PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Third Delegated Legislation Committee

# DRAFT NON-DOMESTIC RATING (LEVY AND SAFETY NET) (AMENDMENT) REGULATIONS 2022

*Tuesday 1 February 2022*

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**Saturday 5 February 2022**

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**The Committee consisted of the following Members:**

*Chair:* †Stewart Hosie

† Amesbury, Mike *(Weaver Vale)* (Lab)
Bradshaw, Mr Ben *(Exeter)* (Lab)
Cooper, Rosie *(West Lancashire)* (Lab)
† Fletcher, Colleen *(Coventry North East)* (Lab)
Hendrick, Sir Mark *(Preston)* (Lab/Co-op)
† Kruger, Danny *(Devizes)* (Con)
† Mann, Scott *(Lord Commissioner of Her Majesty's Treasury)*
† Mumby-Croft, Holly *(Scunthorpe)* (Con)
† O'Brien, Neil *(Parliamentary Under-Secretary of State for Levelling Up, Housing and Communities)*
† Offord, Dr Matthew *(Hendon)* (Con)
† Pawsey, Mark *(Rugby)* (Con)
Ribeiro-Addy, Bell *(Streatham)* (Lab)
† Robinson, Mary *(Cheadle)* (Con)
Smith, Henry *(Crawley)* (Con)
† Swayne, Sir Desmond *(New Forest West)* (Con)
† Syms, Sir Robert *(Poole)* (Con)
Twigg, Derek *(Halton)* (Lab)

Kevin Maddison, Matt Case, *Committee Clerks*

**† attended the Committee**

# Third Delegated Legislation Committee

*Tuesday 1 February 2022*

[Stewart Hosie *in the Chair*]

## Draft Non-Domestic Rating (Levy and Safety Net) (Amendment) Regulations 2022

**The Chair:** Before we begin, may I remind Members to observe social distancing and to wear masks, except when speaking or unless exempt?

9.25 am

**The Parliamentary Under-Secretary of State for Levelling Up, Housing and Communities (Neil O'Brien):** I beg to move,

That the Committee has considered the draft Non-Domestic Rating (Levy and Safety Net) (Amendment) Regulations 2022.

The regulations make changes to a key element of the business rates retention scheme. Because they change the basis of the calculation of levy and safety net payments, they compromise mostly of revisions and additions to mathematical formulas in the parent regulations. Although they look complicated, their purpose is easily explained and understood.

The business rates retention scheme, introduced in 2013, allows local authorities to keep half of the business rates they collect locally. The sums that authorities keep are subject to a degree of redistribution, via tariffs and top-ups. That ensures that those authorities which, at the date the scheme was set up, were rates-rich relative to their need for revenue income, make a contribution to the revenue of those authorities which were rates-poor.

The amounts that are redistributed via tariffs and top-ups were fixed in 2013 and have remained fixed, in real terms, since then. Having paid their tariff, or received their top-up payment, an authority's income from the rates retention scheme entirely depends on how much business rates they collect, thereby giving them an incentive to work with business and others to grow their local economies. But although an authority's income will increase if its business rates income grows, it will also decline if, for whatever reason, it collects less business rates than expected. So, to ensure that any loss of income is kept within manageable proportions and does not threaten the delivery of local services, the rates retention scheme contains arrangements for a safety net.

If an authority's retained income from the business rates retention scheme, including its tariff or top-up, is more than 7.5% below its starting needs baseline, the authority is entitled to a safety net payment. The cost of safety net payments is met by recovering, through a levy on growth, a percentage of the business rates income of those authorities which, in any year, have collected significantly more business rates than their starting baseline. Effectively, the levy and safety net work by taking some of the growth of authorities whose rates income has increased and using it to support those authorities whose rates income is falling.

The rules about how levy and safety net payments are calculated are set out in the Non-Domestic Rating (Levy and Safety Net) Regulations 2013. The regulations before the Committee make changes to the 2013 regulations to reflect current circumstances. They do four things. First, they deal with the continuing existence in 2021 and 2022 of 100% retention authorities. The Committee will recall that since 2017-18, authorities in Greater Manchester, Liverpool City region, west of England, west midlands and Cornwall, have been allowed to retain not 50%, but 100% of the business rates they collect. As a result, when they became 100% retention authorities, we changed their tariffs and top-ups to reflect their higher income.

