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Public Bill Committee

LOCAL GOVERNMENT FINANCE BILL

Third Sitting

Thursday 2 February 2017

(Morning)

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PBC (Bill 122) 2016 - 2017

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Monday 6 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

Public Bill Committee

Thursday 2 February 2017

(Morning)

[Mike Gapes *in the Chair*]

Local Government Finance Bill

11.30 am

The Chair: We now begin line-by-line consideration of the Bill. Would everyone present ensure that all electronic devices are turned off or switched to silent? As a general rule, my fellow Chair and I do not intend to call starred amendments. The required notice period in Public Bill Committees is three working days. The selection list for today's sitting is available in the room and on the website. It shows how the selected amendments have been grouped together for debate. Amendments grouped together are generally on the same or similar issues.

A Member who has put their name to the lead amendment in a group is called first, and other Members are then free to catch my eye to speak on all or any of the amendments within that group. A Member may speak more than once in a single debate. At the end of a debate on a group of amendments, I shall call the Member who moved the lead amendment again. Before they sit down, they will need to indicate if they wish to withdraw the amendment or seek a decision. If any Member wishes to press any other amendment or new clause in a group to a vote, they will need to let me know. I shall work on the assumption that the Minister wishes the Committee to reach a decision on all Government amendments tabled.

Please note that decisions on amendments take place not in the order in which they are debated but the order in which they appear on the amendment paper. Decisions on new clauses are made after we finish with the existing text—that is, after considering clause 42. I shall use my discretion to decide whether to allow a separate stand part debate on individual clauses and schedules following debate on the relevant amendments. I hope that explanation is helpful.

Mr Gareth Thomas (Harrow West) (Lab/Co-op): On a point of order, Mr Gapes. You will probably be aware that the Minister's Department issued in July last year a consultation document that is pertinent to the Bill. The Minister indicated in his witness appearance that he hoped soon to see the publication of those responses, which would be germane to the scrutiny of the Bill. I wonder whether you have had any indication from the Minister or whether the Minister might be suitably prompted to respond to my point of order to indicate when that might happen.

The Chair: I have had no indication. Does the Minister wish to reply?

The Parliamentary Under-Secretary of State for Communities and Local Government (Mr Marcus Jones): Further to that point of order, Mr Gapes. I would like to reassure the Committee that the responses to the consultation will be published shortly. I stand by the assurance I gave the hon. Member for Wolverhampton South West during the evidence session when I was a witness.

Mr Thomas: I am grateful for the Minister's intervention. It would also be helpful to see soon details of how the pilot on 100% business rates retention schemes will work. That is germane to the passage of the Bill. I would also like an answer to a written question I have asked about an impact assessment setting out the economic effects of the scheme, which, again, is germane to the scrutiny of the Bill.

The Chair: The Minister has heard that point of order. I do not think we need to have a discussion on it now, but hopefully things will appear shortly.

Clause 1

Local retention of 100% of non-domestic rates

Mr Thomas: I beg to move amendment 1, in clause 1, page 1, line 7, leave out subsection (2).

This amendment would remove subsection (2) of Clause 1, retaining the requirement that a billing authority pays a proportion of non-domestic rating income to the Secretary of State.

The Chair: With this it will be convenient to discuss the following:

Amendment 2, in clause 1, page 1, line 7, leave out subsection (2) and insert—

"(2) In Schedule 7B, in paragraph 8 of part 3, after sub-paragraph (1) insert—

"(1B) The regulations may, in particular, make provision for the determination of an amount to be deducted in order that the billing authority retains the specified amount for the purposes of funding social care services."".

This amendment would enable billing authorities to retain a specified proportion of non-domestic rating income specifically for the purposes of funding social care services.

Amendment 23, in schedule 1, page 32, line 23, leave out paragraph 7 and insert—

"7 (1) Part 2 is amended as follows.

(2) In paragraph 4—

(a) leave out "each" and insert "certain";

(b) leave out "authority" and insert "authorities";

(c) at end insert—

"(2) "certain authorities" are those authorities specified by the Secretary of State in regulations.

(3) The regulations may, in particular, impose conditions upon the use of central and local share funds calculated under paragraph 13(2) of this Schedule."".

This amendment would enable a local and central share to be retained for designated authorities. The Secretary of State would publish criteria for the use of such funds.

Mr Thomas: It is a pleasure to serve under your chairmanship, Mr Gapes. We all appreciated your guidance, not only on coffee but on how to address other Committee members. My hon. Friend the Member for Lewisham, Deptford has been at pains to explain in detail what your guidance on both issues might mean in practice.

As Opposition Members committed to supporting the principles of the Bill, we are keen to undertake line-by-line scrutiny so that it might emerge back on to the Floor of the House in much better shape. As such, the occasional outburst of tough love may be directed at the Minister, but it will be with the purpose only of achieving a better Bill. We had a good debate on Second Reading, and one of the key points that emerged from that is germane to the amendments tabled in my name and the name of my hon. Friend the Member for Oldham West and Royton.

One of the most interesting moments in the Minister's contribution on Second Reading was his description of this as a revolution in local government finance. An image of Che Guevara briefly surfaced across my mind, followed soon after by Corporal Jones of "Dad's Army". The Committee's purpose is to adjudge whether what the Department offers us is more Che Guevara or more Corporal Jones. *[Interruption.]* At this time in the morning, yes, that is the best I can do.

Clause 1(2) amends the Local Government Finance Act 1988 by removing the provision for a proportion of non-domestic rate revenue to be paid to the Secretary of State. That effectively removes the mechanism by which the Government collect the central share under the current business rates retention scheme. Following the late Margaret Thatcher's 1988 nationalisation of business rates—who ever thought we would hear "Margaret Thatcher" and "nationalisation" in the same sentence?—all business rates income collected by billing authorities was paid to central Government, with resources then distributed to local authorities up and down the country, according to need, by the revenue support grant.

Under the current scheme, introduced in 2013-14, local government collectively retains the local share, which is 50% of business rates revenue; the other 50%, the central share, goes to central Government. On the local share, there is a system of tariffs and top-ups, with those local authorities with relatively high business rates revenues paying a tariff and, conversely, those local authorities with relatively low business rates revenues receiving a top-up. The new system will see a proportion of business rates revenue paid into an account that will handle payments to and from authorities, including tariffs, top-ups and safety net payments.

