PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Second Delegated Legislation Committee

DRAFT BUSINESS IMPACT TARGET (RELEVANT REGULATORS) REGULATIONS 2017

Monday 27 February 2017

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Friday 3 March 2017

The Committee consisted of the following Members:

Chair: Joan Ryan

† Adams, Nigel *(Selby and Ainsty)* (Con)
† Barclay, Stephen *(Lord Commissioner of Her Majesty's Treasury)*
† Churchill, Jo *(Bury St Edmunds)* (Con)
† Cruddas, Jon *(Dagenham and Rainham)* (Lab)
† Debbonaire, Thangam *(Bristol West)* (Lab)
† Esterson, Bill *(Sefton Central)* (Lab)
† Ferrier, Margaret *(Rutherglen and Hamilton West)* (SNP)
Flello, Robert *(Stoke-on-Trent South)* (Lab)
† James, Margot *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
Johnson, Alan *(Kingston upon Hull West and Hessle)* (Lab)
† Johnson, Dr Caroline *(Sleaford and North Hykeham)* (Con)
† Mak, Mr Alan *(Havant)* (Con)
† Morton, Wendy *(Aldridge-Brownhills)* (Con)
† Paterson, Mr Owen *(North Shropshire)* (Con)
† Perry, Claire *(Devizes)* (Con)
† Quince, Will *(Colchester)* (Con)
Sheerman, Mr Barry *(Huddersfield)* (Lab/Co-op)

Ben Williams, *Committee Clerk*

† attended the Committee

Second Delegated Legislation Committee

Monday 27 February 2017

[Joan Ryan *in the Chair*]

Draft Business Impact Target (Relevant Regulators) Regulations 2017

4.30 pm

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Margot James): I beg to move,

That the Committee has considered the draft Business Impact Target (Relevant Regulators) Regulations 2017.

It is a pleasure to serve under your chairmanship, Ms Ryan. The purpose of this statutory instrument is to support regulatory bodies in the UK to create a healthier business environment by making regulation more proportionate, transparent and accountable. The Government are committed to ensuring that regulation supports growth and does all that it can to unlock productivity in the UK. Better regulation is central to the Government's desire to make the UK the best place in the world to start and to grow a business. It is a key part of their commitment to driving economic growth and boosting productivity.

During the last Parliament, the Government made significant progress through programmes such as one-in, two-out and the red tape challenge, which were instrumental in delivering savings of £10 billion to business over the lifetime of the last Parliament. Those programmes encouraged a cultural shift in Government Departments towards more proportionate and smarter regulation. That approach was formalised through the Small Business, Enterprise and Employment Act 2015, which provides a transparent framework for assessing, managing and reporting on new regulatory impacts to business—known as the business impact target.

Regulatory functions carried out by, or on behalf of, UK Ministers are already covered by the business impact target. Under the Enterprise Act 2016, we extended the target's ambition through the power to include the activities of a range of other regulators that are legally separate entities to Ministers. The regulations, which list such regulators, will support us in achieving a further £10 billion of deregulatory benefit for UK businesses during this Parliament.

The extension of the business impact target will support a positive shift in how regulation is delivered. It will help to reduce the regulatory burdens that hold businesses back and that prevent them from getting on and doing the business. The result will be another significant step towards ensuring that regulation supports growth and that Britain is the best place in the world to start and to grow a business.

The regulations specify the individual regulators that will be brought within the scope of the business impact target. The regulators listed will be required to assess the economic impact on business of changes to their regulatory policies and practices that come into force or cease to have effect during the Parliament. The assessments must be verified by the Regulatory Policy Committee and the savings or burdens that are imposed on business incorporated into the Government's annual report, outlining their performance against the target.

The rationale for that is clear: businesses consistently tell the Government that the actions of regulators are as important as the content of legislation in determining their experience of regulation. The cost to business of regulatory activities should therefore be actively assessed and transparently reported, and the regulations deliver that. When impacts on business are imposed by changes in regulatory activities, those should be transparent. In addition, businesses should have confidence in Government estimates of that impact.

The changes do not in any way undermine the core purpose of regulators, which provide vital protections and help to ensure that markets function effectively. Regulation has important economic, social and environmental goals. For those reasons, regulation should be proportionate and at the minimum cost to business necessary to achieve the outcome required. Including further regulators in the business impact target will help regulators to make the move to smarter regulation that delivers outcomes with the minimum overhead. That will be good for British business and will contribute to a more consistent regulatory process.

The Government consulted between 11 February and 17 March 2016 on the proposed list of regulators to be brought within the scope of the business impact target. We received responses from a range of stakeholders, including businesses, regulators, trade associations and other organisations. The majority of respondents were supportive of the proposal to bring the regulators specified in the consultation within the scope of the business impact target. One respondent stated that the business impact target would result in regulators

"having to design their services, policies and procedures in a way that suits the needs of business".

