PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Second Delegated Legislation Committee

DRAFT NON-DOMESTIC RATING (CHARGEABLE AMOUNTS) (ENGLAND) REGULATIONS 2016

Monday 12 December 2016

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Friday 16 December 2016

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The Committee consisted of the following Members:

Chair: Albert Owen

Ali, Rushanara *(Bethnal Green and Bow)* (Lab)
† Brabin, Tracy *(Batley and Spen)* (Lab)
† Burns, Sir Simon *(Chelmsford)* (Con)
† Chalk, Alex *(Cheltenham)* (Con)
† Davies, Dr James *(Vale of Clwyd)* (Con)
† Doyle-Price, Jackie *(Thurrock)* (Con)
Flynn, Paul *(Newport West)* (Lab)
† Foxcroft, Vicky *(Lewisham, Deptford)* (Lab)
† Jones, Mr Marcus *(Parliamentary Under-Secretary of State for Communities and Local Government)*
† Mann, Scott *(North Cornwall)* (Con)
† Pearce, Teresa *(Erith and Thamesmead)* (Lab)
† Pow, Rebecca *(Taunton Deane)* (Con)
† Soubry, Anna *(Broxtowe)* (Con)
† Sunak, Rishi *(Richmond (Yorks))* (Con)
† Trevelyan, Mrs Anne-Marie *(Berwick-upon-Tweed)* (Con)
Woodcock, John *(Barrow and Furness)* (Lab/Co-op)

Kenneth Fox, *Committee Clerk*

† attended the Committee

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Monday 12 December 2016

[ALBERT OWEN *in the Chair*]

Draft Non-Domestic Rating (Chargeable Amounts) (England) Regulations 2016

4.30 pm

The Parliamentary Under-Secretary of State for Communities and Local Government (Mr Marcus Jones): I beg to move,

That the Committee has considered the draft Non-Domestic Rating (Chargeable Amounts) (England) Regulations 2016.

The regulations will bring £3.6 billion of support to ratepayers in the 2017 revaluation, including help to 500,000 business owners with small properties. Taken together with the reforms to the small business rate relief introduced by the Chancellor, the 2017 revaluation will mean that nearly three quarters of businesses will see no change or a fall in their bills next year.

Business rates are the means by which businesses contribute to the cost of providing essential local services. They represent an increasingly important part of local council income, and by the end of this Parliament we will allow local government to keep 100% of all local business rates income. The design of this new finance system will shape the future of local government. Councils have been calling for a move away from dependence on central Government for decades.

However, as with all taxes, we must ensure that the business rate remains a fair, modern and fit-for-purpose tax. That is why we have reformed the business rate system. From April 2017, 600,000 small businesses will pay no business rates under the newly reformed small business rate relief system. A further 50,000 will benefit from up to 100% rate relief and another 250,000 smaller properties will pay rates based on the lower small business multiplier—a cut worth 2.5%. From next April we will reduce the small business multiplier from 48.4p in every pound of rateable value to 46.6p—the lowest multiplier since 2013—which will ensure that we do not raise any extra money from the revaluation.

For the largest businesses we are reducing the standard multiplier from 49.7p to 47.9p. From April 2020 taxes for all businesses paying rates will be cut through a switch in the annual indexation of business rates from the retail prices index to be consistent with the main measure of inflation, currently the consumer prices index. This represents a business rates cut every year from 2020, worth approximately £370 million in 2020-21 alone and growing significantly thereafter. Taken together, these reforms are worth £6.7 billion over the next five years. That is the biggest ever cut in business rates.

We are also modernising the tax to make it fit for the 21st century. We are ensuring that all businesses will be able to pay their business rates online and we are ending the overly complicated practice of local authorities issuing demands combining several years of bills. In future it will be simpler for businesses to understand and pay their bill.

Business rates are a property tax, so the amount that businesses are asked to pay depends on the value of their property. The rateable value of all properties is assessed independently by the Valuation Office Agency. Its assessment represents the annual rental value of the property; for most ratepayers it is based on actual rents paid by actual ratepayers. To ensure that rateable values are kept up to date, the Valuation Office Agency undertakes regular revaluations. The most recent revaluation takes effect from April 2017 and updates all rateable values based on the market at 1 April 2015. This has been a considerable exercise involving the valuation of more than 1.8 million properties, based on more than 300,000 rents collected and analysed by experienced chartered surveyors.

