

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

RATING (PROPERTY IN COMMON OCCUPATION) AND COUNCIL TAX (EMPTY DWELLINGS) BILL

Tuesday 1 May 2018

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Programme motion agreed to.
Written evidence (Reporting to the House) motion agreed to.
CLAUSES 1 to 3 agreed to.
Bill to be reported, without amendment.
Written evidence reported to the House.

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor’s Room, House of Commons,

not later than

Saturday 5 May 2018

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The Committee consisted of the following Members:*Chairs:* Ms NADINE DORRIES, †PHIL WILSON

- | | |
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| † Afolami, Bim (<i>Hitchin and Harpenden</i>) (Con) | † Morgan, Stephen (<i>Portsmouth South</i>) (Lab) |
| Blackman-Woods, Dr Roberta (<i>City of Durham</i>)
(Lab) | † O'Brien, Neil (<i>Harborough</i>) (Con) |
| † Cunningham, Mr Jim (<i>Coventry South</i>) (Lab) | † Philp, Chris (<i>Croydon South</i>) (Con) |
| † Debbonaire, Thangam (<i>Bristol West</i>) (Lab) | † Sunak, Rishi (<i>Parliamentary Under-Secretary of
State for Housing, Communities and Local
Government</i>) |
| † Donelan, Michelle (<i>Chippenham</i>) (Con) | † Tolhurst, Kelly (<i>Rochester and Strood</i>) (Con) |
| † Johnson, Dr Caroline (<i>Sleaford and North
Hykeham</i>) (Con) | † Twist, Liz (<i>Blaydon</i>) (Lab) |
| † Keegan, Gillian (<i>Chichester</i>) (Con) | † Williamson, Chris (<i>Derby North</i>) (Lab) |
| † McMahon, Jim (<i>Oldham West and Royton</i>) (Lab/
Co-op) | Nehal Bradley-Depani, <i>Committee Clerk</i> |
| † Mann, Scott (<i>North Cornwall</i>) (Con) | † attended the Committee |

Public Bill Committee

Tuesday 1 May 2018

[PHIL WILSON *in the Chair*]

Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Bill

9.25 am

The Chair: Before we begin line-by-line consideration, I have a couple of preliminary announcements. Please ensure that all electronic devices are on silent. We will first consider the programme motion on the amendment paper. We will then consider a motion to enable the reporting of written evidence for publication. I call the Minister to move the programme motion standing in his name, which was agreed by the Programming Sub-Committee yesterday.

Ordered,

That—

- (1) the Committee shall (in addition to its first meeting at 9.25 am on Tuesday 1 May) meet—
 - (a) at 2.00 pm on Tuesday 1 May;
 - (b) at 11.30 am and 2.00 pm on Thursday 3 May;
- (2) the proceedings on the Bill shall (so far as not previously concluded) be brought to a conclusion at 5.00 pm on Thursday 3 May.—(*Rishi Sunak.*)

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—(*Rishi Sunak.*)

The Chair: Copies of written evidence that the Committee receives will be made available in the Committee Room.

We will now begin line-by-line consideration of the Bill. No amendments have been tabled, so we will proceed by considering in turn whether each clause should stand part of the Bill. There will be an opportunity to debate each clause. I suggest that the Minister should start the debate on each clause. Other Members will then be free to catch my eye and speak to that clause. A Member may speak more than once in a single debate. I hope that explanation is helpful.

Clause 1

HEREDITAMENTS OCCUPIED OR OWNED BY THE SAME PERSON

Question proposed, That the clause stand part of the Bill.

The Parliamentary Under-Secretary of State for Housing, Communities and Local Government (Rishi Sunak): It is a pleasure to serve under your chairmanship, Mr Wilson. I thank all Committee members for being here promptly to discuss this technical but important Bill, which I hope will not detain us for too long.

Clause 1 delivers on the commitment made by the Chancellor at last year's autumn Budget to address what became known as the staircase tax. The clause will restore the previous practice of the Valuation Office Agency from before the Supreme Court decision in respect of contiguous properties in the same occupation or ownership. We discussed on Second Reading the

background to why the measure is necessary, and I have provided more detail about the measure in correspondence with the Select Committee on Housing, Communities and Local Government. I will not repeat that background, other than by saying that the clause is welcomed by the rating surveyor profession and supported by the Federation of Small Businesses.

