PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Eighth Delegated Legislation Committee

DRAFT NON-DOMESTIC RATING (RATES RETENTION AND LEVY AND SAFETY NET) (AMENDMENT) REGULATIONS 2018

Tuesday 20 March 2018

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not later than

Saturday 24 March 2018

The Committee consisted of the following Members:

Chair: Stewart Hosie

† Brokenshire, James *(Old Bexley and Sidcup)* (Con)
† Davies, Chris *(Brecon and Radnorshire)* (Con)
Hepburn, Mr Stephen *(Jarrow)* (Lab)
† Leslie, Mr Chris *(Nottingham East)* (Lab/Co-op)
† Lewer, Andrew *(Northampton South)* (Con)
† Lucas, Ian C. *(Wrexham)* (Lab)
McFadden, Mr Pat *(Wolverhampton South East)* (Lab)
† McMahon, Jim *(Oldham West and Royton)* (Lab/Co-op)
† Mercer, Johnny *(Plymouth, Moor View)* (Con)
† Morden, Jessica *(Newport East)* (Lab)
Morgan, Stephen *(Portsmouth South)* (Lab)
† Morris, Anne Marie *(Newton Abbot)* (Con)
† Pawsey, Mark *(Rugby)* (Con)
† Perkins, Toby *(Chesterfield)* (Lab)
† Philp, Chris *(Croydon South)* (Con)
† Sunak, Rishi *(Parliamentary Under-Secretary of State for Housing, Communities and Local Government)*
† Tolhurst, Kelly *(Rochester and Strood)* (Con)

Nehal Bradley-Depani, *Committee Clerk*

† attended the Committee

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Tuesday 20 March 2018

[STEWART HOSIE *in the Chair*]

Draft Non-Domestic Rating (Rates Retention and Levy and Safety Net) (Amendment) Regulations 2018

2.30 pm

The Parliamentary Under-Secretary of State for Housing, Communities and Local Government (Rishi Sunak): I beg to move,

That the Committee has considered the draft Non-Domestic Rating (Rates Retention and Levy and Safety Net) (Amendment) Regulations 2018.

It is a pleasure to serve under your chairmanship, Mr Hosie, and to be in these grand surroundings, as befits this grand topic. The regulations make amendments to the administration of the business rates retention system. The scheme, which was introduced with effect from 1 April 2013, allows local government to keep a percentage of the business rates they collect from local ratepayers. Initially, local government's share was set at 50%, but in 2017-18, 27 local authorities in five areas—Cornwall, Greater Manchester, Liverpool City region, West Midlands and the West of England—were allowed to keep all the business rates they raised. In addition, the Greater London Authority's share of business rates was increased from 20% to 37%.

In June of last year, the Government gave every other local authority in England the opportunity to become a 100% business-rates pilot. So popular did that invitation prove that 212 authorities in 26 different areas applied to become 100% pilots in 2018-19, which reflected the desire of local authorities to take more control of the local tax base and to potentially secure additional income by keeping all the benefits of local growth. In the event, we were able to extend 100% rates retention to a further 122 authorities in 11 areas—Berkshire, Derbyshire, Devon, Gloucestershire, Kent, Leeds, Lincolnshire, London, Solent, Suffolk and Surrey. Taken together with the original pilots and based on their own estimates, authorities might have as much as £700 million more income in 2018-19 as a result of keeping 100% of their business rates growth.

The regulations give administrative effect to the new 100% pilots and make two other principal changes. First, they make changes to each authority's tariff or top-up as a consequence of the 2017 revaluation. Tariffs and top-ups are the means by which we redistribute business rates income between richer and poorer authorities under the local government finance system. They were originally set in 2013-14 and since then have only been uprated by inflation. However, in 2017-18, local authorities' income from business rates changed, not because of any growth in the underlying rates base, but as a result of the business rates revaluation. In last year's settlement, we adjusted the tariffs and top-ups to strip out the impact of the revaluation, but we said at the time that we would revisit and revise the adjustments in the 2018-19 settlement to reflect updated data.

