

LGF 14

Bil Cyllid Llywodraeth Leol (Cymru)

Local Government Finance (Wales) Bill

Ymateb gan: Cymdeithas Genedlaethol y Landlordiaid Preswy

Response from: The National Residential Landlords Association

Call for evidence- Local Government Finance (Wales) Bill

About the NRLA

- 1.1 The National Residential Landlords Association (NRLA) is the leading voice for private-sector residential landlords.
- 1.2 The NRLA represents over 107,000 landlords, the largest membership organisation in the sector. The membership owns and manages around 10% of privately rented housing in England and Wales, equating to around half a million properties. NRLA members include around 6,500 members living in Wales.
- 1.3 NRLA members range from full-time landlords running property portfolios to those letting single-bedroom flats. We help our members navigate the regulatory and legal framework for the private rented sector by providing training and support for landlords to ensure they fully understand their responsibilities and are equipped to provide good quality housing for their tenants.
- 1.4 We are a significant source for market-leading intelligence about private renting and campaigns for policies that seek to improve the private rented sector for the benefit of tenants and good landlords alike.
- 1.5 We have been campaigning for some time in England and Wales to end the practice of disaggregating houses in multiple occupation (HMO). This unfair practice substantially raises council tax costs for the tenant and places the landlord at a competitive disadvantage. We are pleased that the campaign has successfully led to change in England and we now want to see the same occur in Wales.

2.0 Executive summary

- 2.1 The NRLA understands the rationale behind the changes set out in the Bill and we will be taking a keen interest in the further legislation that will be required to enable council tax reform. Based on the current council tax consultation, many tenants may benefit from lower council tax bills and we welcome that goal. A typical buy to let property in Wales would fall within the revised Band C so most tenants in the PRS should expect their council tax bill to fall as a result of these changes. However, we do have some concerns over tenant income in areas where housing prices are high.
- 2.2 In addition, for the estimated 19,000 HMO in Wales, there is a danger that tenants may end up paying more for the council tax than they might be able to afford regardless of whether they are disaggregated or not. HMO properties will typically fall in a higher council tax band, often Band H, due to their size and location. They are also typically attractive to tenants on lower incomes and students as they allow for a more cost-effective way of living in a desirable area. Raising council tax bands on these properties may lead to a scenario where those who cannot afford to live on their own are subsidising those who can, which would be a perverse outcome.

- 2.3 We also have some concerns about the student exemption from paying council tax. It is not clear from the bill, or the current consultation on council tax reform, whether a household made up entirely of students will be completely exempt from paying council tax. The explanatory memorandum for the Bill suggests that student HMO will be liable to pay 50% of the council tax on a property. If this is intended, then a great deal of work will need to be done by local authorities and universities to ensure that students are aware that they will pay council tax if they study in Wales. Alternatively, if the intent is to eventually pass the liability for council tax on to the landlord, this is likely to raise the same issues as more radical options such as a land value tax. Specifically that these increased costs would be passed on to the tenant through the rent, preventing the tenants accessing targeted discounts and likely leading to a greater proportion of landlords annually increasing rents in Wales.
- 2.4 While it is not directly covered by this Bill, we also want to take this opportunity to call for the VOA to reaggregate HMO in Wales into one singular tax band. Disaggregation has already been recognised as unfair in England and as of December 1st 2023, all disaggregated HMO are in the process of having their council tax bill reaggregated. As the tenant becomes liable to pay the council tax for their room when a property is disaggregated, this change in England saves each tenant an average of around £1000 a year. We believe that similar reforms in Wales should be brought forward as soon as possible.
- 2.5 We also believe it would be appropriate to consider revisiting when an empty property should have an exemption from council tax. Specifically, we believe there is a strong case for an empty property exemption while the property is habitable but the landlord is using the void period to improve the property. For example, if they are undertaking energy efficiency improvements to bring the property up to an EPC 'C' rating.

3.0 Council tax redistribution

- 3.1 According to the latest Rent Smart Wales data, the private rented sector provides 214, 607 homes in Wales. The vast majority of these properties are let to individuals or families, with around 9% of properties let out as houses in multiple occupation¹. As these tenancies will typically be let jointly, the tenants will be normally be responsible for the payment of council tax while they occupy the property.
- 3.2 Zoopla data shows average house prices in 2023 for a buy to let property in Wales were £163,000², meaning that the majority of tenants would fall into the lower proposed council tax bands proposed in the fairer council tax consultation³. As a result, privately renting tenants in most areas of Wales are likely to benefit from council tax reform.
- 3.3 The benefit to tenants will depend on local house prices though. The size of the local PRS, as would be expected, depends on a number of factors in each local authority. Accessibility of homeownership in each region can impact the size of the sector, as demonstrated by Land Registry data. For example, around 25% of properties in Cardiff are privately rented, and has

¹ In 2021/2022, Stats Wales estimated that there were 19,196 HMO in Wales, over a third of which were located in Cardiff. <https://statswales.gov.wales/Catalogue/Housing/Hazards-and-Licences/housesinmultipleoccupation-by-area>

² <https://www.zoopla.co.uk/discover/property-news/best-buy-to-let-locations/>

³ <https://www.gov.wales/consultation-fairer-council-tax-phase-2-html#133289>

some of the highest house prices in Wales at an average of just over £270,000 in January 2023.

3.4 Where the demand for rented accommodation is due to higher house prices, the proposed changes set out in the fairer council tax consultation⁴ may negatively impact on those with low incomes. For example, tenants in Cardiff are more likely to be on higher council tax bands after the proposed reforms. Similarly, tenants in HMOs are likely to see challenging council tax rises as these properties are typically Band H for council tax. Many HMO tenants share accommodation because they do not have the necessary income to buy or rent independently. These tenants are also the least likely to be able to absorb higher council tax bills.