The clause amends section 64 of the Local Government Finance Act 1988 to provide that, in a defined set of circumstances, two or more hereditaments shall be treated as one. Those circumstances, which are described in new subsections (3ZA) and (3ZB) of section 64, are: where the hereditaments are occupied by the same person or, if they are empty, owned by the same person; where the hereditaments are contiguous—that is defined later in the clause, and I will come to it shortly—and, in respect of occupied hereditaments, where none is used for a wholly different purpose. That will restore the rule that applied before the Supreme Court decision that contiguous hereditaments are assessed as one.

In preparing the clause, we had to ensure that we replicated previous practice in respect of the meaning of “contiguous”. The clause therefore introduces new subsection (3ZD), which defines what is contiguous for these purposes. New subsection (3ZD)(a) provides that “two hereditaments are contiguous if...some or all of a wall, fence or other means of enclosure of one hereditament forms all or part of a wall, fence or other means of enclosure of the other hereditament”.

That ensures, for example, that two adjacent rooms on the same side of a common corridor separated by a wall are contiguous, but that two rooms on opposite sides of a common corridor are not. It also ensures that two buildings on the same side of a road that share a common party wall are contiguous, but that two buildings on opposite sides of a street or common access road are not. Importantly, that replicates the previous accepted practice of the VOA.

New subsection (3ZD)(b) provides that hereditaments on consecutive storeys of a building are contiguous if “some or all of the floor of one hereditament lies directly above all or part of the ceiling of the other”.

That ensures that consecutive storeys of a building are contiguous but excludes non-consecutive storeys where the intervening storey is in a different occupation or ownership. Again, that replicates the previous practice of the VOA.

We believe that this approach ensures that hereditaments would still be contiguous, even if a wall or floor plate separating the hereditaments contained a space such as a service void occupied by the landlord. However, respondents to the consultation and the Select Committee were less certain on that point. We therefore decided to put that beyond doubt by adding the words at the end of subsection (3ZD) that make it clear that hereditaments “are not prevented from being contiguous...merely because there is a space”

such as a service void between them in a different occupation or ownership.

Finally, new subsection (3ZC) ensures that chains of contiguous hereditaments in the same occupation or ownership will still meet the tests. For example, it will ensure that floors 3, 4 and 5 of a building in the same occupation are treated as contiguous and as one hereditament, even though floors 3 and 5 are not themselves contiguous.

The change in the VOA's practice following the Supreme Court decision affected the 2010 rating list as well as the current 2017 list. That has led in some cases to sudden and dramatic backdated rate demands, which have been of particular concern to the estimated 1,000 small businesses that, as a result of the decision, have lost the generous small business rate relief they rely on. Clause 1(2) therefore ensures that the measure applies retrospectively to 1 April 2010 in support of affected ratepayers.

That is why it is so important that the Bill does not go beyond the objective of restoring the previous practice that applied. I am pleased to say that, by working with organisations such as the Rating Surveyors Association, we are confident that we have met that objective, which the Select Committee confirmed in its report on the Bill.

Jim McMahon (Oldham West and Royton) (Lab/Co-op): It is a pleasure to serve under your chairmanship, Mr Wilson. I repeat my thanks to the Minister for making the effort to meet before the Committee to go through some of the technicalities of the Bill. That will save the Committee from a headache. However, there are still some questions outstanding, including about the loss of income to local authorities. The autumn Budget book said:

“Local government will be fully compensated for the loss of income as a result of these measures.”

That was stated by the Chancellor, but it is not what is being offered today. Local authorities are being told that they will not be compensated because in effect they are in no worse a position had the High Court ruling not been made. That point was raised by my hon. Friend the Member for Sheffield South East (Mr Betts), the Chair of the Housing, Communities and Local Government Committee, and we know from his subsequent contributions that the Select Committee continues to have those concerns.

