PARLIAMENTARY DEBATES

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OFFICIAL REPORT

Third Delegated Legislation Committee

DRAFT NON-DOMESTIC RATING (RATES RETENTION) AND (LEVY AND SAFETY NET) (AMENDMENT) REGULATIONS 2017

Monday 20 March 2017

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Friday 24 March 2017

The Committee consisted of the following Members:

Chair: PHIL WILSON

Ali, Rushanara *(Bethnal Green and Bow)* (Lab)
† Cartlidge, James *(South Suffolk)* (Con)
† Chishti, Rehman *(Gillingham and Rainham)* (Con)
† Davies, Chris *(Brecon and Radnorshire)* (Con)
† Foxcroft, Vicky *(Lewisham, Deptford)* (Lab)
† Harris, Rebecca *(Castle Point)* (Con)
† Johnson, Gareth *(Dartford)* (Con)
Jones, Mr Kevan *(North Durham)* (Lab)
† Jones, Mr Marcus *(Parliamentary Under-Secretary of State for Communities and Local Government)*
† McMahon, Jim *(Oldham West and Royton)* (Lab)
† Opperman, Guy *(Lord Commissioner of Her Majesty's Treasury)*
† Pow, Rebecca *(Taunton Deane)* (Con)
† Smeeth, Ruth *(Stoke-on-Trent North)* (Lab)
† Swire, Sir Hugo *(East Devon)* (Con)
† Warman, Matt *(Boston and Skegness)* (Con)
† Winnick, Mr David *(Walsall North)* (Lab)

Dr Glenn McKee, *Committee Clerk*

† attended the Committee

Third Delegated Legislation Committee

Monday 20 March 2017

[PHIL WILSON *in the Chair*]

Draft Non-Domestic Rating (Rates Retention) and (Levy and Safety Net) (Amendment) Regulations 2017

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 (Rates Retention) and (Levy and Safety Net) (Amendment) Regulations 2017.

It is a pleasure to serve under your chairmanship, Mr Wilson. These regulations make changes to the Non-Domestic Rating (Rates Retention) Regulations 2013 and the Non-Domestic Rating (Levy and Safety Net) Regulations 2013. Those are the two principal sets of regulations that provide for the day-by-day operation of the business rates retention scheme, under which local government currently keeps 50% of locally collected business rates. Because these are technical regulations and they make amendments to two sets of technical regulations, they are not necessarily simple to follow, but what they do, rather than how they do it, is straightforward.

The 2017 regulations do two things. First, they make changes to the operation of the business rates retention scheme to reflect the wholesale changes to tariffs and top-ups made by the recent local government finance report, following the 2017 revaluation. Secondly, they make changes to the administration of the business rates retention scheme to give effect to the 100% rates retention pilots that will operate in Greater Manchester, the Liverpool city region, the west midlands, the west of England, Cornwall and, to a more limited extent, London from 2017-18. I will deal with each set of changes in turn, starting with the changes that need to be made because of the revaluation.

When the business rates retention scheme was set up in 2013, it put in place arrangements for the annual redistribution of business rates among authorities by means of what are known as tariffs and top-ups. Those authorities that have the most business rates income compared with their relative needs pay over some of that income as a tariff. That is then distributed as a top-up payment to those authorities that have less business rates income than their relative need.

Tariffs and top-ups were set in 2013-14, based on the difference between the business rates that authorities expected to collect in that year and their relative need as established in that year's local government finance settlement. Thereafter, tariffs and top-ups have been uprated only by inflation. However, as a result of the business rates revaluation that will take effect on 1 April 2017, the amounts of business rates that authorities will actually collect in 2017-18 will be very different from what they collected in 2016-17. If we had simply uprated the existing tariffs and top-ups by inflation in the usual way, authorities would find that their income from business rates under the rates retention scheme would change—in some cases very considerably—between 2016-17 and 2017-18 solely as a result of the revaluation. That is why, when we set up the scheme in 2013, we announced that we would adjust tariffs and top-ups to strip out the impact of revaluations, and why during the summer we worked with local government to design a means of doing just that. The new tariffs and top-ups were approved by the House as part of this year's local government finance settlement; and in 2017-18 authorities will pay or receive the amounts set out in the local government finance report for 2017-18.

However, tariffs and top-ups are also used as part of the calculation of levy and safety net payments under the rates retention scheme. That calculation is provided for in the Non-Domestic Rating (Levy and Safety Net) Regulations 2013. The changes made by regulations 13 and 14 of the 2017 regulations ensure that the new 2017-18 tariffs and top-ups are used in future levy and safety net calculations. That is instead of uprated 2013 values, which would, if used, produce entirely perverse results.

