PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

LOCAL GOVERNMENT FINANCE BILL

First Sitting

Tuesday 31 January 2017

(Morning)

CONTENTS

PBC (Bill 122) 2016 - 2017

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not later than

Saturday 4 February 2017

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

Mr Marcus Jones MP, Parliamentary Under-Secretary of State for Communities and Local Government

Councillor Nick Forbes, Senior Vice-Chair, Local Government Association; and
Councillor Jon Collins, Leader, Nottingham City Council and Vice-Chair, Core Cities

Graham Soulsby, Management Director, Strategic Management Team, Kettering Borough Council and Member, Chief Executives' Group, District Councils' Network;
Councillor David Borrow, County Councils Network Spokesman for Local Government Finance and the Cabinet Member for Finance at Lancashire County Council; and
Guy Ware, Interim Director of Finance, Performance and Procurement, London Councils

Public Bill Committee

Tuesday 31 January 2017

(Morning)

[MIKE GAPES *in the Chair*]

Local Government Finance Bill

9.25 am

The Chair: I have a few preliminary announcements. Please switch all electronic devices to silent. Tea and coffee are not allowed during sittings.

Vicky Foxcroft (Lewisham, Deptford) (Lab): Even if it is cold?

The Chair: Even if it is cold, I am afraid. Sorry about that.

We will first consider the programme motion, which is on the amendment paper. We will then consider a motion to enable the reporting of written evidence for publication and a motion to allow us to deliberate in private about our questions before the oral evidence sessions. In view of the short time available, I hope that we can take those matters formally without debate.

Ordered,

That—

(1) the Committee shall (in addition to its first meeting at 9.25am on Tuesday 31 January) meet—

(a) at 2.00pm on Tuesday 31 January;

(b) at 11.30am and 2.00pm on Thursday 2 February;

(c) at 9.25am and 2.00pm on Tuesday 7 February;

(d) at 11.30am and 2.00pm on Thursday 9 February;

(e) at 9.25am and 2.00pm on Tuesday 21 February;

(2) the Committee shall hear oral evidence in accordance with the following Table:

Date	*Time*	*Witness*
Tuesday 31 January	Until no later than 10.15am	Department for Communities and Local Government
Tuesday 31 January	Until no later than 10.45am	Local Government Association; Core Cities
Tuesday 31 January	Until no later than 11.25am	District Councils' Network; County Councils Network; London Councils
Tuesday 31 January	Until no later than 3.00pm	Chartered Institute of Public Finance and Accountancy; British Chambers of Commerce; Federation of Small Businesses; Society of Local Authority Chief Executives
Tuesday 31 January	Until no later than 3.45pm	Association of Convenience Stores; Professor Tony Travers, London School of Economics

(3) proceedings on consideration of the Bill in Committee shall be taken in the following order: Clause 1; Schedule 1; Clauses 2 to 6; Schedule 2; Clauses 7 and 8; Schedule 3; Clauses 9 to 19; Schedule 4; Clauses 20 to 37; Schedule 5; Clauses 38 to 42; new Clauses; new Schedules; remaining proceedings on the Bill;

(4) the proceedings on the Bill shall (so far as not previously concluded) be brought to a conclusion at 5.00pm on Tuesday 21 February.—*(Mr Marcus Jones.)*

The Chair: The deadline for amendments to be considered at the Committee's first line-by-line sitting was the rise of the House yesterday. The next deadline will be the rise of the House on Thursday for the Committee's meetings a week today.

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—*(Mr Marcus Jones)*

The Chair: Copies of written evidence that the Committee receives will be made available in the Committee room.

Resolved,

That, at this and any subsequent meeting at which oral evidence is to be heard, the Committee shall sit in private until the witnesses are admitted.—*(Mr Marcus Jones)*

The Chair: We will now go into private session briefly to discuss lines of questioning.

9.28 am

The Committee deliberated in private.

Examination of Witness

Mr Marcus Jones gave evidence.

9.29 am

The Chair: We will now hear oral evidence on the Bill from the Minister. Before asking him to make some opening remarks, I remind all Members that questions should be limited to matters within the scope of the Bill, and that we must stick to the timings in the programme motion that the Committee has agreed. For this oral evidence session, we only have until 10.15 am.

For the record, Minister, will you state your name and responsibilities?

Mr Jones: Marcus Jones, Minister for Local Government.

Q1 The Chair: Thank you very much. Would you like to make a few opening remarks?

Mr Jones: Thank you, Chair, for allowing me the opportunity to address the Committee. First, I thank the many in local government and in business organisations for their substantial contribution to the development of the reforms. The Bill reflects the significant input to date and our collaboration will continue, certainly as we determine the detail of the implementation of the new system.

The key themes of the Bill are: reform of the local government finance system to move local authorities away from dependency on central Government; to provide strengthened incentives and flexibilities to local authorities to boost growth and to invest for growth; making the business rates system much more business-friendly; and to modernise the business rate billing arrangements to suit businesses in the 21st century.

A change to the relationship between local and central Government is long overdue. The Bill provides for farsighted reforms to the way in which local services are funded. By the end of the Parliament, local government will retain 100% of locally raised taxes and have taken a significant step towards self-sufficiency. We aim to implement the reforms in 2019-20, which means that local government will retain about an additional £12.5 billion in locally collected revenue.

To ensure that the reforms are fiscally neutral, some existing responsibilities will be funded by locally raised taxes instead of grant. Councils will also be given new responsibilities. The reforms will also provide greater stability for councils by moving away from annual discussions of funding to multi-year settlements, which is widely supported by local government and will continue to protect local authorities from the impact of sudden reductions in income.

This framework Bill enables us to deliver the measures through an ongoing process of engagement with local authorities and businesses over the coming months on the detail of the reforms. As I made clear on Second Reading, the Bill does not address issues of distribution or assessment of councils' relative needs. We are considering those matters separately through a fair funding review that is on track to deliver a wholesale look at councils' relative needs and resources. We will publish further details shortly.

At the heart of the reforms to local government finance is our aim to provide the right conditions to incentivise growth. A key function of the Bill is to provide local government with strengthened incentives to grow their business rates income and to encourage local businesses to set up and grow. The Bill provides for the levy on growth to be scrapped for good, which means that councils will keep 100% of growth in their business rates incomes between reset periods.

We are going even further and, for the first time since the establishment of the business rates system, councils will be able to reduce the national business rate multiplier for the whole of their authority, helping them to attract businesses and investment to their area. To support investment where it is needed to boost growth, the Bill enables mayoral combined authorities and the Greater London Authority to raise a small supplement on the business rates, in full consultation with businesses, to enable them to develop their infrastructure to realise the area's growth ambitions. Together the measures will provide local authorities with a real incentive and the tools to grow significantly their economies.

The Bill also contains a package of measures to make business rates much more business-friendly, including support for small businesses and local amenities that help communities to thrive. The Bill ensures that small businesses in rural areas receive the same level of business rate as those in urban areas. It provides a new discretionary relief for public toilets. We are also helping businesses up and down the country by legislating to change the business rate indexation from RPI to the significantly lower CPI measure, which will save businesses about £370 million a year, as announced in the autumn statement. We will also provide a five-year relief for the installation of new optical fibre.

We are using the Bill to modernise business rates billing. We are taking the power to make the business rate system more convenient, ensuring every business can access electronic and more consistent bills, no matter where they are in the country. We will also allow HMRC to carry out the design work to engage and to develop proposals on how more joined-up tax billing can be achieved in future.

The Bill provides an ambitious package of reforms to the funding and focus of local government that will fundamentally change the balance of power between central and local government. It will incentivise local leaders to focus on growth and will relieve the burden on hard-pressed businesses. I look forward to working with you, Mr Gapes, and with the Committee to deliberate the content of the Bill.

Q2 Mr Gareth Thomas (Harrow West) (Lab/Co-op): You will have seen overnight the concerns of the Local Government Association about the future funding of social care. Do you envisage that social care will be better funded or worse funded as a result of 100% retention of business rates by local authorities?

Mr Jones: I have been quite clear all along, during the preparation of the Bill and on Second Reading, that it delivers a framework to allow local authorities to retain the business rate. In doing that, we have been extremely clear that this is a fiscally neutral exercise and that new responsibilities will therefore be brought forward for local government as a quid pro quo for the additional £12.5 billion of business rate income to which local authorities do not at the moment have access.

In the consultation we conducted on the additional items that local government will take on, there was a question about whether the improved better care fund would be funded through the retention of business rates. That is not yet decided. It is something that we are still considering in connection with the consultation that we began last year and are due to make a response on shortly.

Mr Thomas: That was a very interesting answer, but it did not go anywhere close to answering what was a fairly simple question. I will ask it again to help the Minister, who may not have had a coffee or a glass of water to get him fully up to speed. Will social care be better or worse funded as a result of the measures in the Bill?

The Chair: Order. Can we avoid the personal remarks please? I would rather we concentrate on the Bill.

Mr Thomas: I was being sympathetic.

The Chair: I think it is important to set the tone now and that we do not change the nature of the Committee into something else. Please can we have questions that focus on the Bill?