Nor do we know yet what the impact will be across different local authorities, because that information has yet to be provided. We have not been provided with data to understand the local authority-by-local authority impact, so we do not know, for instance, how many are caught in 100% rate retention schemes, where they will have to pay costs. Nor do we know whether there are particular concentrations of properties in local authorities or whether they are spread evenly throughout the country, where such an impact would be marginal. We should endeavour not just to make legislation that we believe to be in the public interest—of course, that is important—but to make good legislation, with a solid, tested evidence base and with any necessary questions asked at the appropriate time. I would say now is the appropriate time to ask such questions. Let us see the detail on the local authority-by-local authority impact, particularly as the Government do not seem to be honouring the commitment they made in the autumn Budget.

The other, broader point—I will be careful not to stray too far from the Bill—is that the Government have taken into account what the business community told them and the Bill reflects that. I welcome that. The Government have been flexible and considered the impact of unintended consequences, which is a measure of good government. It is not a measure of bad government that could be perceived as, for instance, a U-turn. I recognise that our politics sometimes supports that type of language. In that context, I find it difficult to understand

why other concerns raised following the revaluation and technical fall-outs of the business rate system have not been taken into account, such as the impact on cash machines in convenience stores.

In my town of Royton, the last bank is due to close. It will be the sixth bank to close in the town centre. The convenience store stepped up and provided a cash machine, so that people in the town could access money to do their shopping and, of course, support the market on the precinct, which relies heavily on cash transactions. A cash machine in the town is very important, but the turnover of that cash machine now contributes to the rates liability of the premises. A convenience store that would previously have been under the small business rates relief threshold, and would probably not be paying business rates at all, will in some situations now pay business rates because the turnover of the cash machine takes it over the threshold.

Good government means taking into account the impact of that and recognising that if convenience stores are stepping up when the banks are pulling out of towns, they ought to be supported, not be at a financial disadvantage as a result. That is just one example, but there are others that have been raised by the business community, the Federation of Small Businesses and the Association of Convenience Stores. We ought to reflect on that.

I would welcome some detail on that, even if provided at a late stage, after Committee, and I know that the Chair of the Select Committee would too. Many of these issues are not politically contentious—that is the spirit in which we made our previous offer and in which we are working today. There is broad support for them in the community, and we ought to work together to try to see them through. There were a number of items in the Local Government Finance Bill, which fell when the election was called, that need to be progressed, because local government is asking for them to be progressed. We ought to get together, see which of those elements have cross-party support and take them forward sooner rather than later.

Rishi Sunak: Let me put on record my thanks to the hon. Gentleman for, as ever, the constructive way in which he approaches our discussions on this and other measures.

To turn to his first point on compensation for local authorities and what was said in the Budget document of last year, the reference to compensation in that document specifically related to the switch to the consumer prices index in business rates indexation and the extension of the pubs relief scheme. I fully appreciate that the document could have been clearer on that point. As a result, my Department issued a letter to all local authorities two days after the Budget to make it clear that local government would not be compensated for this specific tax measure. As we have previously reiterated, we consider those extra revenues to be a windfall that came as a result of a Supreme Court decision.

The new legislation will ensure that the position is restored to where we were beforehand, so there should be no net loss to local authorities. That said, the hon. Gentleman raised the issue of rates retention. We are aware of his point—that under the rates retention scheme, some local authorities may see a small impact on their

[*Rishi Sunak*]

overall retained business rates. That would potentially occur in pilot areas, where the percentage of rates retained locally is different in the year that the refund will be paid, compared with the year in which the authority first received the windfall from the Supreme Court decision. We have previously said that it is very hard, if not impossible, for us in the Department to quantify that impact, but officials believe that it is small. That said, we are considering the points made in the submission by London Councils and the Greater London Assembly on that issue.

On the broader support for businesses through the business rate scheme, I am delighted that hon. Gentleman welcomes our support of small business. This is one measure, but there are others. I point to the Budget last year and the year before that, where we doubled small business rate relief, which was widely welcomed by businesses, including the FSB. We took almost 600,000 smaller business out of rate relief. In addition, there was a £435 million package to target ratepayers who face the steepest bills as a result of the revaluation. That included something that was warmly welcomed in my constituency and I am sure many others: the £1,000 pub discount voucher, which has also been taken up.