Amendment 1 would delete subsection (2), thereby retaining the requirement for a billing authority to pay a proportion of non-domestic rating income to the Secretary of State. Amendment 23 follows on from that. It amends schedule 1 to enable a local and central share to be retained for designated authorities, with the Secretary of State required to publish the criteria for the use of such funds.

Opposition Members made clear our support for the principle of the devolution of 100% of business rates on Second Reading. We also made clear our concern about the almost complete absence of detail on how the measures the Bill paves the way for will work in practice. In the absence of that detail, many in local government and those who follow it closely are worried about the impact of this measure on the provision and quality of local services.

The first big issue with the measure as it currently stands is redistribution. Essentially, the key questions are as follows. How will the redistribution mechanisms associated with this measure work in practice? How will the Minister and his officials seek to amend the system of tariffs and top-ups? Given the importance of revenue support grant and other section 31 grants to helping to ensure spending power between areas is equalised, how will the new system compensate for the loss of revenue support grant and the promised addition of extra responsibilities to local authorities?

Rob Marris (Wolverhampton South West) (Lab): Perhaps my hon. Friend, with his much superior knowledge, can explain this conundrum to me. How can one support 100% devolution of business rates, yet also argue for redistribution? It seems to me, prima facie, that those are contradictory.

Mr Thomas: My hon. Friend speaks to one of the tensions at the heart of the Bill. On Tuesday, we heard considerable concern about the impact of that tension from the witnesses in both the morning session and the afternoon session. I want to dwell on that tension in due course.

The other question associated with the concern about redistribution, and I hope the Minister will be willing to dwell on this in his response, is, what are the key principles that the fair funding formula will operate on? As I understand it, the fair funding review is currently working its way through his Department. We have no idea, sadly, when we can expect publication of that document. We are none the wiser about the rules by which the fair funding review is being conducted and the criteria that are being used.

Jim McMahon (Oldham West and Royton) (Lab): Does my hon. Friend agree that this point is critical to assessing the impact of this measure, whether a positive or negative change is being made, and the way in which the Minister has tried to decouple the framework from the actual financial impact on local authorities?

Mr Thomas: I do agree. One wonders what the rush is to get this Bill through now, before the fair funding review and the draft regulations associated with the Bill have been published to allow proper scrutiny. Perhaps Ministers' minds are focusing on the provision later in the Bill to delete any annual consideration of the state of local government finance and the scrutiny thereof, and that is motivating them to rush the Bill through. That is something I want to come to later in the Committee's proceedings, if I may.

Rob Marris: Does my hon. Friend, like me, detect a worrying trend here? The fair funding review consultation document has not been published and, yesterday, when we concluded two days of debate on Second Reading for arguably the most important Bill since the second world war, the White Paper had not been published.

Mr Thomas: There does seem to be a pattern of Ministers shying away from parliamentary scrutiny. I do not know why, because we always enjoy the Minister's appearances, but it is a concern, as my hon. Friend the

[Mr Gareth Thomas]

Member for Oldham West and Royton also made clear. Given that this measure is one leg of the triptych of elements that are associated with 100% business rates devolution—the paving Bill, which we are discussing here, the fair funding review and the detailed regulations—one would have thought it better to have seen all those together at one moment so that we could have assessed the benefits or not.

Jim McMahon: That is a very good point. Given our assessment of this, it is very easy to be cynical about the motives for not wanting parliamentary scrutiny. It could well be that the plan is so bad that there is a fear of parliamentary scrutiny, but it could be that the Minister is just very nervous. If it is any help to the Minister, perhaps we can say that we will be gentle, encouraging and supportive during that scrutiny and that he should not fear it.

11.45 am

Mr Thomas: My hon. Friend has always been far more charming and conciliatory than me, but he is right: we support the principle of 100% business rates devolution and want it to work for local government, given the huge importance of the services that local authorities provide for the people of England. He is absolutely right that we should have had all three elements together at the same time, so that we could look in detail at the impact of the measure. It would certainly help if we could at least see the details of the responses from the whole series of councils and organisations that responded to the consultation last July. We are not in a perfect situation—he rightly says that the best possible arrangements for scrutiny would have been helpful—but it would help if we could at least see the consultation responses.

The last key question to which it would be helpful to get an answer is linked to redistribution. How will the poorest areas in England not lose out even more as a result of this measure than they have since 2010? I am pleased to say that redistribution engaged the minds of virtually all hon. Members who made speeches or interventions on Second Reading. Perhaps it is worth dwelling on some of their contributions. The hon. Member for Wells (James Heappey) raised the funding gap, which he thought was already too wide, between predominantly urban and predominantly rural authorities—redistribution was an essential point for him. The hon. Member for South Dorset (Richard Drax) worried that, for authorities such as his, which are

"surrounded by every environmental designation from here to God knows where…it is going to be far harder"

under the new arrangement

"to raise this additional money".—[*Official Report*, 23 January 2017; Vol. 620, c. 70.]

He was clearly worried that his local authority would lose out, and redistribution was at the heart of his concerns.

The Chair of the Communities and Local Government Committee, my hon. Friend the Member for Sheffield South East (Mr Betts), also raised concerns about redistribution and about how his authority and others might suffer if the redistribution arrangements are not right. The hon. Member for Totnes (Dr Wollaston) raised concerns with the Minister that the improved better care fund might not be maintained, given some of the current problems with the social care precept. Concern about redistribution was at the heart of her question.

Even the hon. Member for Thirsk and Malton, who, sadly, is not in his place, raised, amidst his regular attempt to bash London local authorities, a concern about his local authority, which I understand is a more rural one, and how its spending power might be affected in comparison with other authorities. Again, redistribution was at the heart of his concern. My hon. Friend the Member for Coventry South (Mr Cunningham) was worried about the impact of the measure on the services from which Coventry City Council and Coventry residents benefit. Similarly, interestingly and almost counter-intuitively, the right hon. Member for Cities of London and Westminster (Mark Field) noted the significance of the business rates income that Westminster Council receives and generates, and how it sees some of that income redistributed around the country. He made clear that the redistribution arrangements need to be got right.

