

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT  
GENERAL COMMITTEES

## Public Bill Committee

### LOCAL GOVERNMENT FINANCE BILL

*Fourth Sitting*

*Thursday 2 February 2017*

*(Afternoon)*

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CLAUSE 1 agreed to.

Adjourned till Tuesday 7 February at twenty-five minutes past Nine o'clock.

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**not later than**

**Monday 6 February 2017**

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

*Chairs:* SIR DAVID AMESS, † MIKE GAPES

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

## Public Bill Committee

Thursday 2 February 2017

(Afternoon)

[MIKE GAPES *in the Chair*]

### Local Government Finance Bill

2 pm

**Mr Gareth Thomas** (Harrow West) (Lab/Co-op): On a point of order, Mr Gapes. In what is a wonderful coincidence, one of my written parliamentary questions about when we can expect the publication of all the responses to the consultation document that Ministers released in July last year has been answered today by no less a figure than the Minister present himself. Helpfully, the answer tells me that there were 450 responses; less helpfully, it implies that they will be published in the fullness of time and only in summary form. Do you have any explanation, Mr Gapes, for why only a summary will be published? In the interests of full transparency, what is wrong with allowing us to see all the detail of the responses?

**The Chair:** I have not had an explanation for anything. As the hon. Gentleman knows, the procedure for publishing written answers does not come through the Chairs of Committees. I suspect that this will be a matter for debate as we go on. The Minister is present, so he will no doubt be able to answer questions or interventions at a later stage. Without further ado, we resume the debate.

#### Clause 1

##### LOCAL RETENTION OF 100% OF NON-DOMESTIC RATES

*Amendment proposed (this day):* 1, in clause 1, page 1, line 7, leave out subsection (2).—(Mr Thomas.)

*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.*

*Question again proposed,* That the amendment be made.

**The Chair:** I remind the Committee that with this we are discussing 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.*

**Justin Tomlinson** (North Swindon) (Con): It is a pleasure to serve under your chairmanship, Mr Gapes. Through your leadership, we have had a very positive beginning to the Local Government Finance Bill.

I am mindful that I am following a very good speaker, someone who has significant powers and influence: first, the hon. Member for Harrow West magicked up a written answer over lunchtime; and, secondly, he was so persuasive when challenging my hon. Friend the Member for Northampton South to engage with South Northamptonshire Council that that meeting also took place over lunchtime. Therefore, I fear that our very able Minister may be tempted to accept some of the amendments and I feel a need to step up and defend the thrust of the principle behind the debate.

The whole principle is that of incentivising and trusting local authorities, as we heard in evidence on Tuesday. From the Local Government Association briefings, it is clear that councils would like to have the 100%. That is vital in my opinion. I served as a councillor for 10 years and I have been lobbied by and have spoken to a number of local authority representatives. They are interested in seeing further details—I am sure we will be going over things in great detail in coming weeks—but the principle is that they wish to be trusted. They are best placed to make those decisions and to take those actions. On Tuesday, I challenged the witnesses about that. I asked whether there was sufficient business capacity. Understandably, the witnesses were quite defensive, but I was encouraged by their enthusiasm for the challenge and the opportunities being presented.

We must not forget the residents; that is also vital. Often, when we talk about growth in business rates, it means new businesses, expansion and development. That is not always universally welcomed by local residents, as anyone who has ever served on a planning committee would know. It is right that the principle is that, if they are going to be inconvenienced as a community, they should also be rewarded for that.

That also provides a focus for local authorities. I am very fortunate. My local authority is very proactive in this area—our local plan was agreed very early on and it does its best to encourage growth—but it does not necessarily have sufficient focus to speed up the process sometimes. I am lobbied by people trying to bring new development to my constituency, who say, “We would like it to be quicker.”

**Mr Thomas:** I am delighted that the hon. Gentleman has been encouraged, no doubt by the Minister and the Whip, to speak in defence of the Bill. As he will remember from Tuesday’s sitting—I think he was present—one of the witnesses, one of the voices of business, said that, because of the scale of the cuts in funding to local

authorities, many of the services labelled as discretionary which help businesses have been substantially cut. Does that not underpin the concern that we on the Labour Benches have about the need for proper redistribution?

**Justin Tomlinson:** First, to be absolutely clear, I do not need any encouragement by the Whips to engage. I was elected in my own right. That intervention actually strengthens my point. Whoever is in government, difficult decisions have to be taken about public spending, and elected representatives are mindful of the people they are accountable to. It is often easier to focus decisions on some of the services—perhaps those that will directly affect businesses, since they will not necessarily queue up at the ballot boxes. However, under the proposed new system, protecting business income through business rates will become a greater priority for local authorities. We have rightly focused on new opportunities, but the change will also protect existing businesses and give them a greater ability to get an audience with decision makers and say, “By working together, we can not only grow but protect existing jobs.”

**Rob Marris (Wolverhampton South West) (Lab):** The hon. Gentleman said that his local council does its best to encourage growth, and I am pleased to hear that. At the moment, his local council, on which I think he served, does not have the powers that the Bill will confer if it is passed. Is he saying that his local council would have tried harder to encourage growth and business if it had had those powers when he was a councillor?

**Justin Tomlinson:** The hon. Gentleman pre-empts some of the things I am coming to. I made it clear that I am very lucky to be the MP for an area with a local authority that is proactive in this respect, but that is not a given across the rest of the country. I do not disparage other councils, because all councils have to decide their own priorities. I represent a high-growth area where, for those who are interested, 8,100 jobs have been created since 2010. I know it is hard to believe, but that is greater than the average gate at the County ground. That is because the council recognises that it should be proactive. Could we have done that faster? Yes. We are landlocked by several local authorities that are less keen on additional development and growth. They have their reasons for that, and I respect those.

We will deal later with the pooling of some decisions and the sharing of some benefits. I was particularly taken by the point about Heathrow, which I will come back to, because I see further potential in that area.

**Mr Thomas:** Before the hon. Gentleman flies away to Heathrow, may I take him back to the example that I gave this morning of Allerdale Council? Its one major town is Keswick and it is surrounded by natural barriers to growth, so it is highly unlikely that there is substantial space for the type of property-based development that I accept the Bill could encourage in some areas.

**Justin Tomlinson:** I was coming to that point. As a broad principle, we are looking at not only new opportunities but protecting established industries, which is obviously topical. Local authorities can lobby the Government to ensure that such industries are protected, particularly if there is ever a change in the country.

**Mr Thomas:** Does the hon. Gentleman accept that permitted development rights actually make it harder to protect existing business space, because business owners may be tempted to convert their properties?

**Justin Tomlinson:** May I ask the shadow Minister to be ever so slightly patient? I am being tempted to fly in various directions. I will finish this point, then turn to that one.

Why does this matter? We all talk about new income opportunities and providing incentives, and trusting local authorities as the best vehicles to deliver those. That is incredibly important, but we seem to be missing the emphasis on creating jobs. As I said, 8,100 new jobs have been created in my constituency and unemployment has fallen by 60%, in part because new regeneration and development projects have attracted businesses from other local authority areas that have not supported the business community so proactively. Those things matter to the people on the ground, because they benefit directly. As I said, the 60% fall in unemployment is making a genuine difference to people. We have to protect the maximum potential of the incentives on offer.

**Rob Marris:** The hon. Gentleman said that some, not all, of the council areas surrounding his council were not as keen—I think that was the adjective he used—as his own council. What evidence is there that the changes in the Bill would make those surrounding councils, which he thinks are less keen, keener?

**Justin Tomlinson:** One of the elements that I have picked up is the principle of pooling, whereby different local authorities and local enterprise partnerships can sit down and work together and share the benefits of this growth. The whole point is that the Government will incentivise and reward those areas that are going to support additional growth and, therefore, there is an opportunity. I will give more detail on that shortly.

I come back to the point that this will work only if really big warehouses are built. Obviously, the smallest businesses are exempt from business rates through the small business rate relief. That is a hugely important policy that I hope continues because it benefits so many of our micro and small businesses. I ran my own business for 10 years and, just before I became an MP, I benefited for a year from that. It did make a difference in what was at that time a difficult financial climate.

We must remember that there is a significant number of small to medium-sized businesses that could be in offices not much bigger than this room but are larger than would qualify under the small business rate. So it is not just about getting distribution warehouses. That is an easy opportunity for some areas, particularly for those with lots of additional land and good transport logistics. It is also about these small and medium-sized businesses. It is about working with the existing small and micro businesses to help them to make that step up. I have been involved in a number of debates where it has been said that it is a lot harder to go from four-plus employees than to start a business because there are all the additional matters to deal with. The Bill provides an incentive for local authorities to have supportive forums, engage with communities and look at how they can shape the direction of their policies to encourage growth. Again, the bonus is that not only will that generate

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additional business rate income, which we all recognise that local authorities need, but it will help to create that next generation of jobs.

That was a powerful point about Heathrow. It is probably the case with any national infrastructure project that the communities closer to it get the vast majority of the inconvenience, while local authorities much further away will get some of the benefits. Take Heathrow: my constituency would gain significantly from Heathrow, for the convenience of residents going on holiday and for the businesses. So my local authority has written to the Government to say, "Please proceed with Heathrow."

If I were an MP directly under the flight path, I would have a very different postbag. Again, that is where pooling could come in. Perhaps those local communities with the most inconvenience could go to the others to say, "We would be less minded to object, to try to delay and frustrate, if you would share some of the benefits that you would get."

The principle of pooling can be expanded much further. Innovative council leaders would use that to go to talk to other leaders to say, "Look, we can work together here. You help us so that we are inconvenienced less or rewarded slightly more for the inconvenience that we will suffer. You will get your growth; we will get some of that." Those are discussions that can be had and we have some very talented council leaders who, I am sure, would take advantage of that.

**Jim McMahon** (Oldham West and Royton) (Lab): Does the hon. Gentleman accept that councils have different roles and responsibilities? One is, of course, about economic development and growing the local tax base. The other is about being a voice of the community. A lot of the opposition to Heathrow and the flight path has been from local people who do not want their lives affected in that way.

**Justin Tomlinson:** Absolutely. I only focused on Heathrow because that was the one that was mentioned; there are lots of national infrastructure projects. The reality is that Heathrow will be expanded, so those residents are going to be inconvenienced.

At least this proposal would have allowed an opportunity for the respective and closest local authorities to do those deals and say, "We can see the inevitability, but we could speed up the process if we were to gain some more of the reward for the inconvenience of this national infrastructure project that happens to be sited in our area." I would think that was a reasonable ask of my local area, if there was a demonstrable and tangible gain for that area.

**Mr Thomas:** The hon. Gentleman is advancing an interesting argument and I can see how, in certain circumstances, pooling might enable the benefit of a big infrastructure investment to be shared more widely.

Let us come back to the third runway. That is a national piece of infrastructure that will benefit the whole country. Therefore, the pooling point is surely less applicable than that about ensuring that the business rate growth that the third runway generates can be

redistributed across the country. Amendments 1 and 23 would help to achieve that; I suspect pooling would not mean that every local authority in England would benefit.

2.15 pm

**Justin Tomlinson:** I understand that, but that is saying to the local authorities, "We don't trust you to lead on those sorts of negotiations." I was incredibly impressed by the witnesses who gave evidence on Tuesday. I wanted to challenge and push them; I expected them to say that they were not up for this, but their enthusiasm and capability to deal with such matters was crystal clear. I am excited by these opportunities. There are lessons to be learned. We have seen some of this take place with LEPs. They are not perfect—they are still in their infancy—but there have been examples of good practice.