Lastly, we brought forward by one year the indexation of business rates from the retail prices index to the consumer prices index, which is worth some £2.3 billion over five years. Hopefully, the hon. Gentleman will agree that that shows strong support for small business. Another measure that the FSB has welcomed, and which was part of the Local Government Finance Bill that fell at the last election, was business rates relief for plant nurseries—a measure that was also the result of a Supreme Court decision that changed settled practice and which had cross-party support. He will be aware that we recently laid a written ministerial statement recommitting the Government to legislate to reverse that decision. Indeed, that decision will be made retrospectively, so that plant nurseries will be exempt from business rates and treated as agricultural property. I look forward to working with him on that, and hopefully getting his support when the time comes.

Question put and agreed to.

Clause 1 accordingly ordered to stand part of the Bill.

Clause 2

HIGHER AMOUNT FOR LONG-TERM EMPTY DWELLINGS

Question proposed, That the clause stand part of the Bill.

Rishi Sunak: As we have discussed in the past, our housing market is not working as well as we would like. Young people are struggling to get on the property ladder, and to enjoy the same opportunities as their parents and grandparents. Today, the average price of a house in England is almost eight times the average income, compared with four times the average income in 1999.

The Government are committed to boosting housing supply to ensure that hard-working people have a secure place to call home. Our reforms put us on track for an average of 300,000 homes to be delivered per year by

the mid-2020s. Although building new homes is undoubtedly a fundamental part of fixing a dysfunctional market, we must also make more use of the our existing stock. It cannot be right that while many are waiting for a house to call home, thousands of properties stand empty, some for years. Homes left empty for the long term can be a blight on a neighbourhood, as well as the site of crime and antisocial behaviour.

Scott Mann (North Cornwall) (Con): I have spoken to the Minister about this several times, and I know he understands the challenges we face in Cornwall with second home ownership and vacant properties. How will the Bill differentiate a second home and a vacant home?

Rishi Sunak: My hon. Friend has raised second home ownership in his rural constituency many times with me and other colleagues, and he is right to do so. Rural areas face challenges with second home ownership—coming from a rural constituency myself, I fully sympathise with some of his points.

Current legislation makes a distinction between second homes and empty homes. We are considering long-term empty homes, which are defined as homes which are “substantially unfurnished” and have been unoccupied for two years. Second homes are covered by a different part of council tax legislation, and the Government previously removed the necessity for local authorities to charge a discount on council tax. They are now allowed to charge the full amount. My hon. Friend will be aware that the Department is considering the treatment of second homes and business rates—he and other colleagues have asked me whether it is appropriate for some second home owners registered for business rates to benefit from small business rate relief and therefore pay no taxes, and whether our legislation captures fair use of that provision correctly. I am currently investigating that.

Before 2013, councils could not collect council tax from properties that had been empty for up to six months. Since then, we have ensured that councils can charge the full rate of council tax on such properties. That same year we enabled local authorities to charge a council tax premium of up to 50% on long-term empty homes. That power has been taken up by nearly 90% of councils, all but three of which applied the full 50% premium in 2017. The number of long-term empty properties subject to a premium has fallen by 9% among those councils that have used the power every year since 2013.

There are carrots as well as sticks. The new homes bonus scheme gives local authorities the same financial reward for bringing an empty home into use as for building a new one, and the Government have allocated £7 billion in new homes bonus payments to local authorities since 2011. Following those interventions, the number of properties left empty for six months or more has reduced by a third since 2010, from 300,000 to just over 200,000. The Bill goes even further, and doubling the cap on the empty homes premium will allow local authorities to strengthen the incentive to bring empty homes back into use.