Revised tariffs and top-ups based on the updated data were approved by the House as part of this year's local government finance settlement and in 2018-19, authorities will pay or receive the tariffs and top-ups set out in the local government finance report for 2018-19. Those tariffs and top-ups also need to be used in the administration of other parts of the rates retention system, principally in the calculation of the levy and safety net payments. The regulations therefore ensure that levy and safety net calculations are made using the revised values for tariffs and top-ups for last year and the forthcoming year.

Finally, the regulations make changes to the time period for which local authorities will be compensated by the Government for the relief they give businesses in enterprise zones. I am sure Members of the Committee know that, under the rates retention system, authorities are entitled to keep all of the growth in business rates in enterprise zones. There are more than 200 separate zones in more than 100 local authorities. As part of their efforts to regenerate zones, authorities are able to give business rates relief to new businesses relocating there. The Government then compensate local authorities for the relief they give, by allowing them to deduct the cost of the relief from the payments they make to central Government under the rates retention scheme.

The first enterprise zones created in 2013 were entitled to compensation for the relief they gave for up to five years, until 31 March 2018. That period, set out in the rates retention regulations, has not changed since, despite the fact that that we have set up new enterprise zones in 2014, 2015, 2016 and 2017. In order to ensure that all of these later enterprise zones can also receive compensation from Government for relief for up to five years, the regulations now tie the period for which authorities can receive compensation to the specific date on which the enterprise zone came into being. This puts all enterprise zones in the same position, regardless of when they were created.

Before concluding, I would like to bring to the Committee's attention a written ministerial statement made earlier today that relates to a historic error identified in the methodology used to calculate the sums due to 100% business rates retention pilots. The written ministerial statement details the steps taken to address this error. Given that this is not the direct subject of today's debate I will not go into further detail as it would not be appropriate, but I wanted to flag this up to the Committee and I am happy to answer any questions.

The regulations before the Committee make technical changes to the regulations governing the administration of the business rates retention system to ensure that the scheme works properly following the revaluation to allow new 100% rates retention pilots to operate from 1 April 2018, and to ensure parity of treatment between all enterprise zones. I commend the regulations to the Committee.

2.36 pm

Jim McMahon (Oldham West and Royton) (Lab/Co-op): It is a pleasure to serve under your chairmanship, Mr Hosie. In line with the Local Government Association—the cross-party organisation representing local government—we are keen to see more progress being made on giving local authorities more sustainable forms of income.

Where they play an active role in growing their local economic base, they should see the value in doing that. We have not yet seen a real assessment made of the implications of the 100% retention scheme through the initial pilots with the first wave of local authorities. We know that the Government hold limited data on what that means, and we know that there are significant capacity issues within the Department itself. Between 2011 and 2017, there has been a 39% reduction in full-time equivalent staff working on the 100% retention scheme, so we are not convinced that the Department has the proper capacity to see this through and to monitor, evaluate and importantly to ensure that any risks are mitigated in then allowing a new wave of applications to come forward.

Local authorities are also concerned that London was given the option of no detriment but the same offer was not made available to new authorities applying to the scheme. Authorities outside London will quite rightly ask why we have one rule in place for London, while authorities outside London are being asked to apply to a different scheme with different rules and safety nets in place. I would be grateful for clarification on that.

As to the scheme's risks, we know that local authorities have had to prepare for the eventuality of ratings appeals. Businesses that do not agree with their ratings position make the appeal in the right way, but under this scheme the risk of that falls partly to the local authorities. In cash terms £2.8 billion has been put aside by local authorities as part of a first tranche of rate retention to prepare for the eventuality that those appeals might be successful. That is £2.8 billion that could be used for public services at a time when local government services are under significant pressure.

We have not yet seen evidence that the Government have had a thorough piece of research done to understand what this would mean if it were rolled out for the whole of England. We know that the Government have approached local authorities who would be in a net position, so they have taken away the equivalent grant that the local authorities are getting in cash terms for the rates that they are able to retain. However, we are unable to say what that means for the country. Cherry-picking a local authority that has no cash difference to the Treasury is okay, but some local authorities will always require more in grant funding than they can generate in business rates in the local authority area. We have not seen what the Government's approach would be for that.