For me, the clause is about giving local authorities power, and a savvy local authority council leader would be leading conversations. I do not say that randomly. I have been an MP for six years and a councillor for 10 in a fast-growth town that has taken more than its fair share of housing development—in fact, it has been one of the fastest-growing towns, year on year, for the last 20 years. We have learned that it is better to lead those conversations, do the deals and talk to our less inclined neighbouring authorities to try to find ways to speed up the process, because, while I appreciate that there is inconvenience for local residents, it is good for the economy and good for people to be given jobs and housing. There is no better way of doing that than by releasing income.

**Mr Thomas:** The hon. Gentleman makes an interesting point. I agree that councils are often better at grasping the opportunities—be they for housing or infrastructure—that come in the wake of big decisions, and there are many examples of Labour leaders having taken a similar approach, Manchester's being a classic case. However, that is not an argument against amendments 1 and 23, or indeed amendment 2. What does he have against the substantial redistribution that the amendments would achieve?

**Justin Tomlinson:** That neatly ties into my conclusion, which is purely about blunting the maximum incentive potential. If we are to focus minds, we should say to those innovative, great local authority leaders, "We will give you the tools to generate income and growth, and create new jobs, and to be rewarded for the inconvenience of growth and development." We have to give them every single opportunity. If we have redistribution, local authorities will keep knocking on the door repeatedly to plead with the Minister for their special cases.

I have never found an MP or local authority who does not feel that their area is hard done by in some way. We are all skilled in looking at the statistics and saying, "We have a unique, special case for additional funding." We need to allow like-minded local authority leaders who work well together, who lead with the LGA and share best practice, to have those sensible conversations. Fundamentally, we are not a million miles apart; it is just that the Government side are probably a bit more confident and trusting of the abilities and enthusiasm of local authority leaders.

**Jim McMahon:** I am not sure whether there is as much difference as the hon. Gentleman has laid out. There is acceptance that if there is 100% business rate

retention, we need a system of tariffs and top-ups and a safety net to catch those who have unexpected changes in their business rate base. That is different from a scheme for business rate growth, which would incentivise local authorities who are really pushing forward. I would not say that those ideas are contradictory. What we are trying to do—I hope he accepts this—is ensure that the baseline is robust.

**Justin Tomlinson:** As I said, I recognise that there is not a huge amount of difference between us, but my plea to the Minister is: stay strong. We were enthused by the reference to “Dad’s Army” earlier, my dad’s favourite programme. Despite the realities that we face, we need to stand firm and trust and encourage local authority leaders.

**Rob Marris:** I salute the hon. Gentleman’s generosity in volunteering a transfer from the people of Swindon and Wiltshire down the road to, say, Hounslow or Heathrow. May I caution him that while his area has done well, which is great, he might come to regret some of these measures? For example, he might represent an area that has a major car manufacturing plant, which, faced with the United Kingdom leaving the European Union, might decide to close down. The business rate scenario in that area—hypothetically, wherever it might be—might then look very different, and its representative might therefore look differently on redistribution.

**Justin Tomlinson:** That is a very interesting intervention. By pure coincidence, I happen to have the Honda factory in my constituency. Another MP raised that point on the Floor of the House during the Brexit debate. I gently remind the hon. Gentleman that Honda operations, which used to supply 100% of its cars to Europe three years ago, was ahead of the Government and public opinion and switched to global exporting of the cars: 80% of the cars now go globally. The impact of the referendum does not cause any issue at all, now or in the future, to the major employer in my constituency.

We could look at this hypothetically. There will always be issues beyond local authority control, because the world changes. Industries and technologies will change. That is why there are protections in the Bill. There would also be an incentive for local authorities to start planning and looking ahead. Local authorities and MPs get lobbied regularly by employers telling us either that things are going great and they are looking to expand, or that things are potentially going wrong. When we are told that things are going wrong, there will now be an extra incentive to engage with them to find a way forward.

I remember when Honda was struggling during the financial downturn. It was still producing all those cars but could not sell them. The local authority—this is a good example—found the company significant amounts of land to store those cars on. Again, I was lucky that we had a forward-thinking, proactive local authority. Every local authority is different and they have competing priorities; this is about ensuring that that priority is absolutely at the top.

**Mr Thomas:** I have been listening keenly to the hon. Gentleman. He was going to come to the example of the council that has a series of natural barriers to growth: the Allerdale Borough Council, which Keswick

sits in. I have not heard him talk about how the Bill will generate massive new incentives for it, but as the hon. Member for Waveney is now present, perhaps he might allude to the problems facing coastal authorities, where there is an obvious natural barrier to economic growth.

**Justin Tomlinson:** I would not dare to incur the wrath of the Chair of the Committee, Mr Gapes, who has made it clear that this is not the time to discuss coastal matters, although I am sure that by the end of the 10 sittings we would all welcome a day trip to some of those coastal constituencies to see them at first hand.

I felt I had addressed the point about landlocked areas. Although some areas will find it easier to attract additional large-scale developments, such as the warehouses I mentioned, this is also about maintaining and protecting industries that are already there. That may be a case of lobbying national legislators not to make changes, in order to protect them. It is also about expanding microbusinesses to tip them into a size at which they have to pay business rates, having grown sufficiently and increased their headcount. Not every element of additional revenue will be raised purely by big expansion; it will also be done by speeding up organic growth that delivers income and jobs.

**Steve Double (St Austell and Newquay) (Con):** I represent a coastal area; in fact, mine is one of only three constituencies that have two separate coasts. We see the coast and the sea as assets, not barriers to economic growth. They can drive economic growth through fishing, tourism and many other sectors.

**Justin Tomlinson:** That is exactly the enthusiasm and innovation that we need to unleash across local authorities. I have every faith that our elected local authority leaders will seize the opportunity with exactly the same enthusiasm as my hon. Friend, taking advantage of it to deliver extra income and jobs.

**Kevin Foster (Torbay) (Con):** Would my hon. Friend be interested to hear that Torbay Council is looking at a town centre regeneration scheme around Tor Hill Road in part of my constituency? They are bearing in mind the ability not only to get a commercial return on investment but to retain the business rates.

**Justin Tomlinson:** I am greatly encouraged. I had a gut feeling, based on what the witnesses said on Tuesday, that this was a great policy; I now feel even more certain. The quicker we can introduce this, the better.

Following on from the point about town centre regeneration, let me say why this policy will make such a difference. The Mary Portas report, which looked into the decline of traditional high streets, highlighted the point that one of the biggest problems is that local authorities continually increase car parking charges because they generate significant revenue. Unsurprisingly, with increased car parking charges year on year, town centres started to wilt and business rate income fall away. Local authority leaders recognised that, but they needed short-term ways to access money. Maintaining 100% of growth would provide an incentive to cut car parking charges, which hon. Members will be delighted to know Swindon Borough Council did; it reduced charges to £2 for four hours. Anybody who has free time

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and wishes to spend money in Swindon is most welcome. Unsurprisingly, footfall went up, and we will start to see a boost and regeneration.

**Jim McMahon:** I do not want play car parking top trumps, but I have to highlight Oldham Council's decision to offer two hours of free parking in the town centre.

**Rob Marris:** Who was the leader there?

**Jim McMahon:** I could not possibly shine a light on my own career. One of the proposals in the Bill that we will question later—I hope that the hon. Member for North Swindon will support us—concerns local authorities that are not part of a mayoral arrangement. They will have the ability only to lower business rates, and not to increase them elsewhere to make up the cost. A lot of areas with stunted growth would not be able to afford to do that at all.

**Justin Tomlinson:** We will explore that in great detail, I am sure. In conclusion, I hope that the Minister will be encouraged by the great enthusiasm for the potential that we will unleash. I am sure that there are local authority leaders poised by the phone to start striking those deals to benefit from economic growth, the delivery of new jobs and the additional income that we all recognise local authorities desperately need.

**Jim McMahon:** It is a pleasure to serve under your chairmanship, Mr Gapes. Congratulations on steering the debate so far. We have heard a lot in the debate about the complexities of the issues. At headline level, local authorities are crying out for more power and autonomy; they want to be able to crack on and get things done, but they also want a safety net. They want to know that if things beyond their control happen, the delivery of public services in their area can be maintained and will not be affected by a large employer pulling out, or something happening to the business rate base that is entirely out of their control.

A lot of the areas that would be most affected by the downside of this proposal are those that can least afford it. My local authority in Oldham has an historically low council tax base; the majority of properties—70%—are in bands A and B. To generate the same amount of council tax as a wealthier area, people in Oldham naturally have to pay more per property than somebody in the wealthier neighbouring areas of Stockport or Trafford. When we push further pressure on to the council tax payer to pay for the pressures on adult social care, we are expecting the poorest in society in those areas to pay proportionately more of their income to fund basic services that we all need and demand.

When the Minister reaches the age to need social care, I hope the system has been fixed. At the moment, there are 1 million people who need adult social care but do not receive it. Those same people would have got the care in 2010, but are not getting it today because eligibility has been pushed back so far. Many councils now have a two-tier system. People who were already in receipt of care are, by and large, receiving the care that they have received for a number of years. It is different for new entrants. Neighbours living on the same street,

with the same health conditions, needing the same support are being told they cannot have care because they are new entrants into the social care system. That cannot be right. We talk about postcode lotteries and compare the wealthiest with the poorest local authorities as a way of highlighting that, but two people in the same area on the same street with the same conditions, but coming into the social care system at different times, are receiving very different levels of social care. That cannot be right in a just and fair world, and I worry about that.

I will extend my argument to council tax, because our discussion is about localisation and the self-sufficiency of local government finance. Let me highlight the table produced by the Department for Communities and Local Government that shows an additional £5.5 billion being generated, predominantly through council tax, to pay for adult social care. If any Government were to say to the public, "How about this for a proposal? We're going to increase your council tax by 25%. What do you think about that?", there would be uproar, yet that is exactly what the Department's figures propose: a 25% increase in council tax over the Parliament. For a town such as Oldham, that will mean that a band E property will be charged £2,000 a year in council tax. Imagine public support for council tax at that point.

A lot of people think that council tax just gets the bins emptied, but universal services that people pay council tax for are being removed and reduced all the time to fund adult social care and safeguarding. Pretty soon, we will reach the point where people say, "What on earth am I paying my council tax for? I am paying more and more every year and receiving fewer and fewer services."

2.30 pm

**Mr Thomas:** Is there not a broader point here about the sustainability of support for council tax? The Prime Minister has made much of trying to help those who are "just about managing" with their family budgets. A 25% increase in council tax, introduced because Ministers in the Department for Communities and Local Government have no clout with the Treasury, will have a huge impact on the budgets of those whose finances are in the "just about managing" category. Does that not also play into the debate about the future of local government finance?

**Jim McMahon:** It is actually worse than that. If people thought, "Okay, the things that I rely on as a taxpayer are being taken away, but it will mean that my elderly relative or neighbour is being better looked after", there might be a begrudging acceptance that that is the new settlement. The problem is that the additional council tax that is being collected will not even pay the additional national insurance contributions or living wage contributions that are expected. Even though people will be paying more in council tax, it will not mean more people receiving adult social care when they need it, because local authorities are struggling to keep their heads above water.

When local councils came to the Government to ask for support for adult social care, the Government did a three-card trick. They said that they would provide new money, but they took the money from the pot that already funds council services. They took £241 million from the new homes bonus, refreshed it and put it back



in as an adult social care grant of exactly the same amount. Within the total amount of money in local government, there is no new money for adult social care.

The increase in precept that council tax payers are paying for this year will be a negative £6.7 million throughout the country, because all that money is going towards paying for the increase in national insurance and living wage contributions. It is not even enough funding to keep councils' heads above water. Of the councils that have had new homes bonus money taken away, 57 receive less for adult social care under the new system than they did before. We asked for information on the criteria used to assess where that money went, but there were none. It was all completely fictitious—it was made up.

