

Place and Resources Overview Committee

9 February 2023

Council tax premiums on second homes and empty properties

For Recommendation to Cabinet

Portfolio Holder: Cllr Peter Wharf, Deputy Leader

Local Councillor(s): All

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Report Status: Public

Brief Summary:

The Levelling Up and Regeneration Bill has an avowed aim to reverse geographical disparities between different parts of the UK. The Bill is wide-ranging, including provisions for more widespread devolution across England, changes to local planning and enhancing the ability of local authorities to take forward regeneration schemes. Additionally, the Bill will create a legal duty upon which the government must report on a number of missions for levelling up the country¹.

This report sets out the implications for a key element of the Bill; the proposed changes to allow councils to place a council tax premium on second homes and permit a 100% premium on empty properties at an earlier one-year commencement point as opposed to the current two-year commencement point, with a number of recommendations on next steps. The aim of this draft legislation is primarily aimed to allow councils to raise additional revenue and to acknowledge

¹ [Levelling Up and Regeneration: further information - GOV.UK \(www.gov.uk\)](https://www.gov.uk/levelling-up-and-regeneration)

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the impact that second (referenced as 'dwellings occupied periodically' in the Bill) and empty homes can have on some communities. If the Bill receives royal assent, these options will become available to billing authorities with effect from 1 April 2024 at the earliest.

Through the Bill it is the government's intention to:

- reduce the minimum period for the implementation of a council tax premium for empty premises from two years to one year; and
- allow councils to introduce a council tax premium of up to 100% in respect of dwellings occupied periodically.

As a billing authority, Dorset Council must adopt policies for the application of discretionary council tax premiums across the whole of the council area. There are a number of premiums already in place, having been approved by the council in previous years.

At a meeting on 20th February 2019 the shadow Dorset Council agreed that for second homes no discretionary council tax discount be awarded and that in the case of dwellings which have been unoccupied and unfurnished for at least two years, a premium of 100% (meaning the council tax is doubled). Current premiums charged for properties that remain unoccupied and empty (substantially unfurnished for over 2 years) are:

From 1 April 2019, Dorset Council charge a 100% premium (meaning the Council Tax is doubled) on properties that have remained unoccupied and unfurnished for more than 2 years.

From 1 April 2020, a premium of 200% may apply to a property that has been unoccupied and unfurnished for a period between 5 and 10 years.

From 1 April 2021, a premium of 300% may apply to a property that has been unoccupied and unfurnished for a period over 10 years.

The government has confirmed that billing authorities that wish to adopt any council tax flexibilities arising from the Levelling Up and Regeneration Bill are required to make a council resolution confirming their requirements at least 12 months prior to the financial year in which the changes will come into effect. For Dorset Council to be able to utilise (from the year commencing 1 April 2024) the council tax flexibilities set out in the Bill two things must happen:

- (i) the Bill will need to be enacted before the end of March 2023 and

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- (ii) the Full Council will need to meet after the Bill has been acted and before 1 April 2023.

There is a risk that the Bill might not be enacted before the end of March but early recommendations will allow the Full Council to make timely decisions if and when Royal Assent is attained.

Recommendation:

The Place and Resources Overview Committee is asked to consider the contents of this report and to recommend to Cabinet (date 28 February 2023) that the Full Council should be asked to approve the following additional council tax premiums be applied from 1 April 2024, or as soon as possible thereafter, subject to the required legislation being in place. That approval is given to:

1. 100% premium for dwellings occupied periodically;
2. 100% premium for properties which have been empty and unfurnished for a period of between 1 (previously 2) and 5 years

Reason for Recommendation:

The Levelling Up and Regeneration Bill has an avowed aim to reverse geographical disparities between different parts of the UK. The Bill is wide-ranging, including provisions for more widespread devolution across England, changes to local planning and enhancing the ability of local authorities to take forward regeneration schemes. Additionally, the Bill will create a legal duty upon which the government must report on a number of missions for levelling up the country².

The Bill is currently at the report stage of parliament. The government has confirmed that billing authorities wishing to adopt any changes arising from the Bill are required to make a council resolution confirming their requirements at least 12 months prior to the financial year in which the changes will come into effect; meaning that the Bill will need to obtain royal assent before the end of March 2023 in order to adopt the changes for the year commencing 1 April 2024.

