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GENERAL COMMITTEES

Public Bill Committee

LOCAL GOVERNMENT FINANCE BILL

Sixth Sitting

Tuesday 7 February 2017

(Afternoon)

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Saturday 11 February 2017

The Committee consisted of the following Members:

Chairs: † Sir David Amess Mike Gapes

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

Colin Lee, Katy Stout, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 7 February 2017

(Afternoon)

[Sir David Amess *in the Chair*]

Local Government Finance Bill

Schedule 1

Local retention of non-domestic rates

2 pm

Mr Gareth Thomas (Harrow West) (Lab/Co-op): I beg to move amendment 31, in schedule 1, page 33, line 31, at end insert—

"(3B) After sub-paragraph (2) insert—

(2A) As soon as is reasonably practicable after calculating the payments to be made or received under sub-paragraph (2), the Secretary of State must assess whether each local authority has sufficient resources to provide all statutory services in its area for the relevant year.

(2B) The assessment under subsection (2A) must be published in a report and the Secretary of State must lay it before Parliament."

This amendment would require the Secretary of State to assess whether each local authority has sufficient resources to provide all statutory services in its area.

It is genuinely lovely to have you in the Chair, Sir David. This is no shame on Mr Gapes, but his presence in the Chair sadly did not inspire a series of helpful statements from the Minister. You missed three speeches from Conservative Members, including an excellent speech from the hon. Member for North Swindon, who gave away far more detail about the ideology behind the Bill than the Minister was willing to give. There were some very interesting interventions by the hon. Member for Thirsk and Malton, who will be very interested in hearing the case for amendment 31, which I am about to set out.

The Chair: Order. It is very kind for the hon. Gentleman to give me a resume of what happened this morning, but it is not necessary, so I ask him please to speak to the amendment.

Mr Thomas: I am always grateful for your guidance, Sir David, but you intervened on me just as I had finished giving a very helpful resume of this morning's debate.

I am delighted to have the opportunity to speak to amendment 31, which is in my name and that of my hon. Friend the Member for Oldham West and Royton. It would require the Secretary of State to assess whether each local authority has sufficient resources to provide all statutory services in its area. The explanatory notes state:

"These reforms to the local government finance system will move local authorities away from dependency on central government grant and towards greater self-sufficiency."

Which side of the divide one sits depends on the extent to which one believes that statement.

A local authority may be able to reduce its business rates multiplier to encourage economic growth, or it may be incentivised to permit new business development, but there is no direct relationship between that and the number of people who need social care or who have been made homeless. A unitary authority at least has responsibility for both local taxation collection and service delivery, but the situation is more complex in areas with two tiers of local government, where one authority collects taxes and another provides some statutory services. I am sure we will return to the mechanism for enabling a billing authority and a presenting authority to consult as we debate the Bill. I want to concentrate on funding for statutory services and whether there is a full and proper assessment of the case for statutory provision at a local level.

We will reach 100% business rates retention in, I understand, April 2019, the revenue support grant and other grants will be phased out and additional responsibilities will be passed down to local government. The Minister tells us that the change will be fiscally neutral. What Ministers have not yet told us is what they envisage happening if local authority revenues diverge significantly from the funding needed to provide statutory services. As the hon. Member for Thirsk and Malton pointed out a number of times—or it might have been the hon. Member for coastal erosion or Waveney—the Government are conducting a fair funding review, but will set the needs baseline only at the point of transition from the current business rates system to the new 100% retention system. One might ask what happens if the overall funding in the system fails to keep pace with the cost of providing services.

It is worth paying close attention to the Government's record on that point. The cross-party Local Government Association has calculated that local government faces a £5.8 billion funding gap by 2020. Local authorities have statutory obligations to provide several services. As we have said several times, we support the principle of 100% business rates retention, but we want an honest assessment of the implications for councils' finances and their ability to continue to deliver the services they are obliged to provide.

I stress again that there is no inherent or causal link between a council's ability to encourage local growth and boost its business rates revenue, and local demand for key services. The hon. Member for North Swindon said that the economic incentives in the Bill would cause a huge surge in business rates income. People who are perhaps more expert than him—there are clearly not that many—worry about whether his optimism is as justified as he might hope.

We heard before lunch that Ministers in Whitehall will retain huge power over the resources available to local authorities but are determined to face less scrutiny in Parliament. There are some 56 new powers in the Bill for the Secretary of State, the Treasury or some other bit of Whitehall to interfere with local government finances. Amendment 31 would place just one additional duty on the Secretary of State—a duty to assess whether each local authority has sufficient resources to provide all statutory services. You are a diligent Member of the House, Sir David, so you will be well aware of the crisis in adult social care, which is perhaps the most visible example of the funding pressures facing local authorities and, in terms of statutory services, the most pressing justification for amendment 31.

Just this weekend, Councillor David Coppinger, who is the cabinet member for adult services and health in the Prime Minister's local authority, the Royal Borough of Windsor and Maidenhead, and Councillor Simon Dudley, the leader of that council, added their voices to the clamour for a solution to the adult social care crisis. Perhaps they were encouraged to speak out by my amendment 31. Councillor Dudley told *The Observer*:

"The burden is increasing disproportionately over time against a backdrop of more required efficiencies from local authorities. You see that with situations like Surrey".

I remind hon. Members that Surrey wants to put up its council tax by 15% purely to pay for social care. [Hon. Members: "No it doesn't!"] Well, it certainly did last week. Councillor Dudley went on to say that Surrey

"simply can't achieve that, and there will be others. I have absolutely no doubts at all. Other local authorities will find themselves in the same situation as Surrey over the coming years."

Jim McMahon (Oldham West and Royton) (Lab): The situation as of today is that Surrey will not have a referendum on a 15% council tax increase. I understand that that is not because it assesses the need as any less but for other reasons. However, my hon. Friend's fundamental point about social care funding is absolutely critical and needs addressing.

Mr Thomas: I am grateful to my hon. Friend for making that clear. It will be interesting to see what pressure was applied to the leader of Surrey County Council. He obviously has a close relationship with the Chancellor of the Exchequer, who is one of his Members of Parliament, and it will be interesting to see whether that had anything to do with that volte-face. My hon. Friend may not know this, but Surrey has the great advantage of having one Labour councillor. There is only one at the moment, but I am sure that will change after the elections. His name is Robert Evans. He is a former Member of the European Parliament and was leading the campaign, on behalf of those in Surrey who were only just about managing their finances, against the 15% increase in council tax. I am sure he will be feeling very proud today of the success that he has had in persuading Surrey County Council not to increase council tax and hit those in Surrey who are not so well off.

I will return to Councillor Coppinger of the Royal Borough of Windsor and Maidenhead. He believes that the current funding model for social care is sustainable for only two more years. It is worth remembering that the Prime Minister's local social care authority is one of the few that has been able to increase spending on social care since 2010 by 5.7% in real terms.

To take another example, Liverpool has been able to increase spending by 6.7% in real terms over the same period. However, the situation there is even worse. Liverpool's adult social care director, Samih Kalakeche, has tendered his resignation. He said that, as things stand, councils such as his will probably soon be unable to meet their statutory requirements:

"Frankly I can't see social services surviving after two years. That's the absolute maximum. If we don't do something within the next six months, I believe social services will not exist by 2018-19. This isn't scaremongering, this isn't me asking you to feel sad for me—whoever is making decisions out there has looked at social care as the Cinderella of the service, which means more and more people are staying at home with high needs because of the removal of the prevention agenda. People are struggling, people are suffering, and we're really only seeing the tip of the iceberg".

The Minister may not be sympathetic to the former director of adult social care in Liverpool, but he might be more sympathetic when he considers that the Local Government Association shares similar concerns. He will probably be aware of what Councillor Izzi Seccombe said last month. She is Conservative leader of Warwickshire County Council—I am sure she is well known to the Minister. She is also chair of the LGA community wellbeing board. She said that

"the intentions and the spirit of the 2014 Care Act that aims to help people to live well and independently are in grave danger of falling apart and failing, unless new funding is announced by government for adult social care".

The leader of the Minister's own council has set out how grave is the funding for one key statutory service, which is all the more reason to tempt you, Sir David, to agree with the case for amendment 31, albeit you cannot do so given your position.

As far back as 2015, local authority representatives told the King's Fund that they were struggling to meet their obligations under the Care Act 2014. Just 8% of council directors of adult social care say they are confident they can fulfil their duties under the Act in 2017-18, which is a pretty difficult situation. The LGA is not the sort to scaremonger, but it has been calling for urgent measures to plug a funding gap in social care. It says that £1.3 billion is needed, with the funding gap expected to rise to £2.6 billion by 2020 if nothing changes at all.

A new story seems to emerge every day to illustrate the crisis in social care and to underline the need for the assessment that is at the heart of amendment 31. Yesterday, we learned of the case of Iris Sibley, who was stuck in a hospital ward for six months as a suitable nursing home place could not be found. Mrs Sibley's son has described how her mental and physical health deteriorated as she was stuck on the ward, well enough to be discharged but with nowhere suitable to go.

One wonders what it would take for Ministers to act. Perhaps amendment 31 might prompt more action, more quickly from Ministers.

2.15 pm

You did not have the privilege of being here this morning, Sir David, when I dwelt on the terrible situation that 20 local authorities face with the huge number of delayed transfers of care. Of those 20 worst councils—I use that language advisedly—14 are Conservative-run. Instead of attacking local authorities, as has been happening too much of late, I hope that will prompt the Minister to recognise the seriousness of the crisis. Amendment 31 is needed for the future, but a solution is needed now.

Kevin Foster (Torbay) (Con): Will the hon. Gentleman give way?

Mr Thomas: We have all been trying to help the hon. Member for Torbay improve his performances so that he is allowed to move from the back of the Back Benches to be a little closer to the front.

Kevin Foster: The shadow Minister is his usual generous self, and I thank him for giving way. I can only say that I can guess who my hon. Friend the Member for Shipley (Philip Davies) looks to for inspiration in terms of

[Kevin Foster]

brevity in making speeches on Fridays. The hon. Gentleman has been referring to social care. Torbay has one of the lowest levels of delayed discharge, despite its demographics. Does he agree that setting up a good quality integrated care organisation is the actual solution, rather than his amendment?

Mr Thomas: To my great surprise, I am almost in agreement with the hon. Gentleman—there has clearly been a huge improvement as a result of our collective mentoring of him—but I add one reservation to my encouragement. What he suggests makes some sense going forward, but amendment 31 would be a useful addition that would give us the opportunity to understand whether Ministers have properly grasped the social care funding situation for each local authority, whether that is joint or not joint with others.

In making the case for amendment 31, let us move into an area that is particularly topical in the light of the housing White Paper: homelessness services. Clearly, those are key statutory services that local authorities offer. Local authorities have already faced a substantial number of legal challenges on their statutory duties to support the most vulnerable people who are at risk of homelessness. In September last year, 74,630 households were in temporary accommodation, including those in bed and breakfasts. That was the 21st consecutive quarter in which the number of homeless households in temporary accommodation increased. If we factor in the 40% increase over the past four years in the cost of providing temporary accommodation, the LGA—not a body to sound the alarm unnecessarily—estimates that the funding gap for homelessness services will be £192 million by 2020.

I was not able, because I was preparing for this debate, to be in the Chamber to hear the Secretary of State speak, but just from looking briefly at the social media reaction, I did not get the sense that he announced an additional £192 million for homelessness services by 2020. That is a further reason to encourage action after the new system comes in by accepting amendment 31.

Sunderland City Council has already announced that because of the very difficult financial situation it is in, it may have to cut its entire housing support budget, which is used to pay for vital services, such as hostel beds, refuges and supported housing. Services for those who are most at risk of homelessness, including ex-offenders, people with mental health conditions and those with learning difficulties, are also being cut. When we bear in mind that the life expectancy of those sleeping rough is just 47, according to charities in Birmingham, one fears that vulnerable people will die as a direct result of the proposed cuts to housing support services in Birmingham of some £10 million over the next two years. That is an indication of the financial crisis affecting another local authority.

