



FULL COUNCIL

Wednesday, 25 January 2023

Subject	Council Tax Premiums on Second Homes and Empty Properties
Report by	Councillor Maurice Cook Cabinet Member with responsibility for Resources
Supporting Officer	Brian Mew Chief Finance Officer and Section 151 Officer Brian.mew@eastsuffolk.gov.uk

Is the report Open or Exempt?	OPEN
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Category of Exempt Information and reason why it is NOT in the public interest to disclose the exempt information.	Not applicable.
Wards Affected:	All Wards

Purpose and high-level overview

Purpose of Report:

The purpose of this report is to approve changes to Council Tax premiums - as included within the Levelling Up and Regeneration Bill – which, subject to the Bill receiving Royal Assent prior to 31 March 2023, are due to become effective from 1st April 2024.

Options:

The Council could consider the option of not approving these changes to Council Tax premiums and maintaining the present position. This option is not recommended for the reasons outlined in this report.

Recommendations:

That Full Council approve

1. That, in principle, the following additional Council Tax premiums be applied from 1 April 2024, subject to the Levelling Up and Regeneration Bill receiving Royal Assent:
 - 100% premium for properties which have been empty and unfurnished for a period of between 1 and 2 years;
 - 100% premium for second homes.
2. That Chief Finance Officer and Section 151 Officer be granted delegated authority to implement the introduction of these additional premiums when the Levelling Up and Regeneration Bill receives Royal Assent.

Corporate Impact Assessment

Governance:

None arising directly from this report.

ESC policies and strategies that directly apply to the proposal:

East Suffolk Strategic Plan

Medium Term Financial Strategy

East Suffolk Council Discretionary Council Tax Reliefs and Charges policies

East Suffolk Housing Strategy 2017-23

East Suffolk Council Private Sector Housing Strategy 2019-2023 (updated October 2020)

Environmental:

Empty homes represent a wasted resource and where opportunities arise to renovate and return these properties to use, the end result will be a modernised, more energy efficient home utilising fewer resources than a new build.

Equalities and Diversity:

An Equalities Impact Assessments (EqIA) has been prepared in respect of the proposals contained in this report, and is attached as Appendix C. Bringing long term empty properties back into use as affordable homes can support those on low incomes and suffering poverty, and the additional income from these premiums will support the provision of services by all precepting authorities.

Financial:

The implementation of the proposals contained in this report in 2024/25 would increase the council tax base which has financial implications for precepting authorities as their income from a given level of Band D council tax is increased. At 2022/23 council tax levels, the Second Homes 100% premium could potentially result in increases in council tax income as follows: Suffolk County Council £5.853m; Suffolk Police and Crime Commissioner £1.007m; and East Suffolk Council £717k.

In practice, as outlined in the main part of this report, these figures could be somewhat lower due to customer behaviours, such as redesignating primary residences, switching properties to business rates, etc., although the risk of this is considered to be relatively low. In addition, by the time the premiums are implemented in 2024/25, the council tax levels are likely to have been subject to two further annual increases, e.g. an equivalent 2024/25 income figure for ESC would probably be £760k.

For town and parish councils, an increase in the tax base means that if the parish kept its precept the same as the previous year, it would see a reduction in the parish element of the council tax. Alternatively, it could keep the parish element of the council tax the same and receive a higher level of precept income. If towns and parishes adopted the latter approach, they could potentially receive additional income over £308k at 2022/23 council tax levels.

Potential income related to the proposed change to the empty property premium is more difficult to predict as the eligibility of a property for this premium changes over time. Financial benefit is likely to decrease in time as the premium is there to incentivise empty properties back into use, and change behaviours. Consequently, this is an income stream to note rather than rely upon.

However, based on the October 2022 CTB1 return, it is reasonable to assume that additional income could be generated in 2024/25 to the precepting authorities in the region of: Suffolk County Council £505k; Suffolk Police and Crime Commissioner £87k; and East Suffolk Council £62k. Estimated income for town and parish councils has not been broken down to parish level, but based on the average parish council tax, could be in the region of £27k in total.

Human Resources:

None arising directly from this report.

ICT:
None arising directly from this report.
Legal:
The recommendations set out within this report are subject to the Levelling Up and Regeneration Bill receiving Royal Assent.
Risk:
None arising directly from this report.