I will now deal with the 100% business rates retention pilots. We have announced that ahead of the general implementation of 100% business rates retention in 2019-20, we will pilot parts of the new regime in a few areas from as early as 2017-18. Local authorities in Cornwall, Greater Manchester, Liverpool city region, the west midlands and the west of England have agreed to pilot 100% rates retention, and from 2017-18 will keep all the local business rates they collect. In return, they will forgo some revenue grants from central Government—most notably revenue support grant—and their tariffs and top-ups are being further adjusted to ensure that the pilots are cost-neutral, save only that authorities will keep 100% of any growth in their business rates instead of the 50% they currently keep.

We also announced that the Greater London Authority will keep a larger share of London's business rates—37% instead of 20%—in return for forgoing revenue support grant and taking over responsibility for funding the investment grant for Transport for London. As for other pilot areas, the GLA's tariff has been adjusted to ensure that the reform is cost-neutral except for the additional share of growth that it will keep.

The changes to the share of business rates that the GLA and pilot authorities will keep, and to the tariffs and top-ups they will pay or receive, were included in the recent local government finance report. However, those changes need to be cemented into the day-to-day administration of the business rates retention system. The 2017 regulations do just that, by making the necessary changes to the Non-Domestic Rating (Rates Retention) Regulations 2013.

In summary, 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, and to allow the 100% rates retention pilots to operate from 1 April 2017. Without the changes, authorities would not receive the income from the business rates retention scheme that they are expecting and, indeed, have budgeted for. I commend the regulations to the Committee.

4.37 pm

Jim McMahon (Oldham West and Royton) (Lab): It is a pleasure to serve under your chairmanship, Mr Wilson.

The much anticipated calculation is here; it takes a certain degree of genius to work out what it means in practice, but it is good to have that detail. Clearly, we are talking about the pilot authorities today, and we have been keen to see a bit more detail on those to understand how the measure might work when the Local Government Finance Bill is enacted. Rates retention affects every local authority in the country, particularly when we take into account the top-ups, tariffs and the safety net regime that is currently in place, as well as the deletion of the revenue support grant and what that means for councils' baseline funding. Although we talk about this issue in a technical way, it has real-life consequences. When we talk about the calculations in this Committee, we are talking about whether local authorities will have the money to pay for adult social care, safeguarding services and the more than 700 public services that people rely on in localities.

When I became council leader in Oldham, revenue support grant in that year was £80 million; under this arrangement, revenue support grant will not exist. In terms of 100% retention, a town such as Oldham is in a net position from revenue support grant—it used to give back roughly what it now receives from business rates—so, from net position, it has lost £80 million of revenue support grant under this deal. We should not try to pretend in any way that this is about the Government being generous and giving money away. What councils have decided is that it is far better to have certainty and to plan for the long term than to plan continually in a short-term way, not knowing what their finances will be like in two, three or five years' time. The measure provides a degree of certainty, but the jury is out—indeed, there is a great deal of scepticism—about whether it will provide the money that is required to provide the decent public services on which our communities rely.

There is a lot of detail that we expect to see, and have not yet seen, about local arrangements and local agreements for the growth element of business rates retention. What we see here is effectively the baseline retention—what local areas can expect to receive—but where local areas grow their business rates baseline far more than that, under these arrangements it will be retained at a local level, usually in combined authority arrangements. However, there is no detail about what agreements have been reached between individual local authorities. For example, of the 10 local authorities in Greater Manchester, only one is forecast to grow its business rate base to a net position and pay back into a pool. For a number of years, that council has negotiated greater retention of that money before any growth goes back into the business rate pool, which goes against the spirit of combined authorities and of generating economic growth in city regions. Local authorities with historically healthier tax bases can negotiate from a stronger position to achieve special arrangements that other places in combined authority areas cannot secure. Given that the measure lays the foundation and framework for retention, we expect that level of detail to be provided in the regulations, but it is missing.

We wait to see, too, what this means for the rest of the country, and whether Third Reading changes that. We have selected pilot authorities to test the measure—I agree that sometimes that is better than a big bang approach when we do not fully know the consequences. The baseline calculation will affect the whole country when the Bill is enacted. What will be the impact on local authorities across the country, and what will it mean for areas with historically low council tax bases? There is a requirement for areas to pay above their assessed needs into the pot to be redistributed. What will be the position of those local authorities if, after 100 years of changing economic circumstances in their area and—not for want of trying or because of a lack of local or civic leadership and modern-day investment in economic development and growth—they simply cannot generate enough money to fund decent public services in their area?

We have yet to see what type of top-ups or tariff system will be in place. We do not know what safety net will be in place for any mid-year shocks that might result. I hope that, once we introduce the measure and pilot areas test it on the ground, we see greater detail about what it means for the whole of England.

