# PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

## Public Bill Committee

# LOCAL GOVERNMENT FINANCE BILL

*Second Sitting*

*Tuesday 31 January 2017*

*(Afternoon)*

CONTENTS



PBC (Bill 122) 2016 - 2017

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

**not later than**

**Saturday 4 February 2017**

© Parliamentary Copyright House of Commons 2017
*This publication may be reproduced under the terms of the Open Parliament licence, which is published at www.parliament.uk/site-information/copyright/.*

**The Committee consisted of the following Members:**

*Chairs:* † Sir David Amess, Mike Gapes

† Aldous, Peter *(Waveney)* (Con)
† Double, Steve *(St Austell and Newquay)* (Con)
† Doyle-Price, Jackie *(Thurrock)* (Con)
Efford, Clive *(Eltham)* (Lab)
† Foster, Kevin *(Torbay)* (Con)
† Foxcroft, Vicky *(Lewisham, Deptford)* (Lab)
† Hollinrake, Kevin *(Thirsk and Malton)* (Con)
† Jones, Mr Marcus *(Parliamentary Under-Secretary of State for Communities and Local Government)*
† McMahon, Jim *(Oldham West and Royton)* (Lab)
† Mackintosh, David *(Northampton South)* (Con)
Marris, Rob *(Wolverhampton South West)* (Lab)
† Pow, Rebecca *(Taunton Deane)* (Con)
† Thomas, Mr Gareth *(Harrow West)* (Lab/Co-op)
† Tomlinson, Justin *(North Swindon)* (Con)
† Turley, Anna *(Redcar)* (Lab/Co-op)
Warburton, David *(Somerton and Frome)* (Con)

Colin Lee, Katy Stout, *Committee Clerks*

**† attended the Committee**

**Witnesses**

Sean Nolan, Director of Local Government, Chartered Institute of Public Finance and Accountancy

Christian Spence, Head of Business Rates Policy for British Chambers of Commerce and Head of Research and Policy for Greater Manchester Chamber of Commerce;

Dominic Williams, Local Government Chair, Federation of Small Businesses; and

Jo Miller, President, Society of Local Authority Chief Executives and Senior Managers (Solace Group) and Chief Executive, Doncaster Council

James Lowman, Chief Executive, Association of Convenience Stores; and Professor Tony Travers, London School of Economics

# Public Bill Committee

*Tuesday 31 January 2017*

*(Afternoon)*

[SIR DAVID AMESS *in the Chair*]

## Local Government Finance Bill

### Examination of Witnesses

*Sean Nolan, Christian Spence, Dominic Williams and Jo Miller gave evidence.*

2 pm

**The Chair:** We will now hear oral evidence from the Chartered Institute of Public Finance and Accountancy, the British Chambers of Commerce, the Federation of Small Businesses and the Society of Local Authority Chief Executives and Senior Managers. I would like our witnesses to enjoy their hour. Colleagues will be very warm and friendly, but they are here to take evidence from you. Relax and enjoy it. I would like you all to introduce yourselves. I do not want to hear your life history; just say a few words about yourself, starting with Mr Nolan.

***Sean Nolan:*** I am Sean Nolan, director of local government at CIPFA. Behind that is 17 years as a county treasurer and national lead in different roles, on business rates and other bits of local government finance.

***Christian Spence:*** Good afternoon. I am Christian Spence, head of business rates policy for the British Chambers of Commerce and head of research and policy for Greater Manchester Chamber of Commerce. My background is working within the chamber network for about five or six years, and before that, working particularly with Core Cities on amendments to what is now the Localism Act 2011.

***Jo Miller:*** Good afternoon everybody. I am Jo Miller, president of the Society of Local Authority Chief Executives and Senior Managers. In my day job, I am the chief executive of Doncaster Council—a borough of 310,000 people, which is bigger than both places represented this morning, but it does not yet have the title of city. I am also the regional lead for skills in local government.

***Dominic Williams:*** Good afternoon. I am Dominic Williams, the Federation of Small Businesses member in charge of Department for Communities and Local Government policy. As a member, I have a day job: I run a consultancy dealing with regeneration and local government matters. I started my career with the Valuation Office Agency.

**The Chair:** We have only been running these evidence sessions for a few years. We never used to have them; we used to get straight into Bills. Taking evidence enables colleagues who sit on the Committee to be even wiser than they are already when they scrutinise the Bill word for word, line by line. We will go to the Opposition first and then the Government and keep going back and forth until we run out of questions. If it lasts an hour, so be it; if not, we will go on to the next witnesses.

**Q72 Mr Gareth Thomas** (Harrow West) (Lab/Co-op): The Minister painted a picture this morning of a wonderful, revolutionary Bill that is going to galvanise economic growth across the country. I think that is a reasonable assessment of his performance. Do you think there is anything wrong at all with that assessment?

***Sean Nolan:*** On the basis that it is a long-term opportunity, the Bill has some significant risks and challenges in its implementation. The analogy here is horses running in different directions. Bear in mind that business rates do not correlate with service need. In my view, business rates prospects and potential are more an accident of history and geography than anything else. You cannot all live in the capital; you cannot all live atop silicon valley. Because of that, this agenda is actually not just a technical exercise about how to retain 100% of business rates locally—it is fundamentally about how vital local government services are financed.

On my points about the lack of correlation and on prospects being more an accident of history and geography, there are inevitable inherent policy tensions in the agenda. Some areas feel they have good prospects for growth and can grow, and are very much interested in incentives; some areas are trying to cope with post-industrial Britain and are running hard just to stand still, in terms of growth prospects. Those two tensions—between the haves and have nots—pull apart.

In the world of 100% retention, the incentive—which is really important; everyone needs incentives—is to keep growth local, but it is actually the proceeds of growth that will pay for risk and for those less well off. Those inherent tensions pull in opposite directions. My view is that this is not so much good or bad, but that a reality that has to be recognised is how success is measured. I am interested in how the Bill's sponsoring Department will define the success of the agenda, relative to those inherent tensions that pull apart—haves and have nots; incentives versus risk.

**The Chair:** Thank you. Just to say, there is no pressure on all our witnesses to comment on every question.

***Jo Miller:*** In so far as the exam question on the paper might be on business rates, it is a decent response. However, I cannot help but think that we are answering the wrong exam question. I dare to suggest that the real exam question is: in a country that works for everyone, with no one left behind, how do we have the state that we can afford, pay for and need? I venture to suggest that, while retaining business rates goes some way towards localisation, it does not nearly address that question.

Similarly, my area is growing its way out of austerity; we have more jobs and more business stock, albeit from a very low base, and we will continue to prioritise growth. However, I am not sure that the incentivisation of growth in the Bill encourages the right type of jobs—for example, the jobs the Government anticipate in their industrial strategy—not least because business rates is a property-based tax, whereas many of the jobs and businesses of tomorrow will not rely on property to deliver the businesses and jobs that are needed.

***Christian Spence:*** We wholeheartedly support the high-level objective of 100% retention. We agree that, in principle, it is better to create a decision-based model that better aligns local incentives between local authorities and the wider business community. In general, the objective is that local government should, in theory and, hopefully, in practice, be more sensitive to its business community and the opportunities for growth that may be afforded.

However, to echo comments we have already heard, although in principle we wholeheartedly support that high-level objective, we remain concerned about challenges in its delivery—particularly across different economic areas, either because of the different sectors and types of businesses there, or because of long-run examples of those local economies. In principle, it is a very good step in the right direction. In practice, we worry about how some of those things may flow.

***Dominic Williams:*** One of the complications is that there are two separate things going on, both of which are labelled as 100% devolution of business rates. First, there is the devolution of 100% of national business rates income to the local government sector. The sector will then divide that up and give it to local authorities to spend in accordance with their own local priorities. We are fans of devolution and we think that is sensible. The problem is that local authorities have some statutory duties and some discretionary duties, and what has happened over the last few years is that they have cut business-facing discretionary activities in order to fund a shortfall in respect of the statutory obligations, particularly adult social care. In addition to cutting their own expenditure—for example, if you want planning consent for a minor alteration to your building, that becomes much more difficult because planning departments have been cut back—local authorities have increased parking charges dramatically, cracked down on penalties for traffic offences, increased their waste charges and so on. The upshot of all that is that discretionary business-friendly activities have been cut to meet other shortfalls. The important thing to us, perhaps surprisingly, is that local authorities should be properly funded to meet their statutory obligations, and then there would not be such a squeeze on discretionary activities.