External Consultees:	There is no formal requirement to consult on changing these council tax premiums in advance of them being implemented in April 2024.
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Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: (Select only one primary and as many secondary as appropriate)		Primary priority	Secondary priorities
T01	Growing our Economy		
P01	Build the right environment for East Suffolk	<input checked="" type="checkbox"/>	<input type="checkbox"/>
P02	Attract and stimulate inward investment	<input type="checkbox"/>	<input type="checkbox"/>
P03	Maximise and grow the unique selling points of East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P04	Business partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P05	Support and deliver infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T02	Enabling our Communities		
P06	Community Partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P07	Taking positive action on what matters most	<input type="checkbox"/>	<input type="checkbox"/>
P08	Maximising health, well-being and safety in our District	<input type="checkbox"/>	<input type="checkbox"/>
P09	Community Pride	<input type="checkbox"/>	<input type="checkbox"/>
T03	Maintaining Financial Sustainability		
P10	Organisational design and streamlining services	<input type="checkbox"/>	<input type="checkbox"/>
P11	Making best use of and investing in our assets	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P12	Being commercially astute	<input type="checkbox"/>	<input type="checkbox"/>
P13	Optimising our financial investments and grant opportunities	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P14	Review service delivery with partners	<input type="checkbox"/>	<input type="checkbox"/>
T04	Delivering Digital Transformation		
P15	Digital by default	<input type="checkbox"/>	<input type="checkbox"/>
P16	Lean and efficient streamlined services	<input type="checkbox"/>	<input type="checkbox"/>
P17	Effective use of data	<input type="checkbox"/>	<input type="checkbox"/>
P18	Skills and training	<input type="checkbox"/>	<input type="checkbox"/>
P19	District-wide digital infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T05	Caring for our Environment		
P20	Lead by example	<input type="checkbox"/>	<input type="checkbox"/>

P21	Minimise waste, reuse materials, increase recycling	<input type="checkbox"/>	<input type="checkbox"/>
P22	Renewable energy	<input type="checkbox"/>	<input type="checkbox"/>
P23	Protection, education and influence	<input type="checkbox"/>	<input type="checkbox"/>
XXX	Governance		
XXX	How ESC governs itself as an authority	<input type="checkbox"/>	<input checked="" type="checkbox"/>

How does this proposal support the priorities selected?

The vision of the East Suffolk Strategic Plan is to “deliver the highest quality of life possible for everyone who lives in, works in and visits East Suffolk”. The proposals in this report are intended to assist in addressing the problems of the provision of affordable housing in the district, by way of incentivising the bringing back into occupation and repurposing of empty properties and second homes. The potential Council tax income arising from the premiums also directly contributes to the Financial Sustainability theme, and will support other precepting authorities in the provision of services, especially the County Council.

Background and Justification for Recommendation

1 Background facts	
1.1	A large part of the Council Tax legislation is mandatory on all billing authorities within England. Discounts (such as Single Person Discounts), Disregards and Exemptions are set by statute with no discretion allowed. However, the Local Government Finance Act 2012 introduced opportunities for Local Authorities to raise additional revenue from Council Tax, and incentivise the occupation of empty properties, by providing some discretion over the application of discounts and premiums on second homes and empty properties. The changes arising from this legislation came into effect on 1 April 2013.
1.2	The main discretionary areas relate to the following: (a) Second homes (premises which are no-one's sole or main residence but are furnished); (b) Unoccupied and substantially unfurnished premises; (c) Unoccupied and substantially unfurnished premises which require or are undergoing structural repairs; and (d) Premiums where premises have been unoccupied and substantially unfurnished for a period exceeding 2 years.
1.3	The tax base for the area is the estimated number of chargeable dwellings expressed as a number of band D equivalents, adjusted for an estimated number of discounts, exemptions and appeals plus an allowance for non-collection. Discounts and premiums as outlined above are reflected as increases or decreases in the tax base. Increases or reductions in the council tax base have financial implications for precepting authorities as their income from a given level of Band D council tax is either increased or reduced.
1.4	Premiums were introduced by Government in 2013 with a view to encouraging homeowners to occupy homes and not leave them vacant in the long term. Initially premiums could only be charged at 50% but legislation was changed to allow a progressive charge to be made as follows: <ul style="list-style-type: none"> • Dwellings left unoccupied and substantially unfurnished for 2 years or more, up to 100%;

	<ul style="list-style-type: none"> • Dwellings left unoccupied and substantially unfurnished for 5 years or more, up to 200%; and • Dwellings left unoccupied and substantially unfurnished for 10 years or more, up to 300%.
1.5	Regarding second homes, billing authorities are currently allowed to apply a discount of between 0% and 100% to this category of chargeable dwellings.
1.6	The Government's Levelling Up and Regeneration Bill was published in May 2022 and includes further discretionary options for the application of Council Tax premiums on empty properties and second homes. Subject to the Bill receiving Royal Assent the proposed changes will come into effect on 1 April 2024. If the Council wishes to adopt any changes arising from the Bill it is required to make a resolution confirming its requirements by no later than 31 March 2023.

