

Communities and Local Government Committee

Oral evidence: Housing White Paper and Business Rates, HC 1082

Wednesday 19 April 2017

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Members present: Mr Clive Betts (Chair); Bob Blackman; Mr Christopher Chope; Helen Hayes; Kevin Hollinrake; Melanie Onn; Mr Mark Prisk; Mary Robinson.

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Witnesses

Rt Hon. Sajid Javid MP, Secretary of State for Communities and Local Government; Gavin Barwell MP, Minister of State for Housing and Planning, Minister for London, Department for Communities and Local Government; Mr Marcus Jones MP, Parliamentary Under Secretary of State, Minister for Local Government, Department for Communities and Local Government.

Examination of witnesses

Witnesses: Rt Hon. Sajid Javid MP, Gavin Barwell MP and Mr Marcus Jones MP.

Q1 **Chair:** Good afternoon, Secretary of State and Ministers. Thank you very much for coming this afternoon to answer questions about the Housing White Paper and business rates. Before we get into our evidence from you, I ask members of the Committee to put on record any particular interests they have that are relevant to the inquiry. I am a vice-president of the Local Government Association.

Bob Blackman: I am a vice-president of the LGA as well.

Helen Hayes: I employ a councillor in my staff team.

Mr Prisk: I am a strategic adviser to Essential Living.

Kevin Hollinrake: I employ a councillor in my team as well

Chair: Right, so we have put that on the record. Secretary of State, it is



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our last chance to meet together before an impending event that we are all aware of. I will, at the beginning, thank you and your Ministers for their availability to come and answer questions at the Committee on a regular basis. We have sometimes been a little critical of a slightly delayed response to our reports when we produce them, which hopefully will be rectified in due course, but your availability and your attendance have been appreciated. We have to give a gold star to the Local Government Minister, who has probably been our most frequent witness during the course of this Parliament. It is nice to see him here again. I think you would like to make a brief statement at the beginning, Secretary of State, in light of today's events.

Sajid Javid: Thank you very much. I should say that the Local Government Minister really enjoys appearing at these Committees, and in fact he wanted to do this one all on his own, but Gavin and I said no. Thank you to you, Mr Chairman, and the Committee for this opportunity to talk with you and to answer your questions again. Let me say once again that I always welcome the scrutiny that the Chairman and members of the Committee provide on the policies and actions of my Department, just as you will no doubt scrutinise us today. As you said, in this session, we look forward to talking about housing policy, perhaps in particular the recent Housing White Paper, and business rates.

Before we get going with the scrutiny side of this, to refer to the impending event that you just mentioned, now we have the results of the Bill, it is certain that we will have a general election on 8 June and, whatever happens, the British people will choose a new Government. That means that I, the Housing Minister and the Local Government Minister will have to issue a caveat upfront that anything we say today is as representatives of the current Government. What a future Government decide to do, and their priorities, may change, and we will only know that post 8 June. We will try to answer the questions from the Committee as fully as we can, but we may be somewhat limited in how helpful we can be.

Q2 **Chair:** Thank you for that statement. We understand that, and you may have to put that caveat in from time to time in your response to questions. We appreciate that. To begin, and referring to the events of yesterday and today, given that the British people in many parts of the country are now being asked to go to the polls twice in a month, following the several visits they have had in recent months, was any thought given to postponing the local government elections, so they could take place at the same time as the general election?

Sajid Javid: It is not something that I have given any thought to.

Q3 **Chair:** Has anyone given any thought to it?

Sajid Javid: I cannot speak for everyone, but it is not something that is planned, and personally I do not think it would be appropriate. The date has been set and we should stick to it.



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Q4 Chair: Coming back to the Housing White Paper, if we can begin, it makes the stark comment that the market is broken. That is quite a dramatic phrase to use about the housing market in this country. Do you want to describe what you think the word “broken” means? Is it about the whole of the housing market or just about new building particularly?

Sajid Javid: If I may begin on that, then perhaps the Housing Minister would like to come in as well. I personally have used that phrase many times, especially at the launch of the White Paper, to help explain some of the key initiatives in it. What I mean by that is that, despite the progress in recent years, particularly since 2010, with more homes being built, the number of affordable homes going up and housing starts going up, we are still seeing a rise in house prices. If you look at affordability as a ratio of average house price versus average earnings, it is now almost eight times in England and, in some 30% of local authorities, it is more than 10 times.

That is what I mean by “broken”, because, when you have house prices that are that high proportional to average incomes, for many people it is not really within their reach to buy or rent what they might consider a decent home. A housing market that leaves so many people behind in terms of accessing decent homes is a broken market.

Q5 Chair: It is primarily about not building enough homes then. The word “broken” applies to that particular aspect.

Sajid Javid: The issues, which we might get into, about why the housing market is not functioning in the way that most of us would like to see are quite complex, but the underlying issue is quite a straightforward simple one, although hard to deal with, which is not enough supply in the market. To put a bit of colour on that, in the last 20 years in England, we have been building as a country, under successive Governments, around 150,000 homes a year on average. All the credible studies that have been done suggest that you would need at least 225,000 to 275,000 a year to meet household growth in this country. As a result, there is a deficit in the number of homes that are required and prices have risen beyond the reach of so many people.

Q6 Chair: To pick up one point that often really annoys people, it is not merely building the homes; it is actually that the people who need the homes live in them. If you go around not far from here, you will see developments that never get as far as people in this country who want a home; they are sold at design stage to foreign investors, who buy them up and leave them empty. That is not really a London problem; there is now evidence of it starting to happen in cities like Manchester on exactly the same basis. Is this something that concerns you, Secretary of State and Minister, so much that you feel, while you cannot do anything in this Government now, a future Government ought to seriously look at whether it can take steps to stop that happening?



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Sajid Javid: We want to see more and more of the homes that are built not being empty and being used to live in. In terms of progress on that, first of all, the number of empty homes is at the lowest level since records began; that is not to say it does not exist. Perhaps your reference was more to foreign buyers of empty homes. This is something I have taken a very keen interest in, as has the Housing Minister, to get more of the evidence to see if this is really part of the problem or how much of an issue it is. It is the case, certainly with some developments, particularly in London, that developers would say that having some foreign owners is required to kick-start the development in the first place. Without some foreign ownership, a development may not happen.

It is important to have all the numbers and the facts on this, and to look at the evidence of the changes that are being brought about because of the policies we have already implemented: for example, charging capital gains tax for the first time on foreign owners of properties, the change in stamp duty that took place a couple of years ago, with a higher stamp duty for second homes. All of this will have an impact, but there will be a time later to look at what the impact of this has been and if more needs to be done.

Q7 **Chair:** Would that “more” possibly include drastically increasing the ability of local authorities to levy multiples of council tax on a property that is deliberately kept vacant for a long period of time?

Sajid Javid: As you know, local authorities already have some discretion on that, but would it be about taking more action? That would be for a future Government to decide.

Q8 **Chair:** But what is your personal view, having taken a personal interest in it, as you sense, Secretary of State? Local authorities now have the right to charge one and a half times council tax if a property has been empty for a couple of years. Surely we ought to be looking at four or five times council tax. When a property has been built, bought and deliberately kept empty, in a situation where we are so short of homes in this country, that cannot be right, can it?

Sajid Javid: If the number of actual properties were of such a significant size that it had a big impact on the central problem that we started with, which is the affordability of homes and therefore the supply of homes, it would be a reason to look at it and see what more could be done. I want to refer you to some of the evidence that is out there. There is a recent report by Savills, where they have done a detailed study looking particularly at this issue of foreign ownership in London. They have found that, of all overseas purchases in their survey, 58% were purchased to rent out, so they are made available in the market; 27% were purchased for people to live in as their actual home; and just 15% were purchased as second homes, which in some cases were left empty. It is not to say there is not an issue here, but it might be a lot smaller than perhaps some people think.



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Again, the important thing is to see if this is really having a material impact on supply. My view is—and this is what we are focusing on in the White Paper—that there are many other things the Government can do that would make a bigger difference than focusing more of their attention on this.

Q9 Chair: Do we know the total number of properties that are bought by foreign investors and kept empty for two years? Do we have a figure?

Sajid Javid: I do not have that data with me right now.

Q10 Mr Prisk: Secretary of State, you raised this focus, quite rightly, on the supply of new homes, but given that there is an existing housing stock of some 30 million against—let us hope—300,000 new build, making sure that the general existing housing market is operating is clearly very important. Estate agents I have spoken to, not just in my constituency but across the UK, say that they are at their lowest level of transactions and properties coming available for sale that they have known, for many of them, in their operating history. What help has the increase in stamp duty land tax been to that transaction process? Do you think it is helping, or do you feel that it has now got to the level where a future Government need to seriously think about whether it is adding to the fact that the housing market has become stagnant in many parts of the UK?

