PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fourth Delegated Legislation Committee

DRAFT NON-DOMESTIC RATING (RATES RETENTION, LEVY AND SAFETY NET AND LEVY ACCOUNT: BASIS OF DISTRIBUTION) (AMENDMENT) REGULATIONS 2020

Tuesday 10 November 2020

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not later than

Saturday 14 November 2020

The Committee consisted of the following Members:

Chair: Rushanara Ali

Anderson, Stuart *(Wolverhampton South West)* (Con)
† Benton, Scott *(Blackpool South)* (Con)
† Bowie, Andrew *(West Aberdeenshire and Kincardine)* (Con)
Brennan, Kevin *(Cardiff West)* (Lab)
Burgon, Richard *(Leeds East)* (Lab)
Butler, Dawn *(Brent Central)* (Lab)
Byrne, Liam *(Birmingham, Hodge Hill)* (Lab)
† Clark, Feryal *(Enfield North)* (Lab)
Cryer, John *(Leyton and Wanstead)* (Lab)
† Eastwood, Mark *(Dewsbury)* (Con)
† Fletcher, Mark *(Bolsover)* (Con)
† Grundy, James *(Leigh)* (Con)
† Hughes, Eddie *(Walsall North)* (Con)
† Mohindra, Mr Gagan *(South West Hertfordshire)* (Con)
† Pincher, Christopher *(Minister for Housing)*
† Shah, Naz *(Bradford West)* (Lab)
† Young, Jacob *(Redcar)* (Con)

Kate Anderson and Huw Yardley, *Committee Clerks*

† attended the Committee

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[RUSHANARA ALI *in the Chair*]

Draft Non-Domestic Rating (Rates Retention, Levy and Safety Net and Levy Account: Basis of Distribution) (Amendment) Regulations 2020

2.30 pm

The Chair: Before we begin, I remind Members who decide to speak in these proceedings that *Hansard* colleagues would like any notes to be sent to hansardnotes@parliament.uk.

The Minister for Housing (Christopher Pincher): I beg to move,

That the Committee has considered the draft Non-Domestic Rating (Rates Retention, Levy and Safety Net and Levy Account: Basis of Distribution) (Amendment) Regulations 2020.

It is a great pleasure to serve under your chairmanship, Ms Ali. I should begin with an apology, in that my hon. Friend the Member for Thornbury and Yate (Luke Hall) is self-isolating this afternoon. I am standing in for him as a small, but I trust no less perfectly formed, substitute.

The business rate retention scheme, which was introduced some eight years ago, allows local government to retain 50% of the business rates its raises locally and also keep 50% of the growth in business rates over and above the amounts delivered through the local government financial settlement. Authorities have estimated that, in 2019-20, growth in business rates will give them £2.5 billion of additional funding to support the delivery of local services. The underlying principle of the business rate retention scheme is simple. If an authority is responsive to local business and helps to grow its local economy, it will retain the resulting increase in business rates, which can be reinvested in its local economy and used to support local services.

However, as has often been said, particularly on the Floor of the House, the operation of the business rate retention scheme is technically very complicated. It is governed by a number of pieces of secondary legislation, which provide the framework for the calculations and rules that govern how and when the business rates collected from ratepayers are distributed among central Government, billing authorities, often district councils, and major precepting authorities, often county councils. The regulations before the Committee make several important technical amendments to the underlying regulations to update the existing framework. This is vital to the administration of the business rate retention system and will ensure that all parties receive the funding they are due.

The regulations make three main changes. They ensure that the correct calculation of the income retained by authorities that have, or have had in the past, a higher level of retained business rates income; they make the necessary changes to the rates retention system, following the most recent local government restructuring; and they adjust the calculation of retained rates income against which we determine levy and safety net payments, to ensure that local authorities are not doubly compensated for giving business rate relief for telecommunications infrastructure. I will deal with each change in more detail and explain why they are needed.

The rates retention scheme is governed by a number of pieces of secondary legislation, the most important of which are the Non-Domestic Rating (Rates Retention) Regulations 2013 and the Non-Domestic Rating (Levy and Safety Net) Regulations 2013. These regulations establish the key building blocks of the day-to-day administration of the rates retention system, including council shares of locally retained business rates income and their safety net thresholds and levy rates. Since 2017, we have allowed any number of local councils to keep more than 50% of their business rates income—the original top threshold, which was set in 2013. The devolution deal areas—Cornwall, the West of England, the West Midlands, Greater Manchester and the Liverpool city region—retain 100% of their business rates income. In the two subsequent years, following a competitive process, a number of other local authorities were chosen to be part of a business rate pilot programme, under which they retained 100% or 75% of their business rates income in 2018-19 and 2019-20 respectively. Regulations were made to give effect to those changes. Unfortunately, given the complexity of the 2019-20 regulations a few minor omissions or errors were made in the framework for that year's pilots. Those include errors in some of the 75% pilot's levy rates, the apportionment of the collection fund balance for one authority and the uprating of the top-up and tariff payments for London and those authorities that were 100% business rate retention pilots in 2019-20. The regulations simply put those errors right. In acknowledgment of that, they will be made free of charge to any party who purchased the 2019 regulations as local authorities often do. In addition to these changes, the regulations also provide for the uprating of the devolution deal authorities top-up and tariff payments in 2020 and 2021.