Justin Tomlinson (North Swindon) (Con): And we are not allowed coffee here.

The Chair: No, you are not allowed coffee. I said that earlier. If anybody has sneaked one in, I suggest you dispose of it quickly outside.

Q3 Mr Thomas: It was an interesting answer. I would be very grateful for an answer to the actual question I asked.

Mr Jones: The quantum of funding for adult social care is not part of the provisions of the Bill. My Department, along with other Departments in government, continually looks at the challenges and pressures around adult social care and the future sustainability of the system. I am therefore not sure that the Chairman will be keen for me to elaborate further on items that do not relate to the detail of the Bill.

The Chair: Order. Mr Aldous, is that a coffee?

Peter Aldous (Waveney) (Con): It is.

The Chair: Can you dispose of it outside, please? Thank you very much. You cannot drink it inside. This was decided before you came here; it was very clear.

Q4 Mr Thomas: The deletion of the revenue support grant, which funds social care among other things, is one of the key aspects of the Bill. I gently ask again: does the Minister expect social care to be better funded as a result of the abolition of the revenue support grant and the 100% devolution of business rates, or not?

Mr Jones: Indeed, you are right, the revenue support grant will be rolled in to the quantum of the funding and the business rates retention. But I would also point out that the Bill puts in place a framework for the retention of business rates by local authorities. It does not go into the detail of what additional responsibilities local government will take on as a result of the additional funding. That is being brought forward alongside this through further work. We are also doing further work in relation to the fair funding review, which will certainly take into account the pressures of adult social care. We will be bringing forward that work, further consultation and a response to the initial consultation alongside work that is ongoing in relation to the Bill.

Q5 Justin Tomlinson: I spent 10 very happy years as a councillor and I get lobbied regularly by council leaders and experienced councillors. Minister, you are widely respected for having a good command of this area and for recognising that there is huge potential within local authorities.

I have a number of questions. The first is: the heart of the Bill is about encouraging and incentivising local authorities, but what more can we do to ensure that there is the capacity to take advantage of that? In Communities and Local Government questions, I raised the point about attracting more business-minded people. One of the challenges is that we will be expecting more of local authorities. When we go out, all of us, with our respective parties recruiting potential councillors, we will be asking more of their time. How can we attract sufficient numbers who have the expertise to be able to understand and deliver on what will be very large budgets? It is about looking at business-minded people and at councillors of all backgrounds to have that capacity.

Mr Jones: Thank you for your kind comments. You are absolutely right. The Bill is all about incentivising growth and incentivising local authorities to bring forward growth, so that a particular local authority area can benefit from the extension of its business rates base. Post-implementation of the system, it will be an exciting time to be a member of a local authority. We already have some excellent councillors up and down the country who are very focused on supporting business and growth in their areas, but you make a very good point about attracting new councillors who are business-savvy and entrepreneurial.

What we are doing here with the reforms will attract more business-savvy people in that sense, but we also have to help those people. My Department has to work with organisations such as the Local Government Association on councillor development and also on how councils work. One of the challenges when I was a local councillor and a council leader was that many council meetings were at times that were not appropriate for people who are running businesses. So councils will need to be mindful, if they want to attract high-quality people, about how that works and about how the officer team at the council works. For example, officers used to attend the council for briefings with me at six o'clock at night to reflect the fact that I had a full-time job. Those are things that certainly need to be considered, but I think that this will be a more attractive proposition for the type of people we all want to see in local government.

Q6 Justin Tomlinson: That is great, and hopefully the LGA will take a lead on that, encouraging local authorities, particularly on the sitting hours.

We have seen other schemes introduced, such as the new homes bonus, which provide incentives to local authorities to encourage growth, and in return they are financially rewarded. However, very few residents are aware of those schemes, so they do not see the benefits and, in turn, they do not lobby the local authority to act as the scheme was intended. With all the different incentives that are being put in place, what thought is there on how we can ensure that residents are engaged? For example, if a local authority wishes to stimulate growth by discounting business rates for certain sectors, how can we ensure that the public understand what is being done and how their money is being used for a long-term decision?

Mr Jones: The local authority, within the provisions of the Bill, will be able to reduce the business rate multiplier for its local authority area. That said, that does not prevent a local authority from giving a particular business rate discount to a particular business or a particular sector, if it chooses to do so. It is important in that context that the local authority engages properly with the community to explain the benefit that will be brought in the provision of services in the area—not just extra money to local services but other benefits such as local jobs that are created as a result.

Again, I think it is all about engagement. There is a lot of detail that we need to work through with local government and organisations such as the LGA, but that is a very important point that we should take on board.

Q7 Justin Tomlinson: Our annual council tax bills provide information on the areas where it has been spent within the council. Perhaps statements such as, "We have made the following changes for the following reasons" could be part of such bills.

When councils set council tax, they are ultimately held accountable in the annual or four-yearly election, with the check and balance of the electorate. When changes are made to business rates, that protection is not necessarily in place. You talked about consulting with businesses. Could you expand on that? Will that only be with the businesses that are business rate payers?

Mr Jones: There is a lot of detail within that to be determined. When a local authority or a combined authority decides to put a levy on the business rate, for example, which the Bill would allow to happen, they will have to publish a prospectus. There will be a number of things within that prospectus. We will also need to consider which businesses have exemptions from any levy. We need to consider that very carefully.

We now have a situation where all businesses are exempted from business rates up to a £12,000 rateable value threshold. There will be consultation with local business in that sense. There will also be mechanisms, from the primary legislation to the implementation of the policy, for a continuing dialogue with business and local government to ensure that we get right the balance that my hon. Friend mentioned.

Q8 Justin Tomlinson: Great. My final question is this. Potential changes in business rates may incentivise businesses to push for a revaluation. Is consideration being given to the capacity of the revaluation officers? Presumably, there would be a spike if there were changes, as people look to review their costs.

Mr Jones: You make another very good point, Mr Tomlinson. The number of business rate appeals, particularly regarding the way the system has failed to cope with the sheer volume of appeals, is very important and does challenge local government.

We are looking at bringing forward additional changes to the way that business rate appeals are dealt with. We want to make it easier, particularly for smaller businesses, to make business rate appeals. We also want to drive out some of the worst practice within some of the more unscrupulous business rating agencies, which lead some small business people down a path of great hope that they might get a significant reduction in the business rates, when that is an unrealistic proposition. We hope our check, challenge, appeal reform to the system will reduce that situation significantly and free up the system for legitimate business rate appeals that need to be looked at carefully and expeditiously.

Q9 Rob Marris (Wolverhampton South West) (Lab): In the policy background in the explanatory notes it says,

> "The reformed system will also provide local authorities with strengthened incentives for growing their business rates income."

In fact, the Government like that so much that they mention it twice in the explanatory notes, as did the Minister in his opening remarks. I note that under an Act that is now seven and a half years old, the Business Rate Supplements Act 2009, the only business rate supplement currently in force is that levied by the Mayor of London in relation to Crossrail. What evidence does the Minister have that the proposed changes will encourage local authorities to do what the Minister by implication thinks they are not doing— that is, trying to expand their local economies and build their local businesses?

Mr Jones: There are a number of different elements to the Bill to do with expanding the business rate base, Mr Marris, and you have chosen the issue of levying the business rate supplement to provide infrastructure. That provision will be available for combined authorities and the Greater London Authority, so it will be available for authorities such as the West Midlands combined authority, of which Wolverhampton is a constituent member. In that sense, it is different from the current business rate supplement regime because it allows for consultation with business prior to the implementation of a levy on the business rate. Currently, the business rate supplement is dealt with by way of balloting businesses in the area. There is a clear distinction between the powers that exist and the powers offered in the Bill.

Q10 Rob Marris: But what evidence is there that those powers are likely to work, given, as I understand it—correct me if I am wrong—that neither of the consultations your Department has done has reported yet? There is a consultation on key issues across the reforms and one on the fair funding review; has either of them reported? If not, how can the Committee weigh the evidence on a key plank of the Bill, which is to do with incentivising local authorities? Where is the evidence?

Mr Jones: We will provide a response to those consultations shortly.

Q11 Rob Marris: But we will be discussing the Bill in Committee very shortly. Your answer is not encouraging, Minister. Will we receive the responses before the end of our sittings on the Bill?

Mr Jones: I can assure you that my intention is to bring those forward before the end of the Bill sittings.

Q12 Kevin Hollinrake (Thirsk and Malton) (Con): On redistribution, I accept that the Bill gives local authorities the incentive to grow business rates, but the vast majority of income that will go to councils will be through a redistribution of the 100%, and that will be distributed according to need. The Local Government Finance Act 1988 stated that local authority funding for people should be fair, regardless of where they live. In London, local authorities have around 40% more spending power. If you add up all the local authorities of whatever tier divided by the number of people, the residents pay a lot less in council tax. Out of the total funding—business rates, revenue support grant or council tax—they have 40% more spending power, yet they contribute less in council tax. There does not seem to be any correlation in terms of need in those local authorities. That cannot be fair.