Sajid Javid: First of all, what stamp duty is and what it is applied to are matters for the Treasury, so that might be a decision for the Treasury of a future Government to look at. Your question was also about what impact the recent changes might have had on the market. At the lower end of the market, where stamp duty on average is lower than it was before the changes, it would be a welcome change. I have found that, in the London market, where, as you know, we tend to have the highest value properties in England, there are many people who would tell you about how it has had an impact at the high end of the market. However, for the vast majority of people, those kinds of homes at that price are not within their reach, and my focus and my team's focus has been on people on average incomes trying to buy or rent decent homes.

Q11 Mr Prisk: Given that there is a chain, if it is stuck at the top end, the ability for the transactions to occur through the housing market to release smaller properties in the existing housing stock is clearly a problem. Do you recognise that?

Sajid Javid: There is obviously a link between the top end of the market and the rest of the market, and in time it is always sensible, as with any tax change, to keep it under review. Again, that would not be a decision for this Department. In fact, it would not be a decision for this Government; it is for a future Government to look at that.

Q12 Melanie Onn: The Chairman asked you earlier about new build and the quality of new build properties. We have had a discussion before around Bovis Homes particularly, which hit the headlines because they paid people to move into properties in advance of completion dates. People



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who had spent significant sums on their dream homes were finding that the properties were of very poor quality, that they were unfinished, that the plumbing was not sufficient and that there was unsafe wiring.

I have since met with the chief executive of Bovis Homes, who has assured me that they accept that their business model was too highly pressurised to complete high numbers of homes within a short timeframe, and that the practice of paying people to move into unfinished properties is no longer continuing. Is there anything within the White Paper that will give people who are buying these kinds of new build properties some confidence in these developers and prevent this kind of practice from happening on a widespread scale?

Gavin Barwell: It is not really an issue that the White Paper touches on, because the White Paper is not trying to cover all of housing policy; it is focused particularly on the issue of how we drive up supply to meet the challenge the Chair referred to at the start of the process. You raise a very important issue. If events had not intervened, it was something that the Government were planning to say something about fairly shortly. We have obviously had a really good report from the all-party parliamentary group that looked at standards in the built environment, which has made some recommendations that we are considering at the moment.

One of the challenges that both the Secretary of State and I are very concerned about is to ensure that, as we push on quantity, we do not lose sight of the quality issue. The kinds of incidents that you have been referring to are examples of where pressure to build more homes can lead to a loss of focus. Without—as the Secretary of State warned us about at the start—being led into what a future Government might do, it is certainly a live issue that the Department is considering.

Q13 **Melanie Onn:** Do you think more could be done to assure the quality of homes that are let, in both the private and the public sector? There have been reports of various housing associations letting properties that are below what people would consider to be an acceptable standard of housing. Do you think more could be done there?

Gavin Barwell: In relation to housing associations, clearly the ombudsman is a vehicle for redress there. If we look at some of the Adjournment debates that I have taken in the House recently, there are clearly some concerns in that area. I have had discussions with the ombudsman about how we can ensure we have better processes to pick up those issues. There are also issues within the private rented sector, which the ombudsman would not cover. We have just had a report from the Electrical Safety Working Group, which was a review that we set up under the Housing and Planning Act 2016, and I know that is an issue that the Chair in particular has long had an interest in. There are things we can do within the private rented sector to look at some of those quality issues.



More generally, to come back to my original point, the White Paper focuses on this core question that confronts housing policy, which is what we can do to drive up supply, to tackle this crisis we face in terms of affordability. There are also issues about what we need to do right now to help consumers in the market, whether they are people who are looking to buy homes on the open market and want reassurance about the quality of the product they are buying, or whether they are people who are looking to rent and want reassurance about the safety of the properties that they are renting. You raise very good points on both fronts.

Q14 Melanie Onn: Do you have any concerns at all about the use of public subsidies by housing associations to provide substandard for-letting housing?

Gavin Barwell: The taxpayer has a right to expect a return for the subsidiary that we provide. It is worth saying that housing associations develop homes both with Government subsidy and without, but where the taxpayer is putting in a subsidy they clearly have a right to expect a certain level of quality. That is what the ombudsman is there for. As you will be aware, the current role of the Homes and Communities Agency is both to act as the regulator and effectively to operate as a bank, in terms of providing that funding. The recent Government review made the case for splitting those two functions off, so we will have a separate social housing regulator that can look at these issues. I hope that will provide reassurance that we are committed to try to drive up standards in the sector.

Although there have been some very concerning stories, and you are quite right to raise the issue, it is also worth pointing out that lots of housing associations do a fantastic job for their tenants and provide very high-quality accommodation, but we need make sure we raise the standards of all to the best.

Q15 Chair: It almost harks back to the Tenant Services Authority, which seemed to do a pretty good job in that area, didn't it?

Gavin Barwell: The Government looked at this. The role of the HCA has changed quite a bit over time and it is functioning almost as a bank now in some regards. Although, as you will be aware, Chair, there are Chinese walls between the main function of the HCA and the regulator function, the review we did clearly made the case that there was a strong argument for separating them formally.

Q16 Kevin Hollinrake: First, I had better draw the Committee's attention to my register of members' interests. I am still connected, as founder and shareholder, to a network of estate agents and letting agents. My questions relate to the previously announced intention to ban tenant fees for letting agents. It was announced in the Autumn Statement and re-announced in the White Paper. Although I know it would affect the industry, I am broadly supportive of that as a move, but what progress



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have we made? Are we moving quickly enough forward with that?

Sajid Javid: After making that announcement, we thought it best to consult on the appropriate way to do that. That is the process we are planning to follow, and that consultation is not complete yet. Once we have heard back from that, we will make a decision on how best to do it. We want to make sure it properly achieves its objective, which is, as it says, to ban those letting fees, but to do it in such a way that, through the consultation process, we learn if there are any particular issues that we want to avoid that might make a situation worse for tenants. We want to be alerted to those, so we thought having a consultation was the way to go.

Q17 **Kevin Hollinrake:** Will that consultation continue through purdah? Will the fact that we are going into a general election make any difference?

Gavin Barwell: I asked that question this morning. I think the answer is that the consultation, having been launched before the purdah period, can continue during the purdah.

Sajid Javid: That is right. Generally, consultations, while they do not have to, can continue through purdah. While purdah is on, there will obviously be no decisions by any Ministers on the results of consultations.

Q18 **Kevin Hollinrake:** My observation is that most agents do a good job; some agents exploit the opportunity of an unsuspecting tenant who follows the property, who can be—for want of a better word—screwed with a very high level of tenant fees. You are asking agents to do more and more, of course: right to rent; gas safety checks; electrical checks, which you talked about; client money protection potentially; membership of a redress scheme. It is covered in the consultation document, but there seems to be a lack of enforcement of the regulations that letting agents are being asked to adhere to, which is inconsistent with the regulation. How do we square that circle?

Gavin Barwell: One of the questions in the consultation document is about that enforcement issue and whether people believe that the right solution is just to give local authorities responsibility for enforcement in this area, or whether there should be some kind of specialist national enforcement organisation that might support local authorities in that work. You pose a really good question, and it is one of the things that we want to get right before we potentially bring forward any legislative changes to enforce this. It is an easy thing for the Government to say, “We are going to stop this happening”, but you need to get the details right and make sure you have the mechanisms there to properly enforce those changes on the ground around the country.

Q19 **Kevin Hollinrake:** In terms of the impact on tenants themselves, you were recorded in a tweet, Housing Minister, as saying that the fees would simply be transferred from a tenant in one form to a tenant in another form: increased rents. Do you stand by that?



Gavin Barwell: Obviously, one of the great joys of this job is that you defend the position of the Government at the time, and this is an issue that we have reflected on and taken a different view on. There are several points that I would make. One thing is that there has been a huge amount of public pressure on this. We had a petition presented to Parliament, which is one of the things that the Government considered in changing their view on this issue. I suppose it is an important message to the people watching these proceedings that signing those petitions and bringing them to Parliament's attention makes a difference. We also have the evidence from an experience in Scotland where this has been introduced.

The Government's view is that it is absolutely legitimate for letting agents to charge fees for their work; the question that confronts us in terms of public policy is to whom those fees should be charged. The Government's view is that, given the market is as it is, as the Secretary of State described in his opening remarks, and given that demand far exceeds supply, prospective tenants are in a much weaker position in the market to negotiate. They do not necessarily have upfront sight of what those charges are going to be. It is a much fairer arrangement to have agents make those charges to landlords, who are in a stronger market position to negotiate and get the right deal. They might get better value for money than tenants are able to, and then there are clearly decisions for landlords about the rents they charge.

One thing that really struck me was that Shelter and some of the other housing charities that have campaigned on this very strongly have said that, even if there is some impact on rents, it is far better for a tenant to know that that is the price of the property that they will be asked to pay and to have that upfront certainty about cost, rather than signing up for a property and then suddenly finding themselves hit with what can be quite considerable charges. That is the rationale for the change.