My hon. Friend the Member for Manchester, Withington (Jeff Smith) expressed serious concerns about the redistribution arrangements on behalf of his local authority in Manchester. I will come on to Manchester, because it always figures highly in the index of multiple deprivation, which is the analysis of the poorest areas of our country. He was concerned about how the redistribution arrangements might work in practice.

There is surely a concern about the redistribution arrangements between tiers of local government. My amendments could have a significant impact on the sharing of business rates revenue between counties and districts. The arrangement in place involves the 50% retention of business rates. The Minister will know that districts get 40% of the increase in rates income and counties get up to 10%. That is because districts have more direct powers, with economic development planning being the obvious one. Counties, on the other hand, have much higher spending needs. They tend to be the authorities responsible for social care, for example. The system of top-ups and tariffs, as it affects the relationship between counties and districts going forward, will be particularly important.

Interestingly, the Institute for Fiscal Studies argued that a growth in the business rates tax base might mean that counties are likely to lose out over time, and that districts gain. Redistribution between tiers of local government, where multi-tier arrangements are in place, is of huge importance. I hope the Minister will dwell on that point.

Rob Marris: My hon. Friend cited the Institute for Fiscal Studies. Does he share my concern that the Bill might be yet another attempt to slash funding for local government? The IFS found in 2015 that grants from central Government to local government had fallen by 38.7% a person between 2009-10 and 2014-15.

Mr Thomas: My hon. Friend makes a very interesting point. On Second Reading, I mentioned some Institute for Fiscal Studies analysis that bears repeating. When the

IFS considered what would have happened between 2013-14 and now if 100% of business rates income were retained at that point rather than having the 50% business rates retention scheme, it found that 16 councils would have seen their funding increase by 20% or more, whereas only one council saw its funding go up by 20% or more under the current scheme. Conversely, on the basis of the IFS analysis, 122 councils would have seen their funding fall under 100% business rates retention between 2013-14 and now, with 12 of those councils losing more than 2% of their income. No council has lost that much under the 50% scheme.

Therefore, the concern put by my hon. Friend in his usual forceful manner—it was about whether there might be further serious cuts in the spending power of local authorities and, crucially, how they would be distributed—was a point well made. That is a genuine concern, which the Minister needs to address.

Jim McMahon: Local authorities have commented that, because business rate valuations are so heavily dependent on rental values, every time there is a revaluation it has a bias to London authorities, where the rental market is overheated, and disadvantages local authorities outside London. There is a risk that, without the top-ups, tariffs and safety nets, presented in such a way that we can scrutinise them, local authorities could be seriously disadvantaged at the next revaluation.

Mr Thomas: My hon. Friend makes a good point. I would not say that the concern from the business community about business rates revaluation has dominated the pages of the *Evening Standard*, but it has been a significant theme for those who follow local government in London and business rates issues, as I do.

To return to the distribution of funding between multiple tiers of local government and, particularly, the allocation of funding between counties and districts, one concern is that if districts' funding share were to be reduced, they would be less reliant on top-ups but more exposed to the risk of a fall in business rate income. Clearly, counties face the reverse risk that, if Ministers decide to reduce the available top-ups, services offered by county authorities to residents will come under even more pressure.

A similar tension was noted earlier by my hon. Friend the Member for Wolverhampton South West. Ministers have talked about an incentive under the Bill for districts to capture business rate income by championing big businesses that want to build warehouses or other property, but would a lower share of income for districts reduce that incentive? The system of top-ups and tariffs critical to the extent and effectiveness of redistribution arrangements under the Bill is key to whether the incentives to promote new economic development that Ministers say the Bill will generate will work. Whether the incentives work in practice is intimately linked to the redistribution arrangements.

Amendment 1 would still require districts to pay a percentage of business rates to the Secretary of State, so that some of the funding could be directed onward to counties and beyond. This is an opportunity for Ministers to clarify their intentions as to redistribution between districts and counties. As I have suggested, one concern about the Bill is whether the huge incentives—the revolutionary incentives that the Minister talked about—for local economic development will materialise in practice. If they do not, the practicalities of redistribution become even more critical.

We have heard at some length about the type of economic development that could be created under the Bill. It is property-based growth. The only way in which local authorities will benefit from the purported incentives under the Bill will be by large businesses locating in their areas. It is easier to see how those incentives might exist for an authority with a large amount of land capable of development. However, quite a few authorities—you will not find it hard to imagine which ones they might be, Mr Gapes—face significant barriers to that type of development, and therefore to that type of local economic growth. That underlines the need to get the redistribution arrangements right.

12 noon

Let me offer up the example of Allerdale Borough Council, which is in the northern part of the Lake district. It serves the community of Keswick, but is surrounded by the wonderful mountains of the Lake district. Obviously, as the name of the area implies, it is home to some great lakes. It is a very rural authority, so there is a significant amount of land, but it cannot be earmarked for property-based growth for large businesses as it is designated for farming and used by farmers. The scope for Allerdale Borough Council to benefit from the economic incentives that the Minister says will exist is, I suspect, not quite as great as he might hope. It is important that we get the redistribution right for a council such as Allerdale.

One also thinks of the coastal authorities to which the hon. Member for Waveney alluded. It is fairly obvious to see what one of the barriers to growth in a coastal authority is. It is crucial that we recognise that the opportunities for the type of economic growth that the Minister and the witnesses said might be possible—the sort of large warehouse-type development, or the big retail supermarket shopping mall-type development—will not be obvious for rural authorities or for coastal authorities. It is critical that we get the redistribution arrangements right. My amendments 1 and 23 are central to achieving that.

Rob Marris: Does my hon. Friend agree that there are certain parts of the east of England—this may cover Waveney—where land availability is shrinking because the land is collapsing into the sea?

The Chair: Order. Can I ask Members please not to take us away from the scope of the Bill? And I think—

Rob Marris: I was talking about the redistribution of land, Mr Gapes.

The Chair: No. I think we need to be a little bit more focused, please.

Mr Thomas: I will take your guidance, Mr Gapes, even though it is tempting to follow my hon. Friend the Member for Wolverhampton South West.