**Q73 Mr Thomas:** How would you change the Bill?

***Dominic Williams:*** I do not think it is the Bill that needs changing. Beneath the Bill several technical working groups are going through the detail of what needs to be funded and how it should be funded. We are impressed by the way in which the Local Government Association and DCLG are working together on that. We think that it is being done in a grown-up manner and we hope that the outcome of it will be a sensible settlement that is workable.

**Q74 Peter Aldous** (Waveney) (Con): Mr Thomas has asked the question that I was going to ask. None of you, to a larger or lesser extent, have given the Bill the glowing endorsement that perhaps the Government and Minister were hoping for. What other provisions would you look to put in the Bill to address those concerns? Mr Nolan said that not everywhere is silicon valley. What are we going to do to help those areas that are not silicon valley?

***Sean Nolan:*** I genuinely think this is very challenging. Points were made earlier about economic growth. Actually, some of that growth is not necessarily what you would see in a rates valuation. Some of the micro-industries and broadband developments—that kind of thing—do not reflect well in a technical exercise called retention of business rates. That is my first point. Secondly, and I am deliberate with my language, I do think it is a long-term opportunity, but the inherent tensions I have described are real—whether you have or have not, the management of risk and the management of incentives—and this system has to somehow incorporate that.

On the opportunity side, and I say this as CIPFA—I endorse what has been said about how well the LGA and DCLG have worked together—no one wanted too much absolutely nailed down in the Bill, to give a chance for additional scrutiny—

**Mr Thomas:** Development.

***Sean Nolan:*** Development, sorry. However, looking at the opportunities, a lot depends on how the additional quantum is divvied up and how that transfer of responsibilities comes through. I think that is the opportunity set, to be honest. It deals with two bits. One is about unfunded pressures. Government have a choice there, do they not? They can look at the additional quantum to the extent that it can be part of that solution. Okay, there is a question—the Treasury will never be interested—but they have a choice. The second bit is, within that transfer of responsibilities, what is the opportunity for genuinely giving every part of the country access to agendas that they can better influence—work and skills—rather than it just becoming a technical accountancy exercise of swapping over other existing grants for the quantum? I am trying to deal with the positives, but we all need to recognise that this will end up funding local government and not just economic development, so it has to manage those inherent tensions in a grown-up way.

**The Chair:** Did anyone else want to comment? If not, I call Mr McMahon.

**Q75 Jim McMahon** (Oldham West and Royton) (Lab): There is a tension here between business and public service in respect of the role of business rates. Businesses do not like rates, because they have to pay them whether they make money or not. Governments tend to like rates, because rates are property-based and the Government can know where to knock on doors. I have two separate questions. The first is to business: is there an alternative to business rates that takes into account the new world of commerce and how businesses make money and are taxed? The second is to local authorities: would you welcome it if the types of powers that are offered to combined authorities and Mayors were given to all billing authorities?

***Christian Spence:*** I will start on that complex question. You are right that there is a natural tension between the business community and local authorities with respect to paying business rates. One of the opportunities that the Bill may offer is to look at trying to repair some of the disconnect that there has historically been between the payer and the recipient and spender of the funds. As for how you repair that, the Bill goes some way towards starting to advance and better connect the opportunities for businesses to further contribute, through the business rate system, to schemes and economic development opportunities of strategic importance in their area—either through the business rate supplement or through the proposed mayoral infrastructure levy.

There are some challenges. From the business side, the one thing that we must see is a way to ensure that there are sufficient democratic checks. In the fiscal climate, across all local authorities, there is a fear from business that it could very easily be seen as an easy cash cow to fill funding gaps that are being determined not through the Bill but through wider Government fiscal policy.

There are undoubtedly opportunities for better engagement, for building those relationships and for allowing those two sides of the coin—the businesses and the local authorities—to start to understand each other a little more. But I think that there are two separate issues: the Bill itself, how it deals with the relationship with business and the financing of business rates in a world of devolution and retention; and, separately, the core funding of local authorities through the supplement.

***Dominic Williams:*** In autumn 2015, I think it was, the Treasury asked for submissions on the future of business rates and turned its face against major reform. The reality is that it is highly unlikely that a Government would suddenly give up more than £25 billion a year of certain revenue, particularly given what happened to poll tax. So I think dramatic reform is unlikely, but we may see business rates gradually becoming a smaller proportion of Government taxation. The move from RPI to CPI, which the Bill paves the way for, is likely to be a helpful step on that road.

**The Chair:** I think Ms Miller wants to answer the second question.

***Jo Miller:*** The second question from Mr McMahon was whether the proposals in the Bill should be extended beyond mayoral and combined authorities in London to all local authorities, and the answer is yes. It seems to me that the more we enshrine a two-tier system, where one lot of people can have more and another cannot, the more we put inequality in place and prevent economies from being productive and growing. That said, I am clear in my day job that it must be arm in arm with business. We have a fantastic chamber of commerce and we have prioritised services to business, precisely in order to grow the economy, grow the business rate, grow skills and re-enable people to participate in the economy, so that they cost the public sector less. But we should not be in any doubt that simply saying "This type of local authority can have these powers to enable growth and this type cannot" is as regressive as council tax, if I may say so.

**Q76 Jim McMahon:** Perhaps my question was too narrow. For instance, I might have expected some contributions to make a bid for the retention of other taxes and duties that are raised at a local level, such as stamp duty, fuel duties, air passenger duties, as a way of having a broader tax base from which to generate income for public services.

***Jo Miller:*** Where local authorities, with businesses, can demonstrate that there is a win-win, they should have the power to do so. We are in the most centralised state in Europe. Let me give another example from my day job—forgive me if I talk in examples, but it is what works for me. We put together a road scheme that was initially heralded as costing the taxpayer £110 million, when we had to follow guidelines from the Department for Transport. In fact, we worked out that it could cost £56 million: £18 million came from Government, and the rest was raised through local taxation and through business. It unlocked 10,000 jobs, 10,000 houses and £1.7 billion of private sector investment, equating to 3% of GVA in the region. That is the type of thing that good local authorities can do, working hand in hand with business, so we should grab with both hands any opportunity to make that work on a greater level.

**Q77 Kevin Hollinrake** (Thirsk and Malton) (Con): To touch on distribution, which has been referred to a couple of times, the key now is how this pot of extra money is distributed. There seem to be some real disparities in the system at the moment; unfairnesses, I would call them. I will give a few examples at random. Harrow, for example, gets £80 more per head in spending power than North Yorkshire, despite the fact that Harrow has a wealthier, younger population. There does not seem to be any correlation between the spending power of local authorities and the need in those local authority areas.

**Mr Thomas:** Perhaps it is the quality of representation, Sir David.

**Kevin Hollinrake:** I would go for a different explanation, but what is your feeling?

***Sean Nolan:*** Underneath the detail is a commitment by the Government to undertake what they are calling a fair funding review. That is implicit in this kind of development. In fact, interestingly, we talk about 100% retention from day one, but actually it will be preceded on day zero, so to speak—the day before—by a redistribution, in theory, of resources around the country and between councils, because the Government have committed to doing a fair funding review of need. In a sense, I cannot comment particularly on the rights and wrongs of an historical position; all I can say is that where we are now is a reflection of judgments made in the past about the right kind of formula and what is meant by need. It has been frozen for a number of years, but that is its history.

The Government—and, I suppose, Parliament—have an opportunity to eventually look at what will be, in their timetable, a complete review of needs. You have picked up on a crucial point, if I may say so, Mr Hollinrake, because that will be happening, effectively, the day before a new scheme and it will move money around. Their argument, and it is one we would clearly like to support, although the devil will be in the detail, will be that that will set a fairer base. In my experience, fairness is in the eye of the beholder, but that will be their argument.

**Q78 Kevin Hollinrake:** What you allude to is that there will be winners and losers—it is a zero-sum game. How do we cope with that? Most people will recognise that the system is unfair. How do we move to a fairer system without those people who are going to lose out being particularly concerned about it?

***Sean Nolan:*** This is a technical point, but genuinely, fairness is subjective, not absolute, so one of the preconditions to make people feel it is fair is the quality of the consultation about the factors and the indicators. Clearly, that will be an important part of the process. The second bit about coping is about having early notice of the impact so you have a chance to plan. With all due respect, that is a political challenge, because essentially you are showing your hand early about distributional impacts, but from my experience that leadership is really important, because you give individual authorities the opportunity to understand why there is change and then begin to cope. The third element about coping concerns the transitional arrangements that the Government want to put in place. Those three conditions are quite important, but bear in mind that fairness is subjective: in my experience, losers do not think it is fair.