Sajid Javid: That point about transparency is a very important one. There are, as you say, some letting agents that do the right thing and are very responsible; there are others—you may have come across some; I certainly have—that will go out of their way to try to hide the fees or just be completely un-transparent about them. Having a ban on those fees and effectively forcing the letting agent to absorb some of the costs of fees in other ways could lead not just to better transparency, but to a more competitive market in the end.

Q20 **Kevin Hollinrake:** But you accept that forcing would only come through enforcement. You used the word "forcing", and we need proper enforcement.

Sajid Javid: It needs proper enforcement, yes.

Q21 **Kevin Hollinrake:** In terms of the rent increases, back to that point, there is a report by Capital Economics that rents could go up by between £100 a year and £275 a year on the back of these changes. You accept,



from your comments, that there is likely to be some kind of increase.

Gavin Barwell: If I have learned anything, it is not to predict these things in the current environment in politics. The Government's view is that landlords are going to be in a stronger market position; they are going to get better value for money. What is important from this policy is that, therefore, tenants are going to get a better deal overall and they are going to have complete clarity upfront about what the charges are. What impact will it have? We will have to see how that plays out.

Q22 Helen Hayes: I have been pleased to spot in my constituency, over the last few weeks, a couple of letting agents who are already advertising that they have cancelled fees to tenants. It is really welcome that the market is already responding to this incoming proposed change. That is obviously anecdotal evidence, which I am glad to see, but I wondered about the extent to which you are, within the Department, looking at the response of the market to a regulation that has not yet come into force.

Sajid Javid: As part of the consultation, there will be letting agents coming forward with their own experience, where they have voluntarily done that, and we will look at that carefully.

Q23 Kevin Hollinrake: Alongside the White Paper, there was a document talking about the build-to-rent sector, how you encourage build-to-rent and how building regulations should perhaps be adapted to the build-to-rent sector. Do any have thoughts on how you think that might happen? Should they operate to a different set of rules in terms of building regulations?

Sajid Javid: One reason we have talked a lot about rent, including build-to-rent and the private rented sector, in the White Paper is to properly recognise that some people wish to buy, and we want to give them as much support as we can and make sure there are good, decent, affordable homes for them to buy. As you know, there are schemes like Help to Buy in place to assist with that. Other people actually just want to rent; they want to be able to rent a home at a decent price.

One set of changes we propose through the White Paper is, really for the first time, to get local authorities to think when they put together their long-term plan for their areas about the tenancies that people demand and what they need. There will be parts of the country where renting is more popular, more natural, so we want local authorities to take that into account properly in their plan. I think I am right in saying it is the first time any Government have said you should think not just about homes full stop in your area, but about the types of homes, whether they are rent-to-buy, and, for that matter, we have talked a lot about whether they are for older people, younger people, disabled people. They should really think about the types of homes, including rental homes.

Q24 Kevin Hollinrake: Another topic entirely is leasehold abuse, which is covered in the White Paper. Secretary of State, you have talked quite recently about not allowing Help to Buy for leasehold homes.



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Sajid Javid: Yes.

Q25 **Kevin Hollinrake:** What are your current thoughts on where we should go with that?

Sajid Javid: To be clear, what I and the Housing Minister have talked about is specifically leasehold for houses. There is a very legitimate market in leasehold for flats, apartments and things, and that is well understood. The issue is around the increasing evidence of where builders are building houses and then selling those on a long-term lease for no good apparent reason. There may be circumstances where the land itself is not available for freehold; it might be—I have come across some examples—Crown estate land or land of that type, so the only way to make homes available is through long-term leasehold.

I believe there are far too many cases where a house that has been purchased freehold by the developer could have been sold freehold, and there is no good reason to sell it on a leasehold basis. That is wrong in general, and it is not always transparent about what is going on, particularly around ground rents. We have seen some examples of ground rents that can double every 10 years, in some cases every five years, and after the lease has been purchased people are left wondering how they are eventually going to sell their home. They are seeing a diminution in its value because of the ground rent terms.

That is what I have talked about. We want to do something about that, so our plan, as is referred to in the White Paper, is to publish a consultation on exactly how we can shut that down. By the way, it is particularly a problem in the north-west of the country. I saw some recent figures that, in the last quarter, over 50% of houses built using the Help to Buy package were on a leasehold basis. We want to think carefully and look at why in certain geographical localities it seems to be more of an issue than in others, and then see what we can do about it, but we are determined to do something about it.

Q26 **Kevin Hollinrake:** The punitive terms of ground rents or how they change over time could be applied to an apartment or a house, so your intention is to legislate to make sure the terms of those leases are fair. Is that the direction of travel?

Sajid Javid: It may be more than that. Again, I have to issue the caveat that it is now for a future Government to decide what is actually done, but in terms of what we referred to in the White Paper, I and the Housing Minister have also referred in speeches to the issue about whether we should ban houses that are sold on leasehold terms for no good reason. There might be a few exceptions to that, but should we just ban it outright?

Q27 **Kevin Hollinrake:** Those unfair lease terms could equally apply to apartments where there is a good reason to have them leasehold.

Sajid Javid: Do you mean in terms of ground rents?



Kevin Hollinrake: Yes.

Gavin Barwell: If you look back historically, ground rents used to be peppercorn. Essentially, a market has developed in trading in these ground rents, and it is not clear to either the Secretary of State or me that that is in the interests of people purchasing these properties.

Sajid Javid: You will certainly know this, but originally the ground rent arrangement was more of a legal arrangement to recognise the rights and obligations of both parties involved: the owner of the freehold and the owner of the leasehold. That is why they have typically been peppercorn. On top of that, there could be some legitimate charges to cover shared facilities costs, service charges and so forth, but what we are particularly focused on here is the ground rent and whether there is an unfairness in the system of how it is currently looked at and what more we can do.

Q28 **Kevin Hollinrake:** You would have to talk about legislation to make sure the terms of the ground rent and how it might change over time would be at a fair level. I guess that is where you would have to end up, if you were going to make a change.

Sajid Javid: There would have to be a consultation first but, depending on the results of that consultation, we would then have to look at the best way to take action.

Q29 **Mr Prisk:** Can I turn particularly to the planning section of the White Paper? One of the issues, which I suspect you will have picked up on your tour as a Housing Minister after the White Paper, is this bugbear that people have about the constant set of new negotiations over viability tests, market assessments and planning gain, whether it is CIL or Section 106 agreements, and the frustration that, at each and every turn and on each and every site, the wheel is reinvented. The cost, not only to the sector but, more importantly, to your ability to deliver your targets, is immense. Why was there not something specific in the White Paper, or is that something a future Government would be planning to do?

Sajid Javid: Are you specifically thinking about CIL and Section 106?

Mr Prisk: I am thinking about the whole envelope. Most developers have CIL, possibly Section 106, maybe both, plus market assessments. It is all those elements that delay the project and cost money, and which are therefore holding back your targets.

Sajid Javid: There has been a great deal of consideration given to those kinds of issues, which often cause these delays. The first thing to say is that, in particular with CIL and the Section 106 payments, there has been a consultation and a review done. It is led by the Treasury, and that is something that the Treasury, working alongside DCLG, is committed to respond to. I would have said "shortly", but I think you will understand that it will now be a decision for a future Government. It is something



that has been looked at in great detail, and the plan of this Government at least is that there needs to be some reform of that.

Alongside that, another thing that we mentioned in the White Paper, which is connected, is to look again at other better or more efficient ways to capture some of the upside when planning permission is given. That can perhaps then be used for developing local infrastructure. I could point to other elements in the White Paper that are, again, trying to deal with some of these delays, which could be looked at more efficiently, for example, on the environmental side, great crested newts.

Mr Prisk: I remember them well.

Sajid Javid: Absolutely, you would have experience, and I am sure these issues have been in your in-tray many times. We looked carefully at a project that Woking Borough Council did with one of the developers. Rather than having a process for each development, they looked at a borough-wide process, looking at the issue that way and having it almost predetermined before a planning application came in. We were quite impressed by that, and we committed directly in the White Paper to look at it more carefully and see if it can be applied across the country. That is another example of how we can deal with some of these costs.

Q30 **Mr Prisk:** The key thing for a lot of people is, if the process in all of these regards was standard, the same in each local authority, it would strip away the uncertainty and help speed up the process. It is not really even an issue the Treasury would naturally be concerned about, which is revenue and so on. Is that also part of the equation?