2 Current position

2.1	It is a statutory requirement for the Council to set and review annually its Discretionary Council Tax Discounts. The Full Council meeting of 23 February 2022 approved that no changes be made to the Council Tax discounts to be applied from 1 April 2022, which were approved by the Shadow Council at its meeting on 3 December 2018 (REP 9(SH)). The current level of discount applied to second homes across the district is 0%.
2.2	<p>At its meeting 28 February 2019, the East Suffolk Shadow Council approved Council Tax Long Term Empty Property Premiums as follows:</p> <ul style="list-style-type: none"> • 100% premium on Long Term Empty properties, empty for more than two years, raising the Council Tax to 200% from 1 April 2019, • 200% premium on Long Term Empty properties, empty for longer than five years, raising the Council Tax to 300% from 1 April 2020, and • 300% premium on Long Term Empty properties, empty for longer than 10 years, raising the Council Tax to 400% from 1 April 2021.

3 How to address current situation

3.1	The Government encourages all billing authorities to adopt Council Tax premiums on empty properties with a view to incentivising property owners to bring those properties back into use. As outlined above, premiums are currently charged where properties are left unoccupied and unfurnished for periods exceeding 2 years.
3.2	In May 2022 the Government published the Levelling Up and Regeneration Bill (the Bill). The Bill includes proposals aimed at further addressing empty properties through the application of Council Tax premiums, in addition to measures which recognise the impact that high levels of second home ownership can have in some areas.
3.3	<p>Through the Bill it is the Government's intention to:</p> <ol style="list-style-type: none"> a) reduce the minimum period for the implementation of a Council Tax premium for empty premises from two years to one year; and b) allow Councils to introduce a Council Tax premium of up to 100% in respect of second homes.

3.4	The changes outlined in 3.3 are subject to the Bill receiving Royal Assent, and will become effective from 1 April 2024 at the earliest. In its current form the Bill requires billing authorities to make a resolution confirming their intentions on the application of the premiums at least 12 months prior to the financial year in which the changes will come into effect; meaning that the Bill will require Royal Assent to be obtained prior to 31st March 2023 in order for billing authorities to be given the powers to make a resolution and adopt the changes for the year commencing 1 April 2024. The Bill continues to make its way through Parliament, with an aim of it obtaining Royal Assent in 'spring 2023'. It is currently uncertain whether the Royal Assent will have been granted in time to allow the changes to be implemented in 2024/25.
3.5	This report seeks an in principle decision from Full Council to agree proposals in regards to the Council Tax premium proposals set out within the Bill, subject to Royal Assent being obtained. An early, in principle, decision is recommended to allow timely decisions to be made if and when the Royal Assent is granted.
3.6	Whilst recognising the importance of second homes to the visitor economy, the Council and its predecessor councils has also long recognised the potential negative impact of second homes in terms of the supply of homes available to meet local housing need, and the affordability of housing to local people. Some business sectors in coastal communities could also face difficulties due to the decline in resident populations as a result of local properties being purchased as second homes. It is also not unreasonable that second home owners should make a financial contribution to the areas in which their properties are located, and to assume that second home owners are, generally, in a financial position to make that contribution.
3.7	East Suffolk has a significant level of second home ownership, and is clearly the type of area that the Government has in mind in promoting this legislation. This is illustrated in Appendix A, which shows the percentage of second homes on a parish by parish basis (Source: October 2022 CTB1 return). The map included as part of this Appendix also shows that second home ownership is heavily concentrated in coastal holiday locations. It is also worth noting that these figures do not take into account domestic properties that are in the business rates system as holiday lets, just those that have a liability for council tax. Consequently, in some parishes, the proportion of dwellings that are not principal residences is considerably higher.
3.8	Financially, the application of a 100% Second Homes Premium could generate significant levels of additional council tax income for precepting authorities in East Suffolk. Appendix B illustrates this potential income on a parish by parish basis based on the October 2022 CTB1 return and 2022/23 council tax levels. The Second Homes 100% premium could potentially result in increases in council tax income as follows: Suffolk County Council £5.853m; Suffolk Police and Crime Commissioner £1.007m; and East Suffolk Council £717k.
3.9	For town and parish councils, an increase in the tax base means that if the parish kept its precept the same as the previous year, it would see a reduction in the parish element of the council tax. Alternatively, it could keep the parish element of the council tax the same and receive a higher level of precept income. If towns and parishes adopted the latter approach, Appendix B indicates potential additional income to them of over £308k at 2022/23 council tax levels.