***Jo Miller:*** What matters is a focus on "fair" rather than "equal", because if everybody gets something that is equal, it does not necessarily mean that it is fair, and we have sometimes lost needs from the equation. At the same time, it is absolutely right that the Government incentivise those who are trying hardest to make their economies more productive. The Government must find a balance, in all those arrangements that Sean has referred to, between incentivising growth and addressing the fact that some places have an inherent structural deficit that means they will not be able to cope. It is right that we make sure the system works for everyone. It is a big challenge.

**Q79 Kevin Hollinrake:** Would you accept that, despite the fact that it might take time to get to a final position—there will be a transitory period—the formula should be based on cost drivers, not on what has gone before?

***Jo Miller:*** Yes.

**Q80 Anna Turley** (Redcar) (Lab/Co-op): Staying on the point about fairness and distribution, can you elaborate on what you think could be the characteristics of potential losers? Ms Miller, you mentioned structural deficit. As we work through the next couple of years on the detail of this, what are the demographic and economic characteristics you think we should be looking out for, as we try to balance some of the challenges to be faced? Do you think there is a commitment within the local government family to work collectively and collaboratively on this, or do you think we will see tension around competition and people wanting to put their local authority before the greater good, perhaps?

***Sean Nolan:*** You start off.

***Jo Miller:*** We are going to do a double act, if that is okay. First, I think you asked us what the characteristics of good look like. For me, that starts with: what is the essence of our contract with the British people? What do they have a right to expect from the state and what can the state expect from them? I believe we live in a something for something society, in that sense; therefore, what does that mean about the state of the state? How do we recognise, for example, that in the part of the world where I work, people live less long than in some other places, but in their last 10 years they live in very poor health? Yet we have a public health grant that is currently based on how long people live, not the essence of their health. How can we use these systems to take away some of the things at the moment that do not recognise that kind of fairness and equality, which need to be built in? I am pleased that we can incentivise growth, but the challenge is to make sure that we can incentivise all sorts of growth, not just those that relate to property or particular industries. That is a challenge that I cannot see being met by the Bill at the moment.

I suppose there has to be a baseline for everybody. We should encourage and incentivise growth and we should take business with us. In terms of that, will we collaborate? I do not know whether devolution has showed us in our best light in that regard. From a skills point of view, I can guarantee that the country can spend the money it is spending better, and get better outcomes. I do not think it is a good use of people's time to be having the conversation about what good looks like 15 or 24 times over, when we could have it far less than that. It is a challenge to the sector and the Government should hold us to it, because if we start just with "I'm all right, Jack", we will have more of the extreme events that we are having at the moment visited upon us.

***Sean Nolan:*** If I can interpret the question about the formula review and needs, it is very difficult to look ahead and describe what the characteristics will be. Professionally and personally, I think this is an opportunity to look at cost drivers and a different way of viewing the formula. In an open way, what are the cost drivers? An important point is that, because this is a zero-sum game, because it is looking, on day zero, at how you re-divide the current cake, you are talking about winners and losers. More importantly, though, you are talking about relative need, so it is not an absolute statement. It is important to have real openness about what those indicators are and a real opportunity for the whole country to engage in whether it is the right set of indicators, so there is a sense of building consensus about what is meant by "fair". This is just about the formula itself. On your second point, because it is a zero-sum game with winners and losers, you will inevitably have split personalities all the time. It may sound a bit foolish to say, but in my experience, people can contribute an argument to the greater good, but the following day, they live in a metropolitan, county, district or London situation, and they are thinking, "How does this work for London?"

Ultimately, I think the sector and the system will just have to recognise that when it gets to the moment when all the formulae have been churned, all the exercise of consultation has been done and it comes out with a result, that will shift money significantly, even with transition. It does not matter how good the consultation will be; you will get lots of cries of "Foul"; that is inevitable. You just need to cope with that, look back and think, "How well have we actually conducted the consultation? Can we actually defend our thought processes?"

**The Chair:** We are halfway through the time allotted for this session.

**Q81 Steve Double** (St Austell and Newquay) (Con): I know from my term as a local councillor that often, the relationship between elected members in particular and the business community can be quite strained and not always the best. Often, that is because many members have little experience of business. I am interested in your reflections on one thing that I see as a potential benefit of the Bill: strengthening that link between the council and the local business community. It is very much a two-way thing: the council needs to understand the local business community much more, and the business community will see a direct link between the rates that it pays and the benefit of the local community. I am interested in your reflections on that. Do you see that in the same way?

***Dominic Williams:*** First, on the incentive in the system to encourage growth—allowing local authorities to keep 100% of additional business rates generated—our view is that that is not really an effective incentive, for a number of reasons. First, it only applies to the development of new physical property. It is an incentive to permit more development; it is not necessarily an incentive to look after your existing business community. Secondly, throughout much of the country, particularly over the last few years, there has been very little development, so it has been a questionable incentive.

Thirdly, where there has been development, it has tended to be out-of-town shopping centres. The way that the system has worked since the last reform has given local authorities an incentive to give consent to out-of-town shopping centres, which take away trade from the existing town centre. The local authority does not suffer from that, because the people in the town centre carry on paying business rates as normal. That does not get sorted out until you have a revaluation. A number of our members in retail have suffered dreadfully over the last few years through that kind of thing. There are lots of other things wrong with the high street, but that is a contributing factor.

So I do not think that that little incentive works, except in enterprise zones, where it has galvanised everyone. What I think is more important is that if local authorities are correctly funded to do what they are meant to do, they will be supportive of business. If they are underfunded—I do not blame them for this—they have to put the money towards their statutory obligations and cut back on some of their discretionary activities.

I think that there is also a wider question about what happens to activities that are now funded through ERDF European funding. Will they continue to be funded post-2020? If so, who will be responsible for delivering them? It could be that local authorities get that responsibility and get a matching amount in business rates to do it, or it could be done in some other way. We do not know at the moment. There is still a lot to be decided about how this all works.

**Q82 Steve Double:** I take your point about growth and development. I was more touching on the direct link and the fact that, at the moment, my local business community pay their business rates to central Government. There is no direct connection between them and their local council in how that money is spent, whereas if the Bill comes into force, there will be a direct connection, and the business community will see that they are directly funding the operation of the council. That was more what I was touching on. I take your point about future growth, but I see the current strengthening of that direct relationship.

***Sean Nolan:*** That it includes the kind of richness of the conversation between a local council and its local businesses is undoubtedly part of the positive benefit. It feels like trying to do that is an agenda for every council up and down the country.

The caveat we need to bear in mind—I am afraid this is part of the complexity of what will now have to happen—is that it is not a one-to-one relationship. Because of the existence of top-up and tariffs, what businesses pay may not necessarily go to their local authority and may go elsewhere. That makes managing expectations in the conversation a bit more complicated. However, in theory it definitely adds to the benefit of the conversation, although the one-to-one relationship you describe is a bit confused by the top-up and tariffs.

***Christian Spence:*** The 100% retention on its own has the potential to open up a greater and more transparent conversation between business and local authorities about where the money goes and how it is spent. You are right that most businesses perceive that business rates vanish into a black hole—they have no idea where it goes. However, the 100% retention aspect of this Bill alone will not deal with that. It can enable a better conversation between local authorities and local businesses, but there will be a lot of work to do to develop that aspect.

There is an opportunity in a later aspect of the Bill for greater involvement involving the widening of the bid arrangements to property owners, the Business Rate Supplements Act 2009 becoming applicable to mayoral combined authorities, and specifically the new idea of a mayoral infrastructure levy that is available to those bodies. There is an opportunity in those measures for a direct, two-way, open and honest relationship between the BID and/or the local authority on one side and business on the other, or between the mayor and the greater visibility of local government, which we should see following from 5 May onwards.