Different areas will have different housing needs and different numbers of long-term empty homes. It is therefore right that decisions on whether to apply a premium and the exact rates to be charged are taken at local level as before. Councils are acutely aware of the

needs and demands of their areas. We recognise that local authorities will want to reflect carefully on the local housing market in deciding whether to issue a determination: for example where a homeowner is struggling to rent or sell a property in a challenging market. We are clear that the premium should not be used to penalise owners of homes that are genuinely on the market for sale or rent. We published guidance to that effect in 2013, reminding local authorities to take into account the reasons why a property is empty.

Hon. Members may finally wish to note that this provision would not bring any additional properties within scope of a premium. Only properties that could have been liable might be affected by the new higher premium.

9.45 am

Jim McMahon: The Labour party supports the Bill, but our manifesto suggested going further. Rather than a 200% premium, there would be a 300% premium and consideration of bringing the empty period to a year. There is a reason for that: the housing markets across the country are very different. The Bill will not address the problem of the concentration of empty homes in London. Figures provided by the House of Commons Library show that 20% of City of London properties are empty. In Westminster and in Kensington and Chelsea, one in 10 properties are empty.

Such properties are owned by people who think nothing of paying twice the amount of council tax that a usual resident does because they have the financial means to pay it without that having an impact on their pocket. I am not sure that this measure goes anywhere near where it needs to go to address the region of the country with the largest housing demand. We know about the housing pressures in London and that many of the properties are held by property investors, a number of which are foreign-based. The measure will not address that, and the Government have not made a determined effort to address it.

It is bad enough that properties that have been in the community for some time are being bought up, but it is a scandal that brand-new properties—whole tower blocks in some cases—are built, but in the evening there are no lights on because not many people live there. They are built but held as investments with no intention of people living there. The Government need to think about what financial measures they can use to encourage owners of properties in that very particular market to bring them back into use. We build houses for people to live in, not for wealthy institutions to hold with no intention of anybody ever living in the property.

In some housing markets—we experience this in the north of England—empty homes are the result of a broken housing market. The Labour Government introduced the housing market renewal project to address a fundamentally broken housing market in which there was no latent demand from local people to buy the properties, and those who were able to buy a property did not want to live in the areas where properties were empty. When the housing market renewal scheme was cancelled in 2010, the Government turned their back on those areas.

Some areas have been brought back into use, and many local authorities are introducing innovative schemes. In Liverpool and Stoke, local authorities are selling

empty properties for £1 as a way to encourage people to get on to the housing ladder. We know from reports that the people who have benefited respect the schemes. The properties would not have been on the housing market had it not been for those schemes, so it is a double win. The initiative enables empty properties to be brought back into use and gives somebody the chance to get on the housing ladder when in other circumstances they would not be able to afford to do so.

In other areas with similar housing characteristics, a number of properties were earmarked for demolition under housing market renewal—the properties were purchased and the windows boarded up—but the Government removed the money in 2010. The boards came off the windows and the properties were sold to private landlords. Taxpayers are paying through the housing benefit bill for what is generally substandard accommodation in areas with a broken housing market, and are doing so for properties that generally do not meet the decent homes standard. In Greater Manchester, 40% to 50% of the £350 million a year we pay in housing benefit to private landlords is for properties that do not meet a decent standard.

The country could use that money better to provide decent, safe properties with good solid tenures where people enjoy living, in areas where there is a high-quality environment and the roads are safe, and where play areas provide a safe place for children to play, not just terraced streets that were built to support mill workers. Now that the mills have closed, those houses are just not desirable for many people. The Government need to take a broader view of how empty homes affect different parts of the country, and they must bring forward more active proposals for London, given how wealthy investors are holding properties. We also need a plan for areas where the housing market is weak. These measures will go some way to addressing that problem, but they will not address the inherent weakness in the local housing market where the owner-occupier element is weak.

We need a genuinely joined-up plan. This is not about a sticking plaster to support local authorities that have had their budgets cut dramatically, or about raising tax; this is about bringing empty homes back into use. The Government's response, particularly since the empty homes fund was deleted, seems to be: "Well, if local authorities bring homes back into use, they will be the beneficiaries because they will get a new homes bonus payment". However, the new homes bonus payment is retrospective, and we would be expecting local authorities to find money from their base revenue budget to bring empty homes back into use at a time when many of them cannot afford to pay for social care and children's safeguarding. The Government need to come forward with a plan and funding to support local authorities to bring empty homes back into use. Taxing people who own those properties is one element of that, but in some cases direct grant funding will be needed to bring accommodation back into use.

