provided with additional financial support in order that they could rent or buy a property on the Island.
7	Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.	There is a perception on the part of a significant number of respondents to the consultation that the increasing numbers of second homes are having a detrimental affect on the Welsh language. Any decision to increase the premium may reduce the number of second homes and allow for the development of Welsh language communities.
E – Who did you consult?		What did they say?
1	Chief Executive / Senior Leadership Team (SLT) (mandatory)	The report was considered by the SLT at its meeting on 6 September 2021. Comments from the Chief Executive and the other members of the SLT were incorporated into the final draft.
2	Finance / Section 151 (mandatory)	The Section 151 Officer is the report author.
3	Legal / Monitoring Officer (mandatory)	The Monitoring Officer is a member of the SLT.
4	Human Resources (HR)	Not applicable
5	Property	Not applicable
6	Information Communication Technology (ICT)	Not applicable
7	Procurement	Not applicable
8	Scrutiny	
9	Local Members	
F - Appendices:		
Appendix 1 – Detailed Report on the Results of the Consultation and the other issues that relate to increasing the Council Tax premium on second homes.		
Ff - Background papers (please contact the author of the Report for any further information):		
425 additional comments were received in response to the Consultation.		

1. INTRODUCTION AND BACKGROUND

- 1.1 Part 7, Section 139 of the Housing (Wales) Act 2014, amended the Local Government Act 1992 and allowed Welsh Local Authorities to increase the standard Council Tax of any property occupied periodically by up to 100%.
- 1.2 Dwellings occupied periodically are dwellings which, although substantially furnished, are not the designated taxpayer's sole or main residence. These properties are commonly described as second homes or holiday homes.
- 1.3 The power to charge the premium came into effect on 1 April 2017, and the Council initially set the premium at 25% but following a consultation in February 2019, the Council resolved to increase the premium to its current level of 35% from 1 April 2019.
- 1.4 As at 1 September 2021, 2,670 properties are subject to the 35% premium.
- 1.5 It should also be noted that it is possible for self catering holiday accommodation to be registered for Non Domestic (Business) Rates, rather than be registered as domestic properties which are subject to Council Tax and the premium. In order for a self catering holiday property to be registered for Non Domestic Rates, the designated taxpayer must satisfy the Valuation Office Agency (VOA) that the property is available for general let for 140 days per year and has actually been let for 70 days in a 12 month period. Any self catering property that is registered for Non Domestic Rates receives full relief under the Welsh Government's Small Business Rates Relief Scheme if the rateable value of the property is less than £6,000. Where the rateable value is between £6,000 and £12,000, partial relief is granted, which means that the designated taxpayer will pay some Non Domestic Rates. The majority of the self catering accommodation registered on Anglesey for Non Domestic Rates has a rateable value of less than £6,000. Currently, around 950 properties on Anglesey are defined as self catering properties and are registered for Non Domestic Rates.
- 1.6 The Housing (Wales) Act 2014 does not specify how the Council should use the additional revenue generated by the premium, but the guidance issued by the Welsh Government states that:-
- "The discretion given to local authorities to charge a premium is intended to be a tool to help local authorities to:*
- *Bring long term empty 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."*
- 1.7 At present, 10 local authorities in Wales (including Anglesey) apply the premium, which ranges from 25% (2 authorities), 35% (Anglesey), 50% (5 authorities) and 100% (2 authorities).

2 RESULTS OF THE CONSULTATION PROCESS

- 2.1 The Executive, at its meeting on 14 December 2020, resolved to:-
- undertake a full consultation on its intention to increase the premium, on second homes to 50% and its additional schemes to help local people, with residents of Anglesey, owners of second homes on the Island and operators of self catering accommodation between April and June 2021, with the final decision on the level of the premium being taken by the Executive in September 2021.*
- 2.2 The consultation opened on 14 June 2021 and closed on 6 August 2021. In total, 1,434 responses were received to the consultation.