Let us be honest: the Local Government Association is a fantastic membership organisation, but it is often accused of going down to the lowest common denominator because it cannot quite get cross-party agreement. However, the one issue that has absolutely united the different parties on it is adult social care. The LGA highlights that there will be a £2.6 billion funding gap in social care by the end of the decade and notes that the Government's settlement

"will...fall well short of what is needed to fully protect the care services for elderly and vulnerable people today and in the future".

The LGA also states that

"increasing the precept raises different amounts of money for social care in different parts of the country unrelated to need and will add an extra financial burden on already struggling households...it is hugely disappointing that today's settlement has failed to find any new money to tackle the growing crisis in social care."

So a cross-party organisation chaired by a Conservative Member of the House of Lords, which at some point will consider amendments to the Bill, has come to a cross-party agreement to call this a crisis, yet in his evidence session the Minister completely denied that there was a crisis in adult social care. I am not sure what else we can call it, when a million people who need care are not receiving it and when the Government are putting the burden on council tax payers but not even covering the cost of keeping people's heads above water. I am not sure how we can say that there is no crisis, when the new model does not at all take into account the pressures being put on people.

We hear that new money has been provided in the form of the improved better care fund. Let us bear in mind that the LGA identified a £2.6 billion funding gap. The better care fund provided £105 million. That is a drop in the ocean compared with the real adult social care pressures that we have. We still need to see the detail, but our expectation is that the £12.8 billion of additional business rates referred to in the evidence session will swallow up all the grants that are currently distributed to local authorities. The truth is that there will be no new money for social care as part of this. That is why amendment 2 is so very important.

**Mr Thomas:** I do not know whether my hon. Friend has seen the publicity about the statement that the Association of Directors of Adult Social Services made today on its submission to the Treasury ahead of the forthcoming Budget. It makes the case, similar to the Local Government Association, that there needs to be an injection of £1 billion now to prevent the social care

system from going even further into crisis. Does that not also underline the case for amendment 2? If there are problems now and we do not sort them out, they will only be greater in 2020 when this new system comes in.

**Jim McMahon:** I absolutely agree with the professional response. The problem is we do not have proper checks and balances and we do not have a system of tariffs and top-ups and a proper safety net that catches people when they fall. We hear that that will come, but we have not seen the detail. We are being asked to agree a framework that allows this Bill to go through without actually knowing what impact it will have on individual local authorities across the country. It is a fundamental consideration when passing law that one understands the impact that law will have. We do not mind making bad decisions, but we should not be making bad decisions without all the information.

We are in a situation where spending on adult social care has declined by £65 per person in the most deprived areas of this country, but has increased by £28 per person in the least deprived areas. I would not resent that increase if it meant people got the care they need, but I do resent the fact that people who live in deprived communities are not getting the same access to social care that people in more affluent parts of the country are. We are meant to be one nation. We hear that all the time in the Brexit debate; when the Scottish National party kicks off about what is happening in Scotland we all say, "We are meant to be one nation. We take a collective responsibility for our nation." Let us have a collective responsibility for adult social care and make sure that everybody gets the support they need.

**Rob Marris:** Does my hon. Friend agree that the social care precept construct will exacerbate those differences? Areas such as those that he and I represent will, in absolute and per capita terms, not raise as much money through the social care precept as advantaged areas will. I agree with him—good luck to advantaged areas—but we want those services for people who live in a wonderful place like Wolverhampton or a great place like Oldham.

**Jim McMahon:** That is the crux of the issue. Does this Bill really address a financial system that is under pressure and probably at breaking point—we all accept that it is time to renew local government finance and put it on a strong footing—or does it just reinforce historic inequalities across the country? Unfortunately, without the detail that we have requested a number of times we just cannot make that assessment. However, we are being expected to support this because we believe in devolution and have heard the calls from councils to have more responsibility and direction over their lives.

Let us be clear what the levers of change actually are. The Secretary of State will still prescribe what council tax increase can take place. By the way, they are saying that they are not going to report to Parliament on what that will be in the future—a minor point—and we are not going to get a local government finance settlement reported to Parliament in the future.

Not only is there no parliamentary scrutiny of this new world, but councils have not got the levers of control to reflect on the number of bands in their area. They cannot change the number of bands; they cannot introduce intermediary bands; they cannot have smoother

[*Jim McMahan*]

transitions. They cannot even revalue properties—the last revaluation took place 26 years ago. Why is that? Central Government duck it year after year, time after time, because they do not want the backlash they would get at local level. Our councils are cross-party, by the way. This is about the Government not wanting to take the flak from the public for putting up council tax. That could be managed at a local level. There have been calls for areas to take that responsibility through some of the devolution deals.

Nor is there any ability to change the scheme of discounts. Fallowfield in Manchester, for example—where there is a strong student population living not in halls of residence but in terraced streets—is almost a whole ward occupied by students who pay absolutely nothing in council tax. Ask Manchester City Council if it would like the freedom to reflect that.

Even if we do not introduce that measure as part of the revision of council tax, we could put the burden on to landlords. Rather than put it on council tax, we could quite easily make provision for that within the business rates Bill. One might say that landlords will just put it on the rent, but if they own a three-bedroom terraced house in Manchester they will probably get £110 a week. If they rent that house to students, however, they will probably get £60 per student per room, so they are already earning far more by renting to those students than by renting to a family. It is right that somebody pays for the headroom to provide the services to the local community.

This is not, however, about whether we prescribe at local level. My point is that we are putting a burden on council tax and on business rates. We say that we welcome leadership at a local level and local innovation, but we are not giving local authorities the levers to affect the council tax or business rate base in their areas in the way that they have asked for.

**Justin Tomlinson:** Rather than seeking to tax students, perhaps we could be more innovative. For example, Oxfordshire council is not keen on development, but Swindon council could take some, and we would then gain from the council tax, the new homes bonus and the growth in the business rates, while Oxfordshire would have avoided the inconvenience of the development. That is the innovative way to do this.

**Jim McMahan:** I am going to pay a visit to Swindon at some point—it feels like it is the hallowed land for development. I have visions of 20-storey tower blocks shadowing the town.

It is not accurate to say that we are proposing to tax students. Let us approach this issue in a mature and measured way and stop the cheap headlines. This is about making sure that there is a resilient and robust tax base in every area so that local authorities can generate the tax needed for public services in their own places.

We know the impact of not doing so. Adult social care complaints have gone up by 25%—people who are in receipt of services have increased the number of complaints they feel they have to make—and there has been a rise in 15-minute visits. This is not a cost-free exercise. Government seem to have a view that if we just

turn a blind eye, say that it is not our problem and tell local authorities to find a solution—and if we just move money around without there being any extra money, which just helps us feel a bit better about ourselves—there is no problem. Well, speak to NHS England and ask what the problem is. The longer we ignore the pressures on adult social care, the more we push the burden on to the NHS. People who should be looked after in their homes are being forced into hospital to get the treatment that they need, and people in hospital cannot go back home and are having delayed discharges because the support they need is not ready for them to be able to go home. The cost of that is £820 million a year. There is a cost of doing nothing.

**Mr Thomas:** At the risk of injecting a partisan note into the proceedings, which you know I hate to do, Mr Gapes, I wonder if my hon. Friend has had the chance to look at the 20 councils responsible for the highest number of delayed discharges from hospital, which the Prime Minister has raised concerns about. The majority of those councils are Conservative authorities. I sympathise with those authorities because I do not think that they should be under attack from Ministers when there is a huge funding crisis in social care. I wonder whether my hon. Friend has seen those figures.

**Jim McMahan:** I have seen them and they tell a story. Instead of just reading out numbers—this is that kind of debate—I am trying to focus on how I would feel if I were in that position and one of my family members needed that type of care. I would feel bitter, not just about council tax but about the country. Our elderly relatives have given their lives to this country, worked hard and done what was asked of them. They have made a contribution. Many have served in the armed forces in order to provide the freedoms that we enjoy, but when they are at their most vulnerable and need us most, we turn our back and say, “It’s not our problem.” That is not the type of country I want to live in.

The Minister needs to accept at some point that this is a Government problem born out of Government indifference and deferral. It is high time that they stepped up. If they did so, we might not have the highest number of delayed discharges from hospital for elderly people since records began, or an 18% increase in A&E admissions for elderly people. Those are real challenges and real problems.

2.45 pm

**Mr Thomas:** My hon. Friend said that he wanted to go to North Swindon and I know that he will travel back to Manchester. May I encourage him to reflect a little more on the current situation? When the right hon. Member for Cities of London and Westminster (Mark Field) spoke on Second Reading, he drew attention to the fact that Westminster City Council collects the most business rates; the figure is some £1.8 billion a year and he expects it to rise to £2 billion. Without amendments 1 and 23, is there not a risk that some of the redistribution from Westminster—I do not know whether Swindon benefits from that, but Manchester and Harrow certainly do—might be lost?

**Jim McMahan:** It would be ludicrous if the paper on distribution, which we are waiting to see, resulted in Westminster, which has had every advantage, keeping

100% of £2 billion. I would be amazed if any Government would be that stupid. I know that the Minister would not allow that to happen, because the kick-back from Conservative authorities would be as loud as that from Labour authorities. It strikes at the heart of fairness. It cannot be right that the seat of Government, with so many Departments involved in the payment of business rates into the system, has nothing to do with the actions of Westminster City Council. History shows that we have reached this point because that is how the UK Government have developed over time.

**Kevin Foster:** The hon. Gentleman was talking about examples of delayed discharges and particular councils. The new integrated care organisation in Torbay has produced some of the lowest levels—possibly the lowest level—of delayed discharges, despite the challenges posed by Torbay’s demographics. Does he think that that model could be extended elsewhere?

**Jim McMahon:** I absolutely believe that there is more to be done to bring together health and social care budgets into one pooled pot for the local area, with local government being given the responsibility for teeming and ladling and being held to account by the public for that. That is absolutely the right way to go. Only by doing that can we break down the institutional silos.

To be fair, the NHS has not reformed in the same way that local councils have had to reform. Joint working could benefit both parties, but we have to be honest about the transition required to do that, and accept that any pilot that has enough money and energy thrown at it can be made to work. We need to consider whether the pilot can be mainstreamed. Different people may approach everyday activities in different ways, so the two systems will have to run alongside each other for a certain period, with the inherent demand continuing as the new system kicks in.

Councils have to be able to see that change through. It could take a five to 10-year project to see through the cultural change to systems and processes, staffing terms and conditions, and everything else that would need to be looked at to ensure that it works. We are seeing that with troubled families. The Government do not have the long-term vision or appetite to see through genuine cultural change in how we deliver public services. If they do not see a saving after year one, two or three, the money is pulled and we start from scratch with another pilot. I absolutely believe in reform, but it has to be sustained reform over a period of time, and we have to be realistic about the amount of time it will take.

**Mr Thomas:** I highlight a small vignette of the crisis. It is odd that Ministers have not addressed the additional cost for social care providers as a result of the so-called national living wage. It is a good thing, in and of itself, but care providers need funding to compensate for the rise in costs, and nothing that Ministers have had to say, including on funding pots, has addressed that. Does not that need to be addressed before the new system is introduced?

**Jim McMahon:** That problem relates to my earlier comment about the need for a transition period when aligning staff terms and conditions and salaries. The truth is that staff employed by local authorities and

private social care providers are on significantly worse terms and conditions than those of their NHS counterparts who have similar responsibilities to them in hospitals.

The Government do not have an answer as to the number of care providers that could go bust. Councils will have a limited amount of money that they can pay, and some providers will decide whether they can remain in the industry. We do not have a solution if a significant number of those providers give up and pass the responsibility on to social care in the local authority. We cannot afford what we are doing today, and if they took such action we certainly could not afford the increase.