That transparency and openness are welcome. The view of businesses across the country is that if local authorities are looking to increase spending or even to levy specifically for additional strategic projects in their areas, business is not necessarily unwilling to pay—the existence of more than 200 BIDs in the country is tacit evidence that that is the case. We are pleased to see the consultation aspect of mayoral infrastructure levies move on from a majority vote of the local enterprise partnership to a wider consultation—that is in the spirit of moving things in the direction that we would like. However, the challenge in the Bill from our point of view is that it stops short of a ratepayer vote against the levy and simultaneously brings forward the wider participation of BIDs to owner-occupiers, and of business rate supplements to combined authorities, which means that the Bill is confusing its own purpose directly in two ways. We are very happy to lay on the table the opportunity for the mayor of a combined authority to levy a tuppence supplement in business rates under the 2009 Act, and to be forced to ballot local businesses to ensure buy-in and support, but, under the mayoral infrastructure levy it can deliver that same tuppence levy without a ballot of the members of the business community. If we are not careful, we will introduce a perverse incentive. Where there are opportunities to increase that engagement and build those relationships, one aspect of the Bill will damage that rather than move it forward.

**Q83 Mr Thomas:** One suggestion we have heard is that the needs assessment process should be conducted independently of Government. I wondered where the panel stands on that question.

***Sean Nolan:*** Can I play back to the Committee some reflections from when I was involved in policing recently as a treasurer in that world? You will remember that the Home Office went through quite a challenging exercise, looking at new formulae for allocating policing, which ran into some difficulties. One of the bits of feedback that professionally a number of us put in on lessons learned is that the needs bit—the conversation we are having—is about complex statistical modelling. As well as having confidence in the actual indicators in a conversation with the sector, you also need to have confidence in the choice of statistical technique. I therefore think that it is not so much about having an independent element outside of the system. What would be really helpful would be if DCLG read across from elsewhere and brought into the process an independent element, perhaps advising in real time on the choices of statistical techniques, and some kind of independent validation of procedure. I have to say that that would be a confidence-building part of building consensus around what is fair.

***Jo Miller:*** I thought Mr Nolan put it beautifully.

**Q84 Mr Thomas:** As I understand it, the Bill will be fiscally neutral, so in order to get the £12.8 billion of additional business rates income, local authorities will have to do more. Where do you think that will lead? I appreciate that there is still a conversation going on between the LGA and the Department but, as I understand it, they are some way apart in the discussion on responsibilities. Can you give us a sense of the flavour of where you think the extra responsibilities will fall? What do you think the impact on your budgets will be from the end of at least the better care fund, the public health grant, the rural services delivery grant and some other funds? The consultation document from last year strongly hinted at those being ended.

***Jo Miller:*** The gap in public service funding is well documented. I think the LGA talked to you about £5.8 billion by 2020 and £2.6 billion in social care today. I go back to the point about the amount of money that Government and the people want to spend. There is still no doubt in my mind that we can spend money better by joining things up at a local level. For example, the answer in social care is not just more money, but how well that money is spent and how well the system comes together to spend that money as effectively as possible. The same goes for the criminal justice system and children and families. I encourage Government to look at the totality of money that is spent across the piece. I mentioned skills as another matter where we have to look at how we get better bangs for our buck. While money continues to come down departmental pipelines, we are missing a trick.

**Q85 Rebecca Pow** (Taunton Deane) (Con): This is more of a general question that I would like to put to Mr Spence first. The Bill is all about encouraging growth and generating more business rates, which will hopefully then enable us to pay for more services. Would you say that the way in which that has been handled until now has potentially hampered growth, and do you see the Bill changing it? Some tools in the Bill are supposed to help—pooling, the infrastructure levy and things like that. Mr Spence, would you say that that was going to happen through the Bill?

***Christian Spence:*** The Bill opens up some opportunities where it might happen, and in a moment I will come to why I think there are some problems. On the first part of the question and whether the business rates system today as it stands hampered growth, the answer is clearly yes, it has. The nature of the economy over the past 10 years or more has changed significantly. Usage of physical space is less important to the economy today than it was a decade ago, and we would expect to see that change continue over the coming decades and beyond.

The business rates system is still locked around its old-fashioned way of looking at a predominantly manufacturing and machinery-led economy. The inclusion of plant and machinery within the valuation system not only acts as a detriment to investment and causes perverse incentives directly to businesses as to whether to invest, but is administratively complex and procedurally onerous. As one of the largest revenues for a property tax in the world, it sets us outside our international competition very significantly in terms of how we manage commercial revenue.

Does the Bill move us closer? It has the potential to do so, but to echo some comments from Mr Williams earlier, the challenge is that, by allowing 100% retention—I spoke earlier about why we support that as a high level principle to better connect the incentives through local authorities and business—the Bill has at its heart real challenges. It is still fundamentally property based. To go to Mr McMahon's question earlier, we do not see any reason why you would particularly want to move away from that system for well-versed economic reasons, but the challenge is that local authorities are going to grow their revenue only by introducing new floor space developments. We hugely welcome the changes in business rates policy to lift 100% relief to rateable value of £15,000 and above, but it means that properties with less than that rateable value do not add any net cash to local authority business rate receipts.

The challenge is that you are incentivising local authorities to grow their business rates revenue, which can have a perverse incentive, as Mr Williams mentioned—are you looking after your existing business base and helping it to grow, because incremental growth of most businesses is unlikely to deliver significant expansion of rateable value properties that can be levied for rates? If you are focusing exclusively on new premises of a high rateable value, the question for a lot of authorities will be: "Is there physically the land available to deliver significant growth in those areas?"

**Q86 Rebecca Pow:** Forgive me for interrupting, but what were your views about pooling? There are some good tools in the Bill for amalgamation of bigger areas to give incentivised or different business rates to encourage more economic growth in a wider area.

***Christian Spence:*** The views representing a national organisation would vary hugely by geography across the UK and the nature of those economies. In general, yes, the pooling opportunities theoretically give greater flexibility in how those tools can be delivered, but that comes back to earlier questions about the ability of local authorities to collaborate at a time of intense pressure to each one of them individually.

In my area in the Greater Manchester chamber, we have an under-banded city centre authority and more open land on the outside. Pooling arrangements might help to spread some of that, but it is going to be hugely predicated on the ability of individual authorities to come together and share those opportunities. The difficulty of genuine, real-terms revenue growth under this system is not clear to us at this stage.

**Q87 Jim McMahon:** Just to reflect some of the debate, is there a conflict in that there are different measurements of success when we talk about growth? There is net jobs and the number of people in employment; equality, or the amount of income people can get in different types of jobs; and there is square footage—building big sheds to generate large business rates, so why not? Is it not far better to have a more rounded system of taxation and incentives so that local areas can determine for themselves what type of rounded economy they need, without being driven down one particular route depending on the flavour of the Government of the day? What I hear form businesses is that they need a long-term plan, strong local leadership and long-term certainty. It strikes me that business has not had that for quite a long time.

***Christian Spence:*** I would certainly agree with your last point. We have not tested specifically with the national membership exactly how local government taxation works, the different tools they may or may not have at their disposal in future, or any one of those other individual points. To lift it to a higher level, I agree broadly with what you say. Business is looking for a long-term stability in the system so that it can plan for its own success as well as the success of the wider community on which it is so dependent. It wants a long-term, fruitful and strategic relationship with government in its area, locally and nationally, about how to support its own growth and how to deliver skills. You talk about generating revenue through large RV sheds on the outskirts of towns. That is right, but there is often a natural tension between local government strategic plans and the draft Green Paper on industrial strategy about whether they are generating the jobs the country would like to generate.

We have no specific answer on the detail, but business is pragmatic enough to say: "If you can deliver a solution which works in our area, both for an individual business and the wider community, we will be open to those discussions."

***Sean Nolan:*** The skills agenda seems to be a great bridge between what a local authority can do and business needs. That plays into an opportunity in how new responsibilities are played out. On Mr Thomas's question, the examples you quoted—RSG and public health—are relatively neutral because they are existing grants that will be funded from the quantum. I guess the real game is the new responsibilities that will be passed over with which local authorities can influence skills for the better. The skills agenda is definitely a bridge into the business agenda.

***Jo Miller:*** The answer to the question about whether there is a more rounded way to incentivise growth and deliveries is undoubtedly yes. It seems to me that growth is a number of issues: growing your business, starting to grow the jobs in it, and having more and better jobs. It is also about the ability of people to participate in the economy. That could be through jobs or through not costing the state money by, for example, being a carer. The challenge—I tend to think of it as profit and loss rather than as just one way—is to have a taxation system that encourages growth but that helps people to cost less money. Looking at a place enables us to do that.