It would have been possible to have allowed those changes to feed directly into the levy and safety net calculations. But since, as I have explained, safety net payments are actually being paid for by those authorities which, in any year, experience growth in their business rates, that could have meant taking more money from growth authorities to cover the potentially higher risks in 100% retention authorities. That did not seem fair, and therefore it was decided that 100% retention authorities would only be able to receive the safety net payment they would have received if they had been operating under the normal 50% retention rules. Anything above that amount would instead be paid directly by central Government. Technically, that means that we do not use the real tariffs and top-ups that 100% retention authorities pay or receive when we calculate their levy and safety net payments. Instead, we use proxy figures, which we set out in the regulations. In the regulations as they currently stand, we have proxy figures in place for every year up to and including 2020-21. However, because the Government have now confirmed that 100% arrangements will stay in place in 2021-22 and 2022-23, we need to change the regulations to put in place proxy tariffs and top-ups for those years. That is provided for in regulation 7.

Secondly, in regulation 6 we amend the levy rate of the Greater Manchester authorities. From 2021-22 onwards, it will be zero. This brings it into line with the levy rate in other 100% retention authorities. The only reason that a zero levy rate did not apply when the Greater Manchester authorities first became 100% retention authorities in 2017-18 was that between 2017-18 and 2020-21, Greater Manchester was part of a business rates pool with an authority that was not subject to 100% rates retention. In those circumstances, the levy rate was calculated for the pool as a whole. The pool arrangements finished at the end of 2020-21, and so going forward the levy rate should be the same as for other 100% retention authorities.

Thirdly, the regulations make a number of changes to deal with the consequences of some local government restructuring. Inevitably, when the structure of local government changes, some of the values in the levy and safety net calculations also need to change so that they reflect the business rates bases and revenue needs of the new authorities. For the current year, 2021-22, amendments are needed in respect of the creation of unitary authorities for North Northamptonshire and West Northamptonshire, and for the creation of the Hampshire and Isle of Wight Fire and Rescue Authority. Those changes are made in regulations 3,5,6, 7 and 8, with the updated figures set out in schedule 6.

Finally, the regulations make changes to reflect the exceptional financial support that was made available to authorities in 2020-21 and 2021-22 following covid. The Committee will recall that, in response to covid, the Government exceptionally waived the business rates bills of the occupiers of eligible retail, hospitality and leisure properties and eligible childcare providers, thereby ensuring that those ratepayers stood the best possible chance of surviving the unprecedented impact on their business of the lockdowns and restrictions that were put in place to tackle the pandemic. The reduction in bills means that ratepayers saw their bills reduced by over £11 billion in 2020-21. We have continued to support retail, hospitality and leisure businesses and childcare providers with an estimated £5.8 billion of relief to be given this financial year. But beyond that, we have recognised the strain on other types of businesses not included within those reliefs, and announced an extra £1.5 billion of covid additional relief funding to businesses, to be allocated by local authorities in line with needs in their local area. That, of course, has meant that local authorities have seen their income from business rates fall by a commensurate amount. In order to ensure that the loss of business rates income does not lead to the decimation of local services, the Government compensate authorities for every pound of business rates income that they lose by awarding those reliefs.

That compensation takes the form of a grant from central Government under section 31 of the Local Government Act 2003. We paid that grant up front to authorities to ensure that the money was available to support local services during the course of 2020-21 and in 2021-22 for the retail, hospitality and leisure discount, and the childcare discount. My officials are now working to ensure that payment of allocations for the £1.5 billion covid additional relief fund, for which guidance was published before Christmas, is out the door as soon as possible. But the reduction in authorities' income would, if we did nothing to change regulations, mean that in some cases authorities would receive substantial safety net payments, even though they have already been compensated by means of a section 31 grant. In regulation 7, therefore, we make changes to the 2020-21, and 2021-22 levy and safety net calculations to strip out the impact of those income reductions that have been, or will be, compensated via a section 31 grant. That means that those authorities will not be compensated twice for the same loss of income.