The proposed changes to legislation to allow councils to apply a council tax premium on second and empty homes is primarily aimed at allowing councils to raise additional revenue and to acknowledge the impact that second and empty homes can have on some communities, with a view that especially in the case of empty properties this would incentivise property owners to bring those properties back into use at the earliest opportunity.

² [Levelling Up and Regeneration: further information - GOV.UK \(www.gov.uk\)](https://www.gov.uk/levelling-up-and-regeneration)

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There is no official planning definition of a second home, but the government's English Housing Survey³ does provide a logical definition, which is that: '*a second home is defined as a privately-owned habitable accommodation that is not occupied by anyone as their main residence. It may be occupied occasionally, for example as a holiday home or when working away from the household's main home.*' As aforementioned, the terminology that is used in the Bill refers to 'dwellings occupied periodically'.

From a Dorset perspective, this Bill once it has secured royal assent could have significant positive financial implications. Based on the latest figures (November 2022), Dorset has 5,722 second homes. If this was extrapolated into a revenue uplift, it would equate to around £10m, but from a fiscal budgeting perspective, the advice would be to expect a downward shift, based on owners changing use, selling or other changes to circumstances. As such, our prudent planning assumption is in the range between £8m and £9.5m for potential additional revenue. However, this will be updated once the legislation is passed.

It will be for the council at the time to establish the best use of this additional taxation income when setting future revenue budgets.

A growing number of local authorities across England are now making decisions in support of adopting the council tax premiums on second homes and empty properties, including a number in the Southwest. Within this context, it is important to recognise that the Levelling Up and Regeneration Bill contains enabling elements to go beyond the council tax premiums on second homes and empty properties. How councils embrace additional freedoms and flexibilities that come through legislation, especially when pertaining to more financial discretionary powers, could influence future discussions on substantive issues such as devolution.

1. **Financial Implications**

1.1. Initial high-level analysis suggests that the application of a 100% premium on second homes could generate around £10m in additional council tax revenue. However, as highlighted in the report, it would be prudent to assume a lower figure in a range between £8-9.5m given a range of factors that may impact on collection rates. However, this assessment will be updated once the legislation is passed.

1.2. Initial high-level analysis suggests that the potential adoption to commence a 100% premium on empty homes from the early one-year duration rather

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6719/2075342.pdf

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than the existing two-year point could generate around £1.1m in additional council tax revenue. However, there is considerable increased scope for reasonable challenge which we estimate could see a reduction to this revenue yield factored in with normal collection rate expectations meaning that an actual increased revenue of between £500,000 to £600,00 is more reflective.

- 1.3. It is important to note that, given the uncertainty around the timings for royal assent of the Bill into law, that no provision has been made to factor the potential revenue into the medium-term financial planning assumptions.

2. **Environmental Implications**

The environmental implications of this recommendation have been considered, and there are no implications of the proposed course of action that would act against the strategic ambitions of the Climate and Ecological strategy and action plan.

3. **Well-being and Health Implications**

- 3.1. There is a potential positive impact on resident's wellbeing if under-utilised or empty properties are made available for occupation.

4. **Other Implications**

- 4.1. The recommendations set out within the report are subject to the Levelling Up and Regeneration Bill receiving royal assent.

5. **Risk Assessment**

- 5.1. Having considered the risks associated with this decision; the level of risk has been identified as:

Current Risk: Medium

Residual Risk: Low

- 5.2. There is a risk that the implementation of a second homes premium may encourage council tax "avoidance" through people seeking to transfer their properties to business rates as holiday lets. This risk should be reduced with the government also bringing in a requirement for people to evidence to the Valuation Office Agency that alongside having their property available for let for at least 20 weeks in a year, it must also have been actually let for at least 70 days. It is the Valuation Office that make the decision if a property (hereditament) is entered and remains on the Council Tax list or the Business Rates list.

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- 5.3. There is a risk that the legislation may be delayed, making it more challenging to build in future financial assumptions within the context of the medium-term financial plan.

6. **Equalities Impact Assessment**

There are no specific equalities issues that have emerged from the potential implementation of this policy, although subject to adoption there will be additional revenue for Dorset Council to invest into services for the residents of Dorset.

7. **Appendices**

N/A

8. **Background Papers**

N/A