Gavin Barwell: The review was done by a lady called Liz Peace, and we said in the White Paper that we will look at this on an Autumn Budget timescale. You are right that the White Paper did not provide the answer, but it definitely pointed to where we hope the answer will come from. The analysis that you have laid out is exactly what Liz finds, essentially. If you can imagine that the Committee are all different developers and the Secretary of State is a landholder, at the moment the developers are all competing with each other, with ever higher bids, to secure this particular site of land. Let us say, Mr Prisk, that your company wins. You then come back to me as the local authority and say, 'Well, I am sorry; I cannot do your X percent of affordable housing, because I had to pay so much to get the site that it is not viable'.

What Liz's review pointed to is a national system where there is a set tariff, so that, if the land value is this, this is what you would pay, and you cannot pay more than it is worth and then come back and try to negotiate it down. There would be that standard rate, based on the land value, but then the money gets returned to local communities to spend on locally determined projects. That is the idea that is put forward in the review. As the Secretary of State said, we need to work through those ideas and look at the other ways in which we can potentially capture land value uplift, but the review absolutely shares your analysis that this



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process is both leading to affordable housing and infrastructure being squeezed out and causing a lot of delay and expense.

Sajid Javid: Mr Prisk, you will know that today it is not just that each council, each planning authority, can have a different CIL; they can actually have a different CIL in different parts of the same council. It can be that a council has four or five different tariffs, depending on where you want to build, and that can be quite complex as well.

Mr Prisk: I will not get drawn into the love life of the great crested newt.

Sajid Javid: Please do.

Mr Prisk: My colleagues will not appreciate it.

Q31 **Kevin Hollinrake:** Secretary of State, the point you make about the same local authority having different policies is interesting. I have a document here, which is one of my local authorities' viability assessment documents, and this allows a large developer to make a 20% profit on their viability, and yet a smaller developer, so less than 10 units, to make 17.5%, so a lower profit margin, on their viability. How can that be right? It also allows the larger developer more build cost for each plot. If we are going to support small builders, which we see as key to the future of getting the numbers to the right level, which is what the Housing Minister is trying to do, quite rightly, this lack of a standard methodology seems to be a serious issue.

Sajid Javid: That is a good point. Obviously, I have not seen that document, but in general your point is well made and goes to the fact that we need to do more to have more diversity in the market, and that means more smaller builds. A large part of the White Paper focuses particularly on diversifying the market, and looks at areas such as help with funding, trying to build on the work that has already been done by the Home Building Fund, but also some of the planning requirements. One of the new requirements that the White Paper has set out is that every local authority will have to set aside a given proportion of its land supply over the next five years and say that these will be smaller plots that are designed particularly to appeal to smaller builders. I am not saying that is going to change the market in time or diversify it in exactly the way we want to see, but it will certainly help.

Q32 **Chair:** Can I come back to the point that, essentially, the Government are looking or suggesting the next Government may look at how to capture more of the value that comes from a planning permission in terms of benefit to the public purse? Whether that is a reformed version of CIL or Section 106, that is essentially trying to capture that value from the developer. Has any thought been given to how you capture some more from the original landowner, who may be doing nothing more than sitting on a piece of arable farmland and make an enormous profit simply when the planning permission is given?



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Sajid Javid: Yes, it has. In fact, as a direct illustration of that, you may know, Mr Betts, that we accepted an amendment to the Neighbourhood Planning Bill very recently, which would make it far easier for local authorities to set up public interest companies where they will be able to, under certain circumstances, acquire land before planning permission; get the planning permission, working with the developer; and retain a lot more of the upside in that public interest company for the benefit of local people, including for investment in local infrastructure.

Q33 **Mr Prisk:** Let me turn to the vexed issue of green belt. There has been a bit of debate post the White Paper, with people arguing as to whether it has strengthened it or weakened it, so perhaps today we could just clarify this. Is it now the case in terms of Government policy that, where an authority is not able to meet its development requirements, that on its own represents an exceptional circumstance?

Sajid Javid: The Housing Minister may want to comment on this as well. Regarding the green belt, first of all, in the White Paper we lay out some of the facts around the green belt, which is 13% of land in England. There is a lot of land, therefore, that is not green belt, and that should be the priority. We recognise that the green belt is precious, that it serves a valuable function and that, if a local authority wants to re-designate green belt and look at it for development, it needs to have, under the planning rules, some exceptional circumstances to do so.

In the White Paper, we have also set out that, if a local authorities feel they have to go down that route and have no option but to look at green belt, they must show that they have genuinely looked at all other options first—for example any brownfield opportunities they might have had in their area—and that they have a proper policy around density. If, even then, they decide that it must be green belt because there is no other option, we have also set out in the White Paper that we would expect them to set out how they might compensate for that by improving access to existing green belt or the quality of some existing green belt.

Q34 **Mr Prisk:** I take that as a yes, in the sense that, aside from the specific criteria that an inspector would look at and that might even come on to your desks at some stage, where an authority cannot meet its development requirement, however that may be defined, notwithstanding any other circumstance, that on its own is now included under the title of “exceptional circumstances”.

Gavin Barwell: It can be. In other words, if an authority has done an assessment of its housing need and it has looked at all the other options that we specify in the White Paper, that can be an exceptional circumstance. It does not mean that the reverse is true, which is that, when a developer is appealing a decision for development in the green belt, it is always the case that it has to be. However, if a local community wishes to make that choice, we set out in the White Paper, exactly as you say, Mr Prisk, the tests that we would expect an inspector



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to apply in determining whether that is a valid thing for an authority to do.

- Q35 **Mr Prisk:** Following on from that, in terms of designating the green belt, as you will understand, I have a situation in my own constituency where the designation of where the green belt is or is not is a thorny one. In order to remove that question mark over independence, should this be removed from the local authority, with an independent body designating the green belt, away from perceived political interference?

Gavin Barwell: My instinct is that these are decisions that should be taken democratically by local communities. Therefore, local councils are the right organisations to do that and the green belt policy should be set out in local plans. I am not aware of your particular circumstance, but it may be that the relevant authority does not have a local plan and, therefore, there is a lack of clarity about the exact boundaries. Is that what you are suggesting?

- Q36 **Mr Prisk:** Without getting too parochial, in my own area, we have our local plan that is coming forward. It will come to examination in public in September, subject to the inspectorate, and a clear and substantial area, possibly the largest area of metropolitan green belt, would be removed in order for a development to take place, if the plan were adopted. The broader picture, which affects all of us, is the question as to what the circumstances are, and this is why I am coming back to whether an independent body would be better placed to designate.

Gavin Barwell: The inspector is independent. The inspector ultimately will examine the proposals that your local authority or another local authority making this argument is making. There is an important opportunity for the members of the public and their elected representatives, like you, to make a case to that independent person. We felt that, at the moment, there is no clarity at all as to what that phrase "exceptional circumstances" meant, and we have tried to provide clarity in the White Paper.

Sitting suspended for a Division in the House

On resuming—

- Q37 **Mr Chope:** Would you agree that, under the proposals in the Housing White Paper, the green belt is less sacrosanct than it was before?

Sajid Javid: No, not at all. It is just as protected as it was before, and the White Paper is in fact trying to make even clearer that the Government expect that, before a local authority even considers the green belt, it has looked at all other viable options.

- Q38 **Mr Chope:** The reason I ask that is because the perception, certainly in my area, is that there has been an invitation for people to come forward with land. I am told that enough green belt land has been brought forward in east Dorset to build 20,000 houses on. Almost all the land



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coming forward is from speculators and people with options on the green belt, thinking that the Government's policy has changed, so they will be able to have a field day and develop on the green belt, whereas I understood the policy to be that it was and is sacrosanct, in the same way as, for example, building within 400 metres of a heathland is sacrosanct.

Sajid Javid: All the current protections remain, and the purpose of the White Paper is just to add more clarity and re-emphasise that all other options should be considered before any local authority looks at green belt. The green belt remains precious and it retains all its current protections in terms of its exceptionality.

Gavin Barwell: It is worth suggesting that, in other sections of the White Paper, there are policies encouraging greater use of brownfield land and encouraging greater density. There are measures there that should make it very clear to developers that we want to do a better job of bringing disused brownfield sites back into use and getting more intense development on the sites that are already developed. That should allow us to provide greater protection to sites that we want to protect.

Q39 **Mr Chope:** Why, in that case, are so many developers investing their scarce time and resources on trying to develop or get permission to develop land that is in the green belt?

Gavin Barwell: It is difficult for me to answer as to what their motivation is. As the Secretary of State said, the policy is very clear that green belt land can only be released in exceptional circumstances, and that that should be done through a plan-making process—coming back to Mr Prisk's final question—in which a council has to evidence to its own residents, to elected representatives and to an independent inspector that it has passed the necessary tests. It does not say it can never happen, but the hurdles are rightly very high, because this is land that all of us as elected representatives, and I as someone with a significant amount of green belt in my constituency, value very highly.

Q40 **Mr Prisk:** The housing delivery test is an interesting innovation, which has been noted very much in the White Paper. As to the requirement, however, that where a council has not met its overall plan target it now has to produce an action plan, what is envisaged to be in that action plan specifically, and what happens if it is regarded as being inadequate? What are the tests or the hurdles for a local authority to produce an adequate action plan?