The challenge for us with business rates and with what is now, ultimately, a regressive system in council tax—the council tax raised per person in Doncaster is £300, whereas in Richmond upon Thames it is £900—is that there is a better way to fund what local people expect from services than through a combination of business rates and a system that relies on 26-year-old property values, particularly in the context of businesses changing in a digital economy that will not always be property based.

**Q88 Justin Tomlinson** (North Swindon) (Con): This is a question for Mr Spence. In the briefing that you provided to us, you said:

> "We also believe that there should be a maximum amount a billing authority can raise its multiplier, alongside the maximum reduction limit per year."

Could you expand on that, please?

***Christian Spence:*** Certainly. This is about the provision in the Bill whereby local authorities will have the power, within limits set by regulation of the Secretary of State, to lower the multiplier in their area. Again, for all the reasons we have already discussed, there are potential incentives to local authorities and businesses in doing so. Broadly, there is a challenge regarding how much that power would be used within the current fiscal conditions that local authorities see. However, although we see in the Bill that the power to raise rates at the national multiplier level will remain set by the Department and the Government centrally—the national multiplier will rise by its new indexation from 2010—local authorities appear, as the legislation now stands, to be able to lower their multiplier in any one year and do so again the following year.

If a local authority were, for example, to lower its multiplier to tuppence below the national multiplier in year one, over three or five years the national multiplier might continue to rise and we would have a position in which that local authority's multiplier could be 10p different from the national one. As we see the Bill now, there is no reason why that local authority could not reclaim all of that 10p difference overnight in one fiscal year. If there are limits, capped nationally, by which the rate that the national multiplier can rise from one fiscal year to the next, it would seem perfectly reasonable that local authorities should also be capped regarding how much, when recovering from a previous rate, they can raise theirs from one year to the next.

**Q89 The Parliamentary Under-Secretary of State for Communities and Local Government (Mr Marcus Jones):** Mr Spence just made an interesting point regarding the way in which the multiplier may be increased at the point when a particular authority decides to change that policy of having a reduced multiplier. By definition, I take it you are, therefore, against local authorities having the ability to increase the multiplier, as has been suggested by some people.

***Christian Spence:*** There is no real consensus across the entire chamber network about the rate and about how those work in individual local authorities. You can see examples in situations such as business improvement districts. There is potentially a very good example, if we can agree and move the Bill to a position where there is a ballot on mayoral infrastructure levies. Business might be happy to see increases in levy provided that the reasons given are clear, that it is a strategic scheme, that it is additional to that which has already been committed, and that businesses have been openly and genuinely engaged, consulted and balloted on whether that can take place.

The specific question for us is this: do we want a position where national Government are capping the national multiplier to CPI but local authorities retain an ability to raise their own multiplier by a rate greater if they have chosen to deviate from the national multiplier in earlier years?

**Q90 Jim McMahon:** Is there not a slight tension with that approach? Areas with historically low tax bases have to charge more council tax per property just to generate the same total. We could find ourselves in the same situation with a business rate base—local areas could be forced to increase it dramatically just to keep their heads above water. Although I am not always in favour of a national cap, I think there might be a call for it, so that the gap does not widen and so that there are proper top-ups and tariffs in place. Do you not accept that businesses can thrive only if local areas thrive? Businesses do not sit in isolation.

***Christian Spence:*** I absolutely agree with that point. A fundamental principle is that business can never exist in its own cocoon—it is dependent and co-dependent within its wider community. The challenge for us is a very narrow point in the Bill. If a local authority chooses to lower its rate, that is its decision, and it must fund that gap on its own. I would hope we could develop a system in which a local authority is not subsidised for deciding to lower its multiplier by any redistribution. That would essentially pull at a natural tension and create perverse incentives. If a local authority does not need more money and has chosen to cut, the understanding should be that the onus is on the local authority. Yes, that may need to rise, and our fear is how we control that rise. The fear is that, in an extreme situation, we might see a 10p rise in one year.

**Q91 Jim McMahon:** But it is more likely that a local authority will be increasing or decreasing the business rate base as part of an economic assessment of growth. It is not going to do it in isolation simply in cash terms. You could see a situation, for example, where town centres have been massively hit by office relocations to out-of-town centres and out-of-town parks—we perhaps see the same with retail. If the powers were extended to a building authority to raise and to lower, you could easily see a council looking to reduce business rates in a town centre for office accommodation for retail, and creating a levy on out-of-town retail parks and office blocks as a way of making that a neutral exercise.

***Christian Spence:*** Absolutely so, but for us it is about the profiling of those changes and ensuring that we protect against any very sudden and very large one-off rise, essentially to rectify a disparity that has grown over time.

**The Chair:** The last very brief question goes to Mr Aldous.

**Q92 Peter Aldous:** I have two questions, one directed to the private sector and one to the public sector. Mr Spence averred that this form of business taxation would be different from anywhere else in the world. At this time when we need to be looking outwards, does he think that that gives us a cutting edge for the country's businesses? My other question is to Ms Miller and Mr Nolan. Just looking at the central list and how that is to be governed, I have in mind power stations. If you have an existing power station and it is decommissioned, you are going to be facing a lot of costs. If you have a new power station—

**The Chair:** Witnesses, there is just one minute left.

***Christian Spence:*** I will return very briefly to Mr Aldous's first question. The challenge for the UK system is that we have inherited a system where commercial property rates are significantly higher than those of our international competitors. We understand that that cannot be changed overnight but, within a wider global strategy of Britain wanting to seek greater international competition, we firmly believe—our members would back us heavily—that we should look at the overall levy raised by business rates.

***Sean Nolan:*** The second question plays into the heart of how you judge the stability of the system. It is a proper question to the Minister and his officials down the line: in that scenario, how would it work? I would contend that a really important test is what I call stress testing—not just whether this works on day one, but a series of scenarios over time. Would this survive stress testing?

**The Chair:** Order. That unfortunately brings us to the end of the time allocated for this session. On behalf of the Committee, I thank the witnesses for the detailed responses they gave to colleagues' questions. Thank you very much indeed for your time.

**Examination of Witnesses**

*James Lowman and Professor Tony Travers gave evidence.*

3.1 pm

**The Chair:** We will now hear oral evidence from the Association of Convenience Stores, and from Professor Tony Travers from the London School of Economics. I would like you both to introduce yourselves.

***James Lowman:*** I am chief executive of the Association of Convenience Stores, who represent the 50,000 stores in the convenience stores sector.

***Professor Tony Travers:*** I have spent a number of years at the London School of Economics studying the local government finance system in its many forms and iterations.

**The Chair:** Mr Travers is familiar with our proceedings, but for Mr Lowman's benefit, do enjoy the session. Colleagues are just trying to gather information when they start the detailed scrutiny of the Bill and we will go from side to side for questioning. We have 45 minutes.

**Q93 Mr Thomas:** What is wrong with the Bill, in your view? Obviously, the Minister thinks it is wonderful, but no doubt you will be slightly sceptical about whether that viewpoint is completely accurate.

***James Lowman:*** From a business point of view, we support the Bill. Our concerns are about the notion of giving councils the opportunity to reduce the multiplier. We support that, but how realistic is it that the powers will be used and applied? That is partly because of issues with local government funding that you will know about much better than I do.

From our perspective, the Government have already introduced powers for local authorities to give discretionary rate relief for whatever reason they like. That can be used to support high streets, or particular sectors or areas. That is very under-used—it is being used by about 12% of councils at the moment—which makes us sceptical about the likelihood of councils using the powers in the Bill to reduce the business rates burden, given the pressures we all know they are under. Against that, while there are many good checks and balances against the introduction of increases in business rates and levies, there is a concern to ensure that powers in the Bill are not pushed as far as they can to try to increase business rates revenues. That would be our summary position.

***Professor Tony Travers:*** In that the Bill carries on the work started by 50% business rate retention back in 2011—and even going back to the previous Labour Government, when they had the local authority business growth incentive scheme—those things are both rational in moving towards a system where local authorities at least have some chance of retaining the uplift in any growth in the tax base they generate. That makes sense, in my view. What is wrong is what is often wrong in UK—or, in this case, English—systems of local government finance. Although this looks like a move to a system where councils are completely dependent on council tax and business rates, in truth there are still many ways in which the Government of the day can intervene, making the actual business of running local government not as predictable as would be the case if it was a purely locally funded system of local government finance.

**Q94 David Mackintosh** (Northampton South) (Con): This is a question for Mr Lowman. On Second Reading I agreed with the point made by your organisation that there is a potential for local authorities to try to increase business rate revenues by signing off larger planning applications for developments at the cost of small businesses. How can that be mitigated?