The Chair: Do not go down that route.

Mr Thomas: I would not dream of ignoring your guidance on that matter, Mr Gapes.

Peter Aldous (Waveney) (Con): I will just comment on what the hon. Member for Wolverhampton South West has said. The process he talked about has been going on for centuries—

The Chair: Order.

Peter Aldous: I am just coming on to my point, Mr Gapes—

The Chair: Order. The hon. Member obviously did not hear me. I do not think we are going to get into a discussion about coastal erosion.

Mr Thomas: Well, I am sorry that we cannot go down that particular route, in one sense, Mr Gapes—

The Chair: Order.

Mr Thomas: I do not want to upset you, Mr Gapes, any further than the hon. Member for Waveney has already done, so I will not go down that route. However, if the hon. Gentleman has another point of intervention, I will happily give way to him on something different.

Peter Aldous: I thank the hon. Gentleman for giving way again. Mr Gapes, I fully respect your views but I just could not resist making that point.

The hon. Gentleman is right to make his point about the importance of the areas that are disadvantaged by this change—I made the point myself on Second Reading. However, is he not aware that, for a very long time, local government has been crying out to keep all its business rates, which is why local government supports the Bill in its round form and is not supportive of his amendment?

Mr Thomas: The hon. Gentleman makes an interesting point, because it is certainly true that local government associations up and down the country support the principle of 100% business rates retention, as indeed do Labour Members. However, I say gently to him that, as the case of his local authority exemplifies, the devil is in the detail. Surely he recognises that the Bill is the opportunity to try to establish how Ministers will operate the detailed implementation of aspects of the measures that are pivotal to the success or otherwise of 100% business rates retention. Redistribution, which was pivotal to the contributions of so many hon. Members on Second Reading, is fundamental to the success or otherwise of the Bill. It would be a tragedy if the support, tentative as it is in some places, for 100% business rates retention were to disappear, and if many local authorities lose out, because the Government get the fair funding review wrong, or because the regulations that implement the Bill in practice do not have sufficient and effective scrutiny.

I say gently to the hon. Gentleman that he is right that the principle is supported, but it is supported more loudly by those authorities that have a high business rates income and that see the potential for economic development because they have access to land. Authorities such as Allerdale Borough Council that are trapped in terms of the space they have for economic development might be more worried about the detailed implementation of the Bill. Obviously, the hon. Gentleman will not dwell on coastal erosion, because he would just upset the Chairman, but I hope he will think more about the question of redistribution and use his substantial influence with Ministers to encourage them to think through it.

Rob Marris: On redistribution, does my hon. Friend agree that one way to square the circle of 100% devolution while ensuring that we do not exacerbate unfairness would be to have a system whereby we had 100% devolution of business rates incomes to incentivise to promote development—as the Minister, without any evidence thus far, keeps telling us it would—but also retention of an equivalent to a revenue support grant to redistribute to less advantaged areas such as Wolverhampton and Oldham?

Mr Thomas: My hon. Friend makes a good point, but if he will forgive me, it is apposite to the clause 1 stand part debate, when it will be worth dwelling on the revenue support grant in a little more detail.

I was focusing on authorities that might have concerns about how redistribution would work. Many urban authorities currently benefit from top-ups under the scheme—perhaps that top-up or income is not quite as much as they would want—but are nevertheless very concerned about redistribution. I am thinking of my own authority. The London Borough of Harrow has a very high density of housing, and although there is some scope for new business development, it is a very highly developed area, and obviously constituents and the council want to preserve the character of the area. The Minister may say that there are incentives in the Bill to promote economic development, but in practice there are significant barriers to growth, even in many urban areas. That is one reason why the amendments are critical.

Jim McMahon: An important consideration, as I hope my hon. Friend will agree, is that this is not just about square footage, but about the value of that square footage. Let us take an industrial space in Oldham. According to the valuation office website, the average value of that land is £22 a square meter, compared with £42 a square meter in Trafford, so even within the same city region there are massive variations in land values. Clearly, Greater Manchester is part of a pooling arrangement, but other authorities, such as Oldham, that are not currently part of pooling arrangements would not benefit. In future revaluations, they could be seriously damaged.

Mr Thomas: My hon. Friend underlines the point that I am making about the concern that urban authorities face significant barriers to the type of economic growth that the Minister says will now sweep the land as a result of the Bill. They are looking to the Minister for more detail about how the redistribution arrangements will work in practice.

In the context of amendment 23, I want to focus on one example of where redistribution as a result of economic growth is particularly interesting. This is a topical issue, because it relates to the third runway at Heathrow. Members of Parliament not so lucky as we are to be on the Local Government Finance Bill Committee have to content themselves with a discussion in the main Chamber about the consultation arrangements for the third runway. I invite the Committee to assume that the third runway at Heathrow will be built. It is something that I strongly support—I only wish Ministers had got on with it a long time ago, but we are where we are.

The Chair: Order. Let us not discuss the debate that is being held in the main Chamber.

Mr Thomas: You are quite right, Mr Gapes. We should not do that. That would not be relevant.

Let us assume that the third runway will go ahead. One assumes that it will be part of the central list, which is dealt with in other parts of the Bill. The local authorities in the surrounding area are likely to find that businesses will want to capitalise on Heathrow's refreshed hub status once the third runway goes ahead and are excited about the prospect of the development in that area. Perhaps they do not want to be in the actual Heathrow environs but close enough to be able to get their goods and services to the carriers that will use the third runway. Councils such as Hillingdon, which will be very close to the third runway, and Maidenhead are likely to see significant interest from businesses wanting to take advantage of that area, and are likely to stand to gain significantly in business rates income from the third runway.

Is it fair—I think this is a reasonable question to ask—that those local authorities benefit substantially from the development of a major national asset close to their authority area, when in practice they have done very little to facilitate that development, given that it is a decision of huge strategic importance and has been taken at national level? Those local authorities could not have driven that economic development on their own. Why—this is the sub-question—should the building of a major national asset, which I hope the third runway will become, benefit exclusively, in terms of business rate income, the local authorities in the surrounding areas?