All valuations were published online on 30 September, giving ratepayers six months' warning of their new assessments. An online rates calculator allows ratepayers to estimate their rates bill. We have funded local authorities to write to ratepayers alerting them to their revaluation and the online rates calculator. To date, 500,000 visits have been made on the website to check rates bills.

Overall, the revaluation does not raise any more or less in business rates. Indeed, nearly three quarters of businesses will see either no change or a fall in their bills next year, thanks to the business rates revaluation, with 600,000 businesses set to pay no business rates at all. The revaluation will reduce bills for all regions except London. Although many ratepayers in London will also see reductions, the results of the revaluation show that prime office and retail markets in inner London have seen rental values increase considerably over recent years, so it is right that they should pay more based on the accurate and updated values.

For the minority of businesses that face an increase, a £3.6 billion transitional relief scheme will ensure that no business is unfairly penalised. The regulations will implement that relief scheme for those ratepayers facing increases. London will benefit more from the transitional relief scheme than anywhere else in the country; in total, properties in London will benefit from transitional relief worth more than £1 billion during the scheme's lifetime. More than 140,000 properties in London will benefit from transitional relief, of which more than 100,000 are small properties. We are providing the same transitional relief to small and medium-sized businesses as was provided at the previous revaluation in 2010, so the regulations will ensure that, before inflation, no small property will see an increase of more than 5% next year because of the revaluation.

The largest of businesses—those with a rateable value of more than £100,000—will face higher caps on increases as they are best placed to manage the impact of the revaluation. We listened to concerns raised during the consultation about the cap on increases for larger properties. In the final scheme, we have provided as much support to those properties as possible. We have reduced the cap on increases in year 1 for large properties from 45% to 42%, and in year 2 from 50% to 32%. That is the maximum change we can make while keeping the scheme revenue-neutral, which we are required to do by law.

The regulations have been finalised following consultation with ratepayers during the autumn, and the detailed regulations have been shared and discussed with experts in local government and the software companies that calculate bills. The transitional relief will be applied automatically to business rates bills for 1 April 2017. The regulations are just one part of a set of reforms that, from next April, will transform business rates. The revaluation will reduce bills for eight out of nine regions, supporting nearly three quarters of ratepayers. A £3.6 billion transitional relief scheme will support those facing increases, including £1 billion for London. Over the next five years, our wider reforms will deliver another £6.7 billion of help, proving that this Government are determined to help business and support growth.

4.38 pm

Teresa Pearce (Erith and Thamesmead) (Lab): It is a pleasure to serve under your chairmanship, Mr Owen.

The draft regulations set out the rules for the transitional relief scheme that will apply when the business rates revaluation comes into effect next year. Business rates are revalued roughly every five years. The most recent revaluation was carried out back in 2010, as has been mentioned, and it was based on values from 2008. Revaluations have a big impact on small businesses throughout the country. The transitional rate relief scheme is worth £3.4 billion, so it is only right that we properly review and scrutinise the proposals.

Business rates have been revalued for the first time in seven years. The new rate will come in at the beginning of April 2017. Although some businesses will get a rate cut as a result of the revaluation, others face rises. Some areas of the country will be affected more than others. The Institute for Fiscal Studies studied the latest business rates revaluation and found that there is a "growing divergence" in property prices throughout the country, and especially between the capital and the rest of the country. Because of the extortionate prices of property in the capital, London raises more from business rates, but businesses in London are often disproportionately affected. The revaluation will see the values in some parts of London jump by as much as 400%.

The Minister says that the revaluation is fair, but a whole host of organisations have come together to oppose the proposals. The Mayor of London, London Councils and 43 bodies representing retailers and businesses, such as the Federation of Small Businesses London and the New West End Company, have opposed the proposals. They have estimated that London businesses will have to pay £885 million more in total annually due to the revaluation. In fact, because of the proposals, they have called for a full review into the effectiveness of the business rates system. I heard what the Minister just said about how the regulations will benefit London and advantage, rather than disadvantage businesses. What literature and advice has gone out to businesses in London to ensure that they are aware of the situation?