***James Lowman:*** That is a concern regarding having a greater incentive to bring in large chunks of business rates through large developments, which was touched on in the previous session. There is a danger in our sector if a big out-of-town supermarket application is granted because of the effect it will have on the high street, other surrounding neighbourhood retailers and so on. In the grocery market, that is less common than it was a few years ago. None the less, it is true that out-of-town developments can harm high streets. The temptation to grant those applications concerns us because that may lead to a large slug of business rates coming up in the first instance but, over time, business rates income will diminish as those town centre and high street businesses come under pressure—of course, there are other effects.

The most effective way of mitigating that would be to have a long reset period. We have suggested 10 years, but some people have suggested longer. The reason is that the impact of those big developments can be felt more fully across that longer reset period. If you have a short reset period, you may see the upside of the development without the downside of the closures and other consequences. That long reset period would be one way of reducing that temptation for authorities.

**Q95 Jim McMahon:** Mr Lowman, your members provide a very important community service. Do they feel they are on a level playing field with the large supermarkets?

***James Lowman:*** In respect of business rates?

**Jim McMahon:** General taxation, of which business rates are part.

***James Lowman:*** They do not. They feel there are a number of ways in which they are under particular pressure—that is the system. Supermarkets do much of their trade through online delivery, which is a very efficient system in terms of business rates. It is arguable whether it is an efficient system from a business point of view—not many companies make a lot of money from their online operations—but it is a very effective system in terms of business rates because the places where those businesses distribute from have relatively low land values. They are out of town and in unattractive places, but it doesn’t matter whether people can get to them. What matters is how quickly they can link to road networks and other ways to get the product out to their customers. By contrast, convenience stores and all sorts of local shops are bricks-and-mortar retailers. Some of our members do various things online—parts of their business—but fundamentally we are bricks-and-mortar businesses. Where business rates increase, all our sector is hit.

There are things the Government have done to support small businesses. The increase in the 100% rate relief up to £12,000 rateable value is very welcome, but many businesses fall outside of it. As you know, business rates are calculated on the basis of notional rental value, so it varies case by case, but essentially, businesses in prime areas, or even strong secondary high street businesses of probably more than 1,000 square feet—decent-sized stores—are still likely to be paying business rates. Therefore, with annual increases in business rates, some have been hit by revaluation badly, some better, but those small stores on high streets are still paying proportionately much more per square foot or square metre than big out-of-town stores. Yes, we are damaged by the business rates system.

**Q96 Jim McMahon:** A view has been expressed in different places that, because many convenience stores are family-owned businesses—they might have a brand, but they are essentially family-owned businesses—cash flow is tied and the time taken deal with appeals can have a serious impact on the viability of many of them. One suggestion was a differential, backdating element, whereby convenience stores have a longer period to backdate if they are successful in their appeal—they might need it for cash flow—while backdating for supermarkets potentially should not be as generous. Is that something you have discussed within your industry or with your members?

***James Lowman:*** Yes. The business rates appeals system is a concern to us. The system is clogged up; it takes a very long time to resolve appeals. We are in discussions with the Government about the degree to which our members will be able to appeal and about the reasonable professional judgment of what constitutes a wrong valuation. I am not sure in terms of the appeals whether this is about us versus supermarkets or other businesses. The appeals system needs to be more effective, more efficient and fairer for businesses that have been misvalued and overvalued.

**Q97 Jim McMahon:** Professor Travers, you are widely regarded as a leading expert in your field—rightly, in my view. We spoke to the Minister earlier about the pressure of adult social care and asked whether he agreed with people in the industry that it was in crisis in terms of its funding. What is your professional assessment of social care funding?

***Professor Tony Travers:*** There is no doubt—it is an objective, visible reality if we still have them—that local government spending has been held down more than the average of UK public expenditure. Within that total, local authorities have broadly protected real spending on children's and adults' social care in cash terms but not in real terms. Clearly that item of public expenditure has been squeezed in real terms at a time when numbers are increasing.

Having said that, how the new system operates and the total of local government spending are, in theory, unrelated. Of course, in practice, coming back to the point I made earlier, in the end in this new system the Government will still, in reality, control the total of local government spending. They have to do that because local government is a component of total managed expenditure in the UK. In a sense, moving to this new system of 100% business rate retention gives rise to an interesting question of whether local government spending in total—on aggregate, nationally, in England—could ever escape a cap set on it at the national level, even if individual authorities could build up their tax base in order to gain more income. That is an unanswered question in the system.

**Q98 Jim McMahon:** Has any research been undertaken to assess what the impact might be? If there is limited growth in the tax base for business rates and council tax within the total, but the demand for services is outstripping that available resource, is there any assessment of what that gap could be?

***Professor Tony Travers:*** Over time, the amount of growth in the business rate base is clearly unpredictable, both at an individual authority and in total—the total will depend to some extent on the strength of the UK economy. As for the amount produced, I cannot give you an answer, in the sense that the Government would have to decide, particularly at the point of resets, which were mentioned earlier, whether they were going to ensure that local government spending always fitted back to the number that central Government had first thought of.

It is not unique: moving forward, this is the way the system operates now. So in a sense we are not truly moving forward here to a system where local government is free to determine the overall total of its income, partly because of all the new responsibilities transferred to it in the short term. In the long term, we must assume that tariffs and top-ups, which were discussed earlier, will be adjusted to the point that local government spending over time cannot significantly exceed the total first thought of so that it fits within total managed expenditure and therefore public spending planning purposes.

**Q99 Kevin Hollinrake:** Mr Lowman, how comfortable are your members with things like business rate supplements and infrastructure supplements?

***James Lowman:*** There is concern. Half our members' trade comes from within a quarter of a mile of their store—they are the local shop. Our reach into communities is pretty much unparalleled in any business sector. One thing that concerns them from that perspective is that large infrastructure projects may not be that relevant to them. New motorway links, new transport or major new developments will be less relevant to their particular trading position.

They are concerned about mechanisms for increasing their overall business rates bill. They broadly support the business improvement district model and the opportunity to have a very specific programme and proposal on which they can vote, and which needs an endorsement of business rates value from the majority of premises. That seems like a good double lock on ensuring that things that come through in business improvement districts are relevant to them.

We would encourage a similar sort of level of consultation without being very specific about what is being proposed. We are concerned about consultation. It is perhaps damning our own sector, but it is not routinely engaged with local authorities, local chambers of commerce or other local bodies. Perhaps they should be, but it is a fact that they generally are not engaged day to day. We are concerned about reaching those businesses in order to consult them. The relevance, the location and the mechanism of consultation is a concern, but it has been taken on in some of the checks and balances in the Bill.

**Q100 Mr Thomas:** Let us imagine that you are the ruthless, hard-nosed treasurer of a council that sees this Bill coming into force. Presumably, you are going to want to try to negotiate a very low top-up, assuming that you are a reasonably well-off area in terms of finance and land. Presumably, you are not going to look at small businesses. You are going to rush, as much as you can, to encourage the Amazon-style warehouse or JD Sports kind of warehouse. Surely that is the only incentive that is wise in the Bill in terms of business rates growth. You might actually put to one side the engine of future economies or businesses because they are not going to bring you any reward.

***James Lowman:*** Unfortunately, Amazon warehouses do not pay that much in business rates, which is one of the challenges here. This is why we need a long reset period. There is a benefit in the intention of the Bill, and we fully support it. The benefit is that, if a council can make itself a more attractive area for businesses to invest in and to set up there and to stay in business when they are already there, they will benefit from that overall. We do support that as a principle, but as I said in answer to an earlier question there is a danger that they will be tempted by and attracted to big hits of business rates coming in with big developments. So that is a very active concern.

***Professor Tony Travers:*** Small business has lobbied for a number of years for relief, which hundreds of thousands now have. If you move from a system where a substantial number of small businesses receive a relief, to a system where local authorities are given an incentive to build up the tax base, you must accidentally create an incentive to give planning permissions for those that are more likely to pay the business rate. It is not intended to work like that, but it must inevitably produce an incentive to give planning permission for businesses that do pay the rate rather than those that get exemption. Of course, the reliefs are partly, I suspect, built in to the base on which all of this starts, but I doubt over time that that would be uprated in line with overall growth. There is inevitably an incentive—not intended—for local authorities to give planning permissions for and to build up businesses that pay business rates compared with those that get relief, I would have thought.