We have also not understood why we have pilots running on the one hand with a number of local authorities, while on the other hand we have the promise of a fair funding review to be carried out, but we have not had much detail on how the two will talk to each other. The Government need to be clearer on this. What lessons will be learned from the pilots that have been undertaken so far? What mechanisms will be put in place to ensure lessons are learned from the next wave of local authorities? How will that be hard-wired into the fair funding review to ensure the total amount of money that is available to local government to deliver local public services is sustainable in a 100% retention model? If the Government provide that information, we would be happy to sit down and scrutinise it.

What assessment have the Government made of the benefits and risks of the growth and decline of business rate bases at a local level? At the moment, the business rate bases that local authorities are in receipt of are generally historical. They have developed over many years—50 years, 100 years, and for some towns and cities many hundreds of years. The Government have provided very little evidence of how individual local authorities have by their own actions fundamentally changed the business rate bases in their areas. The Government are saying to local authorities, "If you are responsible for a geographical area and an economy that has done well historically, you will be able to capture that growth," without any evidence that the local authority has actively contributed to the growth. The local authority of another town or city may be working hard to try to grow the local economy, but due to its historically low tax base and its weak economy at a local level, it may struggle to make ends meet and keep afloat. Some towns and cities have to work twice as hard to stay still, while others have accelerated growth just because of their local circumstances. It would be good to hear what the Government's approach is to ensuring that a genuine rebalancing takes place across England as part of that strategy.

2.41 pm

Rishi Sunak: I thank the hon. Member for Oldham West and Royton. He made some thoughtful comments, as is his wont, which I appreciate. I will try to address his points quickly.

The hon. Gentleman talked about the future for local government, with regard to rates retention, and local government's desire for more of the income that is generated locally to be kept locally, and to be more in control of its own destiny. As he knows, the Government are committed to introducing 75% rates retention for the entire country by 2021. As part of that process, many of the questions he asked are being addressed.

The hon. Gentleman asked about redistribution among authorities. Of course, some local authorities will have a greater capacity to generate business rates income. That is true today and it will be true in the future, so the new system will ensure some redistribution. The Government are clear that that will remain a feature of the system. What the best way of doing that is needs to be worked out within the sector.

The hon. Gentleman said that local authorities that are trying hard but are not able to generate growth should not be penalised. The new system will have a reset period. A balance needs to be struck: the period should give local authorities enough of an incentive to drive growth and enjoy the benefits of it, but the gap between the various authorities should not grow too wide. The reset period and the mechanism for redistribution are important features of the new system about which Government are currently consulting with the sector and stakeholders. I welcome the hon. Gentleman's thoughts on those issues.

The hon. Gentleman asked about the assessment of the first wave of pilots. That is a very fair question. He will be pleased to know that the Department has been conducting extensive questionnaires and meetings with the first wave of pilots from last year. From memory, I think those surveys were completed in November last

[Rishi Sunak]

year—it possibly stretched into December. The early results of the surveys have already been shared with the LGA, and some elements of that will be brought into the public domain shortly.

The hon. Gentleman asked about the no detriment clause. For the benefit of other Committee Members, let me explain that the no detriment clause ensures that becoming a pilot makes no one worse off. I assure him that it applies to each and every pilot, not just to those in London.

The hon. Gentleman talked about appeals. As he knows, the Government recently introduced a new appeals process, which we discussed in a similar Committee last week. The new "check, challenge and appeal" process is designed to improve the system to the benefit of local authorities, reducing the burden of speculative appeals and the provisions they need to make. I acknowledge his point that provisioning for such appeals has an impact on local authorities, which is why appeals and provisioning are the subject of a technical working paper, which is being worked on as we speak by a technical working group run by the Department and the LGA. It will figure out how, in the new business rates retention system, some element of socialisation of those appeals can perhaps happen within industry. The sector is keen to see that, and the hon. Gentleman is right to highlight it.

Finally, the hon. Gentleman asked about timing. He made a good point about the fact that the fair funding review and the business rates retention processes are both fundamental reforms of the local government finance system. It is good that they are now on the same timeline and will come in at the same time in 2021. A spending review will happen at the beginning of next year, while these conversations are live. That is helpful, because it enables us to consider funding for local government finance and these two new systems in the round. We will bring those twin-track processes together to ensure that we are all on the same page, and that the systems work properly together.

I hope I have answered all the Committee's questions. I commend these technical but important regulations to the Committee.

Question put and agreed to.

2.46 pm

Committee rose.