- 2.3 Each respondent was asked to provide the Council with their post code. Of the 1,390 who provided this information, 1,256 (90.4%) were from Anglesey post codes, 23 (1.7%) from the remainder of Wales, 77 (5.6%) from the North West of England and 31 (2.2%) from other areas of England. 3 respondents submitted invalid post codes.
- 2.4 Respondents were also asked to provide more details of where they permanently resided and whether they were owners of a second home or a self catering unit. The results are shown in Table 1 below:-

**Table 1
Location of Responders**

	Council Tax Payers Only	Second Home Owners	Self Catering Unit Owners	Total
Residents of Anglesey	1,069 (76.5%)	36 (2.6%)	20 (1.4%)	1,125 (80.5%)
Non Anglesey Residents	0 (0.0%)	225 (16.1%)	47 (3.4%)	272 (19.5%)
Total	1,069 (76.5%)	261 (18.7%)	67 (4.8%)	1,397 (100%)

The figures above represents a response of approximately 10% from second home owners and 7% from operators of self catering units.

- 2.5 The consultation asked about people's opinion as to the impact of second homes on the local communities, the local economy and the Welsh language. The results are shown in Table 2 below:-

**Table 2
Impact on Local Communities, Local Economy and the Welsh Language**

	Impact on Local Communities	Impact on Local Economy	Impact on Welsh Language
Positive	291 (20.6%)	497 (35.1%)	55 (3.9%)
Neutral	156 (11.1%)	260 (18.4%)	349 (24.7%)
Negative	950 (67.3%)	625 (44.2%)	965 (68.2%)
Don't Know	14 (1.0%)	32 (2.3%)	45 (3.2%)
Total	1,411 (100.0%)	1,414 (100.0%)	1,414 (100.0%)

- 2.6 The figures in Table 1 and 2 suggest that the vast majority of Anglesey residents who responded to the consultation consider that the current number of second homes is having a negative impact on both local communities and the Welsh language but that the impact on the local economy is less negative, with over half of the respondents considering that the current number of second homes is having a positive or neutral impact on the local economy.
- 2.7 The consultation then asked about the level of the premium and whether the premium was too high or too low and, if it was to be raised, to what level should it be raised. 951 respondents (67.5%) felt that the current premium of 35% was too low, 153 (10.9%) felt it was at the correct level, 206 (14.6%) felt it was too high and 99 (7.0%) felt that no premium should be charged.
- 2.8 633 respondents (44.8%) were of the opinion that the premium should be increased to 100%, 228 (16.2%) stated that the premium should be between 50% and 100%, 115 (8.1%) supported raising the premium to 50%, 175 (12.4%) were satisfied with the current figure of 35%, 126 (8.9%) wanted to see the premium lowered and 135 (9.6%) did not believe the premium should be charged at all. The figures again suggest that the residents of Anglesey support raising the premium, or at least keeping it at the same level (1,151 respondents).

- 2.9** When asked how much of the income generated by the premium should be used to help local people purchase their first property, 687 (49.1%) of the people were of the opinion that all the income should be used, 434 (31.0%) wanted to see more of the income used to help local people, 207 (14.8%) felt that the current level was sufficient and 71 (5.1%) wanted less of the funding to be directed to support local people to purchase their first property.
- 2.10** The consultation then asked respondents to prioritise what the additional income should be used for. The responses resulted in the following priority order:-
1. To help local people purchase their first home;
 2. To help the Council support and extend the use of the Welsh language on Anglesey;
 3. To help the Council support communities with a high level of second homes and self catering units;
 4. To support and improve the level of general services provided by the Council;
 5. To help the Council deal with the impact of tourists on local communities with a high level of second homes and self catering units.
- 2.11** Owners of second homes were then asked how they would respond if the Council raised the premium. 487 people responded to the question, even though only 261 had identified themselves as second home owners (see Table 1). 219 people (45.0%) stated that they would change the property to a self catering holiday let and apply to the VOA to transfer the property across to the Non Domestic Rates register. 146 people (30.0%) would accept the premium and pay the charge. The remaining 122 people (25.0%) would either sell their home or rent it to a local resident.
- 2.12** The final question was asked of Anglesey residents only. 1,218 responses were received, with 853 (70.0%) expressing the opinion that raising the premium would have a positive impact on their local community, with 132 (10.9%) stating that the impact would be neutral and 167 (13.8%) believed it would have a negative impact. The remaining 66 (5.4%) did not know what impact it would have.
- 2.13** Respondents were also given the opportunity to provide any additional comments they wished to make. In order to help Members gain an overall picture from the comments, the comments have been reviewed to identify general themes and issues.
- 2.14** It was clear that a significant proportion of the respondents had polarised views, with local residents expressing the opinion that the high number of second homes on the Island were having a detrimental effect on local communities and the Welsh language and that the premium should be raised to the maximum, whilst second home owners identified that they brought benefits to the local economy and that the problems of higher house prices and the inability of local people to afford to purchase houses was not due to second homes and was not unique to Anglesey. They expressed the opinion that increasing the premium would not resolve the problem and that the problem would not be solved without improving the economy and increasing the average salaries for workers on Anglesey.
- 2.15** A summary of the general points raised and the number of responses making the point are shown in Table 3 below. It should be noted that some responses covered more than one point.