Sajid Javid: If I can start, I will say a word about the delivery tests and the Housing Minister can say a little more about the action plan that we have in mind. First of all, the reason why we have come up with a delivery test in the White Paper is to recognise something that was missing in the existing planning system, which is that a local authority can set out and come up with a proper plan that is accepted by the inspector and gets fully adopted, but then there is no test, on an annual



basis, to see whether those homes that were identified as needed in the plan are actually being built and the development is actually taking place. We felt there needed to be some sort of independent test of a local authority on an annual basis, to see whether the development they said they needed in their local area was coming about.

It clearly had to be fair. There may be some reasons in a particular year why they would not be able to meet the demands, so we suggested this should be on a three-year rolling average, but there needed to be a test. For it to be meaningful in any way, if the local authority fails that test, there clearly need to be some repercussions. The starting point for that, depending by what percentage they failed to meet their annual delivery, would be the action plan.

Gavin Barwell: It is an interesting question, because it leads us neatly into where we want to go once we have finished the consultation on the White Paper, reflected on the responses we have received and set policy through the new NPPF. The Secretary of State and I want to hold policy constant for a period of time and focus on place-based intervention. That would involve us going to particular communities, sitting down with the political leadership of a major development and saying, "What is the problem here?" In an action plan, we want an authority to set out why it thinks it is not delivering the required level of housing, and what action it can take or what support it needs in order to get delivery up to the required level.

We are looking for these action plans to provide a diagnosis of the problem and what is stopping the housing getting built in that area, so that we can then work with local authorities. My experience from the visits I have done so far is that they can sometimes be quite minor things: there may be a piece of infrastructure that the Government have not delivered in a given time, a particular utility company that has not delivered a key piece of infrastructure, or the authority is struggling to get an answer from Network Rail and it cannot get in at a high enough level to get the answer. These are things that we can help and assist with.

In terms of the action plan, the starting point should be that, if there is only a relatively low level of under-delivery—you are talking about a 95% threshold—the authority is saying, "This is why we think we are not delivering at the moment, these are the actions we can take and this is the help we need".

- Q41 **Mr Prisk:** Would you intervene after a year or two years? I understand the Secretary of State is talking about a three-year rolling number, and that is probably reasonable and fair in the context of the ups and downs of the housing market and the economy. Would your expectation be that, looking at the action plan, you would intervene in year one or year two?



Gavin Barwell: I have to add the Secretary of State's caveat to this, because a new Government will look at these issues, but our plan was that we would publish indicative housing delivery test data this summer, for the three years that have already gone. It would be completely unfair to judge authorities on that, because they would not have known at the time that they were going to be judged on that basis, but it will allow everyone to see what the delivery test would have been if it had applied. In November of this year, we will publish the first set of data that people will actually be judged on. The action plan and the extra supply thresholds will apply there, but there will be a very low threshold for the more punitive sanction of the presumption in favour of development, down at 25% of delivery. That will ratchet up over the three years, so that only when everyone has known they were going to be assessed on this basis for three full years will the test really apply.

This November, authorities that are below 95% will have to produce these action plans and we will want to engage with them straight away. For both of us, the frustration of this job is how long it takes from once you have made the decision to homes being built around the country, so we do not want to sit around for two or three years and wait to see if things improve. We want to get on straight away and work with people.

Q42 **Mr Prisk:** Lastly on this point, I understand you want to have a consensual approach, working with local authorities, utilities and so on, but, if in the final analysis it is clear that progress is not being made, what are those penalties?

Gavin Barwell: First of all, the delivery test has three tiered sections. Let us talk well into the future. From November 2020, when it phases in fully and you have had three years in which people knew the delivery test was going to apply, if you are at 95% of your delivery target, you have to produce an action plan. If you are at 85%, you will have to add a 20% buffer to your five-year land supply. If you are at 65%, the presumption in favour of development applies. That clearly is a sanction, because it does not mean it is a free-for-all, but it means that policies in the local plan will be considered out of date and applications will be considered purely against the NPPF, against national planning policy. That will allow some schemes to come forward that might not have come forward if the local plan policies were considered up to date.

There are other sanctions that we have. We have the ability to intervene in local plans if we want to. Sometimes the problem might be that local plans have not been kept up to date, so there are other sanctions that are available. There are also carrots that we have available: the Chancellor has given us a significant sum of money in terms of the housing infrastructure fund, so if the problem is sometimes a non-delivery of infrastructure, there are things we can do to help. I do not want people to think this is all about sanctions. We want to work with local authorities to help them deliver, but clearly, if people are not



doing what there is a reasonable right to expect, we have a right to intervene as well.

Q43 Chair: If a local authority can prove that they are doing everything they can to get the houses built but they are still not hitting 95%, so they are down at 85%, is it fair to penalise them?

Gavin Barwell: No, if they are doing everything they can, it is not fair to penalise them. The 85% threshold in terms of an extra land buffer will be if there is a concern that some of the land they have allocated in the plan is not actually land that developers believe is viable to develop, so that is the thought behind that idea. In terms of the White Paper consultation, if you take chapter 2 of the White Paper, it basically runs through a sequential argument, so we have listened to the reasons developers say it takes a long time to build out: great crested newts, pre-commencement planning conditions, infrastructure, etc. We have tried to deal with them.

Then we have said, "Okay, now, having done all those things, we have a right to seek faster buildout. If we do not get faster buildout, we are going to give local authorities these powers to intervene and drive buildout". Having given local authorities those powers, we are then entitled to hold them to account for getting that buildout.

To come back to your question, Chair, the key question is: are the powers in chapter 2 right? Do they sit in that goldilocks zone where they are sufficiently powerful to give local authorities real teeth but not so draconian that they will have a chilling effect on the market? That is one of the key things that we want to hear in the feedback to the White Paper.

Helen Hayes: We have heard quite a lot of evidence from the homebuilding sector that the rate of delivery and the capacity of the sector to deliver are still very much tied to the cycle of the wider economy and that that has quite wide-reaching repercussions, including in terms of the loss of skills from the sector during a downturn, which then affects the ability of the sector to upskill and start delivering again as the economy recovers. How will the reforms proposed in the White Paper make the housing market more robust and less susceptible to fluctuations in the wider economy?

Sajid Javid: There is no easy answer to that. One part of it is making sure, given we want to see more homes being built, which requires more skills, that the industry itself takes ownership of that. With the Farmer report, it has started very seriously to look forward at demand and make sure that, as an industry, it is investing in the skills that it needs. Another way we have tried to address that is to recognise that the way that many homes are being built has changed, specifically in the last 10 years. In the section of the White Paper where we talk about diversifying the market, we talked earlier about the smaller developers, but another equally important section of that is looking at modern



methods of construction, everything from factory build to custom build to self-build, and there is an ever-increasingly high proportion of a home that still requires skills, but a different set of skills that can be perhaps even borrowed—digital skills, for example—from other industries and then used in the construction industry.

We are very keen to promote that. For example, one way that we intend to do that is through the Accelerated Construction programme, which is using some of the funds that were made available in the Autumn Statement: the £1.7 billion for the accelerated construction on Government-owned and publicly owned land. We will say that some of the homes in the areas identified to build on will be developed through modern methods of construction only, to try to give a kick-start to that industry and give them some pipeline of demand, which might then encourage them to develop more of that skill.

For example, one of the visits I did in preparation for and doing research for the White Paper was a factory in Leeds, which is being opened up by L&G and should be operational this year. Once that reaches full capacity, their claim is that it can build some 400,000 units a year. That is quite significant in terms of the supply that we need in this country, and that is a very different set of skills. We want to invest in modern methods of construction and help with that too.

Q44 Helen Hayes: The housing association sector tell us that, in the past, because a good proportion of their funding has come directly as a consequence of Government grant rather than via the private sector, that has provided a considerable buffer against economic fluctuation over time, and in particular it has helped the sector to retain the skills that it needed to keep on building throughout recessions. Is that something that you are taking into account, in terms of a rebalancing of the housing market to allow for a greater role for the public sector to build homes?

Sajid Javid: Indeed, in recent months, we have announced an increase in the amount of funding going to the housing association sector. The increase in funding for affordable homes, I think, was £1.4 billion in the Autumn Statement. That is additional, so on top of what was already allocated. We think that leads to roughly 40,000 additional affordable homes, so that is one way we will continue to support that sector. Another way—and this was very much welcomed by the sector—was to give them a bit more flexibility over the types of affordable homes that they make available, recognising that each local market and the needs of each local market are different. We must not be too prescriptive from the centre about whether they should be affordable homes for ownership or affordable homes for rent, whether there should be shared equity, but should allow those housing associations to have more flexibility.