One has to consider the irony that many of the authorities that immediately surround Heathrow, and particularly the area where the third runway will be built, actively oppose it. Here they are, potentially benefitting in business rate terms from the building of a third runway, while actively trying to prevent it from happening. Redistribution of the benefits and wealth that the third runway will generate in local business rates income is pertinent to the question of a central share and a local share, and to amendment 23. Indeed, a less generous Member of Parliament than I might have tabled amendments to penalise the authorities that benefit from such business rates development if they had actively opposed the benefits that will come to our country from such a major national asset. I am not that sort, but it is fair to challenge the Minister to answer the point. How will redistribution work in terms of the business rates benefits that a third Heathrow runway will generate for Hillingdon, Maidenhead and other councils that, ironically, actively oppose its construction?

12.15 pm

Jim McMahon: As much as people will see a direct benefit from that investment, we also expect local authorities that are not part of pooling arrangements to take a grown-up approach to, say, healthcare reorganisation. Local councils are part and parcel of such reviews. In some cases, they have accepted the downgrading of hospitals in their area and services being moved elsewhere. Under the current arrangements—

The Chair: Order. I remind the hon. Gentleman that he is making an intervention, not a speech.

Jim McMahon: Of course. Does my hon. Friend agree that, under the current arrangements, that could be a barrier? If a council loses the business rates income from a hospital, will it take the mature decision that is in the wider interest?

Mr Thomas: My hon. Friend makes a good point. I think again of Allerdale Borough Council. In Keswick, there is a hospital that used to have an accident and emergency department, but that has been reduced to a walk-in centre and there is talk of it being closed. That is of considerable concern to the local community, but I suspect that it is also of concern to the treasurer of Allerdale Borough Council because of the potential lost business rates income. I hope that my hon. Friend will catch your eye, Mr Gapes, so that he can dwell on that point.

I want to dwell a little further in the context of amendments 1 and 23 on redistribution between poorer and richer areas. As I pointed out in response to the hon. Member for Waveney, if one analyses local government reaction to the Conservative party's enthusiasm for 100% business rates retention, one will see that there is real enthusiasm for it in wealthier areas, because councils can see the potential benefits of the extra business rates income that might come their way, particularly if they have lots of land for development. However, poorer areas that have already lost out in terms of the revenue support grant, as my hon. Friend the Member for Wolverhampton South West says, and where there is less scope for large-scale property development, are more worried about what this measure might mean.

Steve Double (St Austell and Newquay) (Con): I am listening with interest to the hon. Gentleman's point. Cornwall is, by some measures, the poorest county in England, so will he reflect on the fact that Cornwall Council has welcomed this change and indeed volunteered to be one of the pilot areas?

Mr Thomas: It is commendable that Cornwall has offered to be one of the pilot areas. As the hon. Gentleman will have heard me say, it would be lovely to know how the pilot scheme will work for Cornwall, and indeed for Liverpool and London. The Minister and his Department have not yet got round to publishing more detail about that. The hon. Gentleman may have the advantage of knowing how the scheme will work in Cornwall, and I hope that he catches your eye, Mr Gapes, so that he can tell us. That would certainly give the Committee more information than I suspect most of us have. I would not be at all surprised if the Minister was not even sure how

[Mr Gareth Thomas]

the scheme was going to work in Cornwall, so I am sure that the hon. Gentleman will be extremely helpful in that regard.

The hon. Gentleman makes an interesting point. When one thinks of Cornwall, which is a very attractive county, one does not immediately think of huge tracts of land being available for out-of-town shopping centres—the one area of economic growth that might lead to substantial business rates income for local authorities. Cornwall is surrounded by sea, which is a natural barrier to economic growth. It also has huge amounts of farmland, which is essential to retaining the county's character and is also a natural barrier to economic growth. Of course, Cornwall Council will want to be one of the first pilot authorities, so that it can see how the redistribution arrangements might work. Although it may not yet have seen the detail of the amendments that I have tabled, I expect that it is concerned about how the redistribution arrangements will work in practice in the long term. The hon. Gentleman will be able to play back that at least the Opposition are fighting Cornwall's corner, even if he is perhaps not quite so enthusiastic on that point.

I come back to the issue of poorer areas versus richer areas and the redistribution arrangements between them. A helpful analysis from the House of Commons Library compares the spending power of councils that have a high index of multiple deprivation rating—in other words, the poorer areas of the country—with that of authorities that have a low index of multiple deprivation rating, which one might describe as the richer areas of the country.

The analysis shows some stark realities, which are particularly pertinent to this debate about redistribution. Let me give a couple of examples. Blackpool, which ranks as the highest in terms of multiple deprivation, had an actual revenue spending power in 2011 of £165.51 million. By 2019, it is projected to have a revenue spending power of only £126.2 million—a loss of £39.31 million in revenue spending power, or a percentage loss of 31%. Compare that with Hart in Hampshire, which is the local authority that ranks lowest in terms of the level of multiple deprivation. In 2011, it had a revenue spending power of £9.35 million. It is projected to see that drop to £8.91 million by 2019, which is a change of £440,000, or just under 5%. So Blackpool is projected to lose 31% of its spending power by 2019. Hart in Hampshire is expected to lose just under 5%. That is a huge gap. In the context of that huge gap, Blackpool Council could be forgiven for being very nervous about what 100% business rates retention might mean, without more detail on whether it will benefit from the Minister's changes to the redistribution arrangements.

Perhaps a couple of other examples will bear witness to the truth of that potential concern. Hull had £266 million of actual revenue spending power in 2011, which is projected to fall to just over £202 million by 2019—a loss of some £63 million, or a 31% loss in its spending power. Compare that with the Chilterns, the third least deprived authority in England according to the index for multiple deprivation rating. It had an income in 2011, in terms of actual revenue spending power—let me use the right phraseology—of £11 million. According to the analysis, that will drop to £9.86 million by 2019, which is a change in actual revenue spending power of just over £1 million. That is a drop of 11%—that is still a significant drop in its spending power, but is nothing like the scale of the drop that one is going to see in Hull. So the Chilterns local councillors might be forgiven for being quite enthusiastic about 100% business rates retention. They might think that, if the Government continue to operate the redistribution formula in the way that they have, although the council might lose, it might not lose much in relative terms.