Rishi Sunak: I thank the hon. Gentleman as always for his thoughtful comments. The two substantive points he mentioned were whether the level of the premium is too low at 100%, and whether two years is too long as a measure for an empty property. On whether the premium is too low, we need to strike a careful balance between providing a strong incentive for bringing empty homes

[*Rishi Sunak*]

back into use, and not disproportionately penalising homeowners who may be struggling to sell or rent out a property or to complete any major renovations that might be required. We believe that doubling the premium cap strikes the right balance. Scotland and Wales also have a premium of 100%, but I understand the hon. Gentleman's point.

On whether the qualifying period for an empty home should be less than two years, it is worth noting—I know this from the correspondence that the Department receives—that some owners of empty homes face circumstances that make it difficult for them to bring their empty homes back into use quickly. That could be a renovation or the time taken to put something on the market with a difficult set of conditions. There may also be delays as a result of the probate process, for example. Again, I think the two-year period strikes the right balance.

Jim McMahon: Any scheme, even with a 12-month qualifying period, can have exemptions that take into account individual circumstances. There is already a scheme to deal with properties that are under probate, which is clearly outside the control of the executors who are trying to dispose of it. That can be managed. However, a number of landlords own properties and have no intention of letting them out. They will simply flip them over into different names to avoid paying the tax, and a more concerted effort to deal with such issues is important. The truth is that it would be much more difficult for people to keep flipping the property if we had a 12-month period—they can currently do it every 24 months.

Rishi Sunak: The hon. Gentleman is right that there are exemptions. For example, there is a six-month council tax free period for probate, and then the clocks starts. The problem is trying to define *ex ante* the individual circumstances in which it might be fair to have a period of more than one year. That is why we believe two years is the right amount of time—it provides flexibility but also serves somewhat as an incentive to bring homes back into use—but I understand his point, and why people would take a different view on what the right period should be.

On the broader strategy for empty homes and local authorities, I agree with the hon. Gentleman that there are examples of individual local authorities coming up

with good, innovative ways to tackle to problem of empty homes. He mentioned some, but I am aware of examples in Bolton and Kent where local authorities have come up with successful ideas, whether loans, discounts or other schemes, to bring empty homes back into use. That is why our approach is the right one. He might disagree with the quantum of funding but, at £7 billion, the new homes bonus is substantial and acts as an incentive to local authorities to come up with schemes to bring homes back into use. They will be financial rewarded—I appreciate that that will be after the fact, but that is as it should be—for success in bringing empty homes back into use. That serves as a carrot, which is the right approach. Rather than the Government telling each local authority exactly what to do, we provide a framework for rewarding good behaviour and let individual local authorities innovate. Hopefully, increasing the premium today will serve only to improve the situation.

The hon. Gentleman is right to point out that, in the long term, we should not rely on that as a source of funding. We would rather not have empty homes, and want to ensure that everybody who wants a home has one to live in. The fewer empty homes there are, the better.

Question put and agreed to.

Clause 2 accordingly ordered to stand part of the Bill.

Clause 3

EXTENT, INTERPRETATION AND SHORT TITLE

Question proposed, That the clause stand part of the Bill.

Rishi Sunak: This is a standard clause on the jurisdictional application of the Bill. My officials are in contact with their counterparts in the Welsh Government, who are considering whether to request that we extend the Bill to Wales. As soon as we hear from them, I will inform the Committee and the House and adjust as required.

Question put and agreed to.

Clause 3 accordingly ordered to stand part of the Bill.

Bill to be reported, without amendment.

9.57 am

Committee rose.

Written evidence reported to the House

RCTB01 Gary Martin

RCTB02 Wienerworld Limited

RCTB03 London Councils and the Greater London
Authority (joint submission)

RCTB04 City of London Corporation

RCTB05 Local Government Association