Gavin Barwell: That latter point is a really important one, because we inherited an affordable housing programme that was almost solely concentrated on shared ownership. Clearly, if you move the housing association sector in that way, it will not have the same countercyclical



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effect that you are identifying. The flexibility the Secretary of State has given the sector will ensure that it can continue to operate in the countercyclical way that you were suggesting was beneficial.

Q45 Helen Hayes: Have you similarly considered the role that more flexibility for councils to borrow against their assets might have in this regard?

Sajid Javid: Yes. In the same Autumn Statement, we gave an additional £300 million headroom for borrowing for councils collectively to build homes, and, of that, some £144 million has been used so far, so there is still more headroom. Overall there is some £3.4 billion of borrowing capacity available to local councils, and some £2.9 billion has been used, so there is still some headroom there. One other thing that we have said, both in the White Paper and in the statement I made in Parliament and in speeches, is that we are quite open-minded about local authorities coming forward to us with a bespoke plan and saying, "Look, in our area, circumstances are different. We could really make a difference, so can we do some kind of deal on that?" We are very open-minded about looking at that, but now of course it will be for a future Government to decide.

Q46 Helen Hayes: With the housing policy framework as it currently stands, when do you expect the number of housing completions each year to match the need for new homes in this country?

Sajid Javid: It is very hard to say. Let us look at the facts so far. In terms of housing starts, we reached a record low in terms of our peacetime history since the 1920s in 2009. Since then, annual housing starts are up some two-thirds, so there has been significant progress, but, going back to the start of the session, we are still way short of where we need to be. It is hard to say, partly because, as the Housing Minister said a moment ago, there are many things in the White Paper that will make a significant difference. We have talked about some of them, the delivery test for example, but until those are all fully implemented and the consultations are over, they are not going to start making a big change on the ground. I would like to see those changes made as soon as possible, but especially now, with the change in Government that will happen, it is hard to say exactly when everything can be put into practice.

Q47 Helen Hayes: In your mind, are we talking three years, five years, 10 years? Are we not sure? This is one of the biggest challenges the country faces and it is the job of you, as the Minister, you, as the Secretary of State, and your Department to be laying out a complicated strategy, but a strategy nevertheless, that addresses this big challenge and gets us where we need to be. What is the timeframe?

Sajid Javid: That is the job, and I, the team and the Government more widely accept responsibility for making those changes that will lead to more homes, but this requires a procedure to be followed. With some of the changes in the White Paper, the main step was to have a



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consultation, which is a statutory requirement before changes can be made to the NPPF, for example, but, when changes are made to the NPPF, at least it does not require a vote, which could slow things down further, if the requirement is a statutory consultation.

There are other changes in the White Paper that would require legislation. We have talked about some of these changes, so there are a set of changes but each one requires procedures to be followed. I am clear that we are progressing at the fastest possible speed with these changes, and that, once they are in place, they will make a significant difference.

Gavin Barwell: I will make two very brief points. First of all, it is important to focus on the right measure of performance, so the key measure we use is the net additional dwellings data, which take account of all the different ways in which we get extra homes and take off the ones that are demolished, which clearly need to be replaced. We get that data just once a year, rather than the quarterly data that you get on housing starts and completions.

To a degree, to answer the question you posed, you acknowledged at the start of the question that wider housing starts are affected by the economy, so the Government can, to a significant degree, control what we get out of our affordable housing programme, but the Government do not have complete control over the number of homes that get started every year, because the international economic climate has an effect on that. If you look at net additions, the figure there reached its floor in 2012. There is obviously a lag from the point at which the starts reached their nadir, and we were at 124,000 then, 136,000 in 2013-2014, 170,000 in 2014-2015 and 190,000 in 2015-2016, so you can see that the Government have been making clear progress but, as the Secretary of State said, we still have a way to go, to get to where we need to be.

Q48 **Kevin Hollinrake:** The Housing Minister has said on a number of occasions that there is no silver bullet to the wider housing market problem, but one of the solutions and welcome initiatives in this is about smaller sites and a recognition that more local plans should have smaller sites in them. Playing devil's advocate for a second on that, it says 10% of the sites allocated should be half a hectare or less, but, in that, you could have nine sites with 99 units on them, one site with 10 units on it, so only 1% of the delivery on that local plan, in a simplistic situation, would be on smaller sites. Is that objective ambitious enough to allow enough sites to come forward for smaller developers?

Gavin Barwell: This is one of the issues that has come up in the meetings we have held around the country. The problem is that we looked at various different formulations in setting this target, and they all have their own quirks and difficulties, but it is one of the things we will want to reflect on in responses to the consultation. We are very clear in all our policies, including this target but also the Accelerated Construction programme and Home Building Fund, where we have particular financing available to SMEs, that we want to tackle the problem of diversifying the



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housing market from both ends: both in terms of land availability and in terms of finance. We are very open to listening to any other suggestions people have about how we get that mix right.

There is a powerful lesson here for local authorities, because, at pretty much every one of the meetings, I would give my five-minute spiel at the start and say, "We are far too dependent on a small number of large builders", and everybody in the room would nod, but then I said, "How many of you are including a significant proportion of small sites in your local plans?" To a degree, if communities want a more diverse market, they have to make sure that their local plans are providing that diversity of sites.

- Q49 **Chair:** Before we move on to business rates, the *Sunday Times* has highlighted recently this problem of mini-flats, where people are creating a flat out of one room—almost smaller than a hotel bedroom—in an ordinary house and claiming it is a self-contained flat, increasing their housing benefit take in some cases and getting New Homes Bonus on the supposed creation of a new property. Do the Government have concerns about that and do they want to act?

Gavin Barwell: That is definitely an issue that the new Government will want to look at.

- Q50 **Chair:** Apparently, those so-called new flats are included in the total figures for increased—

Gavin Barwell: We need to make sure that the data we are measuring are accurate, that these are genuinely self-contained properties and not the kind of thing that you are describing.

Chair: That is helpful. Minister, you have to leave us. Thank you very much for your attendance.

- Q51 **Bob Blackman:** Moving on to business rates, to start with the position over the revaluation, which of course has to be fiscally neutral, when the last two revaluations were made, in 2005 and 2010, the estimated loss on appeals was set at 4.2% and 4.1%, and actually the outturn was 4%. This time round, you have estimated the loss on appeals at 5.97%, yet the bar has made it harder for rates appeals to be heard and it would seem that that is an overestimate. One of the concerns will be that, in order to make it fiscally neutral, UBR has to increase to cope with a loss on appeals. If the estimate is wrong and it should be 4%, that equates to some £600 million a year, or, over a five-year period, £3 billion. How have you arrived at your 5.97% figure on losses on appeals?

Sajid Javid: The first thing to say is that, by law, when a revaluation takes place, we have to do that in such a way that it will be fiscally neutral, so it cannot be and should not be an attempt to raise more money in any way. Whether it is my Department looking or the Treasury looking, we both look at it in the same way. It must be fiscally neutral. Estimates are needed, because you are trying to set something up until



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the next revaluation and typically, as we know, it has been five-year or longer gap, so you need to make some estimates around that, and one of those is around appeals. I am confident that the estimate made around appeals following this revaluation is set out to try to make sure it is fiscally neutral.

What gives me further confidence is that, unlike in the past where the estimates have been made by Government only, it is always good to have some sort of independent assessment of this and, when my Department, working with the Treasury, set out the numbers and the 5% number in particular, it had to present that to the independent OBR, because obviously they will make estimates of business rates income overall over at least a five-year period. The OBR also agreed, with the criteria and the dataset that was available, that this estimate is reasonable in terms of being fiscally neutral.

None of us can read the future, so we do not know what will eventually transpire, but the intention is that it is fiscally neutral and does not lead to any increase in overall revenue, over and beyond what is expected. There might be a change in revenue because of the number of businesses, inflation and other measures but in terms of the revaluation itself, that must be fiscally neutral, and the estimates made reflect that.

Q52 Bob Blackman: I come back to the issue that the evidence from the previous revaluations has been that, broadly speaking, a 4% reduction would be the loss that you would normally expect, but you have increased this to 5.97%. This is quite a drastic increase, which could lead—well in fact, will lead—to an increase in revenue coming in, which you do not have to distribute. The Government can keep that money, because it is money that is lost, basically. It is charged to the businesses, but it is not then distributed, so it is potentially a financial windfall to the Treasury. When you were going through this exercise, what agreement was made on the point of, if the estimate is wrong, what happens to that money?

Sajid Javid: You refer to the last two revaluations before this. I think I am right that both of those revaluations did not turn out to be fiscally neutral, in the sense that they cost the Treasury money, so the Treasury ended up not recovering its total cost. That is certainly true of the 2010 revaluation. There are lessons learned from that, and clearly the Treasury's reaction is to make sure that, on this occasion, it is truly fiscally neutral, because fiscally neutral obviously works both ways. The Government do not want to raise any more money that is intended, but equally the Exchequer does not want to lose out and have to look for that money elsewhere, when that was not in its original plans.