One suspects that councillors in Hull, particularly those with responsibility for finance, will be extremely concerned that, if the current system of redistribution continues, given how much they have already lost in spending power and are projected to lose by 2019, they will risk losing even more capacity for spending power when 100% business rate devolution comes in.

Rob Marris: Does my hon. Friend agree that, unless amendment 23 is agreed, that unfairness could continue? The national figures from 2010-11 to 2016-17 show an overall 17% reduction, but the proportion of expenditure financed by centrally distributed income fell from 75.9% in 2010-11 to 57.4% in 2016-17, according to page 30 of the Library briefing. Does he agree that that is a shocking drop and that we need acceptance of amendment 23 to counterbalance that trend?

Mr Thomas: My hon. Friend makes a good point. I hope that the Minister is beginning slowly to get the concern of hon. Members, reflecting the concerns of local council leaders and councillors, about how the redistribution arrangements will work in practice.

I will end this point with one last example, which may be particularly interesting to one member of the Committee. That is the comparison between the 10th most deprived council, Tower Hamlets, and South Northamptonshire Council, the 10th least deprived.

David Mackintosh (Northampton South) (Con) *rose—*

Mr Thomas: I will give way in a moment. Tower Hamlets had an actual revenue spending power of £342.93 million in 2011. That is projected to drop to £272.39 million in 2019. That is a £70 million drop in spending power, or 25.9%. Compare that with South Northamptonshire Council, which I understand is quite close to the hon. Gentleman's constituency, so I will happily give way to him in a second.

That council had an income of £10.8 million revenue spending power in 2011. That is projected to drop to £9.9 million by 2019. That is a drop of under £1 million in actual revenue spending power; a drop of 9.19%. I would not want to understate the significance of that for local services, of course, but the comparison with Tower Hamlets is of a 25.9% drop as opposed to a 9.19% drop. That is not fair and, if the current redistribution arrangements continue exactly as they are, I suspect that the Tower Hamlets, South Northamptonshire example will continue to be grossly distorted.

David Mackintosh: I am grateful that the hon. Gentleman recognises that the Secretary of State for Environment, Food and Rural Affairs, my right hon. Friend the

Member for South Northamptonshire (Andrea Leadsom), is not on the Committee. As a former leader of Northampton Borough Council, who has worked very closely with South Northamptonshire Council, I ask the hon. Gentleman whether he recognises that this measure is supported by lots of local authorities.

Mr Thomas: As I have previously alluded to, I recognise that there are many, many councils up and down the land that are desperate to see Whitehall, especially under the current incumbents, draw back from trying to influence what they do at local level. Of course, there will be commitment and support for the principle of 100% business rate devolution. I do not know whether the hon. Gentleman is welcome at South Northamptonshire Council, although I suspect he is. If he were to sit down and talk to the treasurer in detail, he might find that the treasurer acknowledges that there is a genuine and serious concern about how redistribution will work in practice.

Therefore, there is a real concern, given what has happened over the past six years, while the Conservative party has been in power, about the impact on revenue spending power and the redistribution that appears to have happened away from the poorest areas of the country, relatively speaking, to the richer areas. That is of profound concern for many councils.

12.30 pm

I look forward to the Minister commenting in detail on how the redistribution arrangements will work in practice, not least because they will have a significant impact on the capacity of local authorities to provide the full range of services, particularly social care. The way in which the redistribution arrangements work is of huge significance to the provision of social care.

Amendment 2 would enable billing authorities to retain a specified proportion of non-domestic rating income specifically for the purpose of funding social care services. As we all admit to ourselves in private—Government Members know this and Opposition Members have acknowledged it publicly—adult social care in England is in crisis. The amendment is potentially one part of the long-term solution necessary to secure appropriate funding for social care.

Age UK published its latest figures on adults with unmet social care needs last November and the figures are profoundly sobering: 1.2 million older people in England do not get the social care they need. That is a staggering 48% increase since 2010. An additional 383,900 people aged over 65 are now living with some level of unmet need; they are not getting the appropriate social care because of the funding crisis in this country. That means that about one in eight people aged over 65 are struggling without the help they need to carry out essential everyday tasks such as getting out of bed, washing, getting dressed, eating and going to the toilet.

Among the 1.2 million, Age UK's analysis shows that 696,500 older people do not receive any help at all, from either paid carers or family and friends. A further 487,400 receive some help, but not enough, often because help is available only at particular times of day or because their carers are able to manage some tasks, but not others. Some 535,300 of the 1.2 million people aged 65 and over who struggle to wash and get in the bath do not get the care that they need. According to Age UK, 47% of the 472,600 people who have difficulty going to the toilet do not receive the care they need to be able to do so. Others who do not receive help include 47% of the 718,600 people who find it hard to get out of bed; 125,000 of the 281,500 who find it hard to eat on their own; 797,400—more than 51%—of the 1,557,000 who find it hard to get dressed on their own; and 240,500 of the 572,500 people who find it difficult to walk across a room on their own.

Shockingly, nearly one quarter of adults with unmet needs—some 291,400 people, according to Age UK's estimate—have difficulty with three or more essential tasks, including 52,700 with serious needs who receive no help whatsoever. It is no wonder that the Care Quality Commission said last October that the social care system had reached a tipping point. Since then no new money has been allocated for local authorities. The new one-off adult social care grant, announced to much fanfare by the Secretary of State in the local government finance settlement statement, will benefit those councils that are most in need; but it is paid for by reducing the amount that councils will receive from the new homes bonus—taking with one hand and giving back with the other.

The Local Government Association calculates that some 57 adult social care authorities will be worse off as a result of the changes. I ask the Minister again how that can possibly address the present crisis; and if it is bad now, what confidence can we have that there will not be a continuing crisis when the measure for which the Bill paves the way is implemented in full?

Rob Marris: As ever, my hon. Friend is making a powerful argument, which is of course backed up by evidence. Does he agree that unless amendment 2 is passed, the trend is likely to continue and, as with the main thrust of the Bill, there will be winners and losers? Given social trends, the losers are likely to be deprived areas where residents tend to have worse health, greater needs and lower levels of financial self-sufficiency. Therefore the redistribution mechanism foreshadowed in amendment 2 is much needed.