There is almost a double whammy: we want the local authority provision to be a decent place to live and a decent employer—because that is the state, and we want it to set the bar for a decent place. Not only are we telling private providers to pay the national minimum wage; we are telling them to pay between visits. It is not good enough that people get paid only for a 15 or 20-minute slot, and not while they are travelling to the next appointment. We have been pushing—good local authorities have been policing it—for their staff to be paid for their hours working on the job, including travel time. However, for some providers that has increased the staffing bill significantly, on top of national insurance contributions and the national living wage.

I have talked enough about social care. If I am honest, the Minister probably still has not been brought to the point of changing his mind about whether there is a crisis. However, I am satisfied as to my own experience in local government, as a member of the community with family receiving council services, and of listening to what is being said by professional social workers, the LGA, NHS England and, to be fair, Conservative council leaders. It strikes me that everyone accepts that there is a crisis—except the Minister, when he gave evidence to the Committee. I invite him today to put the record straight, face his responsibilities, accept that there is a crisis and commit today to doing something about it.

**The Parliamentary Under-Secretary of State for Communities and Local Government (Mr Marcus Jones):** It is a pleasure to serve under your chairmanship, Mr Gapes. I thank the hon. Member for Harrow West for tabling the three amendments about the current central share of business rates income, and welcome the opportunity to discuss the important matters they raise.

To begin with amendment 1, removing the central share is essential to enable local government to retain 100% of locally raised business rates and to move away from its dependence on central Government and towards a more self-sufficient future. On Second Reading, the hon. Gentleman was supportive of the principle of 100% business rates retention, but his amendment would let central Government take a share of locally raised business rates income.

We have been working closely with local government, including doing significant work with the sector on developing the policy and on how 100% of business rates can be retained in local government. Keeping the central share would cut across the joint endeavour that the Government and the local government sector have embarked on.

The hon. Gentleman raised the principles of the fair funding review, the consultation response and further consultation. We have made it clear that it is a fundamental

[Mr Marcus Jones]

review of the approach to setting a baseline for 100% business rate retention. It is guided by the principles of fairness, simplicity and transparency, and we have been working in collaboration with local government in that respect. As the hon. Gentleman knows, we shall consult shortly.

**Mr Thomas:** The principles that the Minister outlines are all wonderful—who could possibly be against them?—but there is a touch of motherhood and apple pie about them. Will the index of multiple deprivation feature highly in the categories that the Minister has in mind for influencing how the fair funding review will play out?

**Mr Jones:** Last summer, we put out an open call for evidence from local government in order to get its views on that very type of issue. We have received its responses and we will provide them in due course. We have spent a significant amount of time today scrutinising this proposed framework legislation, and the hon. Gentleman will know that the detail of how the fair funding review will work, including with regard to redistribution and setting the baseline, will be dealt with at a later stage, when we have the time and information and have worked with the local government sector to put together a fair package. Many local authorities have responded to various departmental consultations in recent years by making it clear that they do not believe that the needs assessment, which was last looked at properly well over 10 years ago, truly reflects their demographics, because they have changed significantly since it was last done.

**Mr Thomas:** I entirely accept the Minister's point about the needs assessment—it is entirely reasonable, in my view, that a new one be conducted—but there is a touch of *mañana* about his argument. He said, “The fair funding review will come in the fullness of time. Don't worry about that. It will come in due course.” He could have submitted the Bill for prelegislative scrutiny; instead he is rushing ahead with it before any of the 450 responses have been published. Why is he so desperate to get the Bill through Parliament before we have had the chance to see the outcome of the fair funding review and a draft of the regulations?

**Mr Jones:** As the hon. Gentleman knows, this time last year the Government put out a four-year offer regarding the local government settlement to councils, 97% of which accepted it. At the same time, we made it clear that we would honour those commitments. We also made it very clear that we would be moving to a system of 100% business rate retention and that we would look at the fair funding situation. We made the timing of the move to the new system clear, and we have to have framework legislation in place to make that timing happen. Given that the fair funding review will be a significant piece of work and that we are going to look very carefully at need, we also need time to follow that piece of work through. So we need the legislation, and then we need to put the pieces of the jigsaw together to come up with a complete picture. I am sure the hon. Gentleman understands that.

**David Mackintosh (Northampton South) (Con):** Does the Minister recall coming to the Communities and Local Government Committee to give detailed information as part of its inquiry into the retention of business rates?

**Mr Jones:** Yes, I must admit that I have spent a number of pleasurable afternoons responding to a number of inquiries undertaken by the Communities and Local Government Committee—we have two esteemed members of that Select Committee here. We have been talking about it for some time and we have engaged not only with the sector but with colleagues in this House and particularly with the Select Committee. It is not as if we have just dreamt this up and not engaged with people.

3 pm

**Mr Thomas:** Will the Minister give way?

**Mr Jones:** I will, but then I have to move on, because I cannot detain the Committee too long.

**Mr Thomas:** I am grateful to the Minister for giving way. He often hides behind the four-year offers to local authorities when a difficult question is asked about the funding of local councils, but already the basis on which councils signed up to that four-year assessment has changed, because of the changes to the new homes bonus and the money being taken out for adult social care. I gently suggest to him that when it comes to completing jigsaws, it is helpful to have all the pieces to do so. At the moment, this Committee does not have all the pieces; we just have one third of them.

**Mr Jones:** The Government are committed to and have shown good faith in keeping to the agreement we made about the four-year settlement. Regarding the new homes bonus, which was not included in that settlement, we made it very clear at the time that there would be changes to it. In fact, this time last year we embarked on a consultation explaining that we wanted to sharpen the incentive in relation to the new homes bonus.

In addition, it was quite clear to local government at the spending review in 2015 that the new homes bonus would change, because the improved better care fund, which will total £1.5 billion by 2019-20, was intended to be funded by savings made from it. As such, changes to the new homes bonus have not necessarily been a shock to the sector.

**Jim McMahon:** Will the Minister give way on that point?

**Mr Jones:** I will, and then I will move on.

**Jim McMahon:** I appreciate the Minister giving way, given the time that we have.

The Minister's response would lead us to believe that the majority of councils are signed up to a four-year efficiency programme of budgets that can be balanced within the settlement that they have been offered, but I know from my own local authority that its four-year efficiency plan had a budget gap of £99 million between the cost of providing services to meet its statutory obligations and the income from grants, council tax and business rates. The Government have not come forward and said where the £99 million will come from; in fact, the changes being made through this Bill will potentially make that situation worse. Can we have a clear idea of how many of the efficiency plans submitted to the Government showed a gap of that nature?

**Mr Jones:** We did indeed ask for efficiency plans to be put forward and we did so on the basis of making the offer of the four-year settlement, and only 10 local authorities across the country did not accept that offer.

If the hon. Gentleman wants me to elaborate, I would not say to him that things are easy for local authorities—far from it. Local authorities have done an extremely good job in many ways over the last six years or so in doing their part in deficit reduction, which was so necessary after the shambles of a deficit that was left behind by the Labour party. I say they have done a good job because overall satisfaction with services has been maintained, and local authorities have again taken up the baton, particularly in relation to this four-year deal, and they have run with it.

**Jim McMahon:** Will the Minister give way?

**Mr Jones:** I will not give way again, because I want to move on to a further—[*Interruption.*] Okay, go on; I will give way.

**Jim McMahon:** I thank the Minister for that point. Let us be clear and honest with each other on this issue. The choice that local authorities had was not the choice of financial stability and security. The gap in provision is still the gap in provision. The choice put forward by the Government is basically a certain cut or an uncertain cut.

**Mr Jones:** The point was that local government knew there was a challenge to be met and they knew they were not immune to the reductions in public spending. Coming back to the point, what local government had asked for for many years, above a lot of other things, was certainty. With the four-year deal we have given a significant level of certainty to local authorities that hitherto had always been hanging on the word of Government come December as to what their position would be when they set their budget for the following financial year, which would start at the end of March and take them through to early April. Generally, local government have welcomed that. As to whether they would want a quantum of money within the settlement, I am sure many local authorities would, but at least the deal has allowed local authorities to plan and to use other resources. For example, in many cases it has allowed them to use reserves to bring forward transformation plans that enable them to meet the challenges that they face.

Let me respond to the point that was made about two-tier authority areas by the hon. Member for Harrow West and the way in which the splits would be made in terms of income between the different tiers of local government. The amendment to retain the central share does not achieve that aim. How business rating can be shared between the tiers will be set out in regulations under part 4 of schedule 7B to the Local Government Finance Act 1988. We do not need to retain a central share to distribute business rates income between tiers of Government. As has been the running theme through this and I think will be a running theme in Committee, we are working with local government to work out how the split should work under 100% business rate retention.

**Mr Thomas:** To pursue another running theme, is there any sense of timing for when those draft regulations might become publicly available so that local authorities,

not just those on technical working groups between the Department and the LGA but local authorities in all their full glory, can see and understand what those regulations might mean for their finances?

**Mr Jones:** As I have said, there is still a significant amount of work ongoing with the sector that we need to bring forward to amend those regulations. That work will continue. When we get to the point where we are able to put more meat on the bone, we will certainly do so and that information will certainly be available to the House.

On amendments 2 and 23, the explanatory statement provided by the hon. Gentleman on amendment 2 demonstrates that he is seeking to ensure that a proportion of business rates income is retained specifically for the purposes of spending on social care services. Similarly, amendment 23 seeks to impose conditions on how locally raised business rates should be spent by a council and by central Government if we were to retain the central share. I will explain why the amendments are not necessary.

As the hon. Gentleman is aware, decisions are yet to be taken about the services to be devolved to local government to make 100% of business rates retention fiscally neutral. That does not require primary legislation and is therefore not a part of the Bill. Funding for all services that councils deliver, including social care services, will be part of the considerations. The fair funding review, which I mentioned earlier, will also consider the relative needs of local authorities, including adult social care, and will set initial funding allocations for the 100% rates retention system.

As I said earlier, we recognise the pressure on councils. Despite the comments from Labour Members, we also recognise the challenges of and the pressures on social care services, but we have taken action to help with such pressures. Local government will receive up to £7.6 billion over the course of this Parliament to spend on adult social care services. I assure the hon. Member for Harrow West that the introduction of the 100% business rates retention system does not mean that local government may no longer receive any funding from a central Government grant. Where there is need to provide a funding stream for a specific service or outcome, the Government can continue to make such provision.

I hope that I have reassured Members in a reasonably pithy way that the amendments are not necessary and that we can achieve their aims without taking a central share of business rates income. I therefore ask the hon. Gentleman to withdraw the amendment.

**Mr Thomas:** We have had an interesting debate. The challenge set before the Minister in amendments 1 and 23 was to clarify the Government's intent towards the redistribution concerns of local authorities. We have not yet had clear answers to my specific questions on redistribution.

I asked how redistribution would work in practice. We have not had an answer to that question. I asked whether there would be amendments to the system for tariffs and top-ups. I do not think that the Minister mentioned them at all in his response. I asked how, given the importance of revenue support and other grants to ensure that areas' spending power is equalised, the new system would make such compensation. We have

[Mr Gareth Thomas]

had only a partial answer to that—I will come back to it in the clause stand part debate. I asked for more clarity on the key principles on which the fairer funding formula will operate. It is true that I got that offer of some principles, but no clarity beyond those very basic, broadbrush principles; nor was there any clarity—or even, I am sad to say, any recognition—about the concerns facing the poorest areas in income and spending power, as opposed to wealthier areas such as Westminster, under the new system.

I am concerned that we are no further forward. It was interesting to hear the Minister talk about the need to get the Bill through in order to move ahead with the other elements of the package, but as I indicated in an intervention there was nothing to stop the Minister from submitting the proposals to prelegislative scrutiny. The obvious place to do that would have been in the Communities and Local Government Committee, as has happened in the past for similar pieces of legislation.