As well as the significant support we have given in reducing ratepayers' bills by an estimated extra £18.5 billion across two years and directly compensating local authorities for the resulting loss of income, we have taken further steps to help authorities. We put in place the tax income guarantee, under which authorities are being compensated for losses of business rates or council tax income in 2020-21. For business rates losses, over and above those resulting from the reduction in ratepayers' bills, authorities are compensated for 75% of the additional loss. But, of course, in the same way as for the section 31 grants paid to major precepting authorities, we need to change the regulations in 2020-21 to ensure that all authorities are not compensated twice for the same loss of income. Regulation 8 and schedule 1B change the basis of the calculation of levy and safety net payments for all authorities, to ensure that losses of business rates income do not generate safety net payments if the authority is receiving support through the tax income guarantee.

In conclusion, the regulations make a series of technical changes to the calculation of levy and safety net payments. The changes ensure that the calculations fully reflect current circumstances, and that authorities will pay the correct amount of levy on growth, or receive the correct amount of safety net payment, if due to them. I commend them to the Committee.

9.34 am

**Mike Amesbury** (Weaver Vale) (Lab): It is a pleasure to serve under your chairmanship, Mr Hosie. I thank the Minister for his introductory remarks.

The technical amendments relate to the business rates retention scheme. Funding arrangements are changed in four authorities, as the Minister outlined, and provisions are made in terms of 100% business rates, capturing some of our combined authorities. I should declare that I have vested interest in one them, as my constituency covers it. The Opposition will not oppose those technical amendments, which introduce sensible arrangements for the future, but I should like to refer to some broader issues relating to business rates that affect all of us in our communities, high streets and constituencies.

Our high street businesses enrich lives, provide a centre for our communities—a real sense of place—and employ 2.8 million people nationwide. They play a fundamental role in the national economy. But such businesses have also faced huge adversity—we have all experienced that—in the past two years. The Minister referred to the covid support targeted at local authorities, which was welcomed. The former Secretary of State, the right hon. Member for Newark (Robert Jenrick), and the Chancellor said that they would do whatever it took to support businesses, but it has not quite been that story. Funding has been welcome at a time of national and international crisis, but the problem associated with high streets and business rates predate the pandemic.

Our business rates system is outdated and regressive. It penalises shops in our high streets while benefiting online giants. It punishes investment and entrepreneurship, and certainly the green economy. In a letter from 42 trade bodies to the Chancellor last year, that system was described as being "uncompetitive and unfair". That tax hits businesses before they make a single sale, a penny or a pound through the tills, let alone turn a profit. Thanks to the pandemic, it is more important than ever to secure the future for our high streets and towns. I hope that the White Paper—we trust it is with us any time soon this year—alludes to that and maps out a strong narrative.

**The Chair:** Order. I am sure that high streets are important to all of us, but the terms of the statutory instrument are very, very narrow, so if the hon. Gentleman could bring his remarks back to it, that would be helpful.

**Mike Amesbury:** I note your intervention, Mr Hosie.

The business rates system is fundamentally broken. The SI refers to some technical arrangements that build, drip, drip, on some reforms. It is not radical or bold, nor is it what is required by our high streets to make sure that they thrive, together with the industry and commerce that they support. We need something that

*[Mike Amesbury]*

relates to income through the door, and which is fair and captures land values rather than just being about bricks and mortar. We also need something to create a level playing field between the online sector and the physical bricks and mortar.

I have a couple of questions about previous promises to extend the capture of 75% of business rates to local authorities up and down the land. We are still waiting for progress on that. I hope that will be referred to in the financial settlement to be announced some time next week, or perhaps the White Paper will allude to it. The Government have spoken about reforming the business rates system and conducted a review, but progress has been timid and piecemeal. I hope that the Government implement a fundamental review to ensure that our communities and high streets thrive.

9.39 am

**Neil O'Brien:** The regulations are necessary to ensure that the rates retention scheme continues to operate as was intended. In response to the hon. Gentleman's question, he will have noted the comments made by the Secretary of State to the Select Committee on Levelling Up, Housing and Communities, and more detail will be set out in due course.

Without the regulations some authorities will receive safety net payments for losses of income that the Government are already compensating them for. I hope that the Committee join me in supporting the regulations.

*Question put and agreed to.*

9.40 am

*Committee rose.*