Respondents did not suggest any further regulators be brought within the scope, while a handful of regulators questioned their own inclusion. We have reviewed those responses and are satisfied that it is appropriate to bring the regulators listed in the instrument within scope of the business impact target. We have also paid close attention to issues raised around proportionality, and the Government have been working collaboratively with a wide range of regulators to design a process for implementation that minimises burdens on regulators.

The business impact target plays a central role in the Government's agenda to improve UK regulation. It supports a positive shift in the way regulation is delivered by reducing the regulatory burdens that hold businesses back and prevent them from getting on with business. The measures are an important step towards creating a healthier business environment by making regulation more proportionate, transparent and accountable. I commend the regulations to the Committee.

4.36 pm

Bill Esterson (Sefton Central) (Lab): It is a pleasure to serve under your chairmanship, Ms Ryan. I have not done so before, and I look forward to it. The Minister has very briefly set out the Government case for the regulations, and I will raise a series of concerns and challenges, to which I would like her to respond.

The Minister went over the Government's one-in, two-out approach in the last Parliament, yet here we are, adding regulation to the regulators. At first glance, it looks like more regulation, not less. A long list of regulators that will see additional claims on their time and effort is included in the regulations. The Government's claims to want to see less regulation do not always stand up to challenge, but that is not the main point. We have debated the impact of quarterly reporting before, and I am sure we will debate it again. Time, bureaucracy and cost are associated with the requirement for businesses to report their tax affairs every three months. The Federation of Small Businesses estimates that the proposal will create £2,600 a year of extra cost. We have extra regulation and extra costs to business from a Government who say they want less.

I turn to the matter at hand. A number of concerns emerged in going through the regulations. The challenge is to balance properly the short-term requirement on regulators to reduce the amount of work they are doing with the long-term impact. Has that long-term impact been measured? Has the impact assessment adequately looked at what some of the challenges, concerns and impacts may be, especially when we are talking about public safety and health? A number of the regulators concerned, including the Care Quality Commission, the Chief Inspector of Drinking Water and the Food Standards Agency, cover one if not both of those areas. Those are three examples; I could mention many more where public safety and health are paramount.

The concern must be that, in the Government asking or requiring regulators to reduce their impact on business, corners are not cut and that public health and safety are not put at risk. Can the Minister answer this simple question: what is the mechanism to avoid an increase in risk in any of the agencies referred to in the schedule and the papers in front of us? The Financial Conduct Authority is included in the regulations, and we are all acutely aware of the important lessons of the financial crash. What is the mechanism for ensuring that the reduction in the requirements on the FCA will not lead to additional problems in the financial sector, such as the crash from which some would argue we are yet to recover? That is a great concern, and that was expressed in the consultation. The point about caution and the analysis made by a range of these agencies needs a detailed answer from the Minister. I am sure that she will have that answer by the time I have finished.

I move on to the wider financial elements of the regulations. It is apparent that savings can be quickly made by reducing the activities of the regulators, but will those savings lead to longer-term costs? What work have the Government done to ensure that cost concerns and economic concerns, as well as concerns about health and safety, are being considered for the longer term? What would be the point of making short-term savings? The Minister and her colleagues in her Department and across Government are rightly committed to long-term growth, and they are happily now committed to an important industrial strategy, which was not the case with some of her predecessors. How can we be sure that the reductions in regulation will not lead to longer-term cost?

I will give an example that was raised in the Small Business, Enterprise and Employment Bill Committee by my hon. Friend the Member for Wakefield (Mary Creagh). She talked about the challenges of getting environmental regulation right. She quoted evidence that suggested that the benefits of environmental regulation—some of which can be quantified straightaway and some of which take longer—cover the costs three times over. The implication of that analysis is that, if environmental regulation is reduced, costs increase in the long term. How will increased costs to the economy and to business be avoided by reducing regulation, whether that is for the environment or the range of other areas covered by the organisations listed in the schedule?

If the Minister could answer those questions, I would be extremely grateful. I am sure it is not the Government's intention to lose out in the long run just to make a short-term gain and to get some headlines on reducing red tape. We on the Opposition Benches fully support the need to reduce big business regulation, to improve conditions for business, to make the economy more vibrant and to create fair markets. If changes to regulation can help to achieve those objectives, that is absolutely the right way to go, but if they reduce the potential for a stronger economy in the long run, that cannot be right.

It came up during the consultation that a request from business is absent from the draft regulations. Tax accounts for a large amount of regulation that causes huge cost to business and which businesses object to massively, so why are HMRC and other bodies responsible for tax not covered by the regulations? That would be an obvious place to start and an obvious way to reduce regulation, bearing in mind the absolute purpose of reducing the cost to business. I am curious to hear the Minister's answer to that question, which was raised in the consultation, and I look forward to her other answers. Perhaps I will pursue certain issues further through interventions as she responds.