Mr Jones: I know this is a subject that you care about deeply, Mr Hollinrake. Quite rightly, at every opportunity available, you raise it with me and other Ministers in the Department. I understand that. The response to the call for evidence on the fair funding review conducted in the middle of last year will be released shortly. We will then look to introduce further consultation on fair funding. As you know, it will be complex. The way in which the needs assessment was put together more than 10 years ago means that there is significant complexity and we will have to look at the system very carefully, but we are alive to the fact that we need to bring that together with the fair funding review and the issues of redistribution by the time we get to implementing the outcome of the legislation in 2019-20. We are mindful of the fact that local authorities across the country have legitimately questioned whether the assessment of need is right, given the changes in demographic pressures and suchlike.

Q13 Kevin Hollinrake: I accept your points, but, as you say, it was revised 10 years ago and there is still an inbuilt unfairness in the system, which the LGA technical working group is looking at. Are we simply going to carry on and adjust it slightly? Are we going to accept regression as part of this and say it is just baked-in past formulas, rather than take a bold approach based on clear evidence and need? At the moment, 159 different measures go into the system, and it is not producing a fair outcome yet. I have no issue with any local authority or area getting more money than my local authority as long as it is demonstrably fair. We have got to get away from this opaque system and move to a fair system. We are using the LGA technical working group, but is there not some vested interest in there that will prevent this from being fair in the future?

Mr Jones: There are people involved in that working group from across the local government spectrum. They represent, for example, metropolitan councils, unitary areas, county areas, district areas and a geographical mix. The working group's scope is deliberately set up to bring in all elements of local government so there can be a serious and proper discussion about this. As you know, Mr Hollinrake, the system is being introduced not directly thorough this legislation but through work that is happening alongside it. The Government are absolutely determined to ensure that there is a full and proper review of the situation to prevent things from being baked in or predetermined.

Q14 Kevin Hollinrake: The Communities and Local Government Committee recommended that there be an independent body to look at the issue, and we are bringing forward an independent analysis of funding. I am sure the Government will look at that very carefully and take it into account before they make a decision, but I seek reassurance about that.

Mr Jones: We are looking at the information that the LGA technical working group is providing, and I am sure we will also look at other pieces of work that have been done. As you know, Mr Hollinrake, in making our policy decisions, we always take into account things that the Select Committee puts forward and points out, as was the case recently when some amendments were made to Bob Blackman's private Member's Bill, which the Government supported.

Q15 Kevin Hollinrake: As part of this change to the system, another £12.5 billion of spending power is going back into local authorities, and I am sure you are going to want to see extra responsibilities commensurate with that kind of money. It is very difficult to change a system if there is no more money coming in—obviously there will be winners and losers, because it is a zero-sum game—but more money is coming in to deliver extra services. Do you think it would be fair if the local authorities that are getting an unfair deal at the moment get the greatest benefit from the extra money?

Mr Jones: That remains to be seen, but it is usual with any significant change to local government finance to have transitional measures. We will certainly need to consider that. As I said earlier, the Government have always set out our stall to make it clear that the £12.5 billion will be a revenue-neutral situation.

Q16 Jim McMahon (Oldham West and Royton) (Lab): You referred to the additional £12.8 billion in your opening statement, and it is mentioned in the explanatory note. Is it net of the rate relief that is in place?

Mr Jones: Yes, it will take into account the business rate reliefs that have come through.

Q17 Jim McMahon: Will it be net?

Mr Jones: With the system at the moment, and the way in which it works, for example, the revaluation currently being undertaken by the Government, which comes into effect in April, will, effectively, be paid for by the Government. Therefore, there will not be any net effect to local authorities as a result of those changes. It will be exactly the same principle when the business rate system changes to the local authorities retaining the additional £12.5 billion.

Q18 Jim McMahon: So, to be clear, the £12.8 billion does not include the £2.6 billion mandatory rate relief or the £1.1 billion small business rate relief.

Mr Jones: If I can clarify, we would not intend to give local authorities additional responsibilities that were not covered by the additional funding. I think that is where you are coming to, Mr McMahon.

Q19 Jim McMahon: Perhaps I am not explaining myself clearly enough. The idea is that local government will retain 100% of business rates collected, so the quantum of money collected in business rates. What I am trying to get to is this: when that is returned to the local authorities in whatever formula is devised at the end of all this, will the Government take the burden of rate relief outside the money collected in business rates? Or do you expect it will be covered as part of the business rates that are collected?

Mr Jones: It will be covered as part of the business rates collected.

Q20 Jim McMahon: Right, that is quite an important point. So, the £12.8 billion that has been referred to in the report is minus the £3.7 billion relief that is in here.

Mr Jones: Sorry, just to clarify that: the £12.8 billion is the additional amount that will be going to local government. Sorry if I misled you, Mr McMahon.

Q21 Jim McMahon: That is an addition.

Mr Jones: Yes.

Q22 Jim McMahon: Is it envisaged that the grants currently given to local authorities will end? So when you talk about self-sufficiency and self-financing of local government, is it envisaged that that will be solely for council tax and business rates?

Mr Jones: Yes, although as has been discussed in the consultation, there are a number of additional matters that are still yet to be determined. There is a list of different things that have been put forward that might be paid for by the additional amount of business rates local authorities will receive. One of the things we have ruled out that will not be paid for in that sense is attendance allowance, but all the other items listed there—the improved better care fund being one of them—are things we are going to consider, and we will be responding to that initial consultation very shortly.

Q23 Jim McMahon: There is a problem, isn't there? If we take the £12.8 billion and we deduct the £7.1 billion that is currently spent through revenue support grant, and then you take into account the adult social care pressures as £2.8 billion as well as the additional responsibilities, the truth is there will be no new money for adult social care. By the time you get down to the bottom line, there will not be enough money to cover the social care gap.

A direct question: do you agree with the Conservative chair of the LGA who calls the adult social care situation a crisis?

Mr Jones: No, I do not agree that it is a crisis. I think there are significant challenges in the system and we are proposing significant measures to support local government in this regard. The additional council tax flexibility we have provided in terms of the adult social care precept, the additional grant we have provided this year and the improved better care fund add up to £7.6 billion of additional dedicated funding that is going towards adult social care. So we recognise the challenges and are looking to address those. What I would say, Mr McMahon, is that you cannot conflate, at this point, the figures you are referring to in terms of the additional business rate income directly to the issue of adult social care. At the moment, as I said, that is yet to be determined.

Q24 Jim McMahon: But do you accept that it is a significant part of local authority pressure? Adult social care and safeguarding make up the lion's share of most local authorities' spend.

This is a package, of course. Are you concerned that, based on the Department for Communities and Local Government forecast, council tax will increase by 25% over the life of the Parliament? What would you say to the average Oldhamer in a band E property who will be paying £2,000 a year in council tax?

Mr Jones: I am surprised at your line of questioning, Mr McMahon, because during the period your party was in Government, council tax doubled between 1997 and—

The Chair: Order. Can we get back to the Bill, please? I do not want to go into the history. I ask questioners and the Minister to get back to the actual Bill.

Q25 Jim McMahon: Just to be clear, I am not looking for a commentary on the last Labour Government; I am looking for a response from a Minister in today's Government.

Mr Jones: Mr McMahon has little room to lecture, but I take on board your comments, Mr Gapes. The facts are that, at the moment, council tax is lower in real terms—9% lower—than it was in 2010.

Q26 Jim McMahon: Do you think that a 25% increase—a council tax bill of £2,000 for band E—is reasonable?

The Chair: Order. Just a moment, please. Time is limited and several other people wish to ask questions. Please can we focus on the actual Bill rather than getting into an argument that we can no doubt have at later stages? Three or four other people want to get in.

Jim McMahon: I understand that, Mr Gapes. That is why I am trying to push the Minister to answer the question.

The Chair: Please focus on the Bill.

Clive Efford (Eltham) (Lab): We would like an answer to that last question though, Mr Gapes.

The Chair: Please ask questions that focus on the Bill, and can we please also have answers that focus on the Bill, rather than on history?

Mr Jones: I can give a direct answer. We have looked at the figures closely and, given that in real terms council tax today is 9% lower than it was in 2010, if you take into account the council tax flexibilities that we have allowed local authorities during this Parliament, council tax will still be lower in real terms than it was 2010.

Q27 Jim McMahon: Do you accept your own Department's figures of a 25% council tax increase?

Mr Jones: As I said, council tax will still be lower in real terms in 2020 than it was in 2010.

Q28 Jim McMahon: Do you accept your own Department's figures of a 25% council tax increase over the life of this Parliament?

Mr Jones: I think I have made my position clear.

Jim McMahon: I am not sure you have.

Q29 Peter Aldous: Minister, you said at the beginning that incentivising growth is at the centre of this Bill. As I said on Second Reading, I am concerned that there may be local authorities that wish to incentivise growth but, for reasons of location, the geographical make-up of their area or issues such as site contamination, may not be in a position to do that. Can you outline how you are going to support those authorities?

Mr Jones: You make a good point, Mr Aldous. We have been clear from the outset that, in developing and introducing this new system, there will need to be a form of redistribution across local authorities to make sure that we do not leave behind those that start off with a far lower business rate. The new system will also include incentives for local authorities to invest in things such as land remediation to bring forward new developments that will expand their business rate base. Local authorities will also be offered the opportunity to have local growth zones, which will be very powerful in terms of giving an area the opportunity to retain more of the additional business rate, and to have that part protected when we get to resets of the system.