**Q101 Mr Thomas:** Do you think there should be an element of independence in the needs assessment process that is being done at the moment, and that might be done at future points?

***Professor Tony Travers:*** The needs assessment process that underpins local government finances has been an element of pressure and complexity going back to the 1920s, but particularly since the 1960s. We are now going to have a reset, after some time without a reset. Any time there is a reset, you would expect—all other things being equal—a big jump in the change, inevitably. The longer you have a period without a change, the bigger the jump between those places that have become needier and those that have become less needy, relatively speaking.

There is another tension here: the longer you leave the period between resets, the more instability you will get at the point of the reset, but you get less within the period during which there is no reset. There is then the issue that the longer you leave it without a reset, the greater the perceived—I stress perceived—unfairness for those that feel that they are being left behind. The truth is that the English system of local government finance has a very high expectation of redistribution buried within it that goes back a long time. There are a lot of pressures from politicians of all parties to make it fair—I am sorry to say this—for their authorities. Fair is more for us—which is fair enough. At the point of the reset, there will always be a war of all against all to get it right for our class and our type of authority. Having said that, I think most politicians centrally and locally would share the view, and I say this again in front of a number of politicians, that that is a reasonable thing to do—that is, to have a system that is seen to be and is fair—but delivering fairness is difficult, particularly at a time when local government finance in total is static or the total is falling.

If you think about it, in the world we are moving to, local government spending will be lower in total in 2019-20 than it is today. At the point of the redistribution—this is also true for schools' funding redistribution, by the way—it is not as if you are redistributing at a point where it is growing by 6% a year; it is when it is growing. That makes it a far more painful business for Ministers and other MPs, simply because there is less money in the system. It is just a fact of life.

**Q102 Steve Double:** Something has just come to me while listening to the discussion and following on from the question about granting planning permission for large units. I represent a fairly rural constituency in Cornwall, where we have seen a number of convenience store-type premises that qualify for relief, perhaps small business or rural rate relief, being converted to residential units. I wonder whether there will be an unintended outcome from the Bill and whether there may be an attraction for local authorities to grant permission for change in use to residential. They are not getting the income from the business rates, because of the relief, but they will suddenly get council tax if it converts to a residential unit, therefore increasing their income. Has that crossed your mind and is there anything we can do to try to prevent that happening?

***Professor Tony Travers:*** Before James says anything about his sector, the whole purpose of introducing this system, which, as I said, I broadly sympathise with, is to create more incentives for authorities to think about their economy and to build it up. But it is absolutely the case that, if you face a choice, particularly now there is permitted development—you can change from non-domestic to domestic more easily than in the past—if the small non-domestic property does not pay a tax and the small domestic property would, inevitably, that creates—I am not saying all authorities would take it on every occasion, but it is within the realms of the incentive that you describe.

***James Lowman:*** Alongside that there is a significant incentive to the operator or the property owner. In most cases, that property would be worth more as residential than it would be as a business, although there would be exceptions to that. There has to be a strong and effective planning system and local plans, so that we do not have case by case, site by site conversion from retail to residential. That may have to happen—some high streets may have to get a bit smaller—but it has to be done on a planned basis. It cannot be simply site by site—the lease comes up and it is converted to residential. That way you get very long, incoherent, pockmarked high streets without a clear centre to them. I think it is really important that the planning system mitigates that. As well as the commercial incentive for that to happen sometimes, there may now be—I will leave it to councils to say to what extent that will actually act as an incentive, but I entirely take the point you are making.

**The Chair:** We are just over half way through the session.

**Q103 Anna Turley:** My question is particularly to Professor Travers. How do you build resilience into the process? I am thinking particularly about an area such as mine, Redcar, where the loss of one company—the liquidation of SSI—resulted in the loss of £10 million in business rates overnight to our local authority. If we are going down the route of more devolution and moving potentially to more and more being retained within a local authority, how can you mitigate that over-reliance on a large company within that process?

***Professor Tony Travers:*** Clearly, England has an economy that is heavily interdependent. Geographically, it is quite a small country; it feels big, but it is quite small compared with a number of American states, for example. We are now moving away from the system in which local authorities were largely protected; in fact, so long as the national non-domestic rate involved 100% retention, they were completely protected from any of the vagaries in the local business rate base. However, as we move back towards a system—this is a back to the future reform; we had local business rates up to 1990. We have moved away from the national non-domestic rate, which was introduced in that year. From 2011 onwards, there was more risk of the kind of change you described—and with the introduction of 100% retention, even more still.

I have always been in favour of greater local autonomy, but it begs the question whether there is a need, in a relatively small and relatively homogeneous country such as England—that would be true for Scotland and Wales, too—for central Government to retain, as they did in Corby, when the business rate yield fell there after the Corby plant shut, the capacity to intervene in the short term when something like that happens. It is an anti-localist measure, but I think it is the way most councils and MPs in Britain would expect central Government to behave when there is a one-off hit to the system. I think you would have to retain some form of capacity for national Government to help when some massive change takes place in the short term. When there is a huge new plant or some other big growth in the business rate occurs that is not on the central list, that is a different question—would you take account of that the other way round?

**Q104 Kevin Hollinrake:** In your introductory remarks, Professor Travers, you said you would prefer to move to a totally locally-funded situation, but your remarks just then seemed to step away from that. How are those two things consistent?

***Professor Tony Travers:*** It is an inconsistency. I am trying to say that, so far as possible, most local authorities in England could easily operate on the basis of council tax, business rates and some mild redistribution most of the time. However, there will be cases, particularly when there is a radical change in the local tax base or some unexpected need, in which the Government may need to intervene.

Personally, I like to separate out the occasional need to intervene from trying to use the underlying local government finance system year to year to take account of all of the changes that go on in a complex economy such as ours. I am a localist, but I concede that there is always going to be a role for central Government in a country such as England—or Wales or Scotland—to intervene to smooth out the big changes that inevitably and randomly occur.

**Q105 Kevin Hollinrake:** You mention redistribution, which is key and underlies the whole policy in the Bill. How fair is the current system, and what system should we move towards?

***Professor Tony Travers:*** The current system has been in place for a long time and has not been reset for some time. I answered cautiously before about the fairness issue. Clearly, there has been radical social and economic change in various parts of England in the past 15, 20. 25 years, and you would expect the needs and resource equalisation system to catch up with that over time, so long as we have it.

The point was made earlier—I suspect that, when those new needs factors or the new reset based on need and resource changes are built into the system, you have to avoid too radical a change. If you have a big change, with huge numbers of big gainers and losers, people notice. I do not need to say here that local government finance, unlike national Government finance, is very, very visible. People understand immediately changes in spending and in tax bills. With that in mind, you have to be careful not to produce too much redistribution. In the direction of fairness, yes. Massive redistribution, never good for the system.

**Q106 Kevin Hollinrake:** You mentioned that the money coming into the system was declining by the end of the decade, but there is obviously a lot more money coming in—£12.8 billion of extra money—and it has yet to be decided what local authorities' responsibilities will be for that money. So there is actually more money in the system.

***Professor Tony Travers:*** Of course, but there is no doubt that the overall figures in the spending review, which I think have been taken forward a year by Philip Hammond in the most recent spending review, take us on a generally flat, slightly declining, then flat total for local government's own controlled expenditure up to 2019-20 and that in real terms is something of a reduction.

It is true that we do not know what will happen thereafter. At the point of the reform to 100% rate retention, there will be a transfer of services, so that local government is neither better nor worse off at that point. The question is, what is the total effect of 100% retention minus, as it were, the new responsibilities? How does that leave not only the pressure on the total local government expenditure but individual authorities? The distribution of responsibilities and the full effect of all the reforms we are describing will clearly have a different effect from place to place. In fairness to DCLG officials and Ministers, they are generally very good at balancing these things quite closely, but this is a big reform all going on at once.

**Q107 Kevin Hollinrake:** Therefore, is it not all the more important that the future formula is based on those cost drivers? There will be some new cost drivers as a result of the additional responsibilities at that point.

***Professor Tony Travers:*** It is true. Public health is one of the grants that is up there as a possible new responsibility. There is currently a ring-fenced grant, but it could in future be funded purely by local government. Clearly, the needs formula would need to reflect that if that were distributed differently from if it were all transport, further education and skills, which might be thought to be more linked, by the way, to building the local economy. That is a separate issue. So there is no question but that the responsibilities that are handed to local government as part of the reform will affect the need for the needs distribution arrangements; they will have to reflect them.