The regulations before the Committee also make minor changes consequent on Buckingham restructuring from 1 April 2020. The new Buckinghamshire unitary authority will replace its predecessor county council and its constituent district councils—Aylesbury Vale, Chiltern, South Bucks and Wycombe. For the most part, that requires no changes to the secondary legislation that governed the business rates retention scheme because all that happens is that the values that appeared in regulations in each of the predecessor authorities are simply aggregated to give the corresponding value for the new unitary. But we need to make a couple of changes when aggregated values would produce an incorrect result for the new unitary authority. Those are an adjustment to a figure that determines the cost of operating in Buckinghamshire and helps determine how much the new authority needs to cover the costs it will incur in collecting business rates and administering the tax and an updated value for the new Bucks unitary used to calculate its small business rate relief compensation.

Similarly, Bournemouth, Christchurch and Poole Council and Dorset Council have been in place from 1 April 2019 following the rearrangement of the Dorset authorities. Since that change, the two authorities have agreed on amended splits of their revenue support grants. Revenue support grant is included within the settlement funding assessment measure, which the business rates retention system uses as the basis for distribution of any surplus on the levy account. A surplus on the levy account occurs when levy payments exceed safety net payments in that year. The regulations therefore make a small amendment to the basis of distribution to reflect the revised split of revenue support grant. I should say at this stage that those changes are being made at the request of those authorities.

Finally, the regulations make an amendment to the calculation of retained rates income, against which levy and safety net payments for authorities are determined. To avoid doubly compensating local authorities for awarding telecoms relief, for which they are already given a section 31 grant of compensation, the levy and safety net calculations must add back the compensation for business rate reliefs received by the authority as a result of changes made by the Government—in this case, we add back the value of the telecoms relief awarded. By doing so, we ensure that local authority safety net payments are not artificially increased, or levy payments decreased, by the compensation that they receive.

In conclusion, the regulations are highly technical—I can well understand why my hon. Friend the Member for Thornbury and Yate did not want to be here to discuss it. They are required to make a series of minor amendment to update the framework on which rates retention is run for 2019-20 and 2020-21. In making those changes, no new policies are introduced. The regulations simply ensure the fulfilment of the original policy intention, as approved in previous years, via the settlement or by statutory instrument.

I commend the regulations to the Committee.

2.40 pm

Naz Shah (Bradford West) (Lab): It is really an honour to serve under your chairmanship, Ms Ali.

In recent times, especially through the covid pandemic, local authorities have shown how they can provide the necessary localised support to communities. When the need came, they adapted their services. They housed those who were homeless, provided food parcels for those shielding and literally became a Government at the local level.

It is not just in times of pandemic, but more generally that local authorities have a better understanding of their local communities and businesses. They are therefore able to work with local people to ensure that businesses in the UK can genuinely thrive. After a decade of reductions in funding and rising demand, from which we seem to be beginning to emerge, councils, along with the rest of the nation, have faced the impact of the covid-19 pandemic on their citizens, staff, services and budgets.

Estimates by the Institute for Fiscal Studies suggest that another £2 billion might be needed this year to meet all the pressures and non-tax income losses that councils have experienced and will continue to experience as a result of covid-19, but that that could rise to £3.1 billion, depending on whether council assumptions about the end of the pandemic are correct. Changes in legislation that provide formulas to support local authorities and their budgets in such times are therefore hugely important and we certainly welcome that.

Although I understand that the changes in the statutory instrument are technical, and some relate to individual local authorities, I would be grateful if the Minister provided further reassurances on whether the Government will make adjustments to business rate retention calculations next year to take into account the impact of covid-19 rates relief.

As the Minister knows, following the measures announced in March, 40% of business rates in 2020-21 are being covered by retail reliefs of approximately £10 billion. However, business rates collection is likely to be down, despite the increased reliefs, with current predictions by councils suggesting a £1.6 billion shortfall to the public purse. The 2021 calculations, which will be made next year, will therefore be potentially less straightforward due to the impact of the covid-19 pandemic on collection. The calculation will need to be adjusted to deal with the retail reliefs. I would welcome the Minister's outlining any further plans that the Government have to deal with that specific shortfall.

Additionally, will the Minister provide an update on how the Department plans to deal with the shortfall arising from irrecoverable uncollected local taxation in 2021? Will the Government cover all the shortfalls in planned non-tax income and local tax revenues, including business rates? The Minister will recall that the Government have a line that they will cover whatever is needed for local councils. After a decade of cuts and then taking on the burden of a pandemic, it is important that local authorities are supported so that local people, communities and businesses are also supported.

2.43 pm

Christopher Pincher: I am grateful to the hon. Lady for what I think is her support for the amendments to the regulations, although I have to say that she is being a little ungenerous to the Government, given the support we have provided to local government in the last financial year of a 4.4% increase in real terms in core spending power—the largest injection of cash into local government in more than a decade—and the support we have given to local authorities that are working exceptionally hard to help their communities through the pandemic.

The hon. Lady will know that we have already allowed the award of £2.6 billion in business rate payments that local authorities would normally make to central Government. We have paid £1.8 billion in grant aid to local authorities, and £11.2 billion, which would otherwise have been paid in business rates via hospitality, retail and leisure, will be returned to local government. According to a quick, rough estimate on my part, that is £15.6 billion to local authorities. We should also remember that the Government have spent approximately £30 billion for local authorities, local communities and businesses as a result of the pandemic. We will keep the services and support we provide to local government and beyond under review.

The hon. Lady asked about future changes to the business rate retention scheme and any reliefs. Until we know what the business landscape is like in local government once the pandemic has abated, we cannot make any commitments to specific changes, but my right hon. Friend the Chancellor of the Exchequer will keep the situation under review. We will address future funding through the spending review—or before if necessary—in the usual way.

Question put and agreed to.

2.45 pm

Committee rose.