Some industries are particularly badly affected. For instance, analysis from CVS shows that pubs across England and Wales will face a tax increase of £421 million in the five years after the revaluation. Some pub operators have estimated that they might need to increase prices by 30p a pint, and I am sure that none of us wants to see that. What advice has gone out to that industry to explain the transitional relief and the multiplier? The industry is scared about what will happen, but the Minister seemed to suggest that there will be a relief that operators can claim or automatically get.

A hike in business rates on the scale proposed by the Government could damage many businesses. That is why the transitional reliefs are so necessary. Local government has already severely suffered from brutal, devastating cuts to its funding. The Institute for Fiscal Studies has estimated that between 2010 and 2020, local government will have had its direct funding cut by 79%. Those cuts are often unfair, because they hit some of the councils with the greatest need the hardest. Nine of the 10 most deprived councils in England have had cuts higher than the national average.

On top of that, reforms to local government finance have increased reliance on council tax and business rates. Owing to the huge divergence in income-raising power from tax bases in different areas of the country, the measures could entrench regional inequality, which is having a drastic impact on local government services, including youth centres, museums and libraries. Many libraries have had to close and our social care system is teetering on the edge of crisis. Councils are having to prioritise efficiency savings over the health and happiness of their communities.

While the transitional relief scheme and the multiplier are an important system, they will not help to plug the enormous gap in local government finances. Although we do not oppose the statutory instrument, I would be grateful if the Minister could let the Committee know what thinking is going on regarding the long-term future of business rates. We see more and more that businesses exist in the digital economy, rather than on the high street, and if we are committed to funding local government—I am sure we all are—there needs to be a root-and-branch review of how that money is to be raised.

The Minister mentioned modernising business rates, but a tax on business properties in a digital age seems a bit 20th century. I would be grateful if he could let the Committee know whether there are any plans to bring the rates into the 21st century. It is fair to say that local government finance is complex, but it is vital, and I am more than happy to work with him to find a long-term, sustainable solution to the funding of local services that our constituents rely on. That problem has been ducked time and again, and I hope that he agrees that on our watch we must push to find a modern, long-term, sustainable solution.

4.43 pm

Mr Jones: I will start my response to the hon. Lady by taking on the issue about London, which she spent an extensive amount of time raising. London is obviously an extremely important area in the context of the business rates revaluation. She did not mention it, but I am sure she would welcome the fact that there are eight regions—particularly parts of the midlands and the north of the country—that will see significant business rates reductions as a result of the revaluation.

With regard to London, while many ratepayers will see reductions, the results of the revaluation show that prime office and retail markets in inner London have seen significant rental value increases, as I mentioned in my opening comments. Those increases have been considerable over recent years. On that basis, it is right that they should pay more based on the accurate and updated valuations. As I have said, for those ratepayers

[Mr Marcus Jones]

facing increases, London will benefit more than anywhere else in the country from a transitional relief scheme. In total, properties in London will benefit from transitional relief worth over £1 billion during the life of the scheme. Over 140,000 properties in London will benefit from transitional relief, including 100,000 people running businesses that involve smaller properties.

The hon. Lady asked what information ratepayers have been given. Their local authorities have contacted them—we have paid and facilitated councils to do this—to tell them about the revaluation and, through that, ratepayers had an opportunity to go online and look at their business rates bill for 2017-18. We have given businesses a period of six months to adjust to those new bills.

The hon. Lady also mentioned pubs, which are an extremely important part of many of our communities, not just in London, but up and down the country. I am sure she will recognise that the sector is diverse. Many pubs have seen significant changes in what they offer customers since 2010—many now offer casual dining—and from that many have experienced significant turnover increases, which are reflected in rental and, therefore, rateable values for the revaluation. Many regions—and many properties in the pub sector—are also seeing business rates fall.

With regard to the approach to valuing pubs, which is unique, there is an approved guide for valuing pubs that relates to rents but also to fair maintainable trade. At the outset of the revaluation we consulted the five main bodies that represent the beer and pub sector, and the sector decided that the approved guide for the valuation of public houses should be continued following the 2017 revaluation.

The hon. Lady also mentioned local government finance. I can reassure her that we will make changes at the point of the 2017 business rates revaluation to ensure that councils are neither advantaged nor disadvantaged by that.

Question put and agreed to.

4.48 pm

Committee rose.