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Llywodraeth Cymru
Welsh Government

Our ref: RE/05230/19

Janet Finch-Saunders AM
Chair – Petitions Committee

SeneddPetitions@assembly.wales.

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Dear Janet,

Thank you for your letter about second home premiums, sent on behalf of the Petitions Committee.

As outlined in our Tax Policy Work-Plan 2018, my officials are currently reviewing the impact and use of the discretionary powers for local authorities to apply council tax premiums and whether the new legislation introduced in 2016 is operating as intended.

Last summer, we requested a range of information from local authorities to inform the review. We have also requested information from the Valuation Office Agency and have been analysing the official statistics held by the Welsh Government.

In partnership with the Welsh Local Government Association, my officials have also established a working group of local authority experts to review the use of council tax premiums and discounts. This group met for the first time on 8 May. The group will now work with my officials to consider the evidence gathered and to inform future policy options. It is my intention to provide an update on this work before the end of the summer term.

There is no legal loophole. The Housing Act (Wales) 2014 provides discretionary powers for local authorities to apply premiums of up to 100% to the council tax bills for second homes and long-term empty properties. These provisions were introduced to assist local authorities in managing issues of local housing supply. They were not introduced as a revenue-raising measure. The provisions enabled authorities to introduce premiums from 1 April 2017 (after allowing the necessary period for properties to meet the relevant conditions).

The decision to apply a premium is a matter for each local authority. Each authority needs to consider all the possible effects in deciding whether to make use of these powers. This includes taking account of the effect of introducing premiums on the local economy and the possible effect on the local tax-base.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

We recognise that some dwellings could be used either as second homes or as commercially let self-catering accommodation for holiday-makers and we have legislated to make the distinction clear.

To qualify as self-catering accommodation, a dwelling must be available to let for at least 140 days in a 12-month period and actually let for at least 70 days. The definition was set out in The Non-Domestic Rating (Definition of Domestic Property) (Wales) Order 2010. The Order was revised and strengthened in 2016. The periods for qualification as self-catering accommodation were retained, reflecting the responses we received to the public consultations.

Owners of self-catering accommodation must provide evidence that their property meets the criteria. The Valuation Office Agency determines whether a property is categorised as domestic or non-domestic. The Agency is independent of the Welsh Government. Dwellings which do not meet the criteria, including second homes kept mainly for private use, are liable for council tax.

As part of our work to review the use of council tax premiums, my officials have asked local authorities to provide any evidence they might have that private second homes are being incorrectly listed as self-catering properties. As yet, no evidence has emerged to suggest that such properties are being incorrectly listed. I would also add that anyone who owns a dwelling which is listed as self-catering accommodation but does not meet the necessary criteria could face a large backdated council tax bill for that property.

In setting the criteria for self-catering accommodation, we were very conscious of the need to strike the right balance between supporting the tourism industry in Wales and ensuring that underused second homes do not limit the availability of affordable housing, particularly in some of our smaller, rural communities.

Within the context of the council tax system, the term ‘second home’ refers to a variety of dwellings which are not somebody’s sole or main residence. It is not confined to dwellings being used as private holiday or weekend homes. For example, the definition includes properties being marketed for sale or let, properties owned by people whose job requires them to work elsewhere, purpose-built seasonal homes, and caravans. Many of these would not be available or suitable for year-round occupation.

Dwellings that are genuinely available for let as self-catering accommodation make an important contribution to the tourism economy in Wales – a foundation sector in our Economic Action Plan – and fall within the non-domestic rating system. Many of these properties are eligible for support through our Small Business Rates Relief scheme. In putting our permanent Small Business Rates Relief scheme in place from 1 April 2018, we consulted on the features of the new scheme, including whether there should be any exceptions to the scheme.

Small Business Rates Relief is fully funded by the Welsh Government, ensuring local authorities do not lose revenue as a result of businesses in their area receiving this relief. All the non-domestic rates revenue raised in Wales is pooled and distributed to local authorities

as part of the annual local government settlements. Most councils in Wales generally receive more revenue from the pool than they contribute to it.

Changes in the council tax-base are also taken into account in the annual local government settlement calculations. If an authority's tax-base falls (eg. as a result of properties transferring from the council tax list to the non-domestic rating list) relative to other authorities, its proportionate share of the settlement increases.

We also legislated to ensure that Small Business Rates Relief is limited to two properties per business per local authority. This includes self-catering accommodation. People owning larger properties or numerous small properties cannot be considered as small businesses and are required to pay rates.

More generally, I am examining options for the short, medium and longer term reform of local taxes to ensure they are designed to best meet the needs of Wales. My intention is to take a progressive, fair and transparent approach towards local taxation which continues to provide funding for vital local services.

Yours sincerely,

Rebecca Evans AC/AM
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