Q30 Kevin Foster (Torbay) (Con): My question is similar to that asked by Mr Aldous. On Second Reading, there seemed to be a negative undertone in relation to the prospects of some areas and councils to be able to incentivise growth and actually deliver the increased business rates that we hope the Bill will bring. As the Minister, how do you see the provisions helping to defeat some of those arguments? What monitoring will the DCLG be able to do to ensure that councils are

[Kevin Foster]

actually going ahead with it, rather than adopting that negative, anti-business attitude and then using the area's position as an excuse?

Mr Jones: The Bill will be transformational, changing attitudes in many places. In the main, local government has a good approach to local business and trying to make it thrive. We all know, though, that that does not happen everywhere. I think that the Bill will put areas to the sword. They will have to look far more carefully at how they incentivise growth in their local areas and at their attitude to business. That is not necessarily a bad thing. It might include providing a reduction in the multiplier and other provisions. That also applies to dealing with planning applications and to the general approach and demeanour towards business, which will be transformed by this. We will monitor the effect of this policy and when we get to the point of doing resets of the system, we will be able to analyse where there has been a great deal of success in increasing business rate revenues, and where that may not have happened. At that point we will have to make a judgment on how the system will be reset. We want councils to be very ambitious in bringing forward local growth.

Q31 Kevin Foster: I have a second, quick question. What difference do you think the average council tax payer and council resident is going to notice if this Bill is passed?

Mr Jones: Once the system comes into full effect, the incentives that councils have will mean that many more areas will have a more business-friendly environment, where more businesses are nurtured and more jobs created. The positive knock-on effect is that councils that take to that and do the right thing will be able to grow their income to provide local services. Residents across our local authority areas want high-quality public services, and this will help to do that.

Q32 Clive Efford: How much of the local government grant comes from the business rate collected by the Government and redistributed to local authorities?

Mr Jones: All of the business rate, bar the £12.5 billion —or £12.8 billion, to be more exact—that has been mentioned, currently goes to local authorities, with the exception of the amount raised from the central list. That list relates to the business rate that comes from infrastructure, for example, and that money does not go directly to local government. The quantum of the funding is set out in the document.

Q33 Clive Efford: Sorry, can you remind me what it is?

Mr Jones: As I say, the quantum of the funding that local government gets is all of the funding from the business rate, less the amount that we are looking to bring to local government.

Q34 Clive Efford: What proportion of local government spend is raised locally?

Mr Jones: That is a question that I will have to come back to you on.

Q35 Clive Efford: It is quite a small proportion that is actually raised through council tax, so the ability of local authorities to raise money at local level is very limited in many areas in relation to business rate. What incentives are there for areas where it will prove very difficult to generate extra income through the local business rate? Will the Government be putting anything aside for those local authorities?

Mr Jones: As I say, there will be a form of redistribution, and that is important because we do not want areas to be left behind by the implementation of the new system. The system significantly incentivises local areas to encourage business growth and the growth of new businesses on the basis that they will be able to keep far more growth than ever before. That is particularly the case with regard to the current levy in the 50% business rate retention system. In effect, that is a tax on growth and the Bill will remove it.

The Chair: Order. I am sorry, but we only have time for one last question.

Clive Efford: If somebody else wants to come in—

The Chair: We are time-limited: we have one minute left. If anybody on your side wishes to come in, we have time for one more question. That is all we are allowed.

Q36 Mr Thomas: How do you envisage the tariff and top-up system that you intend to retain differing under 100% business rates retention from the current system under 50% business rates retention?

Mr Jones: The tariff and top-up system will very much be used to deal with things like redistribution, as I am sure you are aware, Mr Thomas.

Q37 Mr Thomas: I understand how it will be used; I am asking how it will be different.

Mr Jones: The point you make is not actually a direct point in relation to—

The Chair: Order.

Jim McMahon: Saved by the bell.

Mr Jones: I was about to answer.

The Chair: I am afraid that that is the end of the time allotted for the Committee to ask the Minister questions. I thank him for his evidence.

Examination of Witnesses

Councillor Nick Forbes and Councillor Jon Collins gave evidence.

10.16 am

The Chair: Good morning. We will now hear oral evidence from the Local Government Association and Core Cities. We have until 10.45 for this session. Will the witnesses please introduce themselves for the record?

Councillor Nick Forbes: Good morning. I am Councillor Nick Forbes, leader of Newcastle City Council. I am also vice-chair of the Local Government Association.

Councillor Jon Collins: I am Jon Collins. I am the leader of Nottingham City Council and vice-chair of Core Cities.

The Chair: Thank you very much. There are no introductory remarks; we will just ask questions. I call Gareth Thomas.

Q38 Mr Thomas: Two of the concerns about the Bill that have been raised with me relate to how redistribution might work—fairly or unfairly—when 100% of business rates are retained by local government, and whether responsibilities such as social care will be better funded under the new system than they are under the current system. I wonder whether you both might reflect on those two concerns.

Councillor Nick Forbes: The issue with redistribution is of concern to everyone across local government, because although collectively we sign up to the principle of localisation of business rates, we are concerned that the redistribution mechanism must be seen as fair by everyone. It would seem sensible to start with an assessment of current needs so that there is at least a level of clarity around the existing requirements to fund services in the system. One of the things that people say across the whole range of local government is that over time, because of the way that formulas have worked and settlements have been made, there has been a distancing of assessed need from funding. It would seem sensible to start with a baseline assessment.

On the point about whether social care would be better funded through this system, one of the challenges is getting right a system that is based entirely on local property taxes, but where eligibility for social care is determined through national criteria. There is a potential for the funding system not to accurately match needs, which is why, again, having some kind of national assessment of baseline needs would be a good place to start as we work through the detail of how that would operate.

Councillor Jon Collins: In terms of the effectiveness of redistribution of business rates as a way of funding local government, as Nick says that is very much going to rest on the redistribution formula on the one hand, but also on the way that the headroom generated by 100% business-rate retention is dealt with and the additional responsibilities that local government may or may not get to spend that effectively. Until we are clear about those two things, it is very difficult to make a judgment on whether the move to 100% business-rate retention is going to be fair and whether it will effectively better fund care. The nature of the funding formula, whether it relates to care or to the totality of how local government funding is passed through to local authorities, is very much the key.

If you look at how the additional funding for care at the moment has been distributed, we have two lots of clear criteria and one set of criteria that nobody can find out about. In terms of the improved better care fund, the criteria take into account the ability of local authorities to generate funding locally. The social care grant, which is £240 million, is allocated on a different formula, which does not take account of the ability to raise funding locally. Then there is transitional funding, which is in part a reflection of the additional costs of providing care, and nobody knows what the formula for distributing that is because it has not been disclosed to Parliament or to the Information Commissioner.

Q39 Mr Thomas: To follow on from that, there are clearly some in Whitehall who think that social care is now being properly funded and there is a package in place that will meet all the social care needs that have been identified. How would your two organisations respond to the idea that there is now a settled funding stream in place?

Councillor Nick Forbes: I do not know a single person in DCLG and I have not spoken to a single person in Whitehall who thinks that what we have for social care is anything other than a short-term temporary fix, which gets us through a few difficult months over this particular winter. There is clear acknowledgement—even the Secretary of State acknowledged this in the settlement—that there needs to be a longer-term solution for funding for social care. The LGA's assessment is that there is a £2.6 billion shortfall in funding: £1.3 billion is required to stabilise the current system as it is at the moment and a further £1.3 billion is required by the end of the Parliament to deal with the cost pressures and demographic pressures that the system faces. It is very clear from the whole of local government—this is a cross-party view from within the LGA—that funding the social care problem is our top priority. So far, what we have had is something that gets us a few months further ahead but does not solve the problem into the long term.

Councillor Jon Collins: From the Core Cities' point of view, every core city would take the view that funding for social care is very much in crisis and that the current arrangements just scratch the surface. If I may, I will just give you Nottingham as an example. Out of a net budget of about £260-odd million, something like £90 million is adult care. We have £11.2 million-worth of cost pressures, and that is wages, demography, additional inflation and charges from providers. The potential increase to council tax of 3% and the extra care funding we are to receive is about £5.8 million. So £5.6 million is unfunded pressures, which we will have to accommodate by making savings elsewhere in our budget, at a time when we are also seeing our revenue support grant going down from £56 million to £44 million. As you can see, the overall picture for an authority such as Nottingham—we are very typical of the core cities—is that this year's approach helps a little bit, but that there is still massive pressure that is unfunded, and we expect the same next year. That is with an assumption that we will be increasing council tax by 5% overall.

Q40 Kevin Hollinrake: You have both mentioned that distribution, and assessment of need, are the keys to this. Your spending power for both your authorities is around 30% lower than some of the highest spending authorities in London, for example. Is the current system anywhere near fair?