4.46 pm

Margaret Ferrier (Rutherglen and Hamilton West) (SNP): It is a pleasure to serve under your chairship, Ms Ryan. I have a few questions for the Minister. In the context of regulatory change, are charities distinguished from small businesses? If not, why not? Are regulations being scrapped to create this one? If so, what specific regulations are being scrapped and can she provide an impact assessment for each of them? On the scrapping and replacing of regulations, will that have a behavioural impact on business? I am puzzled—the Minister has provided an overview of the regulators listed in the schedule, so can she provide information on how the change will impact on different bodies? Specifically, how would the Gambling Commission and the Human Fertilisation and Embryology Authority have to operate under the regulations?

I hope that we are not in danger of conflating smaller and smarter regulation with deregulation. That is a bit of a worry. The Scottish National party would not want to see a tax-haven style economy, which is completely incompatible with a welfare state. The removal of regulation could open the door to manipulation, so I would like an answer to that point today. Finally, has any consideration been given to how Brexit will affect the regulations?

4.47 pm

Margot James: I will start by clarifying the purpose of the regulations, in response to the questions asked by the hon. Member for Rutherglen and Hamilton West. The measures do not direct regulatory bodies to reduce regulation. They are about bringing them into the scope of the Enterprise Act such that the regulators listed will be required to assess the economic impact on business of their activities that qualify against the target. That assessment will be verified by the independent Regulatory Policy Committee, so there are safeguards in place. I hope that that reassures the hon. Lady.

On the questions asked by the shadow Minister, the hon. Member for Sefton Central, we agree that we are not after more regulation with these provisions. This sensitive approach to regulators brings them into scope such that they have to assess the economic impact of the regulations for which they are responsible. It is not a directive to the regulatory bodies to reduce regulation. Our concern in respect of regulators is that the regulations are designed to ensure that business benefits from reduced costs in complying with regulations. That does not mean they might receive less regulation, but we want them to be given every opportunity for reduced cost in compliance with regulations, so there is greater emphasis on reporting and transparency among the regulators that have been brought into scope through the regulations.

As the hon. Gentleman mentioned, tax is exempt from the target and therefore exempt from the regulations. I reassure him that HMRC is subject to a separate target of reduced regulation as regards the tax regime. Its target is that it should reduce the impact of tax regulations by £400 million by 2020. So it is subject to a reduced regulatory target, but that is not part of the business impact target—there is a separate target for which it will be held to account.

Bill Esterson: I am grateful for the Minister's explanation, but it baffles me. At the start of my remarks, I mentioned quarterly reporting and the estimate by the Federation of Small Businesses of the average cost—£2,600 a year—to businesses. If HMRC is increasing costs to millions of businesses across the country in that way, it really is going to struggle to hit that target—unless she can tell me something I have completely missed.

Margot James: It is always difficult when one is talking about a measure that is currently under discussion. The requirement on businesses to report quarterly and digitally to the Revenue for their taxes will be introduced, but the exact mechanics of that proposition are still under discussion and review. The FSB, which I met to discuss the issue, accepts that this is not set in stone yet. It is, in fact, quite encouraged by the response it has received from the Treasury on the threshold below which businesses would not have to comply with the regime. I think it does accept that in the long run this new quarterly approach and the digitisation of tax returns will save business money, while it does not dispute that it will perhaps have a regulatory burden effect on some businesses in the short term. As I said, it is a bit premature to be bandying figures around when we do not know the exact shape of the new digitisation of tax and quarterly reporting requirement.

I will move on to the concerns that the hon. Gentleman rightly raised about regulators such as the Food Standards Agency and others in health and safety—Public Health England and so forth. I draw his attention to the exclusions; there is a list of exemptions from what we are debating this afternoon. The exemptions include any regulations relating to civil emergencies and relevant to the delivery of large infrastructure projects. He also mentioned the FCA, and there is an exemption to any provisions relating to systemic financial risk. There is a large number of exemptions and that is how we have tried to allay concerns such as those he expressed.

Bill Esterson: I am grateful for that explanation, but who will determine what is in and out of scope? Many people will be extremely concerned about all those points but, to take the FCA as an example, who will make the determination? How will we know in advance whether something will contribute to a future financial problem or indeed a crisis? Is there not a danger it will be too late? What is the mechanism for avoiding that happening?

Margot James: Each regulator has to provide an assessment of where it sees the impact of its regulatory activity being. That is then assessed by the Regulatory Policy Committee and, ultimately, Parliament can hold Ministers to account. The scope is designed to ensure that agencies ensure that the impact of their regulations is fully transparent. The environmental regulation impacts are included in that.

I am confident that savings are not going to lead to additional long-term costs. We are not necessarily reducing regulation. The measure is about minimising the cost to business to achieve the outcome that the regulations require.

I thank Members for their comments in Committee. The business impact target plays a central role in the Government's agenda to improve the quality of regulation in the UK. Businesses tell us that the actions of regulators are as important as the content of legislation in determining their experience of regulation. The draft regulations will provide greater clarity and transparency for business about the impacts of the regulatory activities of Government and independent regulators. They will do so without undermining the core purpose of those regulators, and they will help to deliver smarter regulation, creating a healthier business environment, which will be good for British business.

Question put and agreed to.

4.56 pm

Committee rose.