To pick up one other point, I think you referred in your opening question to appeals becoming harder and that that should be factored in. Appeals are not becoming harder. The new process that has been set out of check, challenge and appeal is designed to reduce the amount of speculative appeals. We have found, from looking at the appeals



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following previous revaluations, that there are tens of thousands of appeals where people claim that their business rate value is zero, and clearly that is not the case, so there are lots of speculative appeals. We are trying to say that everyone has the right to appeal; of course that is very important part of fairness in the system, but it must be based on a genuine concern about your revaluation and not for any other speculative reason. It is not a question of making it any harder. It is about making the process fairer.

Sitting suspended for a Division in the House

On resuming—

Chair: Let us get back to our business, then, and thank the Secretary of State and the Minister for coming back. I know they have pressures on their time, so we want to be respectful of that as we ask our remaining questions.

Q53 **Bob Blackman:** Turning once again to the 100% business rates retention, part and parcel of that will potentially be that new responsibilities will be given to local government, because they are keeping all their income. We have the top slice, which will fund losses on payments for appeals, and there are new responsibilities. How are you envisaging that you will make sure that no authority loses out in the first year that it comes in?

Sajid Javid: As you say, Mr Blackman, the reform of moving to 100% business rates is intended to be fiscally neutral. That means that approximately an additional £12.5 billion a year will stay with local authorities that otherwise would have gone directly to the Treasury. The objective is to make sure that some of the responsibilities that local authorities have today that are paid for centrally will be paid for from that additional revenue, which they would not otherwise have had, namely that £12.5 billion.

We have not made a determination about exactly what the £12.5 billion would pay for. That decision will now be made by the next Government, but this Government certainly planned that, on day one, a couple of things would happen. First, this is linked to the fair funding review, to make sure that by April 2019, when we plan for 100% retention of business rates to kick in, you would have a new baseline for every local authority, based on the fair funding review, and that from that starting point no local authority would be getting anything less than that baseline. As I have often said, a better way to look at 100% business rate retention is to think of it as 100% retention of any growth in your business rates from that baseline at April 2019. Any growth that you get in your business rates going forward from that point would be retained 100% by that local authority or group of local authorities.

Q54 **Bob Blackman:** Assuming that the estimate is incorrect, and there is a potential windfall in terms of the loss on appeals, there will be a cash



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sum generated. At the same time, you will be aware that this Committee has been looking at the funding of adult social care, for example. Clearly, there is a concern from local government, and a concern right across the House, about how we fund adult social care in the future. Was it your intention to use any of that money to fund adult social care in local government, so they can keep that money if the loss on appeals is substantially less than your estimate?

Sajid Javid: So that I can answer your question properly, and to make sure I have understood it correctly, I do not want to confuse or mix up two things. The set of questions you had earlier were around the collection of business rates, and the assumptions made in that, including the appeals assumption. Those, then, are the funds raised in the new system. As those funds raised increase, because of higher business activity or other changes, 100% of that increase will be retained by that local authority.

Q55 **Bob Blackman:** I am looking at the static figures. Suppose that no extra businesses are created, although that will not be the case. Presuming everything was static, so that business rate income increased, year by year, by the uniform business rate, because you are inflating the uniform business rate to cover the losses on appeals, if your estimate is wrong, which we do not know, and that generates a financial windfall, will that windfall potentially be available for funding adult social care?

Sajid Javid: There are a lot of "ifs" there. Let us look at that. If it turns out, after a certain period, that there were fewer successful appeals than had been estimated, and, therefore, the Treasury, at the end of a reasonable period, has more money than it had anticipated, what to do with those funds is a decision to be made at that time by the Treasury. That is a big "if". Clearly that is not the intention. It is not unreasonable.

Q56 **Bob Blackman:** For clarity, you do not have agreement with the Treasury that any of that money would be available directly for the Department to allocate to—

Sajid Javid: No, that decision would have to be made at the time, if it happened. To be clear, the way the estimates have been made is to avoid that actually happening.

Q57 **Bob Blackman:** I understand that. I am just clarifying what the position would be if your estimate was wrong. How have you gone through the process to make sure that 100% business rates retention will actually meet all the future needs of local government?

Sajid Javid: That process is not complete yet, because it is really part and parcel of working through the additional roughly £12.5 billion that would stay at the local level. You have to consider what responsibilities they take, and the spending profiles of those responsibilities. It is not going to be a straightforward process, and we have been very clear about that. It will require a further consultation. Part of what we are trying to do is make sure, as best we can, that the responsibilities that local



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authorities take on can be matched off with the additional revenue that they would keep.

- Q58 **Bob Blackman:** How have you estimated that you will support areas of relatively high demand for local public services compared to their ability to raise business rates? We all know that there is a great disparity across the country between those areas. What assessment have you made and what are you going to do about equalising that?

Sajid Javid: If there is an area where, when you take 100% business rates revenue raised in that area, it is clearly not enough, today, to cover all of its spending commitments and needs, there will still be a grant available to that area. In effect, there will still be some kind of tariff system to make sure that that area does not lose out on day one. The day one bit is important. At the start of the process, that area, through a grant, will still get the total amount that its baseline requires. Going forward for that area, if its business rate changes by going up or down, that will be something that is passed on or a gain for that area.

- Q59 **Melanie Onn:** Do you have any evidence at all that the 50% retention rate promoted economic growth?

Sajid Javid: Yes, there is some evidence, and the Local Government Minister will respond to that.

Mr Jones: I feel like I am peeling my tracksuit off to come off the bench in the 88th minute.

Chair: Are you going to score the winning goal?

Mr Jones: Hopefully, it will not be in my own net. There is evidence that the move to 50% rate retention has raised an additional £388 million of business rates income for authorities. There is a strengthened incentive we are bringing forward as well. Obviously, we are moving to 100% retention; plus we are also going to scrap the levy on growth. It was a complaint from many local authorities that, under the 50% retention system, as soon as the levy kicked in, they got to retain a very small proportion of the additional amount they raised. We have sought to deal with that in the new system.

- Q60 **Melanie Onn:** Is that, then, why House of Commons Library report, when it compared local gross value added, which is the measure of local growth, said there is almost no correlation between growth in GVA and growth in rateable value?

Mr Jones: Like I was saying in my answer, I was talking about the growth in business rate, and, in a far more significant way than under the 50% retention system, this creates a strong incentive for growth. That is because, first, 100% of the increase in business rate is retained locally and, secondly, as I said before, we have a situation where the levy that was a real barrier to growth will be scrapped. We are absolutely convinced about this, and the local government sector agrees, with quite



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significant numbers. A survey was done by the LGA in 2015, and 58% of local authorities surveyed agreed that improving the incentive is a real driver for bringing forward new economic growth.

Q61 Melanie Onn: You only equate economic growth with a tax base growth.

Mr Jones: There is obviously tax base growth.

Melanie Onn: Is that the only measure that you consider?

Mr Jones: In a local area, there is also the incentive of the creation of new jobs, and the local wealth that is created to pay for other public services. From the perspective of making sure that local government is well financed, there is the uplift in business rate, but there is also that add in, and we can see that in the amount of jobs that have been created in the economy over the last few years.

Q62 Melanie Onn: We will not go on to talk about the kind of jobs that have been created. You feel absolutely confident, then, that the 100% scheme will maximise the delivery of growth, and it will not be just about the tax base.

Mr Jones: It is not just the fact that I am confident in that. As I say, the local government sector is extremely confident in that, and is extremely keen for 100% business rate retention to be brought forward on that basis.

Q63 Melanie Onn: That is despite the fact that the National Audit Office says that the link between business rates and economic growth is not direct.

Mr Jones: As I said before, what we are bringing forward will certainly strengthen that link, in regard to bringing forward a far, far stronger incentive than has been the case hitherto.

Q64 Mr Chope: In light of the events over the last couple of days, are you still confident that the delivery of this can be implemented from 1 April 2019?

Mr Jones: That is a very good question, and one which I am sure that I am not able to sit here today and give you an absolutely direct answer to. We have got to a point where we have been through Second Reading and Committee on the Local Government Finance Bill, which is the Bill to put in place the framework for 100% business rate retention. At this point, it is extremely difficult to see that we would pass Report stage, Third Reading, with the Bill going through the Lords and all the remaining stages, before we get to prorogation for the general election. Naturally, the Bill will fall. Thus, when a new Government are elected, that new Government will need to look at their priorities and bring forward the legislation as they see fit.

Q65 Mr Chope: Does this mean that the pilots you were inviting bids for, for 2018-19, particularly from two-tier authorities, are also on hold?



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Mr Jones: The new Government will have to look at that after the general election, but, as you have seen from the pilots that have already been embarked on this year, there is no necessity to pass new primary legislation to take those pilots forward. That would be a more straightforward process.

