



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Rt Hon Mel Stride MP
Chair, Treasury Select Committee
House of Commons
London
SW1A 0AA

25 March 2021

Dear Mel,

Local Government Finance Update

I am writing to you in relation to the changes to MHCLG legislation on Business Rates announced today. MHCLG Ministers will be writing shortly to the Chair of the Housing, Communities and Local Government Committee, but I wanted you to be separately sighted on this, as Chair of the Treasury Select Committee (TSC).

As you know, Business Rates are a significant source of funding for the provision of key local services such as adult social care and children's services.

In responding to the COVID-19 crisis, the Treasury took the important step of providing full Business Rates relief for all eligible Retail, Hospitality and Leisure properties for 2020-21 at a cost of £10 billion. Budget 2021 confirmed a further three-month extension of the full relief, followed by a nine-month period of relief at 66%, subject to a cash cap, at a further cost of £6 billion.

Even so, as a result of the pandemic the Valuation Office Agency (VOA) is currently dealing with an unprecedented number of Material Change of Circumstances (MCC) cases relating to COVID-19 and the impact of the COVID-19 restrictions across England on property values and ultimately rates liability.

The application of MCC legislation pre-dates COVID-19 and was clearly not designed to apply in these circumstances. It has been a core principle of the Business Rates system, that MCCs should be used to address issues of a discrete geographic, sectoral and temporal nature, and that market-wide economic changes affecting property values can and should only be considered at revaluations. MCC processes are designed to be used for cases such as individual roadworks. Relying on the MCC system to help businesses that need further support from the pandemic is not the appropriate approach.

The pandemic has given rise to a market-wide economic change. The Government has therefore, announced two changes to legislation today to clarify this position: an MHCLG Statutory Instrument, prospectively, in order to ensure that the Government's COVID-19-related Non-Pharmaceutical Interventions are not considered relevant for MCC purposes; and, once parliamentary time allows, MHCLG primary legislation with retrospective effect to give the same effect as from the start of the pandemic.

To ensure that support can reach businesses outside the retail, hospitality and leisure sectors that are most in need, the Treasury has provided additional funding for a further £1.5 billion relief scheme to be administered by Local Authorities (LAs) on a discretionary basis.

The relief will ensure that LAs, which have a more on-the-ground understanding of local businesses and their local economies, are able to provide targeted support to businesses most in need.

This approach will ensure that money is awarded on the basis of a business's economic exposure to COVID-19 and therefore its need, rather than on the basis of estimates of pandemic-related reductions in property values. This will, in turn, ensure that relief is not awarded to office-based businesses such as financial service firms whose businesses have been largely unaffected, but is instead dispersed more equitably and proportionately across England. It will also ensure that relief is awarded quickly, and faster than would be the case if businesses sought support under the sometimes drawn out process of a rating appeal. The Treasury and MHCLG will work with and support local government to enable ratepayers to apply as soon as possible this year, once the legislation relating to MCC provisions has passed and local authorities have set up local relief schemes.

In addition to the £1.5 billion to be announced for England, further funding of around £285 million will be provided to Wales, Scotland and Northern Ireland through the Barnett formula.

The TSC has shown considerable interest in Business Rates, as attested by its 2019 enquiry into their impact on businesses. You will be aware of the fundamental review of the system now under way and the work the Treasury is undertaking in this area, most recently with the Interim Report document published as part of the Tax Policy and Consultations update earlier this week.

As ever,

A handwritten signature in black ink, appearing to read 'Jesse', with a stylized, cursive script.

RT HON JESSE NORMAN MP