Table 3
Summary of the General Points Raised in the Consultation

General Point Made	Number of Responses
The Impact of the Current Level of Second Homes	
Second homes have a negative impact on communities	65
Second homes have a negative impact on the local economy	14
Second homes have a positive impact on the local economy	61
Second homes have a negative impact on the Welsh language	48
Second homes increase house prices out of the reach of local people	55

General Point Made	Number of Responses
Second home owners use less Council services and the level of Council Tax they pay should reflect that	32
The number of second homes is not the real issue and that the problems faced by local communities is as a result of more general economic issues	24
Comments in Respect of Raising the Premium	
Raising the premium will be counter productive as it will only result in more properties moving across to the business rates register	27
Raising the premium will have a negative impact on the tourism economy, with second home owners moving from Anglesey or having less disposable income to spend whilst on Anglesey	25
Increasing the premium will increase the supply of homes to locals as second home owners sell their properties or are less likely to purchase a property	7
The current loopholes which allow people to avoid paying the premium need to be closed to ensure the full impact of raising the premium is realised	64
Increasing the premium penalises those local residents who own a second property or who have specific reasons why they have a second property (visit and care for disabled parents, inherited properties, help to care for disabled children)	25
What the Council should do with the premium	
Build more social / affordable housing	24
Increase the support for local people to purchase their own property	6
Alternatives to the Premium which could be used to resolve the issues	
Council should look to improve the local economy in order to increase the average salary and to allow local young people the opportunity to live and work on Anglesey	30
Need to use planning policy to limit the number of second homes and self catering properties in specific areas and implement new laws to give local people priority status when properties are put up for sale	47
Implement a Tourism Tax	3

3 FINANCIAL IMPACT OF INCREASING THE PREMIUM

- 3.1** In order to understand the financial impact on the Council of increasing the premium, it is important to understand how the premium and any change to the number of properties on the Council Tax register effects, not only the income the Council receives from Council Tax, but also how any change in the number of properties in the taxbase changes the sum received as Aggregate External Finance (AEF) from Welsh Government.
- 3.2** For 2021/22, the number of properties (Band D equivalent) paying the standard Council Tax was 30,734.39, 2,762.22 (Band D equivalent) properties were identified as second homes and 465.97 (Band D equivalent) properties were identified as empty properties. In addition, 145.83 (Band D equivalent) MOD properties were also included in the taxbase calculation.
- 3.3** In setting the council tax taxbase, 2 different taxbase calculations are undertaken, one for setting the Council Tax and one which the Welsh Government use for determining the annual revenue settlement. The two taxbases are calculated as follows:-

**Table 4
Taxbase Calculation for Council Tax Setting Purpose**

	No. Band D Equivalent Properties	% of Properties included in the taxbase	Council Tax Charge	Allowance for Bad Debts	No. of properties included in the taxbase
Standard Council Tax	30,734.39	100.0%	100%	98.5%	30,273.37
2 nd Home Premium	2,762.22	80.0%	35%	98.5%	761.82
Empty Properties	465.97	80.0%	100%	98.5%	367.19
MOD properties	145.83	100.0%	100%	100.0%	145.83
Total Taxbase					31,548.21

**Table 5
Taxbase Calculation Used in the Annual Revenue Settlement**

	No. Band D Equivalent Properties	% of Properties included in the taxbase	Council Tax Charge	No. of properties included in the taxbase
Standard Council Tax	30,734.39	100.0%	100%	30,734.39
2 nd Home Premium	2,762.22	0.0%	35%	0.00
Empty Properties	465.97	0.0%	100%	0.00
MOD properties	145.83	100.0%	100%	145.83
Total Taxbase				30,880.22