Councillor Jon Collins: In a word, no. Spending power is an interesting way of looking at these things, but our spending power now, as a core city with major challenges in terms of deprivation, is lower than that of Rutland, which is another local authority in the east Midlands and largely covers a lake, a few sheep and a few large houses. It is a very unfair way of making judgments about relative impact of spending. Even for the next financial year, we are seeing a reduction in spending power of 1.5%, and Rutland is seeing a reduction of 0.6%. So there are major disparities—that is, if one assumes that spending power is a fair reflection of the spending needs of local authorities.

Four years ago, our revenue support grant was £126 million; next year it will be £44 million. That is the scale of funding reduction we are being faced with. We have had to make significant reductions in services in some areas. We have done other things, as most core cities have, to boost income, reconfigure services and work closely with others to make sure that we are commissioning in the most cost-effective and efficient way, which is a positive. Fundamentally, however, there has been a significant and dramatic effect on services.

Councillor Nick Forbes: One of the challenges is the currency that you use to describe the nature of the problem. It is easy to say that we have an unfair system if you look simply at a per capita rating—and that is one of the ways in which people compare different types of authorities. Spending power is another currency, and so is needs requirement. What there is not, across the system, is a settled view about which of those is the most appropriate to use. Inevitably, that gets you into the realm of which one is better for which political outcome. That is one of the reasons why there is concern about the way in which the business rates system works at the moment.

Q41 Kevin Hollinrake: In the current system, are you confident—which I suppose should be the case—that spending power per capita, or the total, or whatever, relates to need in that local authority area? Are you confident that that system works at the moment?

Councillor Nick Forbes: No, it does not.

Q42 Kevin Hollinrake: And are you part of the technical working group on the LGA that is looking at this review of how distribution occurs?

Councillor Nick Forbes: I am not a member of it, no—but there is a technical group within the LGA.

Q43 Kevin Hollinrake: Do you understand how the system works in terms of how it is distributed between different local authorities?

Councillor Nick Forbes: Does anyone know how the formula works? The other thing is that, in addition to the system being potentially unfair, it is also very inflexible. One of the challenges that every local authority faces is a system which, in effect, is set nationally and gives us no opportunity to vary things according to local circumstances. One of the things we are asking for within the LGA, as part of the Bill's consideration, is flexibility for local government to be able to make changes—for example, if it has a sector that it wants to strengthen, or even if it has an area of deprivation where it wants to stimulate economic growth. As long as we can do that in a fiscally responsible way, it seems entirely sensible to allow local authorities to have those flexibilities, which currently we do not have, other than through the relief system.

Councillor Jon Collins: The formula is very complex. Relatively small changes to weightings can have a big impact in terms of the funding that local authorities get over time. The weightings have been changed very much away from need and deprivation towards per capita and sparsity. Of course, that then benefits counties and largely rural areas at the expense of large cities. That is why we can see a dramatic shift of resources to relatively well-off authorities in the south-east. Transition grant is another example: here is a £300 million pot of money to be spent over two years, none of it has gone to the core cities, 80% of it has gone to Conservative authorities, it has all gone to county councils, and there is no accountability over the formula by which it has been allocated. That is part of the funding package but while there is a little more clarity about how the criteria are applied elsewhere within the funding formula, the combination of the complexity and the lack of direct accountability for how the formula and the criteria impact on the funding for particular categories of authorities is problematic.

The Chair: I remind Mr Hollinrake that I have five other hon. Members who wish to speak.

Kevin Hollinrake: I am sorry.

The Chair: Thank you. I know you wanted to ask another question, but in order that we can get everybody in in our limited time, can we please have short questions and shorter answers? You do not both need to answer if one agrees with the other.

Q44 Rob Marris: The Government, and indeed the Minister, have been very clear that one reason for the Bill is to strengthen incentives for councils to grow their business rates income. The Minster also said that while we all wish to encourage business growth, that is not happening everywhere. He said that this morning about the actions of councils. Is the Local Government Association aware of any council in England that is not trying hard to encourage business growth, and with it business rates growth, or is not trying hard to encourage business overall?

Councillor Nick Forbes: The short answer is no; local government knows that by 2020, when this new system comes into effect, we will be entirely reliant on two property taxes—council tax and business rates—for the totality of our income other than that which we generate commercially, so every authority understands that it is in their best interests to grow both of those tax bases as quickly as possible. I am certainly not aware, and I do not believe the LGA is aware, of any authority that does not see that as an important priority.

Q45 Rob Marris: Just to be clear, the Minister has not actually produced any evidence for those assertions. He may do so later, but he did not get any such evidence from the LGA because you are not aware of any such evidence.

Councillor Nick Forbes: I am not aware of any, no.

Rob Marris: Thank you.

Q46 Justin Tomlinson: Following on from that, the whole point of the Bill is to unlock potential, to incentivise and encourage you. You have identified where those potential streams will come from, but ultimately it will only be as good as your capacity to deliver it. Are you confident that councillors have the sufficient skills base to be able to maximise it? You have just said that you do not think that any local authority is not encouraging growth, but—this is a good example—many local authorities have still not signed off their plan for the new homes bonus or are still fighting development. That is often for good reasons, but they are fighting it. Are you confident that councillors in all local authorities have sufficient capacity to take advantage of these potentially much larger budgets and incentives, which need to be chased down?

Councillor Nick Forbes: Actually, it strengthens the concept of accountability if you have a direct link between taxes raised locally and how those taxes are determined in terms of their spend at a local level. I would argue a slight counter-view to yours, which is that by doing this it is very clear where the incentives are within the system and it is then incumbent on anybody occupying elected office at a local government level to make sure that they have those finances and plans in place, because otherwise they will see a direct link between that and a reduction in funding for their area. So I think it acts as an incentive for that. As for capacity for handling it, I think that local government is, on the whole, very confident that it can handle this. Upper-tier authorities handle funding of more than this magnitude already.

Q47 Justin Tomlinson: So are you confident that these changes will help encourage busy people—people with business experience—to step up to help run councils, as opposed to career politicians who wish to tweet all day about various political causes? I say that as someone who was a councillor for 10 years. What we need, when we are being given big budgets, is a mix of councillors from all backgrounds. Do you think that this will provide an incentive to get some really good new councillors who do not have a career politician background?

Councillor Nick Forbes: I am not sure I recognise your characterisation of local councillors.

Q48 Justin Tomlinson: No, there are fantastic councillors, but we all recognise that, as things stand today, it is very difficult to encourage busy people to give up their time. We will be asking even more of them as councillors, because they will have more responsibility and more complex decisions to make. Are you confident that this will help encourage them, or will it put people off stepping forward?

Councillor Nick Forbes: My view is that there is already a very high calibre of politician in local government, across all political parties. The leadership that people have shown over the past few years, in terms of responding to the challenges that have been thrown at them, has been absolutely magnificent. Collectively, local government is up for this and wants to do it. I would not come here on behalf of the LGA, which is a cross-party organisation, and say that we want these things to be included in the Bill, if I did not have the confidence that we were capable of delivering.

The Chair: I am conscious that we have very little time and I want to get other people in.

Q49 Jim McMahon: The Independent Commission on Local Government Finance recommended that an independent body be established to look at redistribution, to make sure that it was fair and equitable and to take it out of the hands of Ministers being able to manipulate the funding settlement for different reasons. Is that something that the LGA still supports?

Councillor Nick Forbes: The LGA does not have a clear corporate view on that at the moment. What the LGA is doing is trying to get to a position where we have as much agreement as possible about the way in which the new system should operate.

My own view is that there will need to be a level of independent assessment because, inevitably, given the way in which local government works, there is a danger that there will be winners and losers. It would be politically unacceptable for the LGA to pick winners and losers as part of the solution.

We have a body to determine public health funding and it is a quasi-independent body. It looks at need and allocation based on need. My personal preference would be for something akin to that for local government finance, so that there is a body jointly commissioned on behalf of Government and local government that comes up with a distribution that has clear and transparent criteria behind it.

Councillor Jon Collins: I think Core Cities would support an independent approach to redistribution. The current system, when you look at the way in which funding has shifted away from the core cities over the last seven to eight years, is clearly unfair and is not related to need. Our view is that an independent approach to the allocation of resources would be very welcome.

Q50 Jim McMahon: The risk of appeal is obviously accommodated for in the item that we are discussing. Many local authorities have to ring-fence a significant amount of money in reserves, pending large appeals—large warehouses and supermarkets in particular can have a big impact on local funding. Do you think that there should be a tighter or shorter period in which those appealing can reclaim money due?

Councillor Jon Collins: The answer is yes. This is a major destabiliser in the whole funding approach. As we become increasingly dependent on the business rate, local authorities will have to make increasingly significant allocations of funding into reserves to hedge against the possibility of losing some very significant appeals. For example, the total now held by local government is estimated to be about £2.5 billion against losing business rate revaluations. Nottingham itself has lost about £20 million as a result of those kind of revaluations. That adds significant instability to the funding mix. What it means is that, effectively, it exacerbates our challenges and the funding reductions that we are having to make elsewhere in budget. This is something Government could make a significant difference on, and they could provide greater certainty for local authority funding.