In the devolution deals, individual areas have been picked off in pilot arrangements, leaving a fragmented picture, with many parts of England outside a devolved settlement. That is bad enough for civic leadership and the question of where power sits in the country, and it certainly should not be allowed to be the case when vital public services depend on assured funding for the long term.

In the spirit of supporting the direction of travel on devolution, and recognising that local authorities have agreed to the arrangement—that is why the measure has been introduced—we do not propose to divide the Committee. We will keep our powder dry and hopefully there will be more detail on Third Reading.

Mr David Winnick (Walsall North) (Lab): My hon. Friend said that it was important that local authorities agreed with the measure, and I understand why. The local authority in my borough in the heart of the west midlands and of the Black country faces an acute financial crisis, with substantial services such as libraries being reduced in location or removed altogether simply because there is no money. It is against that background that we should consider the measure.

Jim McMahon: My hon. Friend makes a forthright and relevant point. Local authorities are not there to simply justify their own existence—they are there to provide a public service that depends on public need. We are still waiting for an assessment of what local authorities need for baseline funding to provide public services for their locality. We have been promised that that calculation will be produced as we approach Third Reading. We have not yet seen it, so in some ways we are dealing with pilot authorities in isolation. The truth is, whether we agree to the pilot areas or not, when the Bill is enacted, the revenue support grant will disappear completely. Areas that are not part of the pilot authorities will be disadvantaged whether the regulations are introduced or not. That is why we are not seeking to divide the Committee, because it is important to recognise the financial circumstances of local authorities. The measure allows them, to a certain degree—not to the extent that we would like—to become the masters of their own destiny in what is a fairly horrible financial settlement from central Government.

[Jim McMahon]

I have one final point that it would be helpful to clarify today. We have been told that the RSG will be deleted and that local authorities have agreed to forgo its receipt. I suspect many of them did so because they recognised it will not exist in 12 months' time anyway. However, the context for discussions about the Local Government Finance Bill is that there will be 100% retention in exchange for local areas taking on additional powers and responsibilities. We have not seen through the pilot agreement what additional responsibilities local authorities will be expected to take on, as will happen across the whole country. If the Minister could go into a bit of detail about that, it would be extremely helpful.

Finally, I want to clarify whether the local areas have agreed to forgo any other central Government grants in the same way that they have forgone the RSG—for instance, the better care fund, the early years intervention grant or the independent living fund. Will those be retained as part of this arrangement or will they be forgone in the same way that the RSG is being taken away?

I recognise that this is a very technical Bill, but it would be helpful to have a bit of information on those two matters. I repeat an offer that I have made in Committees like this on a regular basis. We believe in devolution, and quite a lot of these issues are not partisan at all; they are more about getting the framework in place to enable things to happen than about the politics of how much money gets put where. Again, if the Government have the will to work in partnership to prepare a framework for devolution for the whole of England, I would certainly be up for a discussion on that basis.

4.46 pm

Mr Marcus Jones: It is always a pleasure to respond to the hon. Member for Oldham West and Royton. Indeed, we have just spent a number of weeks in this very room debating aspects of the Local Government Finance Bill, which will come back before the House on Report in due course. As he did during many of those debates, he chose to discuss contextual issues that did not necessarily relate directly to the provisions of the Bill and spent time speculating on what things may or may not mean.

I want to be clear with the Committee that what we are debating today has two distinct outcomes, both of which have been agreed by this House through the local government finance settlement: first, the changes to top-ups and tariffs that are required as a result of the 2017 revaluation and, secondly, the changes to the 2013 legislation that are required for us to take forward the 100% business rate retention pilots.

I would like to respond to the hon. Gentleman's comments. First, he mentioned baseline funding, which is extremely important. We are not resetting the baseline funding. It will be reset for 2019-20, when 100% business rate retention comes into full effect. We are currently working with the local government sector through a working group, with which the Local Government Association is involved, and undertaking a fair funding review that will feed into setting that baseline. A number of other groups are involved.

The hon. Member for Oldham West and Royton mentioned risk. We are doing a lot of work on how the safety net will work. He questioned the outcome of the new arrangements for authorities in which there is a declining business rate base. We are still working out the arrangements for the 100% scheme, but the pilots will help. There are a range of authorities—some are growing their business rate base significantly, but some are not—which we will recognise in our work.

The hon. Gentleman mentioned the revenue support grant—that is rolled into the arrangements we are making with 100% retention pilots—and extra responsibilities. The best example to give him from the pilots is Greater Manchester. The RSG has been rolled in, but the public health grant has been, too. Those additional responsibilities are being taken on by that area.

That brings me to the end of my response. I hope members of the Committee reflect on the fact that these are technical regulations and, in the context, very simple proposals that have been agreed by the House in the local government finance settlement. I therefore hope that the Committee supports them.

Question put and agreed to.

4.51 pm

Committee rose.