The new duties to be introduced under the Homelessness Reduction Bill, which the Minister prayed in aid last week, are welcomed, but many of us remain sceptical that councils are being adequately funded to fulfil them. On Second Reading, as I recollect from glancing at the debate, quite a few of the interventions raised directly with the Minister concern about the availability of funding. Were amendment 31 on the statute book, Ministers would have less chance of inadvertently not understanding or not recognising financial needs in that area.

There is great concern about the insufficiency of the £48 million of funding that the Minister announced to expand necessary homelessness provision for single men and women. The Association of Housing Advice Services, which is a non-profit organisation, estimates that London's 32 boroughs alone will face a combined bill of £161 million to implement the new duties.

The full scale of the housing crisis is clearly beyond the scope of the amendment, but I am sure that in our advice surgeries we have all come across incidences of families struggling to find affordable accommodation near their workplaces or children's schools. It is clear that the funding for the vital role that local authorities play in protecting the most vulnerable and in finding that most basic need, a home, is under severe pressure.

Another key statutory service that should surely be recognised by inclusion of amendment 31 in the Bill is children's services. Looking after children is one of the most important statutory duties of councils, with a total of £11.1 billion a year spent on un-ring-fenced funding on children's social care and education services. Again there has been an increase—60% since 2008—in the number of children requiring children protection plans. That is at a time when, from 2010 in the previous Parliament, councils lost 40% of their funding from central Government. The LGA estimated a £1.9 billion funding gap for those vital services by 2020.

For many councils, the pressure on children's services is even more acute than that on adult social care. Three hundred and seventy-seven Sure Start centres have closed since 2010, with only eight opening in that time. That is the result, I suggest, of a spending cut on the centres of 47% in real terms. Sure Start centres have been crucial in supporting children from disadvantaged backgrounds during the vital early years before they reach school age, but again service cuts are diminishing such children's prospects. Were amendment 31 on the statute book, Ministers might feel a little more reluctant to push such savage cuts through.

In the context of education and education services, will the Minister explain why the Government still intend to go through with the planned cut to the education services grant? It is entirely appropriate to ask that question in the context of amendment 31—let me explain why. The Education Secretary was correct in deciding not to proceed with the forced academisation programme of her predecessor. Under the proposed education-for-all Bill that would have delivered that programme, it would seem sensible for councils to lose their funding for their school improvement responsibilities—given that all schools would become academies. Forced academisation having been scrapped, however, we are left with a situation in which councils keep their school improvement responsibilities, although the funding is still being cut.

Rob Marris (Wolverhampton South West) (Lab): May I caution my hon. Friend not to be too hard on the Minister because it is Ministers from the Department for Education who demonstrate time after time on the Floor of the House that they do not understand the difference between early years education and childcare? They constantly elide the two. It is not the Department for Communities and Local Government that makes that mistake, although it may, but the Department for Education and its ignorance is shocking.

The Chair: Order. Before the hon. Member for Harrow West responds to that intervention, may I say that I have been listening carefully? It is certainly within Erskine May, but if we continue to go through the statutory regulations in minute detail we will have an all-night sitting. Will the hon. Gentleman draw his remarks more closely to amendment 31 before we start going on about early years learning?

Mr Thomas: I am grateful for your guidance, Sir David. I will leap forward and give one specific, tangible example of the concern that motivated me to table amendment 31. In 2015, Lancashire County Council commissioned a report by PricewaterhouseCoopers to look at the level of resources it needs to provide statutory services going forward. That report makes sobering reading. It forecast that even if the council achieved everything in its saving plans, it would have an in-year deficit of £148 million in 2020-21 and a cumulative deficit of £398 million.

The report identified several areas in which planned savings were at risk of slipping and not delivering the full range of savings, meaning that the forecast budget gap would be even greater. That example of Lancashire County Council and the independent work by PricewaterhouseCoopers on whether it could continue to fund its statutory services in the future surely cuts to the very heart of the case for amendment 31.

Given the scale of spending cuts that councils have experienced and the sheer number of councils in all parts of the country and of all colours that have outlined their views, councils are under huge pressure. I gently suggest that Ministers cannot continue to press ahead without a significant change in direction and recognition that a central part of the new 100% business rates retention scheme should surely involve putting local councils on a sustainable financial footing. That is the context in which I make the case for amendment 31.

If Ministers are not convinced by the example of Lancashire County Council, let me give the example of Nottingham City Council. Councillor Jon Collins gave evidence to the Committee and made clear the scale of the cost pressures affecting the council—£11.2 million of cost pressures, wage demographics, additional inflation and charges from providers. He talked about the extra funding and pressure on his budget and raised a comparison with a nearby local authority—Rutland. He noted that the spending challenges facing his authority in Nottingham were substantially less than those facing nearby Rutland.

Clearly, amendment 31 might help to persuade Ministers to iron out such difficulties if there was a proper assessment of need. That is the spirit in which I tabled amendment 31. I hope the Minister might now be willing to be more careful with the future of local authority finances. Amendment 31 would be a sensible additional safeguard.

The Parliamentary Under-Secretary of State for Communities and Local Government (Mr Marcus Jones): It is a pleasure to serve under your chairmanship, Sir David. I thank Opposition Members for the amendment, which provides an opportunity to set out the Government's position on the future sustainability of local government. Before turning to the amendment, I would like to take the opportunity to clarify that medium-term fiscal policy decisions in the United Kingdom are managed, as the hon. Gentleman knows, through spending reviews. The spending review in 2015, for example, set local government expenditure limits to 2019-20. The Government will continue to assess the funding of local government after the introduction of 100% retained business rates through spending reviews.

2.30 pm

Where a spending review identifies that increased funding for service delivery is required in excess of expected business rates receipts, additional resource would be needed to fund that service. As we discussed at great length in last Thursday's sitting, the Bill does not remove the Government's power to use section 31 grants to provide additional funding to local authorities if needed. A good example of that has been identified recently. The hon. Gentleman mentioned the Homelessness Reduction Bill, which has been welcomed by Members on both sides of the House, including the hon. Gentleman's Front-Bench colleagues. The Government have looked very carefully at the additional responsibilities that local authorities will have to deal with. We have come up with a significant funding package of £61 million, which will be subject to a form of distribution, taking into account areas that have higher need for homelessness services than others. That funding will be distributed by way of section 31 grants.

Mr Thomas: Given the concern about how tariffs and top-ups and distribution of resources will take place between local authorities, will the Minister give a bit more clarity on the criteria for the distribution of that homelessness funding? Will it be guided by the index of multiple deprivation? How will Ministers be guided in terms of the distribution of that finance?

Mr Jones: The hon. Gentleman raises a good question. As was made clear in Committee and, if I recall correctly, on Report of the Homelessness Reduction Bill, a clear commitment has been given by the Government to work with the local government sector, particularly the LGA, on how that funding will be distributed to reflect need. As the hon. Gentleman will know, the spending review process and a number of different processes will follow from the Bill. The Government also take the position that they will work with local authorities and their representative bodies to come to conclusions, particularly on the quantum of funding required and how it is distributed.

Amendment 31 would require the Secretary of State to assess whether each local authority has sufficient resources to provide statutory services in its area. Our concern with the amendment is that it replicates what is rightfully a matter for the Government to consider through a spending review. Furthermore—the hon. Gentleman alluded to this point—the fair funding review will consider the suitable distribution of funding across local government.

I hope I have reassured hon. Members that the Government will continue to consider the level of funding for local government. I therefore ask the hon. Gentleman to withdraw the amendment.

Mr Thomas: I listened carefully to the Minister and take his point about the fair funding review. I would gently suggest to him that that is discretionary, although it is a pivotal element to this particular measure and is

[Mr Gareth Thomas]

one of the parts that will come sometime in the long-distant future to inform us how 100% business rates devolution will work in practice. What we do not know is whether there will be a fair funding review in future if there were to be another Conservative Government. We do not know whether there would be a spending review in future—they are entirely at the discretion of the Government.

Amendment 31 would lock into law the requirement to produce that assessment. In the context of such a radical transformation, to use the Minister's words, of local government finance, the additional duty on the Secretary of State seems like a sensible precaution to put in place. Much as I would like to accept the assurances from the Minister, I fear that I cannot, and I intend to put amendment 31 to the vote.

Question put, That the amendment be made.

The Committee divided: Ayes 6, Noes 9.

Division No. 2]

AYES

Efford, Clive	Marris, Rob
Foxcroft, Vicky	Thomas, Mr Gareth
McMahon, Jim	Turley, Anna

NOES

Aldous, Peter	Mackintosh, David
Doyle-Price, Jackie	Pow, Rebecca
Foster, Kevin	Tomlinson, Justin
Hollinrake, Kevin	Warburton, David
Jones, Mr Marcus	

Question accordingly negatived.

Amendment proposed: 26, in schedule 1, page 34, line 42, leave out sub-paragraph (4) and insert—

"(4) In sub-paragraph (4), at end insert ', which must be approved by a resolution of the House of Commons'." .*—(Mr Thomas.)*

This amendment would retain the requirement that an amending statement be laid before the House of Commons and additionally would require that the report be approved by a resolution of the House.

The Committee divided: Ayes 6, Noes 9.

Division No. 3]

AYES

Efford, Clive	Marris, Rob
Foxcroft, Vicky	Thomas, Mr Gareth
McMahon, Jim	Turley, Anna

NOES

Aldous, Peter	Mackintosh, David
Doyle-Price, Jackie	Pow, Rebecca
Foster, Kevin	Tomlinson, Justin
Hollinrake, Kevin	Warburton, David
Jones, Mr Marcus	

Question accordingly negatived.

Jim McMahon: I beg to move amendment 27, in schedule 1, page 35, line 32, leave out sub-paragraph (1).

This amendment would retain levy accounts.

It is a pleasure to serve under your chairmanship, Sir David. You have not had the pleasure of attending many of the debates we have had and I will refrain from repeating them, although they were fascinating in many ways. They were a source of great training and education from my hon. Friend the shadow Minister. I would hope that, on reflection, the Minister picks up some of the points about attention to detail, really understanding the brief and assessing the impact of decisions made in Parliament.

I have the honour of explaining some of the more technocratic parts of this Bill. If you are interested, Sir David, in what a levy account is, and that mysterious way of working and why it is there, this is the amendment for you. Amendment 27, which is in my name and that of my hon. Friend the shadow Minister, is in many ways technical, but it is also very important—I will explain why in my short summary of support for it. I say at the outset that it is a probing amendment because I want the Minister to pay attention to my contribution and to address the issues I raise.

The last levy account, covering 2015-16, was presented to Parliament under the requirements of the Local Government Finance Act 1988. If the Minister wants to look it up, it is dealt with in paragraph 19 of schedule 7B. The business rates retention scheme introduced on 1 April 2013 allowed local authorities to retain 50% of rates collected in their area. Cash flows in respect of that scheme are reported in two White Paper accounts: the main non-domestic rating account and the levy account. The amendment refers to the latter.

In simple terms, the levy account provides transparency of cash flows between local authorities and the Government in respect of the 2013 scheme. A reasonable response would be: "We're moving away from the 2013 scheme, which provided 50% of rate retention, to 100% rate retention," but, critically, the levy is basically just a mechanism for bringing money in from areas that pay a tariff, and sending it back out to areas that have depressed business rate bases—it effectively provides the accounting mechanism to allow those payments to take place. If we had 100% retention but also intended to create a safety net to support local authorities that have experienced unforeseen impacts on their business rates bases, the levy account could perform that function, regardless of how much was retained and redistributed locally, which is important if we consider that 326 billing authorities in the country may well have a claim on the levy account. Some will use it only temporarily. For instance, there is a facility for mid-year payments to be made from the levy account and, when the accounts are made up at the end of the financial year, if a local authority has been overpaid, the amount will be recouped and paid back into the levy account.