3.4 Similarly, tenants in areas of high demand for tourism may find themselves paying higher council tax while also struggling to find suitable accommodation due to the chronic shortage of long term lets available in these areas.

3.4 With the above in mind, we would recommend identifying whether these particular tenant cohorts should be entitled to council tax discounts to help offset the broader aims of redistributing the council tax burden towards higher value properties. This would help to achieve the goals of supporting lower income tenants and helping people to remain in their local area should they wish.

4.0 Ending the practice of disaggregation

4.1 One area we would like to see the Welsh Government explore is ending the unfair practice of disaggregating houses in multiple occupation. As of 1st December 2023, this practice has been ended in England as it unfairly penalises landlords and tenants.

4.2 Houses in multiple occupation are currently able to be disaggregated into multiple dwellings, and as a result having a council tax bill due per dwelling. This results in an unexpected, high cost for tenants, making the property unappealing to continue to rent in the current economic circumstances.

4.3 Currently the disaggregation test is too easy for the VOA to reach and does not take into account the property itself. This is because the VOA first applies the hereditament test. Only if this is failed does the test move on to whether the property is actually self-contained.

The NRLA has been invited to attend a number of appeals against VOA decisions by our members. At each one we attended, the test of whether or not the room was self-contained was never reached. Instead the decision to disaggregate was upheld because the property was let by the room and there was at least one tenancy that lasted three months or more. As a result, it was clear that the VOA had to meet an extremely low, and in our view illogical, threshold to establish that the property was a separate hereditament.

4.4 While the test for disaggregation is too low, it is also not applied equally. This creates an uneven playing field where some landlords and tenants have to shoulder additional costs while other HMO properties on the same street may pay one council tax bill.

4.5 Many landlords and tenants are surprised when they receive contact about the disaggregation of their property. It is commonly thought that even for HMOs there is one

⁴ <https://www.gov.wales/consultation-fairer-council-tax-phase-2-html>

council tax bill that the landlord is responsible for. These proposed changes would reflect this understanding and would be unlikely to cause confusion or upset to tenants or landlords. In fact, it is likely that many would support this.

- 4.6 We receive requests for advice and guidance from our members when the property has been disaggregated, as the landlord almost always fears that their tenants will either struggle to pay the new council tax or seek to move to another HMO which has not been disaggregated. This reflects the fact that disaggregation does make their property less competitive compared to other properties in the local area.
- 4.7 Given that the trigger for disaggregation is often planning applications for renovation work, this harms tenant choice, as it makes recently renovated properties more expensive than they need to be and effectively incentivises landlords to not perform improvements or adjustments to the property.
- 4.8 Furthermore, the current definition of a HMO for the purposes of council tax is different from that of the Housing Act 2004, leading to situations where the legislation creates two contradictory pressures on the landlords. There are strong incentives to rent out HMO properties on a room by room basis to ensure the landlord can comply with their management and licensing requirements around fire risk and cleanliness. However, if the landlord does this then it would place the property at risk of being disaggregated, increasing costs for their prospective tenants.
- 4.8 With the above in mind, we believe the Welsh Government should look to introduce similar reforms to the council tax system. The definition of a house in multiple occupation should be aligned to the Housing Act 2004 definition and any property which meets that definition should have one council tax bill.**

5.0 Council tax exemptions

- 5.1 It is not clear from the bill, or the current consultation on council tax reform, whether a household made up entirely of students will be completely exempt from paying council tax. The explanatory memorandum for the Bill suggests that student HMO will be liable to pay 50% of the council tax on a property and proposals to remove the student exemption from council tax have been mooted in the past when discussing council tax reform.
- 5.2 If this is intended, then a great deal of work will need to be done by local authorities and universities to ensure that students are aware that they will pay council tax if they study in Wales. This may also lead to some students choosing not to study in Wales as the expense of studies is an increasing concern for some potential applicants⁵.
- 5.3 We would also like to see consideration given to how council tax could be used to incentivise improvements to properties. Wales has some of the oldest homes in the UK which presents a particular challenge for retrofitting and energy efficiency upgrades. While the PRS has made great strides in increasing energy efficiency, a fifth of all rented properties remain at D or below. These properties are likely to be the most expensive and challenging to retrofit, especially where it would require installing expensive heat pumps which could cost up to £50,000 to install, just under a quarter of the total value of an average Welsh property⁶. Considering this, Welsh landlords are likely to find it far more challenging to make these

⁵ <https://www.ucas.com/connect/blogs/influence-cost-living-student-decision-making>

⁶ Average house prices in Wales are £216,000.

upgrades cost-effective or be able to have the works performed quickly. The end result is, that it is likely that at least some of these properties will be sold and taken out of the rental market, exacerbating supply concerns for those who are not in a position to buy a house at the moment.

- 5.4 With that in mind, we think that it would be appropriate to explore ways to ease the burden on landlords and ensure that they feel comfortable retrofitting existing stock. 80% of the properties that will be in use in 2050 are already built and any attempts to improve energy efficiency in homes must ensure these properties can be made energy efficient. Council tax exemptions will not mitigate the cost of retrofit work, an empty property exemption while works are performed would ease pressures to relet and allow landlords to make use of void periods to help achieve Wales' climate goals.
- 5.5 **With the above in mind, we believe the Welsh Government should explore a range of tax incentives to help landlords make energy efficiency improvements. As part of this, the Welsh Government should use the powers granted by this Bill to look at council tax exemptions where the property will be improved to meet specific standards and subsequently let to tenants.**