PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Sixth Delegated Legislation Committee

DRAFT NON-DOMESTIC RATING (LEVY AND SAFETY NET) (AMENDMENT) (NO. 2) REGULATIONS 2015

Wednesday 25 November 2015

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Sunday 29 November 2015

STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY FACILITATE THE PROMPT PUBLICATION OF THE BOUND VOLUMES OF PROCEEDINGS IN GENERAL COMMITTEES

The Committee consisted of the following Members:

Chair: Nadine Dorries

† Butler, Dawn *(Brent Central)* (Lab)
† Foster, Kevin *(Torbay)* (Con)
† Glindon, Mary *(North Tyneside)* (Lab)
† Grant, Mrs Helen *(Maidstone and The Weald)* (Con)
† Green, Chris *(Bolton West)* (Con)
† Griffiths, Andrew *(Burton)* (Con)
† Jones, Mr Marcus *(Parliamentary Under-Secretary of State for Communities and Local Government)*
† Morris, Grahame M. *(Easington)* (Lab)
† Reed, Mr Steve *(Croydon North)* (Lab)
† Rimmer, Marie *(St Helens South and Whiston)* (Lab)
Sherriff, Paula *(Dewsbury)* (Lab)
† Smith, Henry *(Crawley)* (Con)
† Smith, Julian *(Skipton and Ripon)* (Con)
† Sturdy, Julian *(York Outer)* (Con)
† Throup, Maggie *(Erewash)* (Con)
† Wheeler, Heather *(South Derbyshire)* (Con)

Fergus Reid, *Committee Clerk*

† attended the Committee

Sixth Delegated Legislation Committee

Wednesday 25 November 2015

[Nadine Dorries *in the Chair*]

Draft Non-Domestic Rating (Levy and Safety Net) (Amendment) (No. 2) Regulations 2015

2.30 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 (Levy and Safety Net) (Amendment) (No. 2) Regulations 2015.

It is a pleasure to serve under your chairmanship, Ms Dorries. Since 2013-14, we have overseen a transformation in how local authorities can support growth. Before we reformed the system, those local authorities that introduced policies to support business and encourage new investment received in return no benefit from additional business rates income. It was a failing system that had been allowed to continue for too long. We quickly moved to remove the hindrance to growth and since 1 April 2013 have allowed local government to retain 50% of the business rates paid in their area. Now those authorities that see it as their role to support business are rewarded with a share in the additional business rates income that that growth creates.

We are only two years into our reforms, but their success is already clear to see. The latest statistics on business rates show that 63% of authorities have seen additional business rates income as a result of the local retention scheme in 2014-15. Based on their own estimates, that figure is set to rise to over 90% in 2015-16. The scheme benefits a wide range of authorities, both rural and coastal, including those with high levels of deprivation. Earlier this year, the Chancellor announced measures to strengthen the incentive in Manchester and Cambridge by allowing councils to retain not 50% but 100% of the growth in business rates in their area. We intend to go further still. By the end of this Parliament, local government will retain 100% of its local taxes, including all £26 billion of its business rates.

The levy and safety net regulations, however, are not related to our intended future changes to the rates retention scheme. Instead, they include some technical amendments to the operation of the current rates retention scheme. The amendments ensure that the payments made between local government, ourselves and precepting authorities are all correct and can be reconciled accurately. The purpose of the safety net is to protect those authorities that have seen their rates income drop by more than 7.5% below their baseline funding level. It is funded by a levy on other authorities that have seen business rates growth in that year.

However, the calculation is not straightforward. It needs to include a series of adjustments to ensure that authorities are not compensated twice for giving particular reliefs: once through the compensation grants to which they are entitled outside of the rates retention scheme, and then again through safety net payments inside the scheme. Technically, the regulations do that by ensuring that authorities are required to add back the cost of the doubling of small business rates relief, meaning that half the cost of the relief granted to ratepayers in 2015-16 will not be included in the calculation of their safety net. We made these amendments in previous years, too. They are predicated on the Government's decision to extend the doubling of small business rates relief for another year.

The regulations also ensure that adjustments to certain reliefs made in 2015-16 in respect of previous years dating back to the introduction of the scheme are not included in the calculation of safety net. In both cases, authorities will be fully compensated for the relief that they have given outside the rates retention scheme through compensation grants, so they will be no worse off financially.

These technical amendments are complex by necessity, but they avoid double-counting certain reliefs and ensure that authorities cannot be compensated twice. I can assure the Committee that all the technical changes have been agreed with local government officers in a working group set up to advise on the detailed implementation of the scheme, as well as with the Local Government Association and the Chartered Institute of Public Finance and Accountancy. I commend the regulations to the Committee.

2.34 pm

Mr Steve Reed (Croydon North) (Lab): These changes are broadly technical. They have the LGA's support, so we are happy to support them as well. However, since the Minister referred to the wider issue of the localisation of business rates in his introduction, I have three questions.

At the Dispatch Box recently, the Minister said that during the autumn statement we would get clarity on the equalisation mechanism that will accompany the localisation of business rates. I did not hear anything of the sort during the statement this afternoon, so can the Minister explain why not? Secondly, under the current funding system, the 10 poorest local authority areas have suffered cuts 18 times bigger than 10 wealthier areas. How will that disparity be addressed in future funding settlements? Finally, how will the Chancellor's plans for business rate devolution impact on the current small business rate relief system referred to in the draft regulations?

2.36 pm

Mr Jones: I thank the hon. Gentleman for his questions. On his first question, there will be more information announced on this. The Chancellor did today refer to the scheme, and to business rate retention going forward, in relation to the future burdens that local government would face as a result of the additional income they will receive from retaining 100% of the business rate.

The hon. Gentleman does not necessarily take into account the fact that this year, 90% of local authorities expect to see increased income through the business rate retention scheme that is already in place. Many of the councils that he refers to, particularly in the north, have received a significant amount of additional business rates under that scheme, and I understand that the area set to benefit the most from it this year is the east midlands, so it is not necessarily something that benefits only those areas in the south-east and in London, as he tried to imply. It benefits councils throughout the country, and we expect the new business rate relief scheme to have the same effect.

On the hon. Gentleman's third question, as he knows, an announcement on the small business rate relief was made today in the Chancellor's autumn statement; it covers the extension of the doubling of the small business rate relief scheme for 2016-17. The scheme has to be considered at each Budget, as it is a relief for a single year. That is why we have to approach this through regulations, rather than in primary legislation.

Question put and agreed to.

2.39 pm

Committee rose.