The levy account has an interesting history, some of which is contentious, if I am honest, to local government friends. Several years ago, a top-slice was taken from the revenue support grant. That meant that less money was distributed to councils in the first place, but at least it provided a safety net. For instance, last year £50 million of additional money from the RSG was sent into the levy account to support councils that had had an unforeseen depression in their tax base.

That raises an important question about where the Bill is going. We have talked about support in principle for rate retention, and for a system of tariffs and top-ups whereby areas that could not retain the money they needed locally would have sufficient money to pay for public services in their area. We have talked about

what formula could be used, rural areas and urban deprivation—we have talked about a range of issues. In some ways, that is not for this amendment, which is solely about the mechanism by which safety net payments are provided.

It is fair to say that, during our debates on the Bill, no information has been provided about what mechanism will replace the levy account, which raises a question: if there is a desire for some kind of safety net to support councils that fall on difficult times, how will it be provided if the mechanism is deleted?

Mr Thomas: My hon. Friend will know that a consultation document was published in July last year and that there have been more than 400 responses. Does he share my view that it would be helpful if the Minister gave a summary of what those responses said about the levy?

Jim McMahon: This has been a theme throughout the Committee's sittings. We are having a debate in almost complete isolation, without knowing where the Government intend to go on the fair funding formula—as has been discussed, that is absolutely critical and underpins the Bill—and without understanding the sector's views. We debate issues and make laws to which other people have to adhere, and they have real-life consequences. The local authorities that have to live with the consequences, and that know the impact on the frontline, have responded to that consultation, but we are discussing the Bill without sight of their responses. I am not sure whether that is due to a Trump-esque view—if something does not support someone's view of the world, it is dismissed as fake polling data or fake news. Is it possible that those consultation returns are being screened for "fake" consultation responses? How long does it take to compile the information submitted by the sector and send it out in a report? Even the raw data—a copy and paste of what had been provided—rather than a summary would at least mean we could scrutinise it and undertake the questioning and answering that should take place.

2.45 pm

Mr Thomas: I thank my hon. Friend for his support for my request for at least a summary of the responses on the levy when the Minister replies. Does my hon. Friend not share my view that it would be particularly interesting to hear what contribution the Prime Minister's authority made, not least as it is one of the local authorities that stands to benefit, in business rate terms, when a third runway is built at Heathrow?

Jim McMahon: I absolutely agree with that point. It has been made a number of times, but the Minister has consistently failed to address it. The Minister may well have been passed the answer by one of his advisers; perhaps he can share that knowledge with us in his response—that would be very helpful.

The important thing about the levy account is that it is not just about the mechanism; it is also about how much money is put in the pot that can be used to support councils with a depressed local business rate base. Critically, that relies on a vote of Parliament. We talked about parliamentary scrutiny of the annual financial settlement that will support local government, and about the referendum limits and how that would be subject to a parliamentary vote. The Government seem determined to make sure that Parliament does not have a role in how local government is funded. This is another example of Back Benchers not having a say on how much money is provided for any kind of safety net.

I am not sure what confidence we are meant to have in the system, when we do not know what local government has said as we are debating and scrutinising the Bill, what the method of redistribution will be, or how much will be provided by way of a safety net—or even whether that mechanism will be inside or outside Government, because in the consultation, there has been a nod to a semi-independent body potentially being established. However, we are of course framing our own view and interpreting the Minister's limited responses in these debates, rather than seeing that set down on paper.

The scale of the payments from the levy account are quite important. These are not small payments—well, sometimes they are, but the scale of the call on that budget is significant. For 2015-16, the Secretary of State approved payments of £112 million to support local council services. Imagine what £112 million could pay for—how many day care and youth centres that would fund, and how many older people could be looked after in their own home with that. If that money was not there, what would be the human cost of councils being told to sink or swim without having that safety net in place? Some clarity on that from the Minister would be greatly appreciated.

In all this, we are trying to understand what the end will look like. We are aware of what is being taken away, and of how the Secretary of State, and the Minister in this Committee, are reducing the role of Parliament and parliamentary scrutiny; we are less clear on what the end will be. All of us in politics accept that to make good legislation and good decisions, we have to make difficult decisions at times, but we should never go forward with a bad decision based on a lack of information and half-reports. Please say what mechanism will be there to support the levy account. We can then hopefully have a meaningful debate on what the safety net and mechanism will be, and can test whether it is fit for purpose.

Mr Thomas: I rise in support of amendment 27. It is worth touching on a couple of the ways in which the levy rate works. Tariff authorities may be subject to a further levy on growth in business rates income. Each such authority was set a levy rate of between 0% and 50% at the outset of the 50% business rates retention scheme in 2013-14. An authority with a 0% levy rate will keep all its growth in revenue. An authority with a positive rate—over 0%—must pay that percentage of its growth in revenue to the Government. The purpose of the levy is to ensure that authorities with very high business rates tax bases relative to their assessed needs do not benefit disproportionately from the system. As my hon. Friend so eloquently set out, the Bill will remove the Secretary of State's power to set such a levy. Clearly, our amendment would retain that power.

I have already mentioned the example of Maidenhead's council, the Royal Borough of Windsor and Maidenhead, which has a 50% rate—the highest rate that it can have. Presumably, this is because the council already benefits from its proximity to Heathrow, and from all the businesses that want to be close to Heathrow to export their goods to markets around the world. We commend Maidenhead

[Mr Gareth Thomas]

on its good fortune, but surely as it benefits from a major piece of infrastructure—Britain's most crucial hub airport—it has not had to do huge amounts to encourage that growth in business rates income, although I am sure that the council's leader would point to one or two things it has done to encourage business. However, even Maidenhead would struggle to claim that it has not benefited from being so close to a major airport. I cannot see anyone in this room who is an opponent to a third runway at Heathrow.

Rob Marris: Me!

Mr Thomas: I apologise to my hon. Friend. As ever, he helpfully corrects me, but the majority of Committee members support a third runway. With a third runway, Maidenhead's council will presumably benefit from being even more attractive to businesses that want to get their goods out to export markets. It will have done nothing to put in place new conditions for economic growth; it will simply have benefited from a major strategic decision taken by this great House. The irony is that Maidenhead opposes a third runway at Heathrow.

The Chair: Order. I am listening very carefully to the hon. Gentleman, but it is not appropriate for him to continue on the point about Heathrow airport. Will he return precisely to amendment 27, which we are debating?

Mr Thomas: Thank you, Sir David. Hillingdon has a 50% levy rate at the moment. The worry is that in future, it may not have to pay quite so much back into the national pool for redistribution to other local authorities, such as North Yorkshire. We have heard regular and understandable pleas for additional finance from the hon. Member for Thirsk and Malton. One would have thought that he would want Maidenhead's council to benefit from a third runway, so that some of its growth in business rates revenue could be redistributed to North Yorkshire.

Kevin Hollinrake (Thirsk and Malton) (Con) *rose—*

Mr Thomas: I give way to the hon. Gentleman, as I have drawn him out on this question.

Kevin Hollinrake: It is a pleasure to serve under your chairmanship, Sir David. The hon. Gentleman makes a very good point, but some of that revenue will presumably be redistributed at reset periods, so North Yorkshire would benefit from increased business rates there. The principle behind the measure, and the scrapping of the levy, is to increase the incentive for local authorities to grow their business rates; levies decrease that incentive. Does he welcome the fact that there will be a greater economic imperative without the levies in the system?

Mr Thomas: At the heart of the debate is the question of whether there will be quite the economic imperative that the hon. Gentleman and the hon. Member for North Swindon suggest. I hope that there will be such an imperative, but the evidence from the witnesses was not hugely encouraging on that point, as I set out when I referred to the contribution of the chair of the Federation of Small Businesses.

The hon. Member for Thirsk and Malton made a point about resets, but we do not know how often they will take place. I gently suggest to him that it might be better to think about retaining the levy arrangement, so that his authority and mine can benefit from some of that income a little more quickly. Perhaps he does not know that North Yorkshire has a 0% levy, so it is one of the authorities that does not have to contribute to London authorities such as mine, Wolverhampton or anywhere else. I am sure he is pleased to hear that.

Rob Marris: Is my hon. Friend aware that under the system that the amendment seeks to retain but that the Bill will remove, over the past four years there have been 52 winners—if I may put it that way—and 119 losers, according to the Institute for Fiscal Studies? Surprise, surprise: most of the winners are district councils, and most of the losers are larger councils, including many metropolitan borough councils and unitary authorities.

Mr Thomas: My hon. Friend is right. As he knows, I have expressed concern about the distribution between tiers of authorities and how redistribution mechanisms would work in practice without a levy, but we are none the wiser about redistribution in practice, because the Minister has not been able to tell us about it. Perhaps you, Sir David, can use your influence with him to elicit the summary that has been promised for some time in the future, we know not exactly when. We are told it will be soon-ish, but how long that is, we do not yet know. Perhaps some of the 400-plus responses to the consultation document that the Department produced last year will give us some sense of how the levy will work.

Kevin Hollinrake: The hon. Gentleman made a remark about North Yorkshire not contributing to his local authority, but that is quite right, because his local authority already has greater spending power, so why should it? He also made mention of my hon. Friend the Member for North Swindon and me; we are in concert on economic opportunity, but so is the Select Committee on Communities and Local Government, which heard from many witnesses and took much evidence. The Committee concluded that the business rates reforms

> "are, nevertheless, transformative and create a real opportunity for local government; in retaining 100 per cent of business rate revenue, councils will have a direct and strong incentive to promote local growth and economic development."

Does the hon. Gentleman not agree with the Select Committee and its Chair, his colleague the hon. Member for Sheffield South East (Mr Betts)?

Mr Thomas: I bow to no one in my admiration of the Chair of the Communities and Local Government Committee. I am glad that the hon. Member for Thirsk and Malton mentioned the Select Committee report, because it said some interesting things about the potential volatility of the business rates income and the need for an effective safety net. One wonders how that will work in practice without the levy arrangement that we are discussing. My hon. Friend the Member for Oldham West and Royton is itching to get into the debate on the safety net, and I will not stand in his way when we come to it, but I hope to catch your eye after he has spoken, Sir David, to explore the concerns of the Select Committee a little more.

To return briefly to the levy, Maidenhead pays 50% of its future business rates growth into the levy, but frankly does not have to do much to benefit from economic growth because of its location. If Maidenhead does not serve as a warning to Conservative Members, perhaps the London Borough of Hillingdon will. It, too, will benefit hugely from the construction of a third runway, and will not have to do much to promote economic growth—it will not need to, because of the strategic decision that we have taken. Hillingdon's council has a levy rate of 50%.

The hon. Member for Thirsk and Malton has used almost all of his interventions in Committee so far to bash London authorities and demand that spending power be redistributed away from London to North Yorkshire. I do not get the sense that he cares about anybody else's local authority—not even those of Members on his side. One would have thought that he might therefore be sympathetic to our concern that on the face of it, Hillingdon's council will no longer have to make a significant contribution to the redistribution to others.

3 pm

Kevin Hollinrake: The hon. Gentleman says that I do not care about other local authorities, yet earlier I quoted York, which has one of the lowest amounts of spending power per head. Windsor and Maidenhead has the lowest, and Trafford the third lowest. There is also Leicestershire, Staffordshire, Northampton, Kirklees, Swindon, Warrington and Medway. I speak on behalf of all these authorities that have approximately 50% of the spending power of the London councils I mentioned. Does he agree that that cannot be right?

