

Local Government and Housing Committee

11 May 2022

Second Homes and Affordability in Wales

Background

The issues related to the impacts associated with large concentrations of second homes have long stimulated debate. It is an issue brought into even sharper focus by the current increases in house prices in Wales. Since the start of the Covid pandemic, the Welsh Government and others have considered this phenomenon with renewed scrutiny and energy.

The supply and cost of housing impact on its availability, both to buy and for long-term rent; issues that go beyond areas with large concentrations of second homes.

The challenge in terms of affordability and availability can also affect the balance and sustainability of communities and the vitality, in them, of Welsh as a thriving language. Many of the second home 'hotspots' are also those where Welsh is the community language.

In addressing the complex challenges, the Welsh Government has been clear that there is no single solution and of the need to avoid unintended consequences.

Approach and Coordination

In respect of the broad approach to addressing supply issues, one of the ways the Welsh Government is tackling this challenge is through the commitment to building 20,000 new low carbon homes for rent in the social sector; a target that includes social homes for rent, intermediate homes for rent and shared ownership schemes.

In terms of second homes, specifically, Dr Simon Brooks, in his report of March 2021, *Second Homes in Wales: Developing new policies*, made a number of recommendations, which were accepted by the Welsh Government. Subsequently, we have taken, and are taking, coordinated actions as part of the 'three-pronged approach'.

That approach, brigading interventions in respect of system change; a fair contribution through taxation; and practical support to communities, entails significant work across a number of portfolio interests.

The lead for coordinating Welsh Government activity rests within the Minister for Climate Change's portfolio, but other portfolio interests include those of the Minister for Finance and Local Government, the Minister for Economy, and the Minister for Education and Welsh Language.

The Welsh Government has been clear that the answers to the various challenges do not rest solely with the party of government. The cooperation agreement includes a specific focus and commitments on second homes and actions are being co-constructed with Plaid Cymru. In addition, we continue to meet spokespeople within an informal cross-party group on second homes.

Consultations on Key Proposals

The Welsh Government has developed a broad range of policy proposals and conducted a number of consultation exercises. As of now, the following consultations have been completed:

- Local taxes for second homes and self-catering accommodation (closed 17 November, 2021);
- the Welsh Language Communities Housing Plan; and
- Planning legislation and policy for second homes and short-term holiday lets (both having closed on 22 February 2022).
- Second homes: local variation to land transaction tax rates (closed 28 March 2022).

We have also completed a technical consultation on the Draft Non-Domestic Rating (Definition of Domestic Property) (Wales) Order 2022. This closed on 12 April and the responses are being analysed.

Each of the completed consultations has drawn large numbers of responses, reflecting the strength of feeling across the various interests. Currently, more than 1,650 responses to the planning consultation are being analysed - balancing careful consideration with final decision-making and appropriate actions.

The consultations are addressed below, save for the Welsh Language Communities Housing Plan, as the Minister for Education and Welsh Language will be providing evidence on this plan.

Local Taxation

Following consultation, the Minister for Finance and Local Government made a statement on 2 March concerning changes to council tax premiums and the thresholds for self-catering holiday lets to be listed for non-domestic rates.

Wales remains the only UK country to provide local authorities with a discretionary power to levy council tax premiums on both second homes and long-term empty properties. Those powers, applicable since 2017, have enabled local authorities to use the revenue raised to support the development of affordable housing solutions. It can be seen, for example, that this revenue makes a significant contribution to Gwynedd Council's five-year 'Housing Action Plan'.

The current maximum levy of 100% is currently deployed by Gwynedd, Swansea and Pembrokeshire Councils in respect of second homes.

The Minister for Finance and Local Government's statement confirmed that the maximum charge, from 1 April 2023, will rise to a maximum of 300% and the relevant regulations were approved on 22 March. The powers to apply a premium remain discretionary and it is for individual authorities to decide whether to apply a premium and at what level. The increase to the maximum charge enables local authorities to settle on a level that takes account of local circumstances and to do so at an appropriate time.

While Dr Brooks recommended local authorities avail themselves of this discretionary power, and to the maximum permitted level, it is a finely balanced decision. One reason cited by authorities for not doing is a view that second home owners may seek to transfer their properties into the non-domestic rates (NDR) system. Currently, owners who operate as providers of short-term holiday lets are liable for rates rather than council tax if they make their properties available to let for at least 140 days in a twelve-month period and actually let them for at least 70 days within that period.

We plan to raise the thresholds to make it clearer that properties liable for NDR are operating as businesses. Like other small businesses, most holiday lets qualify for Small Business Rates Relief (SBRR) and, thus, pay neither council tax nor NDR. This approach will help ensure that owners are paying an appropriate amount in taxation and make a contribution to the local economy.