Mr Thomas: I agree with the broad thrust of that; those in poorer areas, as evidenced by the index of multiple deprivation, are likely to be at most risk, in terms of social care. However, figures now available on social care funding suggest that the crisis is hitting areas beyond those that are poorer. There is clearly a national emergency, and I fear that it may get worse if the issues raised in amendment 2 are not addressed.

Jim McMahon: My hon. Friend rightly highlights the fact that money is being reused and recirculated. Does he agree that a fair assessment was not made of where money was taken from? There is deep concern in the 57 local authorities that are now worse off under the new homes bonus changes to adult social care. No accurate assessment has been made of the impact.

Mr Thomas: My hon. Friend makes a good point. I want to explore issues to do with current social care financing, because they are pertinent to the case for amendment 2. Local councils have had to deliver billions

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of pounds-worth of savings since 2010. Indeed, in the previous Parliament there was a 40% real-terms reduction in local government spending, which inevitably hit councils' ability to provide social care.

The impact on social care spending has been severe. More than half of social care authorities reduced spending on social care between 2010-11 and 2016-17. The fear is that, if the Conservative party does not embrace amendment 2, authorities already hit by the current scheme's redistribution elements will find that the same redistribution mechanisms, if they are used again, will mean even more severe social care cuts after 2020.

The cost of providing social care is of course not flat, so the spending cuts are an underestimate with respect to the actual reduction, and I have some pertinent examples, because 122 social care authorities have cut spending in real terms in the past seven years. Again, it is very sad that the hon. Member for Thirsk and Malton is not here, because his social care authority, North Yorkshire County Council, has been one of the lucky ones; it has been able to increase spending in absolute and in real terms. It is also sad that the hon. Member for Waveney has had to depart, perhaps to focus on coastal erosion outside the Chamber.

The Chair: Order. No references to coastal erosion, thank you.

Mr Thomas: You are quite right to pull me up, Mr Gapes.

The Chair: I also gently remind the hon. Gentleman that we intend to have a lunch break at some point. I hope that he will not carry on speaking beyond 1 o'clock, because that may cause us some difficulties.

Mr Thomas: As always, Mr Gapes, I am grateful for your guidance, and particularly for the thought of what might happen at 1 o'clock, if I am lucky.

Sadly, the hon. Member for Waveney, is not here, but Suffolk County Council, his local social care authority, has increased social care funding by 8.4% in absolute terms. My hon. Friend the Member for Wolverhampton South West may or may not be reassured to hear that that still represents a real-terms cut of 0.6% in social care funding. The Minister seems to have looked after his own social care authority, Warwickshire County Council, which has cut spending by just 1% in real terms. However, Cornwall Council, the local social care authority of the hon. Member for St Austell and Newquay, does not fare quite so well. Although it has increased social care funding by 5.6% in absolute terms, that is a real-terms cut of 3.2%.

Rob Marris: They are eroding services.

Mr Thomas: Let us not go down that route. As I understand it, the hon. Members for Taunton Deane and for Somerton and Frome share a local care authority, Somerset County Council, which has cut social care spending by 6.2% in real terms. Northamptonshire County Council, which I believe the hon. Member for Northampton South knows well, has cut social care spending by 10.3% in real terms. Thurrock unitary authority, which serves the hon. Member for Thurrock and her constituents, has cut social care spending by 5.8%—a real-terms cut of 13.6%.

Of course, I do not want to leave out the hon. Member for Torbay. I understand that Torbay unitary authority plans to spend some £37.5 million on social care in this financial year, compared with £45.9 million in 2010-11—an 18.2% cut, or 25% in real terms.

Kevin Foster (Torbay) (Con): I suspect that the hon. Gentleman can guess what is coming. He has listed the figures but, as I said when I challenged him in the Chamber, we did not hear his party pledge more money two years ago.

Mr Thomas: I hope the hon. Gentleman will come up with some other lines. He would not want to be a one-trick pony. *[Interruption.]*

The Chair: Order. Can you all not shout at once? It makes it very difficult.

Mr Thomas: I gently remind the hon. Member for Torbay that one of the areas of spending that we were very clear about was local government. We said that there would be a £30 billion extra spend for local authorities.

Kevin Foster: No, you didn't! That is nonsense.

Mr Thomas: The hon. Gentleman can go and look at the evidence: it is called the Labour party manifesto 2015. It brings back sad memories when I look at it, but perhaps it will help to correct him and guide him in making future interventions.

Jim McMahon: I share my hon. Friend's view that the 2015 Labour manifesto was a beautifully crafted piece of work, although it is fair to say that unfortunately it was not much read by the public. Does he share my view that this is not necessarily about the total amount of money spent by the public sector, but about where that money goes? There is still a massive block between the money spent in the NHS and the money spent on adult social care. By bringing that together, which was the manifesto commitment, social care would be better off.

Mr Thomas: I have considerable sympathy with my hon. Friend's point. The new Prime Minister has taken up so much of our manifesto that one hopes she might want to take up that commitment as well. Certainly, that might help to deliver one other part of the long-term solution to the social care crisis, which I think everyone apart from Communities and Local Government Ministers thinks is necessary.

12.45 pm

I have given a snapshot of the impact in England of the decline in social care spend. There is wide divergence in how far social care authorities have been able to protect spending on social care. The Local Government Association—we heard it confirm this at the witness session on Tuesday—estimates that local government faces a funding gap on social care alone of £2.6 billion by 2020, so when the Bill comes into force, if nothing else changes, there will be an almost £3 billion gap between what social care authorities should be spending to meet need and what they will be able to spend. In that context, it is not surprising that while there is support for the principle of 100% business rate devolution, there is considerable concern in the local authority world about how social care will be funded in the long term. The amendment was tabled in that spirit.

I was also prompted to table the amendment by my concern about figures that may not be quite as achievable and realistic as Ministers suggest. If they are getting the figures wrong on how much money will be available for social care, it is even more important that the Committee focuses on how we can help to ensure that social care is properly dealt with under the new 100% business rates devolution arrangements.