Mr Thomas: As you can see, Sir David, the hon. Gentleman is a passionate advocate for redistribution away from London. We have tried to convince him to get underneath the detail of the scale of need in London, but clearly we have been unsuccessful today. A little progress is needed. I have made the point that I wanted to make. I look forward to the Minister's answer, and the response of my hon. Friend the Member for Oldham West and Royton.

Mr Jones: I thank the hon. Members for Harrow West and for Oldham West and Royton for the amendment, and for the opportunity to set out why we want to remove levy payments. As the hon. Members have explained, the amendment would retain the Government's ability to make regulations requiring a levy. As we set out when we announced our intention to move to 100% rates retention, we do not believe that imposing a levy on growth is desirable; nor is it necessary for the purposes of funding the safety net. Through rates retention, we want to encourage and incentivise authorities to work with their businesses and communities to deliver economic growth. We want them to use their powers, through the planning system and more widely, to support development and create the conditions in which business can thrive. Where they do so, we want to allow authorities the benefit of all the growth in their business rates that will follow.

Rob Marris: We heard from my hon. Friend the Member for Harrow West that Maidenhead is paying a 50% levy. That suggests that it has done well in growing its business rates—good for it. Can the Minister tell us what places such as Maidenhead have done to grow their business rates base, so that other councils, such as mine, could learn lessons from Maidenhead?

Mr Jones: Certainly. There is good practice happening in local authorities, and I would always recommend the hon. Gentleman's local authority taking a leaf out of the book of a good Conservative authority that is doing the right thing on growth.

The levy works as a tax on growth, taking up to 50% of any benefit that authorities may have seen. This certainly acts as a disincentive and, for that reason, we have said clearly that we want to remove the Government's ability to set a levy. Nor do we believe that that the levy is necessary as a way of funding the safety net. To come back to the comments of the hon. Member for Oldham West and Royton, there are other, fairer ways of dealing with the safety net, the most obvious being to take a top-slice at the point at which we set up the scheme and use that to fund any safety net payments needed.

If there is no need for the levy, there is no need for the levy account. Indeed, if such an account was prepared, there would be nothing to report in it. In that sense, this matter is quite simple: we will abolish the levy, and therefore there is no need for the levy account. I hope that the hon. Gentleman will withdraw his amendment.

Jim McMahon: I thank Members who have contributed to the debate. I am left slightly worried that the Minister does not understand the levy mechanism and the function of local government group accounting.

The Department is required to produce group accounts for local government that show the balance of transfers between local authorities and the Department. Whatever mechanism is in place to provide payments to and fro requires an account to be set up, because if an account does not exist, it will not be included in the group accounts and will be off the books, which makes no sense. We could call it a different name, but the function of an account is that it sits somewhere and annually feeds into the group accounts, which give the Chancellor an overview of departmental spend, and that is fundamental to how we account for public money. We could call it a levy account or even the Jones account, for all local authorities care, provided there is an account to be drawn upon.

At the moment, the top-slice is funded by revenue support grant. It was £120 million; it went down to £50 million in 2015-16. The Minister did not say this, but I take it that if the money does not come from a top-slice of revenue support grant, it will come from the £12.5 billion of additional money through 100% business rates retention.

Mr Jones: The Government have been clear that through the implementation of this system, local government will not be worse off, and that we will not expect local government to bear the burden of the safety net in the system. Does the hon. Gentleman not accept that?

Jim McMahon: I find that contradictory. Either the burden will be on central Government, which means there will be a requirement to find the money from elsewhere in Government, or the money will come from existing budgets within local government, which means local government will take the burden.

Mr Jones: At the moment, the majority of funding for the safety net comes from the business rates that are not going to local authorities.

Jim McMahon: I accept the point, but the Minister must accept that over the past two financial years, £170 million has been taken from revenue support grant top-slice. That money will need to be provided from somewhere, because at the moment there is a deficit in the levy account of something like £14 million. That shows more money is being drawn down from the account than is being added on top through revenue support grant top-slice or business rate levies from authorities that are exceeding their profiled business rates increases.

The Government cannot have it both ways. The money is either already within local government and is just being re-profiled, or it is coming from elsewhere within Government, in which case it will be a burden on other departmental budgets. We will come on to safety net payments later; this is simply the mechanism by which we make those payments. Either way, we will need group accounts. We have to account for the transfer of funds from one departmental account to local government. I do not intend to press the amendment to a vote; it was a probing one.

Rob Marris: The Minister's response is disappointing. The amendment would retain the levy. He urges the Committee to reject the amendment and to abolish the levy because, according to him, it is acting as a disincentive to growth. When I asked him for evidence of that at the evidence session, he could not produce any.

I am open to persuasion, but—call me old-fashioned—I like a bit of evidence. When I asked the Minister today what Maidenhead has done well to be in a position where it pays a 50% levy, he could produce no evidence. Since Monday last week, he has had his officials available to produce some evidence. However, he has produced no evidence for his assertion that a measure such as the abolition of the levy will incentivise councils more than they are incentivised already to grow the businesses in their areas, thereby increasing business rates revenue.

Therefore, I am driven to the conclusion—I hope the Minister can dissuade me of this—that his arguments are totally hollow and mere assertions backed up not with evidence, but merely with a hope that the changes promulgated by the Bill, including the abolition of the levy, will produce the intended effects. In the absence of evidence, I find that singularly unconvincing.

Jim McMahon: I agree with my hon. Friend that the evidence base was not provided in our evidence session. We have asked for written evidence, but it has not been forthcoming. It is difficult to scrutinise, given the throwaway comments that have been made.

Kevin Hollinrake: During the opportunities to challenge and ask questions of the witnesses, did any Opposition Member ask that question of them?

Rob Marris: Yes.

Kevin Hollinrake: What was the response?

Jim McMahon: I thank the hon. Gentleman for that intervention. He was at the hearing when that question was asked. The answer was less than forthcoming, but there was an answer of sorts. The question from my hon. Friend Member for Wolverhampton South West is in *Hansard*. It is on the record, as a matter of fact. It is also a matter of fact that the answer has not been provided.

Mr Thomas: My hon. Friend's point is about the lack of evidence for the great assertions by the hon. Members for Thirsk and Malton and for North Swindon, never mind the Minister, that economic incentives will flow afresh. One would have thought that Ministers would have had some sort of economic impact analysis to offer, but there is no Green Paper, no White Paper and no sign of any evidence that this will be the new Jerusalem we have been promised.

Jim McMahon: The Minister is perhaps—

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

Jim McMahon: Sir David, you have been very patient in this debate. To be fair, we had the exchange in our evidence session and we have had a protracted debate during our last couple of sittings. In some ways, we are going around in circles. We have repeatedly asked for the evidence base. We have asked what end we are working towards and what evidence base underpins that approach. Consistently, that has not been forthcoming. It is right, therefore, that Members continue to press the matter, but we need to make progress. We need to be slightly mindful of the time we have already taken and the number of amendments that we need to get through.

Even if the ambition is for 100% business rates retention and there is a view—the evidence base does not support this—that having any kind of clawback facility would inhibit growth, actually, the legislation provides for the levy account to remain in place and to be zeroed. If at some point it required a top-up, because there was not enough money in the levy account to provide the safety net payment, the Minister, without going through the rigmarole of Bill Committee sittings and all the other things we do here, would be able to change that through negotiation and consultation with local government. It strikes me as a complete dereliction. There is not just a lack of evidence—the provision is quite reckless.

I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

3.15 pm

Jim McMahon: I beg to move amendment 32, in schedule 1, page 36, line 2, at end insert—

'(1A) In sub-paragraph (1)(a), after "year," insert "on the basis of a safety net payment threshold that is not less than 95% of the authority's baseline funding level for the relevant year'.

This amendment, together with amendments 33 and 34, would ensure that the threshold at which an authority receives safety funds is a fall in income of not more than 5 per cent.

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

Amendment 33, in schedule 1, page 36, line 7, at end insert—

'20A (1) Paragraph 26 (calculation of safety net payments) is amended as follows.

(2) In sub-paragraph (1)(a), after "year," insert "on the basis of a safety net payment threshold that is not less than 95% of the authority's baseline funding level for the relevant year,'.

See explanatory statement for amendment 32.

Amendment 34, in schedule 1, page 36, line 8, leave out from start to "omit".

See explanatory statement for amendment 33.

Jim McMahon: There is a theme running through this group of amendments, as there has been previously. We have talked about the mechanism by which we account for the money coming in being paid out to local authorities. We have talked about the principle of having the levy account in place. The amendment is about the purpose of the safety net payments to local authorities.

The principle of the safety net is fairly clear-cut: it provides an element of protection that is completely in line with the concerns raised by the Select Committee inquiry. That was not a press release or report from nowhere; it was the result of a number of thoughtful, well researched hearings, where the evidence base was scrutinised. The headline was that it is absolutely right, and to be welcomed, that we move towards 100% retention, but serious questions remained about how we redistribute within the system and about what safety net mechanism would be in place to ensure that if a local authority had a shock to its business rate base there would be sufficient funds somewhere for it to draw on.

It is fair to say that, although the Select Committee showed support for the first element, the safety net issue has not been resolved satisfactorily. We have not had details about what system might be in place. We have not been told how much will be provided in the safety net pot to ensure that it is sufficient to provide for the different types of shocks. We have not been told, for instance, by what percentage a business rate base would have to fall before a local authority was eligible for a safety net payment. All those points, which are fundamental to understanding whether a safety net is a true safety net or whether it has gaping holes in it, are critical to the debate. That is why we tabled these amendments.

Mr Thomas: My hon. Friend will remember the intervention from the hon. Member for Thirsk and Malton, in which he prayed in aid the Communities and Local Government Committee report in defence of his case. Has my hon. Friend noted at paragraph 56 of that report the concern of Sharon Gregory, who said that Cambridgeshire and Northamptonshire county councils

"have some very big businesses that represent a large proportion of the business rates base, and there are significant risks around those businesses leaving or failing"?

Surely that underlines his concern on the safety net.

Jim McMahon: I absolutely agree with that point and on the thrust of the challenge to come. I hope that in response the Minister will address that issue and those raised by the Select Committee and the LGA, and in the lesser-spotted consultation response, which hopefully we will get a flavour of later.

When the safety net system was set up, the statement of intent—this was in 2012—was clear in its aims. It said:

"The Rates Retention Scheme will include a safety net to protect local authorities from significant negative shocks to their income by guaranteeing that no authority will see its income from business rates fall beyond a set percentage of its spending baseline."

That essentially means that central Government accept that there is an inherent cost in providing public services at a local level across the range of 700 or so council services, and local authorities and communities should not be put at risk to such a degree. Let us say that a local supermarket decides to close. In many areas that could be a £1 million a year business rate base taken away from a town. That would have a significant impact on local public services, and the local authorities could call on the safety net.

There was always a facility to say, "A business might leave today, but tomorrow you might attract further investment, and that could make up the difference." There is a facility in the system to recoup any overpayments above the baseline. The safety net is there for the right reasons and the principles are sound. They are supported by the LGA and, I assume, by the Select Committee. They are supported by individual local authorities, which call on that fund because it absolutely makes sense. Their youth centres, day care centres or support for older people in the community should not be vulnerable to Tesco or Sainsbury's deciding to up and leave town. That would instinctively be the wrong way to run a fair and balanced community. As I have said, the payments that have been made from that account are not insignificant. In 2015-16, the Secretary of State paid £112 million to local authorities. I will not repeat the point about the types of services that can be provided for that kind of money, but we can imagine that, across a range of 326 local authorities, that would have a significant impact on their business rates.