The only thing that would appear to be absolutely fundamental for Ministers in the Bill is the abolition of the local government finance settlement and the scope for a debate in the House of Commons on the state of local government finances. The only thing that Ministers will benefit from immediately seems to be the absence of that particular form of financing.

**Rob Marris:** On the issue of redistribution that the amendments cover, does my hon. Friend agree that we could look at it and say that the Government have put the cart before the horse? They have decided that there will be 100% devolution, but as the Minister said a moment ago, they have not yet decided which additional responsibilities they will devolve to local government. Almost invariably, additional responsibilities require additional expenditure. They are setting the finance out in the Bill, but they are not telling anyone what to spend it on until down the road.

3.15 pm

**Mr Thomas:** My hon. Friend makes a good point. I will come back to the issue of new responsibilities, if he will forgive me, because it is better covered in our debate on clause 1 stand part than on amendments 1 and 23.

It was lovely to have the hon. Member for North Swindon get up and take part in this debate. I hope he will not be intimidated and will be a regular contributor on other occasions. I had a sense of Don Quixote and his trusty, loyal servant Sancho Panza as the hon. Gentleman defended the Bill's principles without really getting into the issues of redistribution that we touch on in the amendments. It was rather revealing that he talked about the blunting of incentives if redistribution continued to be a significant factor; that rather gave the game away and will worry many in local government as to what this measure will mean in practice.

I was fascinated by the hon. Gentleman's recollection of witnesses' enthusiasm for the incentives in the Bill. Let me draw him back to the evidence we received on Tuesday from Mr Dominic Williams of the Federation of Small Businesses. Commenting on the incentives that Ministers suggest are in the Bill, he said:

"our view is that that is not really an effective incentive, for a number of reasons. First, it only applies to the development of new physical property. It is an incentive to permit more development;

it is not necessarily an incentive to look after your existing business community. Secondly, throughout much of the country, particularly over the last few years, there has been very little development".

That would suggest that the current system of 50% distribution has not produced evidence that 100% business rates retention will offer any more of an incentive. He went on:

"Thirdly, where there has been development, it has tended to be out-of-town shopping centres. The way that the system has worked since the last reform has given local authorities an incentive to give consent to out-of-town shopping centres, which take away trade from the existing town centre."

He also said something rather revealing on incentives to work with business:

"What I think is more important is that if local authorities are correctly funded to do what they are meant to do, they will be supportive of business. If they are underfunded—I do not blame them for this—they have to put the money towards their statutory obligations and cut back on some of their discretionary activities."—[*Official Report*, Local Government Finance Public Bill Committee, 31 January 2017; c. 45, Q81.]

**Justin Tomlinson:** It was very kind of the FSB to strengthen my case. First, 50% clearly was not enough; that is why we need the maximum incentive. On the town centre principle, I addressed in my speech how councils are only looking at car parking revenue, not the business rates collection within town centres; that strengthens my point. My final ask is that the FSB rallies its members to stand for positions in local authorities, so that they can directly influence how effective local authorities are.

**Mr Thomas:** As I said, the hon. Gentleman's contribution was inspirational in terms of recalling great literature of the past and the tale of Don Quixote and Sancho Panza. The evidence from the FSB was revealing: the economic incentives will not be anything like as significant as Ministers hope and the measure will help to drive further reductions in spending power, it would appear, without any evidence from Ministers to the contrary.

**Rob Marris:** Does my hon. Friend agree that this demonstrates a triumph of hope over experience? If an apparent incentive is not working, we double it. Well, vitamin A is good for people, but after a certain point doubling the intake of vitamin A kills them.

**Mr Thomas:** I am not going to comment on vitamin A. I do not have the medical skill.

**The Chair:** No, let's not go into that.

**Mr Thomas:** I take my hon. Friend's analogy—50% versus 100% is interesting. Given that 50% business rates devolution was championed as an economic incentive in promoting growth, and the business community does not think it has worked, it is not clear what evidence there is to justify the so-called economic incentives still being in place and arguably being greater when there is 100% business rates devolution.

**Kevin Hollinrake** (Thirsk and Malton) (Con): Is the hon. Gentleman supportive of the principles of business rates retention or not? His colleague, the hon. Member

for Sheffield South East (Mr Betts), chairs the Select Committee on Communities and Local Government, where we undertook a detailed inquiry looking at this policy and he stated that

“this is an important policy and we want it to work.”

Does the hon. Member for Harrow West not agree with his own colleague?

**Mr Thomas:** The hon. Gentleman was unfortunately not here at 11.30 am when I made clear our support for the principle of 100% business rates retention. Clearly, we want the system to work. However, I suggest to him that the purpose of this Committee is surely to probe what evidence there is for the case that the Government are making. He is slightly more considered than the usual Conservative MP one gets to sit opposite on these Committees, so I ask him where the evidence is, for instance in an impact assessment, to suggest that there will be a significant increase in economic growth as a result of the Bill? If the 50% business rates devolution did not offer that evidence, as one would have expected it might, where is the evidence that 100% business rates devolution will produce that?

Let me make it clear: I do support the principle of 100% business rates devolution, but the job of the Opposition is to expose where there is a lack of evidence, to challenge Ministers to provide that evidence and to ask for the detail of how the system is going to work. In the absence of that, one is entitled to have a little scepticism.

**Mr Jones:** The hon. Gentleman asks what additional incentive is provided for a local authority in a move from the 50% regime to the 100% regime. I am sure he will know from the Bill that we are scrapping the levy, which is effectively a tax on growth. That will give local authorities far more of an incentive to do the right thing, support businesses and widen their business rate base.

**Mr Thomas:** It is interesting that the Minister chooses to talk about the levy and not the lack of evidence for economic growth having been generated by the 50% business rates devolution. One would have thought that there would have been some evidence to justify the assertions that were made in 2013-14 by his predecessor that a whole new wave of economic growth would be generated as a result of the measures. In the clause 1 stand part debate, I hope to suggest that factors other than local councils' attitude to development might be holding back economic growth.

Sadly, we did not hear anything from either the Minister or the hon. Member for North Swindon that offered confidence to a council such as Allerdale Borough Council that its difficulties with the barriers to economic growth will be dealt with. The hon. Gentleman made a valiant try by suggesting that pooling might work. I do not know whether he knows Keswick in the Lake District, which is the central town in Allerdale.

**Rob Marris:** It's not coastal, is it?

**Mr Thomas:** It is not a coastal area, but it is surrounded by other local authorities that are part of the Lake District national park, which are similarly challenged in terms of constraints on the land they can use. One suspects that the natural pool of authorities that Allerdale

council could work with would face similar challenges in terms of land being available for economic growth. That underlines the concern about redistribution.

**Jim McMahon:** Does my hon. Friend agree that one solution for Allerdale would be to have a broad tax base on which they could draw to fund public services? It strikes me that in such an area a significant amount of money must be generated through stamp duty income from the sale of high-value homes in the district.

**Mr Thomas:** My hon. Friend tempts me now into very difficult territory. The shadow Chancellor has long eyes and if I were to rush to pronounce on a whole series of new measures on fiscal devolution without having first spoken to him, I would get into very serious trouble. Nevertheless, my hon. Friend makes a very interesting point.

**The Chair:** May I also say that that would perhaps move a little bit away from the provisions of the Bill? I think we should narrow our focus a little bit.

**Mr Thomas:** I am grateful as ever for your advice, Mr Gapes. The other concern that was touched on, but not answered, by both the Minister and the hon. Member for North Swindon was the concern about Heathrow. The extra business rates growth that will surely come in the wake of a third runway at Heathrow—their treasurers, if not their local residents, will surely already be beginning to count up and look forward to all the extra revenue—will probably be far more significant in terms of promoting economic growth in the areas surrounding that third runway than anything that local councils might do.

**Steve Double:** Does the hon. Gentleman not recognise that expanding Heathrow is about growing not the economy around the airport but the economy of our nation? Cornwall expects to benefit in economic growth from the expansion of Heathrow because of the additional links that it will create with businesses in Cornwall.

**Mr Thomas:** With respect to the hon. Gentleman, that is precisely my point. In terms of business rates, the authorities that will benefit most from a third runway at Heathrow will be the local authorities in the immediate surrounding area. Without effective redistribution, there might be some additional business rates from businesses operating in Cornwall that are perhaps attracted to Britain as a result of a third runway, but primarily the main authorities that will benefit from the increase in business rates growth from that third runway will be the local authorities in the surrounding area.

**Rob Marris:** May I caution my hon. Friend on this line of argument? The local authorities adjacent to Heathrow will have to spend shedloads more money dealing with the health problems caused by a deterioration in air quality and will be spending more in social care.

**Mr Thomas:** I am not going to get into issues around air quality.

**The Chair:** No, you are not.

**Mr Thomas:** I gently suggest to Government Members that Heathrow brings the issue into fairly graphic light. In the evidence that Professor Tony Travers gave on Tuesday, he acknowledged that, where there is a major infrastructure development, that, rather than any actions of the local council, is likely to be the key driver of economic growth and business rates in an area. One can imagine the same issue with High Speed 2, which, wherever a main station or terminus is located, will be the key driver of economic growth in an area, notwithstanding other measures that the local authority might take. That surely justifies even more the case for redistribution of the revenue generated by business rates.

**Mr Jones:** The hon. Gentleman has made many varied and lengthy points about redistribution, but when have we said that redistribution will not be a core principle of the 100% business rates retention system? It certainly will be.

3.30 pm

**Mr Thomas:** The Minister says that it will be, but he opposes amendments 1 and 23, which seek to re-enshrine redistribution at the heart of local government funding arrangements. He has given us no information about how redistribution will work. We have to wait until mañana for the fairer funding review to report—it will not report for at least another 12 months, even if it sticks to time.

In his excellent contribution, my hon. Friend the Member for Oldham West and Royton underlined the point about the lack of money for social care. The interjection into the debate by the Association of Directors of Adult Social Services about what the Chancellor of the Exchequer should do in the Budget is a further timely reminder of our responsibilities in thinking about social care provision beyond 2020. My hon. Friend talked about the additional responsibilities that will fall on local government, as did my hon. Friend the Member for Wolverhampton South West. The clause 1 stand part debate will give us an opportunity to focus on the revenue support grant and the issues associated with ending that, and that debate is perhaps a better place for me to comment about those new responsibilities.

In winding up, the Minister came back to the idea of how wonderful it is for local authorities' finances that four-year deals have been offered. It is already clear that the terms on which local authorities signed up to those deals are beginning to change. Many authorities that signed up believing it was the right thing to do and still believe it was the right thing to do, for the reasons that my hon. Friend the Member for Oldham West and Royton gave, will nevertheless not be reassured about their financial situation from 2020 given the changes that have taken place already since they signed on the dotted line. It is clear from the Minister's response that an awful lot of detail about how redistribution will work in practice is missing. Granted, that work is taking place and many people in local government have had the opportunity to think about it, but worryingly, no one in local government or this House has had the chance properly to look at that detail.

I do not intend to press amendments 1 and 23 to a Division, but I do intend to press amendment 2. The Minister has not given us any reassurance that he grasps the scale of the social care crisis. He could have said that he and the Secretary of State were marching

daily down to No. 11 Downing Street to lobby the Treasury for more finance for social care. In that context, I might have been willing not to move the amendment, but the social care crisis is so serious that we feel that we need to divide the Committee on amendment 2. I beg to ask leave to withdraw amendment 1.

*Amendment, by leave, withdrawn.*

*Amendment proposed:* 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.”—(*Mr Gareth Thomas.*)

*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.*

*Question put,* That the amendment be made.

*The Committee divided:* Ayes 4, Noes 9.