3.10	<p>A degree of caution does need to be exercised over income projections from a Second Homes premium as there are a number of ways in which income could be reduced as a result of customer behaviour, principally:</p> <ul style="list-style-type: none"> • Transferring the properties to business rates • Claiming single occupancy • Redesignating properties as principal residences • Selling the properties <p>The following paragraphs consider the likelihood of these potential “leakages” of income from the premium arising from these actions. It should be recognised that thus far these council taxpayers have been willing to keep their properties in council tax and contribute to local finances rather than redesignating their properties in some way. Overall, the risk to potential income is considered to be relatively small.</p>
3.11	<p>Regarding transferring properties to business rates, currently, properties that are available to let for more than 20 weeks (140 days) in a calendar year can be assessed for business rates by the Valuation Office Agency (VOA). The only detail needed to support such a claim is evidence of an advertisement for let for the property. Along with other authorities, the Council campaigned for a number of years for this “loophole” whereby second home owners could avoid council tax and benefit from small business rate relief to be closed. From April 2023 this criteria will still apply but additionally it must be demonstrated that the property was available to let for more than 20 weeks in the previous year, and proof must be provided that the property was actually let for short periods totalling at least 70 days. The burden of providing evidence to support future changes will be the homeowners and will be verified by the Council and reported to the VOA. This change should ensure that any properties transferring from Council Tax to Business Rates relate to genuine circumstances where the property is being utilised for business purposes.</p>
3.12	<p>Couples who own second homes may claim that they are living separately and are single occupants of each respective property. If such cases arise there will be mechanisms available to the Council, through Anglia Revenues Partnership, to check the circumstances giving rise to any discount or exemption claimed, including single person discounts. These circumstances can be verified against the information that has been supplied to the council to claim the reduction. Financial penalties can be imposed where false information is provided and will assist in ensuring that data held is accurate.</p>
3.13	<p>The possibility of second home owners redesignating properties as their principal residences is potentially more problematic. However, similar checks to those outlined above can be applied, and in addition, this action would be of no financial benefit, or would even have a negative impact, if the other property was in a billing authority area that also applied a second home premium.</p>
3.14	<p>Second home owners could ultimately decide to sell their properties rather than pay the additional council tax, which although potentially reducing income, would release properties into the market to help address local demand.</p>
3.15	<p>Legislation to apply a 100% premium on second homes was introduced in Wales in 2017/18 and the premium was paid on 24,873 properties in 2021/22. This number had increased across Wales by 2,005 from the number recorded at the outset of</p>

	the scheme in 2017/18. Some areas, which historically had the highest number of second homes have seen downward adjustments to the numbers of recorded second homes and the maximum recorded reduction in any area is 9%. It is uncertain whether these downward trends have been triggered by avoidance or are evidence that the premiums have achieved one of the intended outcomes of bringing second homes back into use as mainstream housing provision.
3.16	By the time the premiums are implemented in 2024/25, council tax levels are likely to have been subject to two further annual increases, e.g. an equivalent 2024/25 income figure for ESC would probably be £760k.
3.17	Regarding the measure in the Bill to reduce the minimum period for the implementation of a Council Tax premium for empty premises from two years to one year, reducing the number of long term empty properties has long been a key objective of the Council. Following an extensive Scrutiny Committee review of this subject, in December 2021 Cabinet accepted the recommendations of the Scrutiny Committee and requested officers to develop a Business Case to consider what additional resources or incentives could be put in place to ensure more empty homes are brought back into use. Subsequently in April 2022, Cabinet approved revenue funding to deliver a three year long term empty homes programme. The application of a 100% Council Tax premium for empty premises after one year would be completely consistent with this programme and the key objective of incentivising bringing properties back into use.
3.18	<p>Potential income related to the proposed change to the empty property premium is difficult to predict as the eligibility of a property for this premium changes over time. Financial benefit is likely to decrease in time as the premium is there to incentivise empty properties back into use, and change behaviours. Consequently, this is an income stream to note rather than rely upon.</p> <p>However, based on the October 2022 CTB1 return, it is reasonable to assume that additional income could be generated in 2024/25 to the precepting authorities in the region of: Suffolk County Council £505k; Suffolk Police and Crime Commissioner £87k; and East Suffolk Council £62k. Estimated income for town and parish councils has not been broken down to parish level, but based on the average parish council tax, could be in the region of £27k in total.</p>

4 Reason/s for recommendation

4.1	The purpose of this report is to approve changes to Council Tax premiums in 2024/25 which will further incentivise the occupation of empty properties and generate additional Council Tax income for precepting bodies, facilitating the delivery of essential front line services within Suffolk as a whole.
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Appendices

Appendices:

Appendix A	East Suffolk Second Home Numbers by Parish
Appendix B	East Suffolk Second Home Council Tax Estimates by Parish
Appendix C	Equalities Impact Assessment (EqIA)

Background reference papers:

Date	Type	Available From
December 2022	Levelling Up and Regeneration Bill	Levelling-up and Regeneration Bill - Parliamentary Bills - UK Parliament