If I think of my own local authority of Oldham, I consider it to be a double cruelty that the Government are closing central Government departments in my town, such as the HMRC offices and jobcentre offices. The county court is closing soon, the magistrates court has already closed, and the number of police stations has reduced to a third of the number before. The local authority has closed day care centres and youth centres and a range of public buildings just to try to balance the books. Is it not cruel that because of that its business rate base will be affected? Not only has it reduced the number of public services because its revenue support grant has been taken away, but it is potentially having the safety net snatched away that would have protected it from the loss of business rates in those areas.

It is beyond negligent; it is almost vindictive now. The Government are kicking local authorities when they are down and some local authorities are absolutely down on their knees. We have heard about the issues in North Yorkshire. It is right that Members are here to represent their constituents.

Mr Thomas: On that point, does my hon. Friend want to try to stimulate the interest of the hon. Member for Thirsk and Malton in Stockton-on-Tees Borough Council and its concerns about the safety net? He was on the Select Committee when it gave evidence. It said:

"The safety net is set too low with local authorities being required to accommodate very significant reductions in income before triggering it. Based on the current system, Stockton would need to lose approximately £5 million in one year before it is activated".

Does that not underline my hon. Friend's concern?

Jim McMahon: It does underline the concern. In the last financial year £112 million was drawn down from the scheme. That was in the context of local authorities still receiving revenue support grant on top of their council tax and business rate income. As we move towards the brave new world—there is a fine line between bravery and stupidity, but let us call it brave for now—whereby councils will be funded solely by council tax and the business rate base that they can generate, councils are even more vulnerable to shocks in the system where business leave and they are forced to deal with the consequences of that loss of income. Without the safety net system in place—

Mr Jones: The whole thrust of the hon. Gentleman's argument is that the Government are going to get rid of safety net payments. Where has he got that idea from? Does he not think that the business rate retention pilots that are taking place in a number of areas are a good thing for the Government to work out that they have struck a balance to ensure that, when we roll out the full system, it is as right as it can be?

Jim McMahon: I take the Minister's point entirely. It would be easier if we had a scheme that we could review and scrutinise and ask questions about, based on the scheme that was presented. In the absence of that, we are relying on the Minister sharing every now and again the fount of wisdom from the notes that are passed to him by his advisers, which is one way of doing government, I suppose. Another way of doing government is to consult, to speak to the sector and to understand what is coming back. We know a consultation has been conducted and we look forward to the results of that, but a consultation was also undertaken when the scheme was introduced in 2012. At that time, the Government reviewed the type of safety net that would be needed for it to be fair and balanced. At the time, the percentages that were considered were 7.5% to 10%. In the end, the Government erred on the side of caution and went for the 7.5% level. That was the result of that consultation. It was the result of an assessment of what type of safety net would be robust and provide certainty. So we have been there; we have done that. We have been through that process.

Mr Thomas: It is interesting that the Minister should stand up and pray in his defence the pilot authorities and the way in which they are implementing the safety net scheme, if indeed they are doing so. We could have used that information to inform our contributions, but sadly the Minister is not intending to publish any details of how those pilot authority schemes are going to work until after this Committee has concluded its deliberations.

Jim McMahon: I am going to be charitable. Perhaps I am too soft for my own good. I feel a slight degree of charity towards the Minister given the fairly rough ride that he has had—a rough ride of his own making. I will not prolong that. Labour Members question whether the knowledge is there, even, for the Minister to understand the Bill, whether the diligence has been there to assess the impact that that has had, and whether the capacity is there to bring forward the type of information that would lead to a meaningful debate. I would be far more generous than that and say that perhaps today is just not the Minister's day. However, we will be here again and we can review the information when it comes. I hope that we will have a better session, the Minister will feel far more empowered, better informed and on the front foot, and we as an Opposition will feel that we are able to hold the Government to account, which is why we are here. We are not here to have circular discussions that take hours and hours of parliamentary time. We are here to get to the root of what the Bill is intended to do and the impact of the Bill. By doing that, we make good laws—we know the impact and we know, collectively, that we are making the right decision, not a bad decision in the absence of that information.

We have heard that there will be some kind of safety net, although we do not know what the criteria or threshold will be. We are discussing the pilots that are taking place, but a number of pilot authorities have not been told what the safety net will be. We are expected, outside of those pilot authorities, to make an assessment—a leap of faith almost—that those pilot authorities will deliver the evidence base required, when they themselves do not know what the new settlement will be, and they are waiting for the Secretary of State to confirm that to them.

A lot of people in this place and in local government are waiting for some clarity. I am pleased that, during the exchanges, we have at least agreed a principle that a safety net is required. However, the real test is not words. The real test is the application of the legislation going through.

I hope that the Minister will answer this. The threshold is 7.5% below the base. Members will know from our amendments that we are suggesting a more favourable rate of 5%. The reason is that, as revenue support grant is being taken away, local authorities are more vulnerable to business rates and it feels as if that is the right balance to strike. I ask for a quick response from the Minister: what will the percentage be?

Mr Jones: It is a pleasure to follow the hon. Gentleman, who is giving me something of an education, or thinks he is giving me something of an education, on this issue, such a placid fellow that he is. I thank him for tabling this amendment and for giving me the opportunity to set out the Government's approach to the safety net. He seemed to ignore most of the information that had come forward and was almost saying that the Government were not going to put in place a safety net. I agree with him that a safety net is an important element of the system and will certainly become more so—again, agreeing with his analysis—once we are relying on business rates for a larger proportion of councils' income. Where I must disagree with him is that these amendments are the best way of ensuring that we have the most appropriate safety net in place for the new 100% system. These amendments would hardwire the current arrangements into the system by requiring the safety net to be measured against baseline funding levels. However, that is only one way in which we could construct the safety net under the legislation as drafted. There are others—using different baselines, for example, or providing for different percentage losses for different types of property. Until we have finished our work with the local government sector and put in place all the scheme's design elements, it is too early to say what form the safety net should take.

3.30 pm

It is entirely possible and perhaps likely that the safety net will be constructed along similar lines to how it is constructed now, but if so, it is not clear that a 95% baseline funding level is the right threshold. Indeed, in the pilot areas I have referred to, we are testing elements of the 100% rates retention from 2017 and have set the safety net at a 97% threshold. I will certainly want to see how that works before I commit myself to the design of the safety net under the full scheme.

Mr Thomas: That is the first bit of clarity about how the pilots are working—I was going to ask what the safety net was in context. I simply praise the Minister for giving just a tiny fraction of information about how the pilots are going to work. It would be nice to have the rest of the information before the end of the Committee.

Mr Jones: It is always nice to have praise from the hon. Gentleman, which is quite often difficult to come by.

Mr Thomas: I have high standards.

Mr Jones: Such are his high standards, indeed.

Getting back to the real world, I add that amendment 34, by reversing the Bill's removal of sub-paragraphs 25(2) and (5) of schedule 7B to the Local Government Finance Act 1988, would make it impossible to deliver changes for which local government has asked. The changes we want to make through the Bill mean that, in future, safety net payments need not be made at the end of a financial year. Instead, as with other payments under the scheme, they can be made at the beginning of the year, based on the estimates, and then reconciled at the end of the year once outturn figures are available.

Authorities asked us to make that change as soon as a legislative opportunity arose. The changes made by the Bill have no material effect on what authorities will receive in safety net payments; they simply change the way in which we account for them. I hope that resolves some of the concern of the hon. Member for Oldham West and Royton.

In conclusion, the amendments, if allowed to stand, would remove the flexibility that we and the local government sector need to design a safety net regime that is fit for the needs of 100% business rate retention. They would reverse a change that local government welcomes and for which it has long called. I hope that, with that explanation, the hon. Gentleman withdraws amendment 32 and does not move amendments 33 and 34.

Rob Marris: I know it is sometimes difficult for Chairs and I wanted to hear what the Minister said to know whether I wanted to speak.

The very helpful Library brief says on page 19:

"It is not yet clear what form, if any, the safety net would take under 100% retention of business rates."

That was published almost three weeks ago on 19 January. It is singularly disappointing when the Minister comes before a Public Bill Committee of the House of Commons and says, "Oh, I cannot give you any information because the Government want the flexibility." I understand why Governments want flexibility. When my party was in office, it always wanted flexibility. I kept saying, "I do not think you should have that flexibility in lots of cases." To use the vernacular, the Minister and his Government ought to show a little more ankle. Otherwise, they are asking us to buy a pig in a poke, which I think is unacceptable in a parliamentary democracy.

We ought to have the information. What is the big rush? This is so that the Government can get the Bill through, with all its flexibility. The amendments would lessen that flexibility, which is why they are good amendments. The Minister has nothing to counterpose that with, except to say, "We're talking about 97%, but we want the flexibility." I am sure he wants the flexibility, but that kind of flexibility is not good for councils—not only Wolverhampton City Council, but councils around England—because of the uncertainty.

Mr Jones: Does the hon. Gentleman not accept that local government itself has requested that flexibility?

Rob Marris: In that case, the Minister should not have introduced the Bill at this stage or until he has got his ducks lined up.

Jim McMahon: You have been extremely patient with us, Sir David. We have got to a position where there is agreement, in principle, on a safety net.

We have a sense of what the pilots would bring in terms of 95% baseline protection. However, I challenge the idea of pointing to any pilot and giving the impression it could be rolled out as a national scheme. We know that any pilot can be made to work with the right energy and finance behind it, but having a safety net of that order without new money in place would be very difficult. I would like to see the figures on that, to test what it would mean in practice. When the last review took place and we were looking at a 7.5% threshold, it was very difficult to make a national scheme stand up in a way that encouraged growth and allowed areas to keep an element of what they were developing through their efforts, and that brought money back into a central pot.

We still unfortunately do not have sight of what the finances mean overall, but we have a flavour of what the pilots mean. We have been told that the measure will not be a new burden, but will be accommodated for within local government spend. We know that the only real room is in either the grants given to local authorities or the business rates and the £12.5 billion that has been referred to.

As we have heard, there is a great call on what feels like an ever diminishing resource. We talked about the £7.4 billion revenue support grant that will need to be accommodated. We talked about the £65 million rural services delivery grant, the £3 billion public health grant, the £105 million improved better care fund, the £177 million independent living fund and the £3.4 billion early years grant that will need to be accommodated—not to mention the £3.2 billion of business rates relief payments currently within the system. We still have not had clarity.

Excluding the relief payments, just those grant payments, which could well be deleted as part of full business rates retention, are £14.7 billion. Only £12.5 billion is going back into the pot. If there is going to be a safety net, where will the money come from? A bit more information on that would be extremely useful for us to give proper

[Jim McMahon]

scrutiny and hold the Government to account. These were probing amendments. We made a bit of progress, although not as much as we would have liked. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Jim McMahon: I beg to move amendment 47, in schedule 1, page 37, line 5, leave out sub-paragraph (3).

This amendment would remove the proposed power of the Secretary of State to force an authority to join a pool. It would retain the current position where every authority covered by a designation must agree to it; and that the designation can be revoked only in limited circumstances, including a request from an authority covered by the designation.

The Chair: With this it will be convenient to discuss amendment 28, in schedule 1, page 37, line 7, at end insert

"only if—

(a) an order to that effect has been made in the form of a statutory instrument and has been approved by a resolution of each House of Parliament, and

(b) the relevant Select Committee has been consulted."

This amendment would ensure that any revocation of a designated authority must first be approved in the form of a statutory instrument and consulted upon with the relevant Select Committee.

Jim McMahon: We are moving naturally through the principles of a levy account system being maintained, a safety net being provided and, as the Minister referred to, the business rate pooling arrangements that are being piloted in a number of areas.

The principle of pooling is sound. It is one that local government has asked for and one I personally support. We recognise that the development of a business base is not necessarily predicated on local authority boundaries. We have heard the example of Heathrow and the impact there. The same is true in Greater Manchester, where we see the economic area and the businesses developing in that city region acting separately from the local authority boundaries because they are acting as one economic unit. I fully understand the principle behind that and why we would want, on that basis, to have a single budget or business rate pooling across that area.