Sajid Javid: To be more specific on that, to do the new pilots, particularly for two-tier authorities—and, as you have rightly said, we have made it clear we want to invite local authorities to apply for those—it would have required a ministerial decision about which local authorities get to try that. That clearly cannot happen until a new Government are put in place, given that we are moving into purdah as of midnight on Friday. There is a delay in having new pilots. It does not impact the existing pilots. That does not mean to say that the pilots cannot take place, as long as a new Government make it a priority following the general election.

Q66 **Mr Chope:** Have you learned any lessons from the 100% business rate retention pilots that are already underway?

Sajid Javid: No, not yet. It is too early. They just started at the beginning of this year.

Mr Chope: What are you hoping to learn from them?

Sajid Javid: Going back to the point that Ms Onn had on incentives, we want to see, once the pilots are in place, how the local authorities taking part in them report back to us about the incentives, and how they found them to work in practice. The pilots currently taking place are in Greater Manchester, Liverpool city region, West of England, West Midlands and Cornwall, so there are no two-tier authorities. However, there are some different authorities. Let us take Cornwall versus Greater Manchester. They have different circumstances. We want to see how that might impact on things, and how the authorities within each pilot might pool and share the business rates. Those will be important lessons, which will then feed through into the final delivery of this.

Q67 **Mr Chope:** Thank you. How does all this fit in with those areas that may be subject to local government reorganisation? There are applications on your desk at the moment from Buckinghamshire and Dorset, to name but two areas. Will decisions on those be deferred, or will they effectively have to go back to the drawing board?

Sajid Javid: I was wondering how, Mr Chope, you might bring up restructuring in this discussion, but I am perfectly happy to answer that question. First of all, the pilots are not really impacted by restructuring, but, to answer your question more fully, we do not expect to make any decisions, including any “minded to” decisions, until after the general election.

Mr Chope: The applications already there will still be there.



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Sajid Javid: The applications are still live, and they will be considered, but there will not be any decision on them until after the general election. It will be for a future Government to decide.

Q68 **Mr Chope:** On a slightly related issue, in terms of business rates retention, you are looking at the income of local authorities. One measure that the Government announced, in relation to the expenditure of local authorities, was their intention to put a £95,000 cap on exit payments for all public servants. That was announced last autumn, and we know that that is not being implemented at the moment. We know, for example, that in Bournemouth there was a £394,000 exit payment, and we have heard of very high levels of exit payments in Birmingham and other places. What is the earliest time by which a control on those extortionate exit payments can be implemented?

Mr Jones: It was due to come into place by the end of the spring. Just to absolutely clarify that point, I will take that away and write to you. Bearing in mind the timetable we now have, I will write to you very quickly to clarify that.

Q69 **Kevin Hollinrake:** Fairer funding is one of my favourite subjects, really. As the Secretary of State pointed out, this is about distribution of 100% rather than retention of the growth. It is therefore key that we get the fairer funding formula right. With the example of adult social care, money was allocated at the Spring Budget. County councils are getting about £160 per person over 65, Mets gained £267 per person and London gained £346 per person. There are some in-built inequities in the system. Absolutely key to this business rate retention is redistribution of fairer funding. How is it going?

Sajid Javid: The case for fairer funding is a strong one, and that is why there is an ongoing fair funding review. I have been quite clear in the past that it should be completed in time for the introduction of 100% business rates retention, because the two very much go hand in hand. There are lots of reasons for the review, but one of the key ones is that it has not been looked at properly now for over a decade, and because of demographic and other changes there is a strong case to make sure that it is as fair as possible.

To be clear, it has always been about taking the existing pot of money and dividing it more fairly; it is not about new money. That is generally understood. That makes it a challenging process, but in the Department, and working with other Departments, we have started making good progress on that. We have been on track on that, in terms of the timetable I have just set out. It will now, clearly, be a decision for a future Government in terms of the actual timetable and what happens next.

Q70 **Kevin Hollinrake:** You said "fiscally neutral" before, so it is a zero-sum game effectively. We have seen this in the schools funding. If it is not a tide that is going to raise all boats, some people are going to lose and



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some people are going to win, which is very difficult for the ones that are going to lose, particularly in a tough spending round. How are you going to convince a local authority that they will have to survive with less?

Sajid Javid: There have been no final decisions on this, but I would expect that, when changes are made, there will be some process of transition to that. There would clearly need to be some further discussions and debate in Parliament, so that there are no surprises from the final outcome. There will have to be transparency around that and a clear demonstration that any changes in funding resulting from the review are based on clear principles that can show that it is a fairer way to allocate an existing pot of money.

Q71 **Kevin Hollinrake:** From the fairer funding for education, we know that that is going to create some losers. You are still committed to driving this through, even though there will be some losers.

Sajid Javid: This Government remain committed to the fair funding review. Having said that, there will be a new Government in place on 9 June.

Q72 **Kevin Hollinrake:** Assuming there is some continuity in politics beyond 9 June, is there a timescale for further consultation, presumably, beyond that on fairer funding, when you have established the form you think is appropriate? Do we have a timescale for that, in terms of future consultation?

Sajid Javid: I do not want to tie the hands, or even attempt to tie the hands, of any future Government, so I want to be careful in what I say. The intention of this group of Ministers and this Government is clear. You can infer from that that, if there was some continuity in a future Government, the concern around fairer funding would be shared.

Q73 **Kevin Hollinrake:** Moving on to business rates revaluations, we are keen to understand whether you are committed to more frequent revaluations, every three years.

Sajid Javid: That is the intention, in both my Department and the Treasury, which plays a key role in this. Their plan, as well, is to move to at least a three-year revaluation process. The plan is to set out, before the next revaluation, how exactly that might happen.

Q74 **Kevin Hollinrake:** You consulted in July 2015 on these more frequent revaluations. Were there any lessons learned from that, or did any issues arise, in terms of more frequent revaluations?

Sajid Javid: That would certainly feed into any change that is eventually made, but it is also clear from the current set of values and some of the responses in the Budget to try to help manage the concerns around that and bring more fairness to the system. It is generally accepted that one of the ways to make the system fairer and more accurate is to have more frequent revaluations.



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Q75 Kevin Hollinrake: Can the Valuation Office Agency cope with more frequent revaluations? That is a greater workload for them, of course, to do it every three years rather than every five.

Sajid Javid: I think it can, and, when the Valuation Office Agency assesses that, it is worth looking afresh at using the latest technology and the latest datasets out there. The approach, understandably, probably has not changed much from valuation to valuation, but it can make more use of modern technology.

Q76 Kevin Hollinrake: In terms of looking at other new parts of the economy, particularly online businesses, should we look at a different system of ratings to capture the online commerce that is happening and is probably directly competing with bricks and mortar businesses? I think you looked at this in your previous role. Are we looking at a different system for the future? Is that part of a review process that is going on?

Sajid Javid: A review of business rates was completed in 2015, so some of these issues were looked at then. By the way, there was general agreement from most business groups, stakeholders, the CBI, the IoD, the FSB and others, that, while they can think of many things they do not like about the current system, it was quite hard for them to come up with some alternatives that they might actually prefer. These issues about online versus offline, and, for that matter, out of town versus in town, came up. It is not the highest priority issue at the moment—that is more around the frequency of revaluations—but it is something that a future Government will want to look at carefully.

Q77 Kevin Hollinrake: There is clearly a shift from high street transactions to online transactions, and it is incumbent on the Government to capture revenue from that, but also to make it a fair and level playing field. It is something we have discussed on this Committee. Would you welcome a review by this Committee to look for a fairer funding system that captures value from businesses?

Sajid Javid: I welcome any review from this Committee.

Kevin Hollinrake: That is always good to hear.

Q78 Chair: You welcome the review, but not necessarily the results of the review. To be clear on that, are we still talking about the next revaluation in 2022? Will the three years kick in from 2017 so that it can be 2020?

Sajid Javid: I could not say, because that is now going to be a decision for a future Government.

Q79 Chair: Is that something you have already looked at in your current role, as to whether that would be a feasible possibility?

Sajid Javid: It is something I would like to consider but, again, I could not be more specific than that.



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Q80 **Chair:** If the Government had continued beyond this point, the Chancellor did say in his Budget that the issue of high street versus out of town and online retailing was something that would want to be reviewed before the next revaluation.

Sajid Javid: Yes, he did. He said he would consult before 2022.

Q81 **Chair:** Would it still be possible to consult if the valuation came forward to 2020?

Sajid Javid: I would just stick to what the Chancellor said, which is that the consultation would be before 2022.

Chair: Those are all the questions we have today. Thank you very much, Secretary of State and Ministers, for coming and answering our questions in the full way you always have done to us. Thank you very much.

Sajid Javid: Thanks very much. Thank you, Mr Chairman.