- 3.4** It can be seen from Table 4 and 5 that the properties that are subject to the second homes and empty property premiums are not taken into account when the Welsh Government determine how much the Council receives in AEF. This is to ensure that the premium raised does generate additional funds for those local authorities who decide to charge the premium and does not result in lower AEF funding.
- 3.5** The Welsh Government determines for each of the 22 local authorities its Standard Spending Assessment (SSA). The overall SSA for Wales is determined by the Welsh Government based on a number of factors, including historic patterns of spending, grants that transfer in or out of the settlement and additional funding which Welsh Government include in the SSA to cover new responsibilities. The SSA is then split between the 22 authorities based on an allocation formula which takes into account a large number of datasets for each local authority (e.g. population, number of school children, number of people out of work, road lengths etc). The AEF calculation for Anglesey for 2021/22 is shown in Table 6 below:-

**Table 6
Calculation of Anglesey's AEF for 2021/22**

Standard Spending Assessment 2021/22		£'000
Less Funding generated by Council Tax	Taxbase as per Table 5 x Council Tax at Standard Spending 30,880.22 x £1,403.57	148,168 (43,343)
Total Aggregate External Finance		104,825
Funded By		
Redistributed Non Domestic Rate		23,480
Revenue Support Grant		81,345
Total Aggregate External Finance		104,825

- 3.6 As the properties subject to the second homes premium are not included in the taxbase for the purposes of calculating the Council's AEF allocation, any increase in the premium will generate additional funding for the Council. The additional income generated from an increase in the premium is shown in Table 7 below:-

**Table 7
Potential Additional Income by Increasing the Second Homes Premium**

	Budgeted Income @ 80% properties in Taxbase £'m	Potential Income @ 100% Properties in the Taxbase £'m	Increase in Budgeted Income from Current Level £'m	Increase in Potential Income from Current Level £'m
35%	1.021	1.296	0.000	0.000
40%	1.167	1.481	0.146	0.185
50%	1.459	1.852	0.438	0.556
60%	1.751	2.222	0.730	0.926
75%	2.189	2.777	1.168	1.481
100%	2.918	3.703	1.897	2.407

- 3.7 However, we have seen over the past few years that a number of second home owners have successfully reclassified their properties as self catering units and have transferred from paying council tax and the premium to being on the Non Domestic rates register. As shown in the consultation (see paragraph 2.11), 45% of the owners of second homes stated that they would attempt to transfer their property to the Non Domestic Rates register.

- 3.8 The following Table (Table 8) shows what impact the loss of different numbers of properties would have on the level of potential additional income:-

**Table 8
Potential Additional Income Allowing for the Loss of Properties to the Business Rates Register**

		Level of Second Homes Premium				
		35%	40%	50%	75%	100%
		£'000	£'000	£'000	£'000	£'000
Percentage of Properties Transferring to Business Rates (Band D Equivalent)	0%	0	185	556	1,481	2,407
	5%	(65)	111	463	1,342	2,221
	10%	(130)	37	370	1,204	2,037
	15%	(194)	(37)	278	1,065	1,852
	20%	(259)	(111)	185	926	1,667
	25%	(324)	(184)	93	787	1,481
	30%	(389)	(259)	0	648	1,296

- 3.9 When a property transfers from the Council Tax register to the Non Domestic register, there is a short term and long term impact on the income generated through Council Tax and on the overall Welsh Government revenue settlement. This is because when a property transfers, it is not just the premium income that is lost, but the Council will also lose the standard Council Tax and the taxbase reduces.

3.10 In the short term, the Council will lose the standard element of Council Tax (including the Police and Town / Community Council precept). The Council will refund the ratepayer any Council Tax paid, back to the effective date of the transfer of the property to the Non Domestic rates register. The effective date can be backdated a number of years, depending on what evidence is submitted and accepted by the VOA when deciding whether a property is eligible to be included on the Non Domestic Rates register. As properties fall out of the taxbase after the Council has received the annual revenue settlement from the Welsh Government, this loss of income i.e. refunded Council Tax, is borne by the Council. The potential loss for 2021/22 as a result of properties transferring across to the Non Domestic Rates register is shown in Table 9 below. It should be noted that the figures shown in the table are based on an assumption that the effective date of transfer is 1 April 2021 in all cases. This is a hypothetical assumption and does not reflect what happens in reality.