Councillor Nick Forbes: The Government's own assessment is that the level of appeals will go down in future years. All the evidence from previous revaluations shows that when there is a revaluation, the number of appeals goes up. Of course, that increases the risk for local authorities, which is why, as John says, £2.5 billion over the past five years has been earmarked by local government to deal with the risk of managing the appeals process.

One of the challenges is that there is no disincentive to appeal. There is nothing to stop anybody putting in an appeal. If you make a claim to an employment tribunal, you have to pay an upfront fee. Some kind of disincentive like that would be worth considering to make sure that we do not get speculative appeals from people who have no fear of any consequence of making an appeal, which simply drags the system out and causes a lot of administrative burdens.

Q51 Jim McMahon: Finally, the Minister does not believe that there is a crisis in adult social care. Do the LGA and Core Cities agree with that view?

Councillor Nick Forbes: The LGA position, as a cross-party organisation, is very clear that there is a crisis in adult social care. The changes made in the settlement, with the adult social care grant and the ability to raise additional money through the council tax precept, are a sticking-plaster approach. There is cross-party agreement that this is the biggest single challenge that we face as a sector. We are collectively asking the Government to use the Budget on 8 March as a way to find a longer-term solution to the problem.

Councillor Jon Collins: My answer earlier was clear that we believe that there is a crisis.

Q52 Kevin Foster: I have listened to the answers so far and will not go back over old ground. However, I am interested to hear more about the difference the Bill will make. There is no point in legislating for the fun of it. What actual difference will it make? Apart from the obvious use of the provision for discretionary relief for public toilets, what aspect of the Bill do you see your councils looking to use for the benefit of local residents?

Councillor Nick Forbes: Local government is asking for a number of things. One is the need to increase accountability and visibility with regard to the general principle of connecting taxes raised with money spent in a local area. More specifically, local government is asking for flexibility on the use of business rates. At the moment, the multiplier can only be determined at an authority-wide level and there is no way of targeting growth to allow us to discount specific businesses or industries. Giving us those discretions would allow us to consolidate where we have sectoral strengths in how the enterprise zone system works, but currently at a very small scale.

You could see local authorities using this to drive growth, create jobs and deal with areas where you might have a neighbourhood shopping centre that is difficult to let because of the rates. At the moment, we have no ability to discount rates. That is the kind of thing we could make a real difference around. For me, the big prize is the flexibility that the system would give to allow us to be much more responsive to local need.

Councillor Jon Collins: It has the potential to provide real incentives to local authorities to focus attention on building business rate growth. I will caveat that by saying that, ultimately, whether it is effective will depend on the distribution formula and whether there is an assumption that any headroom generated by 100% collection and use of business rates is simply centrally earmarked against some additional expenditure or there is a little flexibility so that we can invest for that business growth.

Ultimately, local authorities, certainly Core Cities, are very clear about the importance of working closely with business and promoting development as a way of generating additional business rate growth. Obviously, in doing that we are enhancing and developing our cities in the way that we know our population wants to be developed.

The Chair: We have time for one more question.

Q53 Mr Thomas: Is it fair that, under the Bill, only areas with a Mayor are going to be allowed to raise business rates up to a cap of 2p in the pound?

Councillor Nick Forbes: The LGA position is that we would welcome a conversation with the Government about how we can get maximum flexibility out of the system. The challenge is that areas that do not opt for an elected Mayor will, by default, lose out in terms of infrastructure investment. It would make sense for there to be some kind of system from which, through various routes, everybody feels that they can benefit.

Councillor Jon Collins: If devolution was an option for everybody, if there was a fair and transparent process for making bids for devolution deals, if there was a very clear understanding of the rules of the game, and if people chose not to go down that route, I think there would be an argument for making that differentiation. In the current climate, in which much of that is opaque and where there are no clear rules of engagement around devolution and the prospect of moving towards combined authorities and directly elected Mayors, it would seem very unfair.

The Chair: I am afraid that that brings us to the end of the allocated time for the Committee to ask questions. On behalf of the Committee, I thank our witnesses for your evidence.

Examination of Witnesses

Graham Soulsby, Councillor David Borrow and Guy Ware gave evidence.

10.46 am

Q54 The Chair: We will now hear oral evidence from the District Councils Network, the County Councils Network and London Councils. For this session, we have until 11.25 am. For the record, could the witnesses please introduce themselves?

Guy Ware: Good morning. I am Guy Ware, and I am director of finance, performance and procurement at London Councils.

Councillor David Borrow: I am David Borrow, deputy leader of Lancashire County Council and vice-chair of and finance spokesperson for the County Councils Network.

The Chair: And a former Member of this House.

Councillor David Borrow: Yes.

Graham Soulsby: Good morning. I am Graham Soulsby, the managing director of Kettering Borough Council and the finance lead for the District Councils Network.

The Chair: Thank you very much.

Q55 Mr Thomas: The consultation document, which Ministers put out last year with a view to this legislation coming forward, very strongly hinted that the improved better care fund, the public health grant and the rural services delivery grant, among other pots of money, would be abolished as part of the package for devolving business rates. What impact do you think that will have on the groups of councils that you represent?

Guy Ware: I think the overall issue will be the degree to which local authorities—in my case, London boroughs and the Greater London Authority—are able to promote growth to increase the overall amount of money available and to flexibly spend the product of it. At the moment, we operate within a very centralised system where a number of individual policy issues are addressed through specific grant regimes, such as the improved better care fund. We would argue that that produces considerable perverse incentives and distortions, and that we would be better able to respond to the pressures in issues such as adult social care, which your previous witnesses talked about, if we were given the flexibility to raise and spend money in ways that are controlled locally.

Councillor David Borrow: From a County Councils Network point of view, I think we need to take one step back. Clearly, if councillors are going to be dependent on council tax and business rates, the key issue is the equalisation mechanism. That feeds back to something that is not in this Bill: the needs-based review. Fundamentally, we are looking for a fair, transparent needs-based review that is based on the cost drivers in each area. From our point of view, the bulk of our spending is now on adult social care and we clearly need to get that properly reflected in any needs-based review of funding.

The equalisation mechanism needs to go back to the theory of local government finance that I remember when I first got involved 40 years ago, which was that wherever you lived in England and Wales, the funding that was available at a fixed rate, as it was in those days, enabled the council to deliver a certain level of service. Councils may be bad or good, efficient or inefficient, and may have different priorities, such as low rates, high spending levels or high service levels. That is fundamental. What has happened is that bit by bit we have moved away from that and there is a lot of unfairness in the system, both between types of councils and due to historical accidents that have exaggerated difference.

The biggest danger we see—and this is obviously a Labour councillor speaking for a network that is overwhelmingly Conservative—is that we will not get what we want, which is something that fairly reflects the responsibilities that we have. We accept that there will be winners and losers, but we want a fair system that is moving away from the inequalities that have built up in the system. If the system is simply based on the existing spending patterns, that reinforces the unfairness. We need to get away completely from that.

Graham Soulsby: Without going over the same ground as colleagues, I would agree that one of the big things in the new system is the needs-based review and linking it to the fairer funding formula. That is a key thing in getting it right. If we move to a better position in how that works, it should give authorities a bit more power and flexibility. Obviously, the funding pot does not necessarily change, but it is about how that is distributed.

I would make the additional point that it is not just about the allocation of funding to do different things. It is also about how we can promote more prevention-based spending—moving it around and spending more at the earlier end of where the pressures are, which is cheaper than spending it at the end when the costs are a lot more.

Q56 Mr Thomas: The Minister painted a picture of 100% business rates retention leading to a new dawn of councils rushing out to encourage huge amounts of new economic growth. I wonder if that is a picture that you recognise. If not, what barriers to that economic growth can you think of? I ask that in the context of a rural area where the space for the type of warehouse facilities that you could imagine generating significant business rates will be much more limited.

Guy Ware: I think that "new dawn" is an interesting phrase. There are clearly incentives built into this. In our submissions to the consultation at the end of September, we identified a number of issues that prevent those incentives working clearly.

One of those, as we heard about a moment ago, is the appeals impact. Another is simply the frequency with which the system will take away the growth that is delivered by any activity in a given area. There is no straightforward answer to that. The new system has to address both the needs issues that my colleagues have mentioned and also, because it is the explicit intention of the Bill, a way of retaining a significant financial incentive while recognising those needs issues.

What are the barriers to growth? That is a very big question that it is perhaps beyond the scope of the Bill to resolve. From a London perspective, we have been very clear what we need. We think the greater local powers over these issues would enable the capital to respond better to the threats that we currently face, particularly the uncertainty arising from Brexit and also, less topically, the threat to the sustainability of growth within the capital, which to some extent is a victim of its own success.

The ability to house and transport people to keep working in London is a huge challenge. There are specific clauses in the Bill that we think would help that—for example the infrastructure supplement and designated areas—but there are others where we think it is unhelpful. For example, on the use of the infrastructure supplements, there is a broad definition of what they can be spent on, which is anything that will promote economic development, but unfortunately, two clauses later, there are specific exclusions, the first of which is housing. If you ask businesses in London, as we have repeatedly, what the biggest barrier is to continued and sustainable growth in London, they will say the lack of housing. So we want to see the Bill go further to free up local government to use some of the products of business rates in ways that are more suitable to their particular economies.