**Q108 Mr Thomas:** In the debate about how to even out changes in the tax base, let us take the example of Heathrow. The third runway is coming. One would have thought that that would inevitably make the area around Heathrow attractive to a number of businesses. Councils such as Maidenhead, perhaps, and Hillingdon will be hoping that their treasuries will benefit from substantial business rate income down the line. How do you think that sort of major structural change at local level should be dealt with under the system?

***Professor Tony Travers:*** I will offer a personal view. I was always surprised that the potential impact of the decision about where the additional runway in the south-east was to be located did not take into account, as far as I could see, the knock-on consequences for the local authorities in the area, given the business rate retention scheme that we are discussing. Any additional runway capacity, be it in the south-east, Manchester, the west Midlands or wherever, must have significant knock-on impacts. You are right.

In principle, when properties are revalued that uplift will be captured. Then the issue, which has always been an element of challenge to even the 50% business rate retention, is whether councils keep only the uplift on new business, or the uplift for the existing properties paying higher rates. As the Bill goes through Parliament, how much of the uplift as a result of a major national change of this kind is retained locally, and how much goes back to the Exchequer through its tax mechanisms, is a very interesting question.

**Q109 Rebecca Pow:** My businesses in Taunton, particularly since I have been an MP, have had a constant gripe that they pay business rates and so little is kept locally. I am told that 7.5% is what we get. Do you foresee that this new Bill will enable a much closer relationship to be forged between business and the local authorities, now that there is the concept of keeping 100% of the business rates? It has been quite antagonistic, has it not, Mr Lowman, particularly from your experience?

***James Lowman:*** Honestly, that is not a gripe we get back. The level of business rates, the perceived fairness of business rates in comparison with neighbouring businesses, larger businesses or internet businesses—absolutely. What then happens to that income is not something we hear back about a great deal. I think that the perception of increased business rates and worsening service in areas that matter to businesses—whether that is waste, licensing or, in some cases, things such as policing—gets drawn into that. Whatever the realities of what is funded by what, the perception is, “I am funding the area I am operating in” so if the services in an area appear to be worse, that may be part of that overall perception. But I have never had a business come to me and say, “I don’t mind paying more business rates, but I have a problem with where it goes”.

**Rebecca Pow:** You should meet some of the ones in Taunton Deane.

***James Lowman:*** I would love to. Where that does come through is with things such as business improvement districts—but people see that as slightly separate from the business rates system. That would be about saying, “This area needs support, regeneration and growth; needs things doing locally”. Yes, the business rate system is then the mechanism through which businesses make a commitment to part-funding improvements. It works more that way round, from our point of view.

***Professor Tony Travers:*** I think that what lies at the bottom of accountability—there is an accountability—are two problems. One is that accountability for business rates has been weak for many years because it is a national tax but most people pay it to the council.

**Rebecca Pow:** Exactly. They blame central Government—so now they are going to.

***Professor Tony Travers:*** Central Government set the tax rate and the rules for the base, so it has been central Government’s responsibility up to now. All the rules will continue to be set by central Government. But there is a separate issue, which I realise is beyond the Committee’s remit. There are significant problems with non-domestic rates, notwithstanding the fact that they are the business property tax that we have. They are not a great tax—they are effectively a tax on inputs. They are inflexible in relation to profits, and so on. But—I respect the Treasury’s, and DCLG’s, problem—they are the tax we have got. Moving away from that to something different, which might be a radical change, is a reform that successive Governments have not been willing to make. However, there are good arguments for looking at business rates from first principles—starting all over again. That is not where we are with this Bill, I fear.

**Q110 Jim McMahon:** This is a more rounded debate about the sustainability and funding of local public services. If we are going to move to a localised method of funding, we need to make sure that it is robust and can fund the demand for public services. I have a concern about council tax in that context. People already believe that they pay far too much council tax and that all they get in return is their bins emptied—and now that is happening less often than it used to, in many areas. People are questioning why they are paying council tax and a potential 25% increase is programmed over the life of the Parliament. Is there not a risk, with business rates, in the way there is with council tax, that although a lot of this conversation has been about cost, the real debate is about the value that people believe they get in return? I would welcome a sector view, not about the total cost, which is always a bugbear for council tax and business rate payers, but on the perceived value in return.

***James Lowman:*** I think that our members see it as a cost of doing business, rather than a payment for something. They see their contribution as business rates, the jobs they create and the tax they collect on VAT and excise duty. Where local businesses have to use local government, they pay for that. If they go for a licence, they have to pay licensing fees. Rates do not cover all the services that businesses receive from the local authority; they are seen as just a tax and a base level that they have to contribute in order to trade.

**Q111 Jim McMahon:** On that point, do you think the Bill might change that relationship? Rather than it being a straight tax, will people see it almost as a contract of joint benefit and joint growth?

***James Lowman:*** It would be interesting if it did. I think it would be a really good opportunity. I start from the position of quite a bit of scepticism about getting to that point, but I do not think it is a bad objective.

***Professor Tony Travers:*** We should try to get nearer to a system in which it is all set in the long term—this comes back to James’s earlier point about resets—and councils depend for all their income on council tax and business rates. If there are not further shifts in responsibilities, not many resets, and local spending is flat in the medium term, I think you would re-establish a more comprehensible link between changes in local taxation or spending patterns, the quality of services and so on. You could get back to that. For many years under successive Governments, spending has gone up while council tax has gone up less, and spending has come down while council tax has gone up. There is no particular link over time between spending changes and tax changes, which I think we all agree are the bedrock of the comprehension of a properly operating public expenditure and taxation system. The nearer we can get back to that the better, but that requires stability over time.

**Q112 Jim McMahon:** Do you think there is resilience in the valuations and the multiplier to take into account the fact that the world is changing? I do not think we have yet taken into account even the fact that we heavily tax plant and machinery. A lot of manufacturing towns have now changed to warehousing and distribution towns, and their tax base has been completely destroyed by that calculation. We are now moving to automation, which could have an impact. Do you think there is resilience in this to protect post-industrial towns?

***Professor Tony Travers:*** As I said earlier, the short answer is that business rates are not a great tax—you have just outlined some of the reasons why. To make a very obvious point, they tax property-related businesses more than those that are less property-related, and there are more non-property-related businesses today than there were 100 years ago. That is why I said earlier that there is a need—I realise that this is beyond the scope of this Committee and the Bill—in the medium term to look at the way in which business property taxes, local property business-related taxes, or whatever we are going to call them, work with a view to creating a better tax. The Institute for Fiscal Studies convened and oversaw the Mirrlees review a few years ago, and way back in the 1970s there was the Layfield committee; they both had their doubts about the way in which business rates operate. I share those concerns.

**The Chair:** Minister, there are only a couple of minutes left. Do you want to ask a final question?

**Q113 Mr Jones:** I have just a couple of questions. Mr Travers, you mentioned risk at some length, which DCLG certainly understands is a real challenge. We obviously want to get the system right to mitigate risk. Obviously, we have removed the levy, which has acted as an impediment in many areas to retaining the proceeds of growth. What is your view of the provisions in the Bill relating to lost payments, the changes around pooling and the interaction with the safety net? How do you see that working? The second question I want to ask very quickly is about multi-year settlements and the certainty for the sector that will come from having a longer-term view, rather than a very short-term view, which has generally been the case until very recently.

**The Chair:** You have one minute.

***Professor Tony Travers:*** I have one minute for the interaction of safety nets and the other instruments—I can try to answer it all together. The more these things can be operated to produce broad predictability and stability in the short, medium and long term, the easier it will be for the Government, and certainly for local authorities, even if some of them feel a bit cheated that they did not get the big win out of the big reform that some of them hoped they would.

The great thing about not having big winners, is that there will not be great losers. In any reform—in some ways you know this better than I do—the nearer you get to not too many winners and losers the easier it is to introduce. When it comes to matters like safety net resetting, the more one can seek to deliver broad stability in the short, medium and long term the better. I can talk more about that, perhaps, some other time.

**The Chair:** Order. Unfortunately, that brings us to the end of the time that has been allotted for the Committee to ask questions. On behalf of colleagues, I thank our two witnesses for the very thorough response they have given to colleagues' questions.

*Ordered,* That further consideration be now adjourned.—*(Jackie Doyle-Price.)*

3.46 pm

*Adjourned till Thursday 2 February at half-past Eleven o'clock.*