Table 9
Potential Loss in Standard Council Tax in 2021/22 as a Result of Properties Transferring to Business Rates

Percentage of Second Homes Transferring	Number of Second Homes Transferring (Band D Equivalent)	Standard Council Tax (incl Precepts) £	Potential Loss of Council Tax Income £'000
5%	138.11	1,697.13	234
10%	276.22	1,697.13	468
15%	414.33	1,697.13	703
20%	551.44	1,697.13	936
25%	690.55	1,697.13	1,172
30%	828.66	1,697.13	1,406

3.11 In future years the reduction in the taxbase has no impact on the Council's funding. Assuming that the SSA remains the same, any reduction in the taxbase and resulting income that is generated through Council Tax would be offset by an equivalent increase in the Council's AEF allocation from Welsh Government. As properties that transfer from the Council Tax register to the Non Domestic Register will benefit from the Small Business Rates Relief scheme, the owners of these properties will not pay any Non Domestic Rates and, as such, the sum available in the Non Domestic Rates pool remains unchanged. Therefore, in order to fund the increased AEF, Welsh Government have to increase the amount of RSG it provides or reduce the overall SSA for Wales i.e. all authorities would share the financial burden as a result of the reduced taxbase on Anglesey.

4 BENEFITS IN INCREASING THE PREMIUM

4.1 As shown above, increasing the premium will increase the income available for the Council to use to provide help to local people to purchase their first property, help to fund the building of additional affordable homes on the Island and provide additional funding for other services where the need increases as a result of the increased number of second homes / tourists on the Island. The level of additional income is very much dependant on how second home owners respond to an increase in the premium.

- 4.2** In addition to providing additional income for the Council, the purpose of the premium is to try and control and limit the number of properties that are used as second homes, i.e. the premium increases the level of Council Tax charged to such a level that second home owners decide to either sell their home or let it to local people. To date, the premium does not appear to have had this affect and what has happened is that second home owners have tried to utilise the regulations to avoid paying the premium. Over 200 second homes have transferred to the Non Domestic Rates register over the past 12 to 18 months but, despite this, the level of second homes paying the premium has continued to increase with more properties being bought as second homes. An increase in the premium may encourage second home owners to sell or let their property and may deter others from purchasing properties for use as second homes. It is difficult to assess what the increase should be to achieve this objective but, clearly, the current level of 35% is not sufficient to limit the numbers.
- 4.3** The Council has made representations to the Welsh Government on the impact the increasing numbers of second homes is having on the Island, its Communities, the Welsh Language and the ability for young people to continue to live on Anglesey. The Welsh Government recognises and accepts that there are issues, but they believe that the introduction of the premium is a tool that Councils can use to control the number of second homes and that the Councils should set the premium at a level that will control the number of second homes. If the Council decides to increase the premium significantly and it fails to reduce the number of second homes, it should give the Council greater leverage to ask Welsh Government to use other powers to reduce the number of second homes and self catering accommodation e.g. changing planning laws, closing the loopholes which allow second home owners to avoid paying the premium.
- 4.4** The results of the Consultation, and the comments which were received, clearly demonstrate that a majority of the people on Anglesey want, and expect, the Council to take some action to reduce the numbers of second homes on the Island and to help local people to either purchase or rent a property. An increase in the premium would demonstrate to the residents of Anglesey that the Council is doing all that it can within the powers available to try and reduce the numbers of second homes and is putting in additional funds to schemes designed to help local people.

5 RISKS IN INCREASING THE PREMIUM

- 5.1** It is clear that the “loophole” which allows second home owners to transfer properties to the Non Domestic Rates register is being used constantly and the Council is losing a significant number of properties from the Council Tax register because of this loophole. It is clear from the consultation that, if the premium is increased significantly, then second home owners will continue to use the loophole in order to avoid paying the premium and will benefit from the Small Business Rate Relief scheme and will pay no tax at all on their properties. The potential financial implications of the loophole are shown in paragraphs 3.8 to 3.11 above.
- 5.2** As the premium increases, second home owners will increasingly try and use any method available in order not to pay the premium or simply refuse to pay the premium. These can include claiming that the property is their main residence, claiming to let the property to other members of the family or friends or resorting to submitting appeals against the levying of the premium. Any increase in the premium will bring an increased workload for Council Tax staff to deal with appeals, to verify changes in occupation, to identify tax avoidance and to deal with additional recovery action which will be required to collect the Council Tax and Premium from those who refuse to pay. Additional resources can be funded from the additional income generated from the premium. Based on the additional workload which was created when the premium was first introduced, it is considered that 2 additional members of staff would be required to deal with appeals and recovery action but also to increase the amount of proactive work that can be undertaken to identify tax avoidance.