Where pooling works—this is true of the pilot—it is because, first, there is an understanding of the financial relationship. Sir David, I do not know whether you have taken the opportunity, as I have during one of my nights of insomnia, to go on the DCLG website. People can type in the details of their local authority into the website and assess whether business rate pooling would leave them in a better or worse net position. The idea of that is to give agency to local authorities to determine for themselves what is right for them before they even enter into negotiations with central Government. That is an empowering way of doing that.

Local authorities then speak to areas within a natural pool. Where they have a logical economic centre and want to come together, they can assess what that new settlement would be, and whether they would be in a better or worse position as a result. They will get together; discuss with their neighbouring authorities what works in their locality; agree which local authority will be the lead local authority; and, on that basis, make a bid to the Government to be a pilot authority. In the spirit of localism, that is the right way of doing it. We are allowing a grassroots organisation to take place, where people come together, have the information to hand to make an informed decision, and come to the Government and say, "We think this is the best deal for our community."

That is inspiring, but unfortunately, the Bill is an absolute shift in the culture and balance of that relationship. Rather than local authorities being able to come together and co-produce, and rather than it being a relationship of equals in which local authorities choose other authorities to join and then present to the Government, the Secretary of State can mandate local authorities to come together, potentially against their wishes, and can mandate who the lead authority will be. The direction of travel is very unsettling.

In any relationship of equals at a local level, coming together to create a business rate pool is usually only one element of a complex relationship of working together in the interests of a locality. I worry that, by imposing one lead authority, potentially against the wishes of other neighbouring authorities, the Government will fundamentally change the balance of trust and the relationship within that locality. That could impact not just the business rate pool and support for it, but other joint work that will be critical for the successful delivery of public services and economic growth in our areas. When the Minister responds, it would be helpful to get a flavour of where he, on behalf of the Secretary of the State, believes that the power could be implemented in future.

Mr Thomas: Is this not an example of the nanny state at its very worst, and of the Minister-knows-best mentality which, despite all these pretentions of great commitments to localism, seems to run through the heart of this Bill, with its 56 new powers over local authorities?

Jim McMahon: It is. I worry about scale. The 18 business rate pools reported to have come forward so far have a collective rate base of £159 million above their baseline, so they are net beneficiaries. We can see why they would want to adopt that position and make that application. However, some areas could be disadvantaged as a result of being in a business rate pooling arrangement. Those areas may not want to be part of a business rate pooling arrangement that is forced on them.

We have heard about the 56 additional powers that the Secretary of State is introducing for himself. We are meant to be about localism, and about giving power back to communities and to their directly elected local authorities. That is not the flavour of the Bill—the opposite runs right through the core of every element in it. The Bill is about an empowered Secretary of State, and a complete lack of parliamentary scrutiny, oversight, challenge and a democratic vote.

The Bill is also not even about Government doing deals with local authorities in smoke-filled rooms, which has been the nature of devolution discussions so far, when areas are picked off against each other. That at least required local authorities to consent. Even though it lacked transparency, and even though it lacked a national framework so people knew what they were bidding for at a local level, it at least required that they were consenting parties to that relationship. That will not be the case. Unless the amendments are accepted,

the Secretary of State will have absolute power to impose his will on local authorities whether they like it or not, and whether or not it is in their interests and right for their communities, and to hell with consequences for the local relationships that could be affected.

The amendment is fundamental to what we believe devolution and localism to be. I intend to press amendment 47 to a vote, because we feel so strongly about giving our councils agency and independence and a genuine relationship of equals with the Government. If the Government do not accept the amendment, it will be a message not only to the Opposition but to every local authority in the country. The Government will be saying, "What you want is not as important. It's not for you to determine what's right for your local area. If we want to do it and feel like doing it, we can impose our will whether you like it or not." That is a very slippery slope.

3.45 pm

Mr Jones: I thank the hon. Gentleman for tabling these amendments on the creation and revocation of a business rate pool.

The intention of the amendments seems twofold: to retain the requirement that each relevant authority must agree before the Secretary of State can designate a pool, and to require that a decision to revoke a pool should be approved by Parliament and subject to consultation with the relevant Select Committee. I will deal with each of those in turn.

As a principle, the Government believe that local authorities can achieve greater impact when working together, and that pools of authorities can benefit from working over wider areas to achieve economic growth. That is why we want to continue pooling arrangements under the new business rates retention system. Business rate pools enable the local authorities within them to be treated as a single entity for the purposes of the system, allowing them to co-ordinate their work and take a coherent set of decisions to help secure economic growth over a wider area. Paragraphs 26 and 27 of schedule 1 provide that the discretion to create, vary and revoke pools lies with the Secretary of State, with a new requirement for a statutory consultation with relevant local authorities on the creation and variation of a pool.

We are introducing those changes because, in the Government's view, pooling has not worked under the current arrangements as well as it could. The current voluntary approach to pools can incentivise the wrong behaviours, leading to examples where pools across functional economic areas have excluded a single authority due to them being perceived as high risk. That undermines the objectives of pooling and potentially reduces the ability of pooling to secure co-operation and coherent decision making across a sensible economic area.

Amendment 47 would remove the provision enabling the Secretary of State to designate a pool at his discretion. That would, in effect, preserve the current arrangements whereby a pool can be designated only if every authority in the pool area has agreed to it. The risk of a single authority being excluded from sensible pooling arrangements would remain. Removing the requirement that all authorities must agree to being designated as a pool will enable the Secretary of State to ensure that pools are created across functional economic areas that maximise opportunities for growth.

We recognise the ongoing need to work with local authorities on sensible pooling arrangements and have introduced a statutory duty to consult with areas on their pooling arrangements. As I said at the outset, the ultimate decision will rest with the Secretary of State, helping to ensure that all authorities in a functional economic area will engage fully in those discussions.

Rob Marris: The Minister is saying in terms that the Government are going to introduce a centralising measure because sensible pooling has not always worked to date. I understand that concept. He knows what I am going to say. Could he produce some evidence that pooling arrangements hitherto have not worked properly in some areas? I know he is not saying that that is the case everywhere, but can he give us one example to elucidate why the Government think these centralising powers are necessary in what purports to be a localising Bill?

Mr Jones: As I said, there are places where a view has been taken that certain local authorities are too risky to be included in a business rate pool and, therefore, have been excluded. Returning to the theme the Labour party has used—

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

Mr Jones: I will in a moment.

Throughout our deliberations on the Bill, it is apparent that local authorities have asked for fairness within the system. The challenge is whether that fairness is apparent if a local authority is excluded from a pooling arrangement because surrounding local authorities do not want to include it. Clause 3, which the Committee will consider later, provides an additional tool to strengthen the role of pools to help secure economic growth, with rewards being shared across the pool.

Amendment 28 aims to ensure that Parliament has a role in revoking a business rates pool—paragraph 26 of schedule 1 enables the Secretary of State to revoke the designation of a business rates pool. Revoking a business rates pool is a technical matter, working with the authorities involved to consider how each one operates independently. The Government are concerned that requiring every decision about revocation of the business rates pool be taken through each House and made subject to consultation with the Communities and Local Government Committee would take up valuable parliamentary time. The current process for revoking a business rate pool does not require parliamentary approval or consultation with the Select Committee. The Government do not believe that change is needed.

Mr Thomas: I repeat the perfectly reasonable question from my hon. Friend the Member for Wolverhampton South West. Can the Minister refer to one example where a local authority has been excluded?

Mr Jones: I think there is an example I could point to. In Surrey, district councils have come in and out of the pool in different years. As I said before to the hon. Gentleman, we need to ensure with this new system that we have certainty for local authorities.

David Mackintosh (Northampton South) (Con): When I was a council leader, we changed our pooling arrangements. I can testify—and I am sure the Minister

[David Mackintosh]

will agree—that that is very disruptive for local authorities, particularly when they are trying to plan. It is also disruptive for businesses.

Mr Jones: My hon. Friend makes the exact point I am trying to make—local authorities require certainty. The measures we have put in place over the last year or two on having a longer-term view of council budgets has helped. Within this system, we want multi-year arrangements for local authorities so they know where they are heading. In having more settled business rate pools that make sense in terms of functioning economic areas, we will seek to deliver that certainty and security for local authorities. By definition of what the hon. Member for Oldham West and Royton has said, local authorities need more security and certainty in the new system. Local authorities take on a greater risk challenge if funding is distributed by central Government to them, rather basing local government on locally collected taxes.

Overall, the changes to pooling arrangements will ensure effective business rate pools, with other tools to help drive economic growth. I therefore ask the hon. Member for Oldham West and Royton to withdraw his amendments and commend paragraphs 25 to 31 of schedule 1.

Jim McMahon: As I said earlier, we feel strongly about amendment 47. The Bill would fundamentally change the relationship between local government and the Secretary of State, which we do not believe is in the interests of democracy or localism.

I have the Minister's response. There is some merit in having a system in place that provides a degree of certainty, but that could be provided, for instance, by a longer notice period—local authorities wishing to leave a pool could give two years' notice rather than 12 months' notice if required—which would at least give the degree of planning certainty required. It could well be tied to economic deals done through negotiations with the Government. For instance, if an economic deal lasted five or 10 years, there would be some sense in saying that, during that period, it should be tied to the business rate pool.

However, that is not on offer. What is on offer is: "Take or leave it. The Secretary of State knows best." Areas will be forced to join the pool. The example given is of a local authority that wants to join a pool but is told that it cannot for whatever reason. I suspect that the number of such examples is very low. It is more likely that, when a local authority does not want to join for whatever reason is right for its community, the Secretary of State will force it to do so to make a wider pool balance out without having a requirement for central Government funds. I suspect that that is more what the measure is about. I am concerned that the balance of power is changing between national level and local level. Further powers are being given to the Secretary of State, and further mandating can be required, but there is less parliamentary scrutiny.

There is also an unhealthy rebalancing of relationships in some local areas. We talk about the Greater Manchester business rate pool as being one to look at, as a pilot—we are doing so very carefully. However, it would allow the Cheshire authorities to obtain 50% of growth before they returned to the pool. As I have said before, there might be an argument for that, given that it sits outside the city deal that has been agreed as part of the devolution deal, but it beggars belief that two authorities within Greater Manchester—Trafford and Stockport—have negotiated as part of that business rate pooling an agreement to keep a third of growth to themselves before it goes into the pool.

We believe that at a national level, we should agree a way of redistributing that it is the same for everybody, but instead there are deals within deals. Those who write the cheques always have the upper hand, and not those who are potentially the receivers. I do not believe that that is in the interests of the communities we are here to serve. I certainly do not believe that it is in the interests of an equal, balanced relationship at a local level. Although amendment 47 is not quite in the spirit of previous amendments we have voted on, I ask the Minister to support amendment 47 to maintain the balance of a healthy relationship.

Question put, That the amendment be made.

The Committee divided: Ayes 6, Noes 9.

Division No. 4]

AYES

Efford, Clive	Marris, Rob
Foxcroft, Vicky	Thomas, Mr Gareth
McMahon, Jim	Turley, Anna

NOES

Aldous, Peter	Mackintosh, David
Doyle-Price, Jackie	Pow, Rebecca
Foster, Kevin	Tomlinson, Justin
Hollinrake, Kevin	Warburton, David
Jones, Mr Marcus	

Question accordingly negatived.

Question proposed, That the schedule be the First schedule to the Bill.

Mr Jones: We have spoken at length on proposed amendments to schedule 1. I do not want to take too much of the Committee's time, but I would like to say a few words about specific parts of the schedule.

Schedule 1 amends section 7B of the Local Government Finance Act 1998. Those amendments are necessary to move from the current 50% business rates retention scheme to a system where local government retains 100% of business rates raised locally. I will take each section in turn.