Ministers often say that they are putting an additional £3.5 billion into social care through the social care precept and the improved better care fund. The Government calculate that the social care precept will be worth £1.8 billion by 2019-20. That is often rounded up to £2 billion. Let me be generous and suggest that the new adult social care grant paid for by the new homes bonus compensates for that rounding up. However, despite what the Secretary of State says, that is not new money from local government but simply a reallocation from one area to another.

The estimate of £1.8 billion or £2 billion assumes that all councils will increase council tax by just under 2%, and that they will use the full 6% increase permitted over the next three years under the social care precept. However, we already know that some councils are not doing that, so that figure of £1.8 billion—or £2 billion, if we are being generous—already does not add up. The original estimate also worked on the assumption that there would be an additional 1.3 million band D equivalent homes eligible for full council tax by 2020. Ministers have revised that figure up recently to 1.5 million. Bearing in mind that just 165,000 new houses were built last year, the idea that we will have 1.45 million new homes, raising all that extra council tax revenue that can be pumped into social care, is surely for the birds and completely and utterly unrealistic. That makes the overall £3.5 billion figure even more fantastical and therefore profoundly worrying for social care treasurers.

Surely it is the Committee's responsibility to think through, in the wake of the Government's unrealistic figures for social care funding to date, what can be done to prevent the crisis from continuing beyond 2020.

Rob Marris: As I hope my hon. Friend agrees, amendment 2 would help redress a greater imbalance to which he has not yet referred. The social care precept will raise proportionately far more money in well-to-do areas than in disadvantaged areas such as Wolverhampton, thereby increasing the disparity in provision that amendment 2 seeks to redress.

Mr Thomas: My hon. Friend makes a good point. He and the rest of the Committee should look at the very particular situation facing Surrey County Council. We have heard that every councillor in Cornwall and in South Northamptonshire is an enthusiastic supporter of the current distribution of finance and of these proposals. As I hope Conservative Members recognise, however, not every Conservative-run council shares that enthusiasm for the way in which local government funding is managed. Many have serious concerns. It is important for us to consider the evidence from those councils as well as from the South Northamptonshires and Cornwalls, in the context of whether the social care crisis will continue beyond 2020 under the Bill.

Surrey County Council's leader, David Hodge, an experienced figure in local government, has revealed that he will call for a referendum on a proposed 15% increase in council tax. My hon. Friend the Member for Oldham West and Royton, who has significant recent experience of local government, tells me that Mr Hodge is an extremely effective and astute leader and an imaginative figure in local government.

Jim McMahon: I concur, having worked with David on the Local Government Association. Councillor Hodge, however, is more than just leader of Surrey County Council; he is also group leader of the Conservative group on the LGA. That adds significant weight to his intervention.

Mr Thomas: My hon. Friend underlines my point. Mr Hodge is a figure we cannot ignore in the context of this Committee's work. Surrey County Council covers one of those otherwise great areas of the country that sadly lacks a Labour MP. *[Interruption.]* I did not expect to be heckled on that point. I can hear the objections from Government Members.

The Chair: Order. I remind Members that while this has been a long speech that may at some point come to an end, we need to concentrate on the Bill.

Mr Thomas: A long and fascinating speech—I think you missed out some words, Mr Gapes. Returning to Mr Hodge, 11 Conservative MPs represent Surrey, including the Chancellor, the Health Secretary, the Transport Secretary and the former Justice Secretary, the right hon. Member for Surrey Heath (Michael Gove).

Kevin Hollinrake (Thirsk and Malton) (Con): Will the hon. Gentleman give way?

Mr Thomas: I have missed the hon. Gentleman, so I will of course give way.

Kevin Hollinrake: The hon. Gentleman has expressed valid concerns about long-term funding needs, particularly of adult social care. Do such concerns not underpin the need for a fair funding review? How can it be right that Harrow's overall spending power per person is £80 more than that of North Yorkshire when its population is, by and large, wealthier and younger?

Mr Thomas: Perhaps I foresaw the hon. Gentleman's first intervention in this Committee. I took the liberty of quoting him earlier and paid tribute—sort of—to him for raising the issue of redistribution, which is central to the debate on this group of amendments. The one thing missing from his intervention today and his interventions on Second Reading was any recognition

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of needs; those in North Yorkshire are clearly different from those in Harrow, but perhaps that is a debate to be had elsewhere.

Coming back to Surrey County Council, Mr Hodge explained why he was moving to a referendum. He believes that he has a duty to local people. He said:

"We cut £450m already"

from the county council budget, and

"squeezed every efficiency and we can do no more. I am sick and tired of politicians not telling the truth. Surrey people have the right to know and I'm not going to lie."

He says he will spell out what the options are ahead of the referendum and, if he does not get permission from Surrey residents for a council tax rise, what that extra £60 million forgone will mean. He says he will have to take an axe to services unless people vote for the 15% rise.

Mr Hodge is not the sort to raise the alarm unnecessarily. He has seen active service, having been in the Army for a long time. One respects his contribution, both before he became leader of Surrey and now. He has taken the arguably sensible measure of getting in the Chartered Institute of Public Finance and Accountancy to verify the figures. It stated:

"We confirm that due to severe problems in social care, Surrey's figures are exactly as their finance officers say."

Social care costs are rising by £24 million year.

One MP in Surrey will support the 15% rise, but not all Surrey MPs share that one MP's view. It would be good to hear the Minister's advice to Surrey County Council and the people of Surrey on whether to vote for the increase. The fact that the council's leader, who has considerable experience and is from the Government's party, is underlining the scale of the social care crisis ought to make the Committee think very carefully about the case for amendment 2 and for supporting using some business rates income exclusively for social care as part of the long-term solution to social care funding.

Sadly, there are other examples that highlight the scale of the problem. The hon. Member for Thurrock was not willing to allow the right hon. Member for Wokingham (John Redwood) to sit on this Committee, which is a tragedy because he might have been able to comment on the terrible case in January in which an elderly woman with communication difficulties was left severely malnourished in a care home that Wokingham Borough Council had put her in. A local charity, Independent Age, which commented on the case, recognised that the council faced significant problems with social care because of a lack of money and staff. That further example underlines the case for amendment 2. I hope that the Committee accepts the amendment.

Ordered, That the debate be now adjourned.—*(Jackie Doyle-Price.)*

1 pm

Adjourned till this day at Two o'clock.