#### Division No. 1]

#### AYES

Foxcroft, Vicky  
McMahon, Jim

Marris, Rob  
Thomas, Mr Gareth

#### NOES

Aldous, Peter  
Double, Steve  
Doyle-Price, Jackie  
Foster, Kevin  
Hollinrake, Kevin

Jones, Mr Marcus  
Mackintosh, David  
Pow, Rebecca  
Tomlinson, Justin

*Question accordingly negatived.*

*Question proposed,* That the clause stand part of the Bill.

**The Chair:** We have had an extensive debate on the amendments to the clause, so I ask that the stand part debate be very brief.

**Mr Thomas:** The question of whether clause 1 should stand part of the Bill cuts to the heart of the debate about incentives for economic growth versus concerns about redistribution. In an intervention earlier today, the hon. Member for Thirsk and Malton drew my attention—as if I needed it drawn—to the strong support of the Chair of the Communities and Local Government Committee, my hon. Friend the Member for Sheffield South East (Mr Betts), for the principles of the Bill. However, on Second Reading, my hon. Friend recognised that we need to

“marry the need to give incentives for development...with the need to equalise within the system”.

He said:

“My concern is that trying to do that with one tax—

business rates—

“is a bit like trying to play a round of golf with one club.”—[*Official Report*, 23 January 2017; Vol. 620, c. 85.]

I have to say that I do not play golf; my source of leisure is watching the mighty Arsenal scoring their way to victory, so I will make the same analogy in football terms: it is like trying to play a match with defenders but no strikers, or with strikers but no defenders.



I believe that other measures are needed to encourage incentives for economic growth and to achieve equalisation within the system. When we debated amendments 1, 2 and 23, we did not focus on whether the revenue support grant should continue to be offered. We can see from the way the Bill is drafted that Ministers want to abolish the revenue support grant completely. My concern about that is that the revenue support grant has hitherto been one of the key ways of equalising things within the system of local government finance. We have debated the importance of equalising things out, because there is not enough of a revenue support grant in social care, but councils have a huge range of other responsibilities: school improvement, provision of leisure services and so on. Without a revenue support grant, if an authority has a small business rates tax base and a small council tax base, it may face having to offer much worse provision, in terms of leisure centres, school improvements, refuse collections and so on, than an authority with a high business rates tax base.

Why is that so important? If one looks at the regularity with which Governments seek to change the landscape for local authorities, one can sympathise with any treasurer or director of finance in local government who tears their hair out immediately after a Budget, whether it is from my party or the Conservative party, such is the change that comes local government's way. One need only think of the previous Chancellor of the Exchequer's most recent Budget, in which measures to extend business rates relief to smaller businesses and shops will take some £700 billion out of the total business rates take in England over the next five years. There was very little consultation about the loss of that funding from the business rates tax take for local authorities. The revenue support grant might help to compensate for that loss of revenue, but at the moment Ministers are saying that they want to abolish any provision of the revenue support grant at all.

There is some suggestion that local authorities will be compensated for that £700 billion loss. If that is right, it would be good news. However, keeping the provision to allow some revenue support grant to be provided by Ministers to equalise variations in the impact on finances would surely be a good thing if we are committed, as my hon. Friend the Member for Oldham West and Royton said, to the idea of a one-nation England with no person or area left behind.

The change from the retail prices index to the consumer prices index, again announced in that Budget, may mean that businesses have to pay substantially less in business rates over the years. That is a good thing if one is a business owner; for the director of finance at a local authority worrying about how to pay for the provision of local services, it is not such a good thing. Again, very little consultation took place before that measure was announced. We have touched on the changes around the new homes bonus to provide a little bit of extra social care funding. All those changes dramatically affect the local authority finance landscape. Keeping the revenue support grant is one way of helping to ease the challenges facing those local authorities in particularly difficult circumstances because of the scale of the barriers to economic growth in their area.

My hon. Friends the Members for Oldham West and Royton, and for Wolverhampton South West, talked about the measure supposedly being fiscally neutral. As a result, some £12.8 billion-worth of new responsibilities

are likely to be passed to local government. That is a concern, because there is still absolutely no clarity about which of those extra responsibilities will be passed down, or about the impact on local government's financial budgets. Surely it is sensible to keep provision for some revenue support grant to be paid to local authorities while the debate about which new responsibilities will be passed to local government is concluded.

The consultation document—Ministers have still not published the 450 responses generated since last July—gave a strong hint that at least five of the pots of additional money available to local government will be abolished. The rural services delivery grant is, I think, worth about £65 million and the public health grant is worth some £3 billion. One would think that Conservative Members of Parliament representing rural areas would get to their feet at some point to say that they worried about the impact that the additional responsibilities and loss of funding might have on their area. Retaining the provision for some revenue support grant to be paid might be a way for the Minister to settle the concerns of rural Members of Parliament.

3.45 pm

When I think of the public health responsibilities that my local authority—and indeed every local authority—has, it is difficult to see how many of them will continue to be funded in the long term, given the scale of the financial pressures on local government, which we discussed in debate on previous amendments. Why not provide in the clause for the revenue support grant to be maintained, as opposed to being axed?

There is another concern. Let us take an area such as Swindon Borough Council, which the hon. Member for North Swindon talked about with great enthusiasm. He said he had consulted local councillors and that they were enthusiasts—they were gung-ho—for the economic growth that might be generated. It is not unreasonable to imagine a scenario in which there is development of the sort that he might think there will be—I am happy to concede that point—but it is also not unreasonable to reflect that perhaps in two or three years' time the people who own the developments that he and his councillors have championed might decide that they are not getting enough rent through those developments, and so use permitted development rights to convert them into flats, easing the housing crisis in London and the south-east, but at the cost of significant loss of business rate income. Maintaining provision for some revenue support grant to be paid further down the line might be a way to help Ministers deal with the concerns of councils such as Swindon that see the continued loss of their business base.

**Justin Tomlinson:** Surely if developers were converting employment land into residential land, the council would still receive income, but through council tax rather than business rates.

**Mr Thomas:** That is true; there would be additional revenue from the payment of council tax, but would that be equivalent or similar to the quantum generated by the businesses that had been there?

**Justin Tomlinson:** I do not have all the figures immediately to hand, but I would be very excited about the new homes bonus money that would be released very quickly following the decision to transfer that land.

**Mr Thomas:** The hon. Gentleman makes an interesting point. He would also acknowledge that if one has significant numbers of new people living in an area, one has to increase the services there. He presents an optimistic scenario, but although the business rates income might be matched, there might be additional costs arising from the provision of new or extra services.

**Mr Jones:** The hon. Gentleman has made the point about converting offices, for example, for residential use several times. In the spirit of localism, which is what the Bill is all about, let me ask this question: is it not right that if a local authority does not want to take that approach, it could issue an article 4 direction, which would protect that office block as offices?

**Mr Thomas:** The Minister is right: the local authority could do that, but let us assume that, for whatever reason, it does not. Not every local authority will want to stop every landlord from converting land to offer housing. I think about my council and the housing crisis in London. There is a very difficult conundrum and balancing act for local authorities. Do they try to take action to deal with the housing crisis, because of the 100% business rate devolution? Do they look to encourage business rates growth? If Ministers cannot sort out the housing crisis, local authorities in this situation will be caught between a rock and a hard place, and they will have to make very difficult choices.

**Mr Jones:** The hon. Gentleman makes a very important point when he mentions his constituency and the housing challenge in London. Does he not welcome the £3.15 billion that this Government have devolved to the Mayor of London to provide affordable housing in the capital?

**Mr Thomas:** I welcome any further devolution of funding to the Mayor of London and to London local authorities. I am sure that the Minister will not think that is the answer sorted, regarding the provision of new housing—

**The Chair:** Order. As a London MP, I am finding this absolutely fascinating, but this Bill is not about the provision of housing in London and I ask both sides, “Please can we get back to the focus of the actual Bill?” And Mr Thomas, a number of your colleagues also wish to make contributions, so I would be grateful if you could be relatively brief.

**Mr Thomas:** I am very grateful, Mr Gapes, for your direction that we should not talk about the housing crisis in London. However, you will realise that the revenue support grant helps to provide finance to address some of the concerns about homelessness. Obviously, one of the reasons for wanting to retain, potentially, some revenue support grant within the current local government system is to make it easier for financially challenged local authorities to deal with homelessness and some of the other issues that we have mentioned.

My last point, Mr Gapes—

**Rob Marris:** Shame.

**Mr Thomas:** For now. My last point is to ask whether there is a whole series of other impediments to economic growth. The implicit assumption that Ministers always

seem to make in relation to the Bill is that local government is responsible for a lack of economic growth. Ministers are careful not to say that in such specific and grand terms, but that is the implicit charge behind the Bill.

One thinks of the difficulties in gaining access to finance that many small businesses experience as just one example of an impediment to growth. Therefore, local authorities deserve more recognition from Ministers, and not only those run by Conservative council leaders but others—such as Manchester and Oldham, and some in London, such as Hackney or Haringey—where there is a championing of the business community at local level and a real desire to see economic growth.

Surely, keeping the provision in the Bill for a little bit of revenue support grant might be, in the long run, one way of dealing with some of the issues on local government finance. That is worth thinking about by Ministers.

**Rob Marris:** It is, as ever, a pleasure to appear before you, Mr Gapes.

I am intrigued that my hon. Friend the Member for Harrow West is leaving as soon as I have started talking. [*Laughter.*] He has probably heard what I am going to say and agrees with it; I hope so.

I will focus on clause 1(3), which deals with the abolition of the revenue support grant, and to the surprise of some, I will actually be brief, Mr Gapes. I am concerned about that measure. We have heard talk of incentives but no evidence of that. I am concerned about the inequalities that the abolition of the revenue support grant may lock in.

**Kevin Hollinrake:** What evidence did Labour find before it introduced the local authority business growth incentive scheme, which served a similar purpose?

**Rob Marris:** There is a lack of evidence. Things do not work. Now we have this Bill, which is supposed to work. The 50% has not worked, so we are now talking about the 100% not working. I am not the Government. It is not my party saying in the explanatory notes—the Minister said this more than once on Tuesday morning—that the Bill will provide incentives. I understand that concept. It is just that a bit of evidence would be welcome.

**Kevin Hollinrake:** Will the hon. Gentleman give way?

**Rob Marris:** No, I will not, because I want to move on and talk about the abolition of the revenue support grant—I am not primarily talking about incentives—which is set out in clause 1(3). I appreciate that the abolition of the revenue support grant would not abolish the discretionary grant-paying power under section 31 of the Local Government Act 2003, but it would replace a mandatory with a discretionary funding approach. The explanatory notes, produced at the behest of the Government, are very helpful in that regard. They lay bare the Government’s intention, which is, in effect, to abandon just-about-managing authorities and to help those that are doing well—a kind of survival-of-the-fittest approach. I say that because paragraph 31 states:

“The removal of revenue support grant, together with provisions ensuring that local government will keep 100% of locally collected business rates, will increase the self-sufficiency of local government by making them less reliant on grant and more reliant on locally raised taxes.”

I understand the concept of self-sufficiency—it can be laudable—but we have to take into account where our country is at, not where we would like it to be at. That is the very point that my hon. Friend the Member for Oldham West and Royton made about us being one country.

We have heard about the incentives to balance this proposal and about what councils are going to do with their self-sufficiency, but in places such as Wolverhampton, which is one of the most densely populated cities in Europe—presumably because it is such a wonderful place and lots of people want to live there—there is not a lot of spare land. I understand—the hon. Member for North Swindon can correct me if I am wrong—that land is not such a pressing issue in Swindon or, indeed, in Wiltshire.

Hon. Members adverted to what councils might do with the self-sufficiency that the abolition of the revenue support grant in clause 1(3) is ushering in. They might have cheaper car parking. I understand that, for business rates purposes, they might think that will get more people coming in and shopping, and therefore the rental value of shops will go up, but it can be dog eat dog in terms of air quality, which is a huge problem not just in London but around our country, including in Wolverhampton.