Paragraphs 2 to 6 of schedule 1 make provision for central Government accounting for non-domestic rating income. Those paragraphs amend the Local Government Finance Act 1988 to update and simplify the central Government accounting requirements for the move to 100% business rates retention.

4 pm

The requirement for the Comptroller and Auditor General to lay in Parliament a statement of accounts setting out the annual results of the non-domestic rating scheme will be retained, but the list of debits and credits required for that account is being removed from primary legislation. Instead, the amounts to be credited and

debited to the account will be such relevant receipts as the Treasury may direct. That will bring the statutory requirements for accounting for non-domestic rating income in line with the requirements for other central Government accounts. It will also remove the risk that future changes to non-domestic rating cannot be adequately reported in the accounts without an additional change to primary legislation, simply because the list of allowable debits and credits is set out in statute.

I should be clear that the changes set out in paragraphs 2 to 6 of schedule 1 will have no effect on the practical operation of the non-domestic rating system or the transparency of its operation. The changes have been discussed with local government representatives who have confirmed that transparency will not be reduced. I believe that it is right to take the opportunity to simplify central Government accounting and therefore recommend that paragraphs 2 to 6 of schedule 1 stand part of the Bill.

Paragraphs 11 to 13 of schedule 1 remove the current requirement for an annual local government finance report approved by the House of Commons and provide for redistribution calculations to be made over a number of years based on a set of principles of allocation. Under 100% business rate retention, there will no longer be a local government finance settlement that distributes central grant to support local services. Local authorities will become more financially self-sufficient, funding local services from local resources. With services financed locally, councils will need to be even more accountable to their electorates, rather than to Ministers in Whitehall.

Those paragraphs ensure that there will no longer be an annual finance settlement reviewed and imposed by Westminster each year. Councils will no longer have to live hand to mouth, coming cap in hand to central Government; instead, the Government will set the funding envelope and will be required to consult local government on the principles for allocating funding over a period of years. It will then be for councils to grow their income by attracting businesses to their local economy and building more homes, to set appropriate council tax levels, and to work with local partners to deliver more efficient and more joined-up services.

Paragraphs 11 to 13 also provide a clear framework in law for multi-year settlements. The Government have offered a four-year settlement to provide funding certainty for local authorities, as I mentioned, and I am pleased to say again that 97% of councils have accepted that offer. However, the House must currently re-approve the offer every year, reducing certainty for local authorities.

The changes also relate to clause 1(3), which removes the revenue support grant— that will help to move local government away from dependency on Whitehall—and to clause 4, which provides a similar framework for long-term stability in the setting of council tax referendum principles. I therefore recommend that paragraphs 7 to 17 of schedule 1 stand part of the Bill.

In clauses 1 to 3 and paragraphs 1 to 31 of schedule 1, we have made substantive changes to the parts of schedule 7B to the 1998 Act that provide for non-domestic rating and levy accounts, central and local shares, payments by billing authorities to major precepting authorities, the payment of tariffs and top-ups, levy and safety net payments, and pooling. However, other parts of schedule 7B do not need substantive amendment because they will continue to work in broadly the same way under 100% business rate retention.

Paragraphs 32 to 35 make such consequential amendments to those parts of schedule 7B as are necessary to reflect the substantive changes made elsewhere in the Bill. That includes, for example, removing references to the central share, which is deleted by clause 1, and to the levy, which is deleted by paragraph 18 of schedule 1. The consequential changes made by those paragraphs also update references to the local government finance report where they occur, to ensure that they reflect the new arrangements we are putting in place for principles of allocation statements and the determination of payments to and from authorities.

Paragraphs 36 to 48 of schedule 1 then make consequential changes to other legislation to ensure it is consistent with the changes made by the Bill. For example, those paragraphs make changes to the operation of local authority collection funds, provided for in the 1988 Act, to ensure that they no longer require money to be paid into or from a fund in respect of payments that have now been removed elsewhere in the Bill.

Overall the schedule provides the framework for a modernised local government finance system in which local government as a whole retains 100% of the business rates that it collects locally and there are appropriate arrangements for redistribution of resources between authorities and protections against significant loss of income. It provides a framework for the effective administration of the new 100% retention arrangements. I commend it to the Committee.

Rob Marris: I want to ask the Minister about one issue. Under paragraph 33(3) of schedule 1, the words

"calculations following local government finance report"

are substituted by

"determination of payments for a relevant year".

I hope the Minister can reassure me, because that change rings a certain alarm bell. It removes the word "calculations", which implies to me the use of evidence—a formula and so on—and substitutes the word "determination", which I infer could be a somewhat opaque and non-transparent decision on financing, thereby moving us further away from an evidence-based, transparent system to a more flexible and less transparent system. I wonder whether the Minister could elucidate—if not today, at some later point.

Mr Jones: Thank you, Sir David, for allowing me to respond to the hon. Gentleman. As I mentioned in my quite lengthy speech, local government itself does not believe that the measures being introduced here will reduce transparency. That is certainly not our intention in making the change. I hope the hon. Gentleman is reassured by that.

Question put and agreed to.

Schedule 1 accordingly agreed to.

Clause 2

LOSS PAYMENTS

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

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

[The Chair]

New clause 5—*Appeals by public bodies*—

'Where public bodies appeal against the ratings value, no external agency may represent or make a financial gain from the appeal.'

This new clause would prevent money being taken away from the public purse through rating appeals.

New clause 6—*Backdating of Appeals*—

'Any premises with a rateable value of £500,000 or more will be limited to 6 months backdating following any revaluation arising from an appeal.'

This would limit the duration of backdating in the event of revaluation following an appeal for premises with a value of £500,000 or more to six months.

Jim McMahon: These two probing new clauses are designed to test the appetite of the Government for a look at how the business rate appeals system operates in practice and who it is there to support.

I tabled new clause 5 because I am deeply concerned about the fact that at the moment more than 100 NHS trusts are appealing their business rate liability to their local authority. I know from my own local authority that that means many millions of pounds being put in reserves pending the appeal, just in case it is successful and the trust is entitled to backdate it.

We all accept that when a public sector business rate payer pays business rates, it is effectively money moving around the public sector and transferring from one public sector agency to another. There is no loss or gain to the public sector; it is just churn through the system. What is different is that when an NHS trust appeals its business rate base where an external agent is employed, the external agent will be charging a percentage fee for the successful appeal, and that could add up to many, many millions of pounds. It is very difficult to understand exactly how much it is, but I know from my own local authority that the rating appeal could be about £5 million—that is just for one local authority. There are 100 NHS trusts with appeals in across the country. Even a 5% fee on that could lead to many tens of millions of pounds being taken away from the public sector as a fee to the private agent representing the NHS trust. That is a net loss to the taxpayer.

New clause 5 tests the appetite of the Government for a new approach. We have framed it so as to restrict private agents from acting on behalf of public bodies—I think that has merit and is worthy of discussion—but it could well be that a public arbitration system could deal with the appeal more quickly and remove the uncertainty from the system, and that that would also remove the requirement for a private sector agent to act on behalf of the public sector body. To be clear, this is not about bashing the private sector or the agents who act on behalf of public sector bodies; it is just a pragmatic reflection. If a percentage fee is being taken out of the system, that is a net loss to public services in this country. The Government should step up and provide some level of certainty.

New clause 6 is intended to probe the appetite of the Government for a differential appeal system, depending on the rateable value of the property involved. We know from many local small businesses that the business rate bill is a significant part of their outgoings. Business rates generally come soon after rent and staffing costs. They are significant. If a small business has been assessed at the wrong value and it is successful at appeal, the value of that appeal backdated could be the difference between whether they survive or go to the wall, because their finances are so restricted.

We ought to debate and discuss whether we should differentiate between the small, local business trying to make its way in the world and the big square-footage ratepayers, such as Tesco and other supermarkets, B&Q and the big sheds, where rateable values can easily be more than £500,000 a year—in many areas £1 million a year. When they lodge a national appeal, that can send a shockwave through the whole business rates system across the country.

New clause 6 is a probing amendment to test the Government's appetite for reducing the backdating period to six months if the rateable value is over £500,000 a year. Local authorities would not have to hold as much in reserves as they do at the moment. It would reduce the risk to council budgets and of course reduce, the amount of money the Government have to put in their levy pot to cover any potential loss of income. More important, it would also—I hope—provide more of a level playing field, where small and medium-sized independent businesses are given a fighting chance, and we do not have one system that disproportionately benefits large supermarkets and warehouses.

That is the essence of the two new clauses. New clause 5 tests the appetite for a different way of assessing public sector appeals. New clause 6 tests the appetite for a system that protects local authorities from large ratepayers, potentially reducing backdating to six months. I recognise that we are pushed for time but I welcome the Minister's hopefully constructive approach to the consideration of those options.

Peter Aldous (Waveney) (Con): I was not intending to speak on these measures, but as an ex-chartered surveyor I will say a few words. I commend the hon. Gentleman for the spirit in which he presented the new clauses.

Rating is very complicated for a chartered surveyor to carry out. In many ways, it is abstract from the real world. I concede that there appears to be two types of surveyor who get involved in ratings appeals: there are people who have enormous expertise in these fields, but there are also, I dare say, ambulance chasers chasing opportunities and abusing the good will of businesses. I am uncomfortable with new clause 5 because it would bar public sector organisations from getting the highest quality expertise from those expert surveyors. The way forward would probably be to look to the Royal Institution of Chartered Surveyors to set down a scale fee that fairly reflects the work the surveyors do on a job.

4.15 pm

Mr Jones: I am grateful that the new clauses were tabled, as it gives us an opportunity to consider the appeals system and the implications for local government. There is widespread agreement—this comes back to what my hon. Friend the Member for Waveney was just saying—that the current business rates appeals system needs reform. Too many appeals are held up for too long, and that means costs, delays and uncertainty for ratepayers and local authorities. That is why we have brought forward proposals to reform the system of appeals for ratepayers and local government from 1 April 2017.

From 1 April, the new "Check, challenge, appeal" system will reform the appeals process for ratepayers. The new three-stage process will be easier to navigate and will put the emphasis on early engagement and resolution by all parties. Under the new system, businesses will be more confident that their valuations are correct and that they are paying the right amount of business rates. That in turn will support local government by giving authorities greater certainty over their rates income.

We will ensure that local authorities have a role in the "Check, challenge, appeal" process by giving them the statutory right to provide evidence to the valuation officer. We also recognise, however, that we need to go further in respect of the financial implications of appeals for local government. That is why clause 2 creates a power to make loss payments to local authorities. That will allow us to move towards a system under which the risk of appeals is managed more centrally and shared across the sector. We will then be able to reimburse authorities when they suffer appeal losses due to revaluation errors. That reform has been requested by local government.

Nevertheless, we still have to strike a balance between the interests of local government and the need to maintain fairness for ratepayers. I do not believe the new clauses would correctly strike that balance. New clause 5 would prevent public bodies from using agents or representatives in their appeals. Public bodies are subject to the same rules on business rates as any other ratepayers, and I think it is right that, just as with any other ratepayer, they should have access to professional and expert advice. I think that was the point that my hon. Friend the Member for Waveney was making as a chartered surveyor with significant experience. However, I would expect any public body to be using only qualified and professional representatives, such as members of the Royal Institution of Chartered Surveyors or the Institute of Revenues Rating and Valuation. Members of those bodies must comply with a code of practice for their consultancy and ensure that proper standards are met.

New clause 6 would stop appeals having a retrospective effect of more than six months for large properties. That would clearly be unfair. Ratepayers whose appeals have taken longer to resolve—perhaps for reasons entirely outside of their control—would be penalised by the new clause. I assure the hon. Member for Oldham West and Royton that we do act to limit backdating in the system, where it is fair to do so. In 2016, we acted to stop new appeals being backdated to before 1 April 2015. From 1 April 2017, ratepayers will no longer be able to lodge appeals on the current rating list in most circumstances.