- 5.3** It is unclear what level of premium will achieve the required objective of limiting / reducing the number of second homes. There is a significant risk that any rise in the premium may not be sufficient to deter people from buying second homes but may have a negative effect in other areas, such as the tourism economy, as has been suggested by some of the responders to the consultation. The existence of the loophole that allows people to readily transfer their property to the Non Domestic rates register increases the risk that the rise in premium will not reduce the number of properties on the Island which are used as second homes or as self catering holiday accommodation.

6 CONCLUSIONS

- 6.1** The majority of Anglesey residents who responded to the consultation were of the opinion that the current number of second homes on the Island was having a detrimental effect on local communities and the Welsh language and, to a lesser extent, on the local economy. They were also of the opinion that the high number of second homes was increasing house prices to the point where they were not affordable for local people (paragraph 2.5, 2.6 & 2.15).
- 6.2** The majority of people who responded to the consultation supported an increase in the premium on second homes with 45% of those responding supporting an increase to 100% (paragraph 2.8).
- 6.3** The majority of respondents want to see the Council use any additional funds generated to help local people to buy or rent their first home (paragraph 2.10).
- 6.4** The consultation also highlighted the alternative view of second home owners, in that they make a positive contribution to the local economy, place a significantly lesser burden on local public services than permanent residents and that the issues relating to the lack of affordable housing for local people was as a result of a number of wider issues, including the state of the local economy, and that raising the premium will not solve those underlying issues (paragraph 2.12 & 2.15).
- 6.5** Raising the premium will generate additional income for the Council, but the level will be dependant on how the second home owners react to the increase. The level of additional income generated may be lower if second home owners use the existing loopholes to avoid paying the increased premium (paragraph 3.8).
- 6.6** There is a significant risk that a steep rise in the premium will result in a large number of properties being re-designated as self catering accommodation and being subject to Non Domestic rates rather than Council Tax. This would result in a one off drop in Council Tax income in 2022/23, but this will be offset by an increase in Welsh Government funding in 2023/24 which would result from how the funding mechanism operates (paragraph 3.10).
- 6.7** Raising the premium significantly allows the Council to respond to Welsh Government's comments that the Council is not fully utilising the powers it has been given to tackle the problem of increasing numbers of second homes on the Island. An increase in the premium would give the Council greater leverage on Welsh Government to respond to close loopholes and to change planning laws and policies (paragraph 4.3).
- 6.8** More administrative resources would be needed if the premium was increased, to deal with an increased workload that will result and to allow more resources to be directed towards identifying those who are avoiding paying the premium (paragraph 5.2).

7 RECOMMENDATIONS

- 7.1** The Executive to recommend to the Council that the premium on properties that are substantially furnished but which are not deemed as the taxpayer's sole or main residence (second homes) is increased to 50% from 1 April 2022/23.
- 7.2** The taxpayers which are currently identified as being subject to the premium are formally notified of the Council's intention to increase the premium to 50% as soon as possible, in order to allow them to make alternative arrangements if they do not wish to pay the increased premium.

- 7.3** The Executive reaffirm their intention to:-
- (i)** increase the premium on properties that are substantially furnished but which are not deemed as the taxpayer's sole or main residence (second homes) to 75% from April 2023 and 100% from April 2024;
 - (ii)** continue to put pressure on the Welsh Government to do all it can to allow the Council to control the number of second homes on the Island;
 - (iii)** continue to request the Welsh Government to change the current legislation so as to ensure that the owners of second homes make a suitable tax contribution, either by means of Council Tax or through Business Rates.
- 7.4** That funding is released from the additional income generated to employ 2 additional members of staff in the Council Tax team from January 2022 to deal with the increased workload (appeals, recovery etc.) and to allow the Team to be more proactive in identifying tax avoidance. Based on the 2021/22 payscales, a sum of £65k would be sufficient to meet the cost of pay and the associated on costs.
- 7.5** The Executive to determine how to utilise the additional income and that the proposals are included as part of the 2022/23 revenue budget proposals, with the majority of the additional income being directed to funding schemes to help local people purchase their own home and to promote the local economy.