PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Second Delegated Legislation Committee

DRAFT BANK OF ENGLAND LEVY (AMOUNT OF LEVY PAYABLE) REGULATIONS 2024

Tuesday 20 February 2024

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not later than

Saturday 24 February 2024

The Committee consisted of the following Members:

Chair: Hannah Bardell

† Afolami, Bim *(Economic Secretary to the Treasury)*
† Antoniazzi, Tonia *(Gower)* (Lab)
† Blomfield, Paul *(Sheffield Central)* (Lab)
† Bradley, Ben *(Mansfield)* (Con)
† Cameron, Dr Lisa *(East Kilbride, Strathaven and Lesmahagow)* (Con)
† Costa, Alberto *(South Leicestershire)* (Con)
Coyle, Neil *(Bermondsey and Old Southwark)* (Lab)
† Ford, Vicky *(Chelmsford)* (Con)
Foy, Mary Kelly *(City of Durham)* (Lab)
† Holloway, Adam *(Gravesham)* (Con)
† Howell, Paul *(Sedgefield)* (Con)
† Largan, Robert *(High Peak)* (Con)
† Maclean, Rachel *(Redditch)* (Con)
Nichols, Charlotte *(Warrington North)* (Lab)
Phillips, Jess *(Birmingham, Yardley)* (Lab)
† Siddiq, Tulip *(Hampstead and Kilburn)* (Lab)
† Syms, Sir Robert *(Poole)* (Con)

Rebecca Lees, *Committee Clerk*

† attended the Committee

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[Hannah Bardell *in the Chair*]

Draft Bank of England Levy (Amount of Levy Payable) Regulations 2024

2.30 pm

The Economic Secretary to the Treasury (Bim Afolami): I beg to move,

That the Committee has considered the draft Bank of England Levy (Amount of Levy Payable) Regulations 2024.

It is a pleasure to serve under your chairmanship, Ms Bardell. The Bank of England undertakes vital work in pursuit of its monetary policy and financial stability objectives, in line with primary legislation. To ensure that the Bank can recover fully and efficiently the costs of funding its important functions, it is necessary that the mechanism it employs to do so is reliable and stable.

The Bank's current monetary policy and financial stability functions are funded by what is known as the cash ratio deposit scheme. Under the scheme, banks and building societies with eligible liabilities greater than £600 million are required to place a proportion of their deposit base with the Bank on a non-interest bearing basis. The Bank then invests those funds in gilts, and the income generated from such gilts is used to meet the cost of its monetary policy and financial stability functions. The scheme has resulted in significantly higher deposit sizes than were initially forecast and a lack of predictability for payers of a cash ratio deposit. Deposit sizes change in line with gilt yields, which have been lower than expected, meaning that the cash ratio deposit scheme has not been able to generate its target income from the investment of deposits and has therefore failed to fund fully the Bank's policy functions. The shortfall to date has been funded from the Bank's capital and reserves, meaning that it has not paid a dividend to the Treasury as Bank capital levels have fallen below target.

Following a review of the scheme in 2021, the Government set out their intent to replace the scheme with a Bank of England levy to provide greater certainty to firms on their contributions and to create a simpler and more transparent funding mechanism for the Bank. Sections 70 and 71 of the Financial Services and Markets Act 2023 made provision for that. The regulations before us make provision under the auspices of FSMA for the eligible institutions that do not have to pay a levy on how the cost is apportioned between eligible institutions that must pay a levy and how appropriate adjustments will be made for years in which a new levy is paid.

The Bank of England levy aims to create a simpler and more stable funding mechanism for the Bank's policy functions. Under the new levy, for each year the Bank will estimate the amount that it needs to meet its policy costs; it will add any shortfall from the previous year and deduct any surplus. That is the anticipated levy requirement. The Bank will require institutions to submit data about their eligible liabilities and will usually take an average of the data provided between 1 October and 31 December in the previous year to calculate an institution's eligible liabilities. The three-month reference period mirrors that used for the Prudential Regulation Authority levy, ensuring greater consistency across the levies and a simplification of the process for recovering the Bank's costs. That is simpler for the institutions involved.

As under the cash ratio deposit scheme, if an institution has an average liability base up to and including £600 million, it will not pay any levy that year. If an institution's average liability base exceeds £600 million, it will pay the levy. That ensures that the payment mechanism is fair, as only the largest institutions that benefit most significantly from the Bank's monetary policy and financial stability functions will pay the levy. The cost paid by an institution under the levy will be apportioned according to the size of an institution's eligible liabilities, meaning that larger institutions will pay a larger share of the costs. That is the same as under the cash ratio deposit scheme, so introducing the new levy does not mean that there will be relative winners or losers between the institutions that pay.

If an institution did not meet the threshold for paying the levy in the previous year, but it meets the threshold in a new year, the regulations deal with that as well. They stipulate that the firm would be treated as a new levy payer. This statutory instrument allows the Bank to treat new levy payers differently so that they contribute to the estimated policy costs for the specific year and do not have to contribute to any shortfall from the previous year or gain any benefit from surplus from the previous year. I hope the Committee will agree that that is a fair and proportionate approach.

The regulations will replace the cash ratio deposit scheme with a Bank of England levy—a simpler and more stable funding mechanism—while ensuring that no changes are made to the threshold at which firms will pay the levy or the broader important principle that larger firms will pay more.

Sir Robert Syms (Poole) (Con): Presumably there could be an argument over whether someone has to pay the levy or what levy they have to pay. Is there an appeal process?

Bim Afolami: I thank my hon. Friend for that question. It is my understanding that there is not an appeal process, but the reason for that is that there is an agreed formula for when it occurs; the amount of levy that people will pay is not an art, but a science. As I say, it will depend on the size of the institution, just as the cash ratio deposit levy did, but this system is simpler and more stable. I hope colleagues will join me in supporting the regulations and I commend them to the Committee.

2.36 pm

Tulip Siddiq (Hampstead and Kilburn) (Lab): It is a pleasure to serve with you in the Chair, Ms Bardell. I am supportive of the plan to replace the current cash ratio deposit, as the Minister will probably know, and of the proposed mechanics of the levy. Therefore, Labour will support this statutory instrument.

I have some technical questions on the implementation, although I understand that the Minister might not be able to answer them now and I am happy to receive answers in writing if he wants to send them to me later. Will the Bank of England be determining, as part of its formal review, whether non-bank financial institutions should be considered eligible for the levy in future? If so, what is the timeline for that review? What discussions has the Treasury had with the Bank about the adoption of a rolling five-year budget to help eligible banks to plan their own budgets? I am sure the Minister has also heard time and again that it is the lack of planning that gives banks uncertainty, so any plans he has for a rolling five-year budget would be helpful to know.

Finally, I am sure the Minister will agree that providing the banking sector with certainty is essential to securing the confidence needed to incentivise investment in the real economy. Could he therefore provide clarity on whether this SI will come into force by the beginning of March?

2.37 pm

Bim Afolami: I shall do my best to answer the hon. Lady's questions in the Committee. On her first question, there is no current plan to introduce non-bank financial institutions as part of this process; of course such questions are always under review, but I want to be clear with the Committee that there is no current plan in that regard. On the five-year budgetary plan, I will write to her, because I want to be precise with the answer but I am not equipped to answer right now. On the question of when the SI will come into force, I do not want to commit to a precise time, but I can assure her that we wish to that to happen at the earliest possible time.

If there are no more questions, I thank colleagues for this useful debate and I commend the regulations to the Committee.

Question put and agreed to.

2.38 pm

Committee rose.