Councillor David Borrow: Given that the County Councils Network represents large rural areas and small towns, the issue around elected Mayors causes a lot of problems because elected Mayors are a prerequisite for being able to have greater control over business rates, including increased business rates to put infrastructure in. That is a real problem in shire counties. Conservative Members here know the debates they have had on that issue. The County Councils Network wants that power to be given to combined authorities without it requiring an elected mayor.

Secondly, if the Government are looking to give further responsibilities as a result of transferring 100% business rates, the LGA has clearly identified lots of areas currently delivered by Government that promote economic growth, and it seems logical and sensible for those responsibilities to be transferred to local government where they fit in with the policy of developing economic growth at the local level.

Thirdly, in many rural areas a lot of businesses are exempt from business rates as a result of the systems to promote business, and the mechanism affects the income that the council gets. You can promote small businesses, but it is different in rural areas and in more urban areas.

Graham Soulsby: The last answer I gave was about making sure we get the needs-based assessment right. The other side of that is making sure we get the incentive side of it right. Those are the two key things in terms of how the Bill might operate. The incentive side will be key in whether the changes actually promote more economic growth at local government level. From an incentive perspective, if local authorities and their communities can keep more of the additional money that comes from business growth, there is probably more of an incentive to promote economic growth.

There is an issue that we have tried to flag up through the various working groups that we have been sitting on, which have been very good, through the Department for Communities and Local Government. If a reset comes up in a five-year period, we have argued that we need to be really careful about how that works, because there could be a disincentive to economic growth as you move towards that reset. If you did it in year four of the five-year period, you would not keep much of the additional income that comes through because it would all get redistributed. We have tried to argue that for that to work properly, there needs to be some retention of incentive in the medium term so that if you want to use some of the additional business rate income, you can go out to the market and perhaps get infrastructure funding to promote some bigger schemes, but you would have to pay it back over a longer period of time. There needs to be flexibility in how much incentive there is and in how much business rate increase you can keep for a longer period to get real economic growth.

Q57 Peter Aldous: For the record, I am chairman of the county all-party group, for which the County Councils Network provides the secretariat. Mr Soulsby and Councillor Borrow, you very much emphasised the importance of the needs-based review of the fair funding formula being synchronised with the implementation of the provisions in the Bill. Do you think there is a case for including that in the Bill?

Councillor David Borrow: It is unusual that the two things have been separated. The timing of both parts of this change needs to be as close as possible. If they have to be done in two separate pieces, they need to be co-ordinated. Clearly, until we have sorted out the funding formula, we cannot really move ahead with 100% business rates, and getting that right is fundamentally important.

Graham Soulsby: It will be okay if the co-ordination is done properly, given that this is more of a framework. One of the things that the working groups at DCLG are working with local government on is the much longer gestation of the needs-based side of it. We have been trying to argue that the timescale needs to be brought back a bit and it needs to be done more quickly. That definitely needs to happen. Whether it needs to be part of the Bill, I am not sure, to be honest.

Q58 Jim McMahon: My question is for Mr Ware and London Councils. The Bill provides for business rate pooling arrangements to take place. We are in a borough where the band D council tax is £672 a year, looking at a borough across the road where the band D council tax is nearly twice that. Does London Councils have a view about the potential for council tax pooling, and have any discussions taken place with the Government?

Guy Ware: The short answer is no, there is not a clear view and there are no active discussions about council tax pooling. However, the two things will be closely interrelated. We in London would argue—this will apply in other parts of the country—that we should do this by arrangements that we devise for ourselves, but that is a slightly separate question. The two things will be interrelated because the definitions of the needs and therefore the business rate baselines that determine the top-ups and tariffs that will redistribute business rate resources between authorities will also be informed by the capacity to raise council tax. There is a whole set of quite difficult issues that sit behind that around why council tax can be very different, as you say, between two neighbouring boroughs or authorities in other parts of the country, which is bound up in previous political decisions, previous funding decisions and so on, so it is not straightforward.

We would argue that in the medium term, council tax and business rates should be reviewed together. The London Finance Commission, which reported just last Friday, certainly argues—I think persuasively—that fundamental reform of the way that property taxation is undertaken is really important. Trying to do each of those taxes independently is not necessarily the best way to go about it, because they are interrelated and affect transactions in the market and individual business rate and council tax payers.

Q59 Jim McMahon: One of the problems with the current council tax system is of course that Governments do not always have the courage to go forward with revaluations, which is why it is now 26 years since the last one. Is there a view that that should be localised—that that should be a local freedom?

Guy Ware: I believe it should, and I believe that the chances of it happening would be considerably greater if it were managed at a local level—in our case London-wide. The ability and the accountability of local politicians to tackle those really hard questions is greater, because the incentive is greater and the exposure to voters and taxpayers is that much greater.

Q60 Jim McMahon: Finally, does London Councils have a view about the abolition of the GLA transport grant?

Guy Ware: Again, we are supportive. All our submissions and recommendations on this issue have been made jointly with the GLA and the Mayor. The change that is coming in in April to fund Transport for London and the fire service revenue support grant within the GLA by retaining extra business rates is entirely in the spirit of the way that we think these things should move.

Q61 Kevin Hollinrake: Councillor Borrow, you were talking about how unfair the current system is and about the need for a review. I think you also said that there will be winners and losers. I agree, as I think most people would. How do we cope with that? Your local authority's spending power, for example, is around 35% less than some London authorities with much higher spending power. There are going to be winners and losers. Mr Ware is here wearing one hat; you are wearing another. How are we going to deal with that situation without it being a fudge that bakes in the current unfairness?

Councillor David Borrow: That goes back to the issue that the longer you allow unfairness to build in the system, when you try to bring fairness back, you have to put some sort of transitional arrangements in place. That ties in with the issue of council tax revaluation. I was told 40 years ago that you needed five-yearly revaluations. Otherwise, you end up with a situation like the one I was in when I worked down here: I was in a band E property in Preston and a band E property here, but I was paying less here than I was in Preston and the property down here was worth twice as much as the property in Preston, simply because the revaluation had never taken place.

Any property-based tax system needs to have regular revaluations. We had it for business rates, but we have not had it for domestic property. I understand the political realities of that, but if we are not going to have revaluation but we are going to have some fairer funding system, given the disparity that exists now between certain authorities—you've got people in a band D property paying £500 in parts of London and nearly £2,000 in another part of the country—you clearly have got to have some transitional arrangements to make that fair.

Guy Ware: It will not surprise you that I would also like to talk about that, and you will not be surprised to hear me say that I think we need to be very careful when we talk about London—I fall into the same trap sometimes—as an area of high spending power. London is a very huge and diverse city and economy. There are areas of London with the highest levels of deprivation and need of anywhere in the country.

Kevin Hollinrake: You have also got nine of the 10 authorities with the highest spending power in the country.

Mr Thomas *indicated dissent.*

Q62 Kevin Hollinrake: This is evidence. And nine of the 10 lowest council tax charges in the country. I am not saying every local council in London—

Guy Ware: We also have nine of the 10 areas with the greatest multiple deprivation. The point that we need to get to is that there is a history behind that, as one of the previous questions suggested. The differences between neighbouring London boroughs can be as great in terms of spending power and tax as between some London boroughs and some authorities in other areas of the country.

One of the previous questions this morning was about the Independent Commission on Local Government Finance. One of the commission's key recommendations was that the variations between authorities were at least as great within regions as they were between regions. As a result, it concluded and recommended that it would be possible and sensible to devise an approach that looked at regional funding needs, which would allow authorities within a region to deal with the distribution within that region.

Q63 Kevin Hollinrake: Councillor Borrow will disagree with that.

Guy Ware: That is something that we have been arguing strongly for from a London perspective. I am sure Councillor Borrow will want to come back on that.

Q64 Kevin Hollinrake: Can you answer my question? If you change a formula, there will be winners and losers. I absolutely subscribe to the view that that should be based on need and need alone—whether that means your local authority, mine, or anybody else's is better-off—as long as it is transparent, clear and simple, so that we can all understand it. How do we deal with that situation?

Guy Ware: There are two issues. First, any change produces winners and losers and you need to make sure that the transition is not too sharp or painful. Secondly, however, a system that is based on need and need alone, while it might sound attractive, is actually directly contrary to the spirit of the Bill and Government policy, which is that the desire to introduce an element of incentives to the way in which local government is funded is seen to be important enough to pursue. The reason that it is important is that the amount of money available is not necessarily a fixed quantum. If you can generate more business activity and, therefore, more business rates, you can bring more money into the system.

Q65 Kevin Hollinrake: Sorry, we are short of time. I want Councillor Borrow to come back on that.

Councillor David Borrow: Darra Singh and his committee floated the idea of regional equalisation of the business rate. All that would do is reinforce the inequality between regions, and it is absolutely fundamental that if we are to get a fair local government finance system, you have equalisation across the country. From a mathematical point of view, you can argue that it is easier to do it on a regional basis, but that simply reinforces inequality. The dramatic, obvious example is between the south-east of England and the north-east of England—that would simply reinforce the poverty in the north-east and the affluence in the south-east. It is clearly not something that any Government should be looking to do.