Accordingly, the Minister for Finance and Local Government also announced that for properties to be liable for NDR rather than council tax, owners will need to make their properties available for at least 252 days a year and actually let them for at least 182 days. The Order to effect this change has been the subject of a technical consultation, the results of which are being analysed. The increase will have the combined benefit of helping ensure that our communities are vibrant (rather than having 'lights off' for long periods of the year) and that they benefit from tourism spend and associated employment. We are also supporting the Valuation Office Agency to increase monitoring of the letting criteria and the supporting evidence.

The Welsh Government remains in the vanguard of these approaches, in terms of the powers to apply premiums, and of the thresholds and their monitoring.

Planning

As Dr Brooks and others have recognised, the issue of second homes is not a pan-Wales phenomenon; neither is it one that is seen often on a county-wide basis. Where there are concentrations of second homes and/or short-term holiday lets, these can pose challenges in terms of housing supply, changing demographics, and affecting service provision and the Welsh language. They can also make contributions to the local economy and to employment. The appropriate balance to be struck must reflect local democracy and, in turn, the decisions each authority feels are the right ones for their communities.

There is a paradox here because the Welsh Government is responsible for the planning system nationally and as such planning policy and legislation is made on an all-Wales basis. The national consultation on proposed planning interventions invited views on changes that could, if effected locally, place more control in the hands of local planning authorities – where they have the necessary supporting evidence.

Briefly, the consultation considered changes to the Town and Country Planning (Use Classes) Order 1987, which, if implemented, would create new use classes for Primary Homes, Secondary Homes and Short-term Holiday Lets. Allied to this, the proposals sought views on amending the Town and Country Planning (General Permitted Development) Order 1995 to allow permitted changes between those new

use classes across Wales without the need for specific planning permission. A local authority would then be able to *disapply* permitted changes between the use classes through an Article 4 Direction if it had evidence that there was an issue and had fully considered and consulted on its proposals.

This could result in local authorities requiring planning permission for change of use to a Secondary Home or Short-term Holiday Let where it constitutes a 'material change of use' to the existing land use. A Direction would be able to be applied across county or in specified areas within the area, or to a specific type of development. These local planning policy approaches could apply to new development or changes of use.

Making enabling legislation, and supporting guidance, would constitute a ground-breaking development. It is, though, particularly complex, not without implications (both for planning departments and for vendors/buyers) and requires careful thought in terms of next steps and final decision-making.

Land Transaction Tax (LTT)

We have also consulted on increasing the higher rates of LTT in areas where there are large numbers of second homes and holiday lets. The consultation, which closed on 28 March, sought views on the size of areas where local variation could apply (i.e. at local authority-wide or smaller community-levels); the process for identifying the areas where higher rates could apply; and whether the existing higher rates (which apply to *all* additional residential properties) should be increased or new rates should be applied only to second homes and holiday lets. The responses are currently being analysed.

Statutory Registration and/or Licensing of All Holiday Accommodation

The Welsh Government is also taking forward work towards the development of a scheme to require that all holiday accommodation, including short-term holiday lets, is either licensed or registered. An initial exercise to scope out establishing a statutory registration and/or licensing scheme for all holiday accommodation has been undertaken.

Whilst the contractor's work has not drawn clear conclusions about what a scheme should look like and what it should include, the research undertaken draws out a number of options which are currently being considered.

As well as supporting other Welsh Government policy areas such as the Tourism Levy and the work on second homes, a statutory registration scheme will ensure a level playing field for all tourism businesses; provide added assurance for visitors to Wales; a mechanism for communication and far more robust intelligence about numbers and proliferation (which could in turn support any planning decisions arising from the consultation outlined above).

Whilst a statutory scheme will inevitably take some time to establish, the Welsh Government is keen to test practicalities including systems, monitoring and enforcement, and resource costs as part of a pilot.

Pilot and Evaluation

One of Dr Brooks' recommendations was that the Welsh Government pilot changes to the planning regime. It was announced on 23 November that a pilot in Dwyfor would be developed with Gwynedd Council and Snowdonia National Park. The pilot will test any new planning powers and decisions that the two Local Planning Authorities take, but will also seek to evaluate, independently, the cumulative impact of decisions that might be taken and implemented arising from the consultations referred to above. Equally, the pilot will provide an opportunity for pilot partners to consider trialling different uses of their current powers.

Two dedicated posts, based in Dwyfor, have been appointed. In taking forward their work, they will liaise with the community, pilot stakeholders and the evaluation contractor. Work is also well advanced with partners, including Grwp Cynefin, to flex the existing HomeBuy Wales scheme within the pilot – so that it better meets local circumstances. Further details of the scope and funding will be announced shortly.

Already, £11m has been committed in-year to support buyback of empty properties in Welsh-speaking communities. £3m was awarded to Gwynedd, with at least £1m of that earmarked for Dwyfor. Again, schemes are in development to extend that support, both within and outside the pilot area, to help ensure that appropriate buildings are not left empty, but are instead of tangible benefit to communities.

Summary

None of this is without significant complexity, but the Welsh Government, together with Plaid Cymru, is continuing to make strides in its broad and systemic approach to addressing the multifactorial issues relating to second homes in Wales.