Out-of-town shopping centres were adverted to. There are huge problems with the environment in that regard. There are problems in places such as Wolverhampton, a densely populated unitary authority. Any out-of-town shopping centre is likely to be next door, in the Chief Whip's constituency. That is great for the people of South Staffordshire, but not so good for the people of Wolverhampton. We are going to get a dog-eat-dog approach, because South Staffordshire District Council is going to encourage that. We have heard about warehousing. I appreciate that, during the economic crisis, it was in Swindon's interest to provide a giant car park for Honda, but that does not help the future economic development of our country.

This is not the way forward for our country. Getting rid of the revenue support grant, and having a system that is much more dog eat dog and "every municipality for itself" is not a good way to go if we want our country—England—to be a society where we have mutual obligations to each other.

**Mr Jones:** The hon. Gentleman is gilding the lily slightly. The Government have been quite clear that 100% business rate retention means that 100% of the business rate will be retained by local government, not one individual council. Within that system, there will be a system of redistribution to reflect a number of things, including need. Does he not acknowledge that?

4 pm

**Rob Marris:** We may get on to that when we discuss schedule 1, because paragraph 4 contains the tariffs and top-up provisions. Incidentally—I will be brief, Mr Gapes—I read that as a slush fund for the Department.

**The Chair:** Order. We are on clause 1 stand part, so let us not get on to schedule 1.

**Rob Marris:** I realise that, Mr Gapes, but it relates in terms of what will come without the revenue support grant.

**The Chair:** Please do not go on to the schedules now. We are dealing with clause 1 stand part.

**Rob Marris:** I apologise. I was tempted by the Minister.

**The Chair:** I understand. Please resist the temptation.

**Rob Marris:** I give way to my hon. Friend the Member for Harrow West.

**Mr Thomas:** Is my hon. Friend aware of figures I have seen from the House of Commons Library that suggest two thirds of businesses do not pay any business rates at all? If the point about economic incentives is right, authorities have to get particular types of businesses. If they cannot, they are in trouble—all the more reason, surely, to retain provision for revenue support grant to be offered, to help authorities that cannot attract that type of big business.

**Rob Marris:** My hon. Friend is quite right. We touched on the issue this morning, so I will not rehearse it again, but the whole thrust of the Bill is that councils need the big hitters because, as he points out, small businesses—understandably, to encourage the growth of small and medium-sized enterprises—will not be paying business rates. If they get a big hitter, there is a problem if that big hitter moves away and there is no revenue support grant to make up for it.

There is a real problem for disadvantaged authorities such as mine and those up in the north-west, such as the constituency my hon. Friend the Member for Oldham West and Royton represents, where there will be a crisis in local government funding. The underpinning support within our society in terms of social cohesion and solidarity provided by the revenue support grant will, under clause 1(3) be withdrawn. I urge the Government to look at that again, because otherwise they will run into the same problems they have run into with the so-called fair funding formula for schools, which is causing uproar around the country, including on the Conservative Back Benches.

**Mr Thomas:** Can my hon. Friend see a case for the retention of at least some revenue support grant in a situation where an authority with a low business rate base receiving a top-up decides to reduce the business rate multiplier? There is a risk that other local authorities paying a tariff will be effectively subsidising the reduction in business rate multiplier in that area, hence the need for the revenue support grant as an alternative.

**Rob Marris:** I agree—there is a risk of a beggar-my-neighbour downwards. The Government really ought to think again, in the absence of evidence that this will produce the change we all want in terms of business growth and growth of the tax base.

**Mr Jones:** To clarify the point that the hon. Gentleman just agreed with, made by the hon. Member for Harrow West, if a particular area decides it wants across its area to reduce the business rate multiplier, that local authority would have to pay for that within the quantum of its own business rates, and it would not be subsidised by another authority's.

**Rob Marris:** I will not make the same mistake twice and get tempted off-piste by that, because we will discuss the multiplier later in the Bill.

**Mr Thomas:** I hope I can tempt my hon. Friend a little more on the Minister's intervention. That is probably the first bit of clarity we have had on how the system might work in practice. The Minister appears to have said that if an authority reduces the business rate multiplier, no top-up will be available to it, even if it has a low business rates base, making it even less likely that authorities will choose that option. Keeping revenue support grants, surely, is potentially a better alternative for a local authority worried about its long-term financial position.

**Rob Marris:** With his brain like quicksilver, my hon. Friend was quicker than I was to pick up that. I cannot take credit for wheedling that out of the Minister—it was entirely serendipitous, in as much as it happened. It is, however, interesting that we have a little more clarity, I certainly agree there. I urge the Government to think again about subsection (3).

**Jim McMahon:** We have had a full and frank debate. We have just, only minutes ago, managed to glean more information—more in that second than we have had in hours of sitting or the evidence sessions about where the intention sits. Had the debate earlier been more honest and open, we could have dispensed with much of it today. Perhaps the Minister will be generous in the sharing of information, which he showed to be possible a few minutes ago.

Clearly, the reason the levy pool is not required is that the desire is for local government, not the Government, to administer the scheme. That would be in line with calls from local government, which has asked for an independent body to be established to look at redistribution formulas so as to ensure that is done in an independent way. That is something we are open to discussion about, provided there is a discussion to be had. I encourage the Minister in the spirit of openness to come forward with how that scheme will work in practice.

If there is an independent scheme, it would have potential and merit. We see that in the health service, where a separate and independent body is established to look at health funding and distribution. Something similar in local government potentially has merit, provided it has the freedoms. Whatever system is put in place also requires parliamentary scrutiny so that it can be held to account. A number of provisions in the Bill—the removal of the requirements to produce an annual statement of the funding formula and to bring forward the council tax increase cap—do not sit well with democrats because they reduce the possibility of proper parliamentary scrutiny.

The hon. Member for Thirsk and Malton referenced a review that is being undertaken by the Communities and Local Government Committee. I have a great deal of time for the hon. Gentleman. He puts a lot of time into ensuring that such reviews are carried out in the right way. I give credit to him and his Committee for doing so. I hope he does not mind me saying, however, that he has provided a half-truth of the review—*[Interruption.]* Okay, he was 100% truthful about the truth he provided, but silent about the remainder of the recommendations in the report.

The review said, absolutely, that local government had been asking for freedoms and that there was broad support for 100% retention, but that some big and unanswered questions potentially undermined the success of the programme. That is what the report says. The interim report has been provided to the Government, and the response is being awaited. In particular the report talks about how volatile the situation could be if the system is brought forward, without proper scrutiny, while at the same time the revenue support grant is taken away. The Committee was clear at the time that removing the revenue support grant without the checks and balances in place carried inherent risk.

The report also made points about fairness, equality, distribution and what would be done for areas where the business rate base and take were low. The CLG Committee was, absolutely, in favour of retention, but a number of other truths were relevant to its recommendations and that context was needed to give a firmer view, so there is still a long way to go.

**Kevin Hollinrake:** I take exception to the phrase “half-truth”, but the hon. Gentleman is right that the Select Committee made a number of recommendations of modifications to the Bill, many of which have been taken up, such as dealing with appeals. He and the hon. Member for Harrow West ask for evidence, but the Select Committee took extensive evidence during its inquiry, and there was almost universal support for business rates retention. The overriding point in the Select Committee report is:

“We support 100 per cent retention of business rate revenue”.

**Jim McMahon:** That is absolutely correct. The Select Committee went on to say that it

“calls on the Government to specify how it will protect councils which rely on redistributed business rates and are worried that they will lose out under the new system.”

Let us have full, rounded contributions.

**Mr Thomas:** I hope that my hon. Friend will have noticed and will address the fact that, if I may say so, the hon. Member for Thirsk and Malton slightly distorts what I asked the Minister. I asked: where is the economic evidence that 100% business rates retention will work? Presumably, 50% business rates retention has been successful in encouraging the sort of development that the hon. Member for North Swindon thinks will be part of the new Jerusalem under 100% business rates retention. If the Minister can point me to that piece of economic evidence, I will sleep even easier at night than I do already.

**Jim McMahon:** I feel slightly like I am in the middle of a different debate, but my hon. Friend's point about the new Jerusalem is quite apt. When I think about the new Jerusalem, I think of the dark satanic mills that bound the skyline of Oldham and by and large are still there. They create an inherent unfairness in the business rates base of a town such as Oldham.

The devil will always be in the detail, which we have not seen or discussed. There is aggressive provision in the Bill for pooling arrangements. Local authorities will come together as pools, which will have lead authorities that take responsibility for deals. In some ways, that provision continues that inherent unfairness, because it

allows negotiations about distribution to take place within areas. There seems to be a view that creating a pool will allow areas to teem and ladle, less affluent areas will benefit from more prosperous areas and, by and large, there will be an overall benefit. But because more prosperous areas have the upper hand since they have the lion's share of the business rates take, they can negotiate preferential retention arrangements that other areas in the same city region or neighbouring authorities cannot.

For example, in Greater Manchester, the business rates pool expands beyond the city region, in recognition of the fact that the travel to work area goes into Cheshire, so the pool includes the 10 Greater Manchester authorities, Cheshire West and Chester. The two Cheshire councils have negotiated 50% retention before any money goes into the pool to be redistributed across the conurbation. They might argue that they are not part of the Greater Manchester combined authority or the devolution deal that has been struck with the Government, and they add value to the pot but do not really take away investment. There is some sense in that, but Stockport and Trafford, the two most prosperous areas of Greater Manchester, have negotiated arrangements under which they will retain a third of business rates growth before it goes into the pool, because that was the only way of getting them to the table. Even within a pool there is not equity or the type of redistribution that the Government have promoted.

A town such as Oldham is caught between a rock and a hard place. What should it do? Should it leave itself vulnerable to central Government changing the rules or go into a pool even though it will effectively be treated as a second-class local authority in that relationship? That is a fundamental challenge to where the Government want to go. Either we are bringing local authorities together to work in partnership and act as first among equals, or we are saying that the wealthiest local authorities in an area will always have the upper hand. I do not think that is fair or just, and I do not think it can continue if a national scheme is rolled out, because it will eventually start to breed resentment. People will look over the border and say, "That's just not fair. Why are we in this situation where Trafford, Stockport and Cheshire get to retain the lion's share when we're meant to be part of the same city region and the same business rates pool?"

4.15 pm

Although my town has made efforts to grow its local economy and business rate base, most councils look beyond business rates and recognise that they not only run public services but have a broader responsibility for the place and the people who live there. They have always been champions of investment and growth—not for the sake of business rates, but because that is right for the people who live there; it creates jobs, improves the local environment and, hopefully, provides better wages for the people who live there, so why would a local authority not want to promote that and bring it forward?

Asking authorities to come up with a vision for their area and to be champions of growth and investment is a critical part of this. When Oldham tried to frame its devolution offer, it made the point to the Government that its town centre was in significant decline. It has been affected by online and out-of-town retail, and

private and public sector office relocations out of the town. It did what was expected: it established an independent quarter, spent £3 million buying empty properties and bringing them back into use, gave out grants and established the free parking that has been talked about—I hear it is slightly better than Swindon's. However, when Oldham went to the Government to ask if it could be an enterprise zone, with the tax incentives that come with that, the Government refused. We need to be honest about this: the Government will always have an iron fist over local government, unless they learn to let go. That is significant.

Importantly, Oldham is part of Greater Manchester. I am not here to make good laws only for Oldham; we are here to make good laws for the nation. There are parts of the country that will not be in a situation like Oldham's and other combined and mayoral authorities, which can increase business rates in one area to allow for enterprise zones with decreased business rates in another area, in a neutral programme of activity. We need to think about the types of powers we are giving. We need to make sure, if we have that expectation of growth from local authorities, that they have the headroom in their resources to invest in growth and to get areas going in the right way. My town is outward-looking; it looks to Manchester and the city region.