Q66 Clive Efford: Mr Ware, following on from Mr Hollinrake's questions, does not the capacity to raise income through fees and charges and to generate local economic activity—that is what we are talking about in business rates—need to be taken into consideration? Let me explain myself. I am from the borough of Greenwich, sitting on the outskirts of inner London, and I look in on Camden and Westminster, which can raise money through things such as parking charges, which enables them to finance local government expenditure in a way that other areas cannot. Is that not a major factor? You cannot take the face value of how much one local authority charges for council tax as a way of demonstrating its efficiency.

Guy Ware: It is clearly not a straightforward measure of the efficiency of the local authority or indeed its ability to raise resources in other ways, as you suggest.

There clearly are differences between authorities. There are also a number of restrictions around the use to which such income can be put. Our approach in London Councils and the GLA has been to argue for the need to be able to look at London as a system as a whole. In order to make the success of the economy that I was talking about earlier continue, you cannot look purely at a borough-by-borough level, because the concentration of employment in the centre of the city means that that is where the majority of the jobs—not all of them, but a very large proportion—are going to be, but that is not where people are going to live. We need to think about how we can balance the contributions that various parts of the capital can make to its future success, and part of that will be the ability to invest in transport, to provide housing and to raise revenue through various types of resources.

Q67 Clive Efford: It is that ongoing ability to raise income from other sources that areas such as London can benefit from, but other local government areas struggle to do so.

Guy Ware: Again, I would make the point that some areas of London have greater capacity than others—that is the point from which you started—and some of those are comparable to cities and rural areas outside the capital and some are not.

Q68 Clive Efford: How much is the capacity to raise money from fees and charges a factor for different local government areas across the country?

Guy Ware: The ability to raise fees and charges makes a significant contribution to local government's overall financial sustainability. I know that, as a sector as a whole, we will be arguing that there should be fewer restrictions on the capacity to make charges and the rates at which we can charge. A number of them are constrained not only by what you can spend them on, but the levels at which you can charge in the first place, which do not necessarily cover the costs of the services being charged for. Planning is probably the most well-rehearsed example. So, yes, it is significant to the ability of councils to budget and maintain their services, and as a sector we would like more flexibility and control over how we use that ability.

Graham Soulsby: I would like to supplement Guy's answer. If we are going to move a simpler but more effective needs-based system, obviously a local authority's ability to generate income in other ways needs to be taken into account, to make it fair to other authorities. To do that in a more effective way, look at the current restrictions that are in place. Many local authorities have, over the last few years and longer, tried to maximise their income base in the best way they can, because they have had to do that. There is probably less headroom than there used to be; but nevertheless if some of the restrictions were lifted it might just help with our overall funding issues.

Q69 Rebecca Pow (Taunton Deane) (Con): This slightly relates to those issues. Mr Ware commented on incentives being important; I just wondered what your views are about abolishing the levy payments, which basically are a tax on successful business. Would it help to free up more money and make a difference?

Guy Ware: We would support that abolition; we think it does help produce a greater connection between the growth of economic activity in an area and the growth of business rates that can be retained within that area. That is currently what is funding the safety net system so, once we do that, we will need to think through the consequences and how you fund a safety net that is appropriate to manage the risk of significant reductions in resources.

There are two further fundamental restrictions on the amount of business rates that can be raised—one specifically covered in the Bill and one specifically excluded. The provision in clause 5, which changes the indexation that will be applied to business rates in future, effectively from RPI to CPI, is a good illustration of my point that it is not necessarily a fixed pot. That change alone, we estimate, will take £80 billion of spending power out of local government over 20 years. At a time when we are all discussing a crisis in funding for social care—that being a good third of local government funding—to reduce by fiat the capacity and buoyancy of the biggest single tax that local government will be collecting seems to me to be worthy of debate.

The second issue—the one that is not in the Bill—is the principle that sits behind the way in which business rates are determined. Each time it is revalued it is revalued to a fixed sum, so that the yield of the tax is determined in advance by the Treasury and the multiplier is set in order to deliver the amount that the Treasury says it should. Again, that is a policy choice that the Government make. It could allow the yield from business rates to rise with the economic activity that is underpinning it, in exactly the same way that income tax and corporation tax rise with the economic activity that they are taxing. It is only in the case of business rates that we have taken the choice to set a cap for the amount of money that can be raised.

That not only reduces the buoyancy; it also distorts the distribution. The issues between London and the rest of the country become really important here, because what happens is that within a fixed sum, every time there is a revaluation, property prices in areas where they rise faster than average—which is central London, but also lots of other places—go up faster than they otherwise would. The concentration of the tax base is getting greater and greater as a result; fewer and fewer businesses are paying a higher and higher proportion of the national business rate take. That could be cured—it could be solved—and in our proposals we have suggested ways to do so; but it is not a given, as I have said. It is a policy choice that has been made, and we think it is damaging.

Graham Soulsby: On the levy payment, I think the link to the safety net is really important because, obviously, it was used to fund that; so the system needs a mechanism so that it is still able to do that. The stuff in the Bill on the safety net, and additional flexibilities if a major business went under in this particular patch, are welcome. In reality, not having levies in the system is a sensible thing to do overall. What we found in recent times is, because most authorities operate business rate pools in any event—and by operating a pool you do not pay the levy, because you can do different things with it—it is just normalising what most authorities are doing. The evidence from business rate pools is that it is generating more economic growth. For that reason, I would say that it is a good thing to do.

Councillor David Borrow: I do not really have much to add, apart from to point out that generally county councils cover larger areas. Clearly, the risks are much less for a county council than for a district council, simply because if there were a loss and a problem in one part of the county, within a county council it would be lost in the mix, whereas for a district council in a two-tier area it could have quite a significant impact.

The Chair: Are there any further questions? We have only a few minutes left.

Q70 Peter Aldous: As part of the whole devolution process, in order to facilitate the new business rate retention process, at present various responsibilities are being transferred from central to local government so as to ensure fiscal neutrality. I would welcome your views on that. From your perspective of taking on those responsibilities, are there any unexploded bombs that you might think are being passed to you unfairly?

Graham Soulsby: That is a really good question, but one that is quite hard to answer at this moment in time. The issue of new responsibilities, as you can see from the drafting of the Bill, is not in there. We have had discussions in the DCLG working groups about different ideas of what those new responsibilities might be, but the big point that all representatives of local government have made is that, obviously, we are open to the discussion. We do not want to take on responsibilities that have that ticking time bomb element where they are fiscally neutral at day one, but by year five a huge deficit is eating into our business rate income. As a principle, we have been trying to argue that with DCLG officials. They understand the debate, but we have not yet got to the detail in terms of thrashing it out.

Councillor David Borrow: I would go along with that. From our perspective, there is a real risk. The point that the County Councils Network would make—this may be shared by other people in local government—is that there is a first call to be made on any business rates before additional responsibilities are transferred, which is to ensure that the existing funding gap is met. Particularly in terms of adult social care and looking forward over the next few years as the revenue support grant disappears, the figures show a gap. In my own authority, we are looking at a gap of £150 million between income and expenditure in 2020-21. That sort of figure is not particularly unusual among upper-tier authorities.

Guy Ware: The equivalent figure in London, collectively, is about £2 billion, plus the GLA.

I echo what my colleagues have said. To be perhaps more positive than I have been about some other issues, one ticking time bomb has already been defused in the non-transfer of attendance allowance. I give credit and pay tribute to the joint working groups that Graham mentioned earlier and that the DCLG has been leading with the LGA. That is evidence of some listening and some progress in the joint assessment of problems.

Q71 Mr Thomas: Just to follow up the ticking time bomb analogy, if the £3 billion public health grant were to be abolished, would public health become a ticking time bomb for local government?

Guy Ware: I think public health is a ticking time bomb for the country as a whole. One of the comments that Graham made earlier, about the desire to shift spending into prevention and away from expensive interventions, applies fundamentally to this issue. If the grant were abolished and public health became a local authority responsibility like any others funded from council tax and business rates, the incentive to ensure that we were fulfilling the kinds of policy objectives that underpin public health would become all the stronger. There is risk involved in that, obviously—namely, that we cannot cope with the consequences—but certainly there would be benefits in aligning the responsibility and accountability for managing those services with those who are raising the resources.

Councillor David Borrow: This raises a bigger issue: local government, in terms of adult social care authorities, needs to find a way of working properly with the NHS. At the moment, there are disincentives around adult social care and the NHS. Clearly that is the direction of travel that the Government want to move in, but they need to look at what they need to do to ensure that the right partnerships between local government and the NHS can exist. With something like public health, if the funding for it is reduced, that would put more pressure on adult social care and on the NHS in the longer term, however useful that may be in reducing budgets in the short term.

The Chair: Order. I am afraid that brings us to the end of the time allocated to the Committee to ask questions. I thank our witnesses on behalf of the Committee for their evidence.

11.25 am

The Chair adjourned the Committee without Question put (Standing Order No. 88).

Adjourned till this day at Two o'clock.