**Mr Jones:** The hon. Gentleman mentioned the iron fist of Government as it once was. Back in 2010, 80% of the money that went to local government was distributed from central Government, with the Government deciding exactly where that money went. Did that give much of an incentive for areas to grow their business rate base?

**Jim McMahon:** I thank the Minister for gently leading me into the scandal that was 2010, when the coalition Government rocked into office, holding hands in the rose garden and making promises of a brighter future. Oldham did not have that experience. Some £24 million was taken from its area-based grant; money put in place for urban renewal following the 2001 riots was snatched overnight at the cost of the town's regeneration. In the same year, the housing market renewal programme, which was meant to reform the council tax and business rate bases in the area, was snatched. It left terraced streets, with boarded-up properties that had been bought for demolition, to stagnate. The Government have never come back to the table with an answer on what to do for urban renewal in towns like Oldham. Some in the room may look back on 2010 with fondness; I look back and think it was the year the Government turned their back on towns like Oldham.

**The Chair:** Order. We are in danger of moving away from debating clause 1. If possible, can we try to focus on clause stand part, however interesting it is to talk about what happened in the rose garden in 2010?

**Mr Thomas:** It is the Minister's fault.

**The Chair:** I am not saying whose fault it is. I ask all of you to please focus on the Bill and clause 1.

**Jim McMahon:** Thank you for connecting us back to the Bill, Mr Gapes. My point connects exactly back to it, because the Minister's challenge was whether we would prefer a centralised approach, or whether we want

[*Jim McMahon*]

local areas to be given the freedom to crack on; that was what I took to be the essence of his contribution. He perhaps clouded that slightly with a reference to those horrible years in 2010, but nevertheless the spirit of it was related to the Bill. My response is this: there will always be a need for elements of redistribution, because we are not starting from a clean slate. We recognise that some areas will require more to bring them forward to the point at which they become self-sustaining and self-financing in the way that Government envisage. For a town such as Oldham, reframing the business rate base and the council tax base was critical. The funding streams from central Government that I referred to were absolutely relevant to that town's success.

Let us leave the past in the past, and look towards the future and what the Bill provides as a way forward. There is no doubt that we need to move to a less centralising state, and that local authorities have been crying out for more freedoms, power and independence from central Government. This measure does potentially provide some of that freedom. However, power is nothing without the resources to get things done. We need to make sure that we are not effectively repeating inequalities of the past, or even deferring blame and responsibility for cuts and reductions down further to local government, when it has had it up to its eyes because of what it has had to deal with through austerity.

The framework of redistribution is about how we will collect money from local authorities that have a very strong base and where growth has taken place at an accelerated rate, sometimes through no action of the local authority. How do we capture that growth to make sure that it can be used to benefit the whole UK? That detail has not actually been brought forward. From the Bill we know what has been taken away, but we have no idea what is being put in its place. We know, because we have been told today, that central Government want to let go and allow local government to administer its own scheme, but we do not know what that scheme is, because the programme has not been brought forward; it would provide for a more meaningful debate if it had been. If the Minister were to intervene and give a bit more detail on that, it would be extremely helpful to the debate.

**Mr Jones:** The hon. Gentleman refers to the question asked about the multiplier, which I answered. The information that he says I divulged today and brought to the world after keeping it to myself for so long was actually in our summer consultation in July last year, so there is nothing hidden in that sense.

**Jim McMahon:** I thank the Minister for remembering that and sharing it with the Committee today. It has been very useful for the debate. This is an open offer from this side of the House: if we get this right, it will benefit every local authority, provided that the framework is robust, proper checks and balances are in place, and there is a genuine mechanism for redistribution to ensure that a basic level of service provision can be provided in every area of this country—not as a result of their historical council tax base or business rate base, but because we believe in decent public services reflecting the need in local areas. That is exactly the call that is being made.

That will be a complicated formula, which will take into account the rural and sparsity issues; urban needs and deprivation; and the physical costs and limitations of delivering public services. We know that, but we need to see the detail and work through what it means in practice. When we have that detail, we could have a really serious debate about the future funding of local government. This will be a continuous call; this is not just one debate about public services and local government funding. Local government is asking not just for the retention of business rates, and to be left with council tax to sink or swim, but for fiscal devolution. That will mean a broader suite of taxes and duties, raised and retained locally, to help grow local economies, get people into better-paid work and provide decent housing. That is what local government is asking for. If the framework is the start of that, we should welcome it, but there is a lot of detail to be provided.

**Kevin Hollinrake:** As the hon. Gentleman knows, I am fully supportive of a fairer funding formula. Quite understandably, if it is purely based on cost drivers, it will mean some local authorities losing out and some gaining. I would support that if it was a clear, transparent and understandable system. Would he also support it in that situation?

**Jim McMahon:** I need to give my response the caveat that I do not believe that enough money is being provided to local government services. If this is about redistributing a very scarce resource, it will lead to some very severely affected losers. I would like a single place budget, so that we looked at an area's public sector spend from the Department for Work and Pensions, the health service, the Ministry of Justice and so on and allowed local authorities more power and control over that money, knowing that they could administer it better, teem and ladle and, hopefully, modernise public services. If we could do that, we might be able to see the future of local government financing, but that is not where we are today; today we are saying that the money we have is the money we have, and we will try to teem and ladle it in a slightly fairer way.

I have to say that towns such as Oldham have 700 asylum seekers, while the Prime Minister's constituency has not a single one, yet no account is taken in any funding formula of ways to give the local authority the resources to support those people in the way they need. We need to ensure that any funding delivered has the right criteria, not just the sort of selective criteria that we saw being used for the rural services delivery grant.

**Mr Thomas:** My hon. Friend makes an important point about support for authorities in areas in which there is an increase in refugees being housed. Surely keeping the provision for revenue support grant would give the Government an easier mechanism for helping local authorities and their citizens to handle some of the additional issues that will arise. Retaining the revenue support grant in legislation would also enable Ministers to get money more easily to areas that are hit hard by flooding. When the hon. Member for North Swindon visits Keswick Town Council and Allerdale Borough Council, he will understand the significance of my point about flooding.

**Jim McMahon:** My hon. Friend hits the nail on the head. We have established the Allerdale question as a measure of whether—

**Mr Jones:** Will the hon. Gentleman give way?

**Jim McMahon:** No, I will conclude. I know that Mr Gapes is being very patient, but I can see a yearning in his eyes to go on Twitter and put the world to rights—and so have I, because it has been a busy few days.

We do not live in a world in which there is going to be a comprehensive review of local government finance—that is not what the Bill is about, and we need to be honest about it. But the Bill will have consequences that we need to take on board, and we can do that only if we have information that we can assess in a detailed way. As soon as that information is provided, we can bring more value to the system and, I hope, ensure that even with very limited resources, it is the best and fairest system that it can be.

**Mr Jones:** The Government support clause 1, which will enable the introduction of 100% business rates retention for local government. It covers a number of different decisions, including the changes in schedule 1, which I will come to later.

We discussed the scrapping of the central share extensively when we debated the Opposition amendments—

**Mr Thomas:** You are not going to reopen that debate, are you?

**Mr Jones:** I am not going to reopen that debate. I say that as a direct answer to the hon. Gentleman, who is quite good at looking backwards and never forwards in life—but I will not hold that against him. Instead, I will speak about the payment of revenue support grant, about which there has been much discussion during this debate.

Clause 1(3) will remove chapter 2 from part 5 of the Local Government Finance Act 1988, which provides for the payment of the revenue support grant in England. As part of 100% business rates retention, we will devolve existing grants and new responsibilities to councils. As the Committee has discussed on a number of occasions, that will give councils control of approximately an additional £12.5 billion of business rates to spend on local services. The revenue support grant, which will be worth £2.3 billion in 2019-20, is part of that.

Let me be clear that the Government will retain a number of powers. Much has been said about how the Government might be able to deal with payments to local authorities. To reassure Opposition Members, under section 31 and section 36A of the Local Government Act 2003 and section 88B of the Local Government Finance Act 1988, payments can be made by Government to local authorities. I will give a couple of examples.

4.30 pm

Flooding was one of the important issues Government had to support communities with, particularly in places such as Cumbria and a number of other areas in the north of England that had a difficult time when flooding hit just before Christmas 2015. My Department made a number of payments to local authorities with regard to support at that time. That was done via section 31 grants, so it is an example of how funding can be made available from central Government.

**Mr Thomas rose—**

**Mr Jones:** Before I give way to the hon. Gentleman, I will mention another example: the Homelessness Reduction Bill, brought forward by my hon. Friend the Member for Harrow East (Bob Blackman). He has done a magnificent job with a Bill that the Government fully support and that will reduce the number of homeless people in our country. To support that Bill, the Government will make available additional funding—£61 million in this case—to local authorities through a section 31 grant. The assertion that if an authority does not have revenue support grant, funding cannot be given from central Government to local government, is false.

**Mr Thomas:** I intervene briefly to make the point that perhaps the difference between the provision of revenue support grant and of the grant for flooding to which the Minister alluded is that the grant for flooding was given after the event, whereas the provision of revenue support grant allows authorities to think ahead—“There may be issues around flooding here, so we will allow flood defences to be built earlier by providing a bit of money though the revenue support grant now.”

**Mr Jones:** I would not disagree with the principle of the hon. Gentleman’s argument, but there are mechanisms other than revenue support grant through which payments will be made within the system. In particular, while 100% of the money raised through business rates will be retained by local government, quite clearly a core principle of that will be redistribution.

The removal of revenue support grant is part of wider changes we are making to provide increased funding for certain councils, which we know councils welcome. We are helping to move local government away from dependency on Whitehall through clause 1(4), which introduces schedule 1 to the Bill, containing a framework in law for multi-year settlements.

**Rob Marris:** The Minister may recall, if he casts his mind back, that I specifically referred to section 31 of the Local Government Act 2003 and counterposed it with the revenue support grant on this basis: section 31 funding is discretionary; the revenue support grant, in essence, is not. Therefore if one replaces or seeks more to rely on something discretionary, rather than mandatory, that takes power away from local government and puts it in the hands of the person who has discretion—in this case, central Government.

**Mr Jones:** As we have covered quite extensively, there is redistribution within the system. There will be resets of the system, and a baseline will be set, so there is the mechanism to provide that. The overriding point, as acknowledged by local government, is that it is good that the revenue support grant mechanism is not in the Bill.

**Mr Thomas:** One small reason to celebrate at the end of this clause stand part debate will be the revelation that something the Minister proposed in the consultation document is confirmed and will be a reality. As he is on a roll in that respect, will he tell us how long the gap between reset periods will be? Has his Department made a decision on that?

**Mr Jones:** As I have said to the hon. Gentleman on a number of occasions, a number of regulations and other pieces of work under the Bill will be needed to determine the detail of the scheme. We will be working carefully with local government to determine matters such as that to which he refers.

I do not intend to delay the Committee for much longer. Together the changes reflect the fact that under 100% business rates retention there will no longer be an annual finance settlement to distribute central Government grant to support local services. Local authorities will be more financially self-sufficient, funding local services from local resources. I therefore recommend to the Committee that the clause stand part of the Bill.

**Mr Thomas:** I will respond briefly to the Minister. The Labour party will not object to the clause standing part of the Bill, but with this caveat: the abolition of so

much grant funding from central Government to local authorities is an issue of considerable concern to local government, notwithstanding its general support for the principle of 100% business rates devolution. We will reflect on what the Minister has said, we will celebrate the little bit of clarity that we got in the debate, but we will not object to clause 1 standing part of the Bill.

*Question put and agreed to.*

*Clause 1 accordingly ordered to stand part of the Bill.*

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

4.37 pm

*Adjourned till Tuesday 7 February at twenty-five minutes past Nine o'clock.*