I assure hon. Members that, although we do not believe the new clauses are acceptable, we are taking steps to tackle problems with business rate appeals for both ratepayers and local authorities. I therefore ask the hon. Gentleman not to press the new clauses.

Rob Marris: Looking again at the helpful Library brief, it appears that the Government are dragging their feet again. As the hon. Member for Thirsk and Malton no doubt remembers, the Communities and Local Government Committee reported on this issue in June 2016 and found—I have to say I found this figure staggering—that 33% of the rateable value in Sheffield, 40% in the City of London and 34% in Westminster is under appeal. That is a huge amount. For 33% of the rateable value of the city of Sheffield, which I think is the fourth largest city in England, to be under appeal is extraordinary.

On 19 December last year, the Minister in the House of Lords said that the Government are looking at this again, but, as the Library brief pointed out on 19 January, although the Government are looking at the appeal system, it is not yet known how that it going to be done. Here we are seven months after a Select Committee report that highlighted that this is a big problem, and the Government are still faffing around and cannot make up their mind about what they are going to do and what they are going to propose.

I hope that the Minister will stand up and say that I have misunderstood and say, "There is clarity. We know where we are going and what regulations we are going to propose, so we are going to do what lots of Ministers do and publish draft statutory instruments before the conclusion of Committee stage so Members can see where we are going." But I fear, going by the Minister's past performance in this Committee, that he is not going to stand up and say that, and that we are going to have continued procrastination and a lack of clarity from the Government about where they want to go in the light of having their much-vaunted flexibility, which I think does a disservice to the Committee.

Jim McMahon: I thank the Minister for his response. I hope we can have a mature, cross-party conversation about the fact that there is a need to modernise the system to take out some of the quirks and unfairnesses within it. If we can do that in a mature way, I am sure there is a will to work in the interests of local government.

On the matter of appeals by public bodies, this is not about taking away chartered surveyors' power to do the job they are employed to do. It is more about the fact that a number of the appeals are not about the individual circumstances of a particular premise in a particular location, but are more about the principle of whether certain premises should be on the ratings list or attract mandatory relief in the first place. For instance, we talk about having a level playing field for everybody, but schools that are not run by a local authority are automatically entitled to 80% mandatory rate relief, while local authority schools are not. A number of the appeals are going through on that basis.

It is the same with healthcare providers. Healthcare providers outside Government attract 80% mandatory relief, but Government departments, such as hospitals, pay full rates. The appeals that are going through at the moment for NHS trusts are not about individual local circumstances, but about the principle of whether those providers should attract the 80% relief. I should confirm the figure—80 NHS trusts are currently appealing through a private agent. It would make more sense for the Government, rather than allowing that churn through the system, to decide whether or not that is in line with non-Government uses in, for example, health and education; this relates to an amendment that we will discuss later. If they did that, they would take out a significant number of public buildings that are currently clogging up the appeals system, which is already under a lot of pressure. We would save public money and keep money in the public sector. That seems to me, in a time of austerity, to be an efficient use of public service support

[Jim McMahon]

and public money. Hopefully, we can have a proper conversation about that. In that sense, new clause 5 is a productive and constructive new clause.

I accept that new clause 6, on the backdating of appeals and the rateable value, would create a two-tier system. We would have a system whereby those with rateable values of less than £500,000 would have a more generous backdating provision than those with rateable values above £500,000. Nevertheless, we need to look at what that means in terms of the reserves that local authorities have to put in place.

The number of premises with a rateable value above £500,000 that are currently going through the process equates to £2.7 billion worth of appeals. In respect of appeals, a local authority has to take account of the fact that appeals may be successful, and because those businesses are such large ratepayers the authority cannot take the risk that it could with, say, a corner shop, where it could take up that slack within existing budgets. If a supermarket that pays £1 million a year could have its business rate bill halved through appeal, local authorities must accommodate that money within their reserves, to ensure that there is not an impact on public services.

As I say, £2.7 billion is caught up in that system for properties with a rateable value above £500,000, and that money should be spent on frontline services, and not held in ring-fenced reserve accounts by local authorities. Again, if there is a mature, constructive conversation to be had about how we could release some of that money back to the frontline in a different way, we have a responsibility, on behalf of the people who use public services, to have that conversation.

We have had a good debate and on that basis I will be happy not to press the two new clauses.

Question put and agreed to.

Clause 2 accordingly ordered to stand part of the Bill.

Clause 3

Designation of areas by pools of authorities

Jim McMahon: I beg to move amendment 3, in clause 3, page 3, leave out lines 31 to 45 and insert—

"(a) designate one or more areas (a 'designated area') in the pool area (see sub-paragraph (2));

(b) calculate, for each year for which the designation has effect, the non-domestic rating income for the designated area (see sub-paragraph (3));

(c) calculate a proportion of the non-domestic rating income for the designated area;

(d) provide for the non-domestic rating income for the designated area, or that proportion of it, to be disregarded for the purposes of calculations under any of the following provisions—"

This amendment, together with amendments 4 to 18 would remove the role of the Secretary of State in enabling two or more authorities that have been designated as a "pool" under paragraph 45 of Schedule 7B, to designate an area, or areas.

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

Amendment 4, in clause 3, page 4, line 16, leave out "The regulations may" and insert

"The pool of authorities may".

See explanatory statement for amendment 3.

Amendment 5, in clause 3, page 4, line 18, leave out from "adjusted" to end of line 21.

See explanatory statement for amendment 3.

Amendment 6, in clause 3, page 4, line 22, leave out "The regulations" and insert "The pool of authorities".

See explanatory statement for amendment 3.

Amendment 7, in clause 3, page 4, line 24, leave out "regulations" and insert "provisions".

See explanatory statement for amendment 3.

Amendment 8, in clause 3, page 4, line 26, leave out "The regulations" and insert "The pool of authorities".

See explanatory statement for amendment 3.

Amendment 9, in clause 3, page 4, line 26, leave out "make provision".

See explanatory statement for amendment 3.

Amendment 10, in clause 3, page 4, leave out lines 27 to 30.

See explanatory statement for amendment 3.

Amendment 11, in clause 3, page 4, line 31, at beginning insert "determine".

See explanatory statement for amendment 3.

Amendment 12, in clause 3, page 4, line 35, leave out "about" and insert "determine".

See explanatory statement for amendment 3.

Amendment 13, in clause 3, page 4, leave out line 37.

See explanatory statement for amendment 3.

Amendment 14, clause 3, page 4, line 42, leave out lines 41 to 45 and insert—

"(e) revoke any designation made by it and set any conditions that must be met before a designation is revoked;"

See explanatory statement for amendment 3.

Amendment 15, in clause 3, page 4, leave out lines 46 to 50.

See explanatory statement for amendment 3.

Amendment 16, in clause 3, page 5, line 1, leave out lines 1 to 3.

See explanatory statement for amendment 3.

Amendment 17, in clause 3, page 5, line 17, leave out "under the regulations".

See explanatory statement for amendment 3.

Amendment 18, in clause 3, page 5, leave out lines 31 to 40.

See explanatory statement for amendment 3.

Jim McMahon: I will be quite brief on these amendments, because we have discussed these matters. Even for a local government geek such as myself, it has got to the point where it is a slight endurance trial.

However, we need to reiterate points about the balance of power and control, the relationship between central and local government, and the direction of travel from this Government. I will use this opportunity not to express my own views but to reflect back the views that were shared in our evidence sessions and that were expressed through evidence submitted later.

The London Councils group of local authorities has expressed concerned about the level of control the Secretary of State will have to revoke designations by removing the requirement that all local authorities in the pool agree to the revocation. The chief executive of the District Councils' Network gave evidence. In its written submission, it said that it believes, as we do, that business rates pools should be determined locally and not by central Government.

This is not just about the Opposition making a point and taking a stand. We are doing that, of course, and we have had that conversation. We have had a vote on that basis. This is really to appeal to the Minister to listen to the concerns of London Councils, the LGA, the District Councils' Network and many, many local authorities across the country that have expressed concern about the centralising nature of that designation provision and asked that it be reviewed.

Mr Jones: I am grateful for the opportunity to discuss the Government's proposals to allow for local growth zones. The Government support the introduction of clause 3, which would insert into part 9 of schedule 7B to the Local Government Finance Act 1988 a power for the Secretary of State to allow local authorities within pools to designate an area or areas. Within these areas, local authorities will be able to retain a proportion of business rates income outside the rates retention system for a specified number of years.

The effect of local growth zones will be similar to that of enterprise zones, providing local areas with an additional tool that can be used to help to drive local growth. The difference here is that regulations made under new paragraph 38A, which will be inserted into the 1988 Act by clause 3, gives the responsibility to local authorities to set up and define the local growth zone, within the parameters agreed with the Secretary of State. The Government consider that pools of authorities are best placed to use the power by taking a shared view across a larger functional economic area about the best way to achieve growth for the benefit of all the authorities in the pool.

4.30 pm

Amendment 3 would allow all pool areas, once determined, to designate local growth zones themselves without parameters or restrictions over the amount of rate revenue that could be retained, or over the length of time for which the zone operates. Amendments 4 to 18 are consequential amendments that would remove the Secretary of State's ability to make regulations on the conditions or parameters that could be attached to a local growth zone.

The creation of a zone will likely have an impact on the total amount of growth in business rates to be redistributed to other authorities at a partial reset. That will affect the overall quantum of business rates available for services, and the distribution of funding across all local authorities. It is therefore necessary to allow the Secretary of State to set parameters to ensure that the Government can maintain the balance between rewarding growth and making the system work as a whole. Parameters may also be necessary, for example, to prevent pools from designating their whole area as a local growth zone.

Nevertheless, I will take this opportunity to clarify that we intend to discuss with pools of authorities what works best for their specific local areas. Indeed, new paragraph 38A(9) includes a statutory requirement for the Secretary of State to consult a pool of authorities before making or varying regulations. The process will allow the Secretary of State to tailor the parameters set to local circumstances. Such parameters might include the size of the growth zone or the level of funding that could be retained.

I hope I have reassured Members of the need for the Secretary of State to be able to set parameters for the use of local growth zones. We need to strike the right balance between incentives for growth and sufficient resource for funding services. I therefore ask the hon. Gentleman to withdraw the amendment, and ask that the Committee agrees to clause 3.

Jim McMahon: We have not settled the balance of the relationship between central Government and local authorities that may or may not want to form a business rate pooling arrangement. The Minister's response was not satisfactory from our point of view. It is not satisfactory for local government either. I do not intend to press the amendment to a Division, but the Secretary of State will have to convince local government that devolution, economic growth, the reform of public services and business rate pooling are genuinely about the community coming together and determining for itself what its future will be. At the moment, the jury is out. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 3 ordered to stand part of the Bill.

Clause 4

Determination of principles for determining whether council tax excessive

Mr Thomas: I beg to move amendment 20, in clause 4, page 6, line 41, at end insert—

"(c) must include conclusions from the assessment of needs that has been carried out in respect of the local authority area; and

(d) must include details of efficiency savings made by the local authority."

This amendment would require the report published by the Secretary of State on the set of principles to include conclusions from an assessment of needs carried out for the local authority area and details of efficiency savings undertaken by the local authority.

It is a great pleasure to move this probing amendment. It is inspired in part by the example of Surrey County Council and, perhaps surprisingly, some words of wisdom from the previous Prime Minister, who famously described local government as

"officially the most efficient part of the public sector."

That is one of the few things he said as leader of the Conservative party that I am tempted to agree with. The Conservative party has a tendency—Ministers have been doing it again today in the run-up to the housing White Paper—to blame all the ills of the world on local councils.

Amendment 20 is merely an attempt to make clear, not only to Ministers but to those who watch and read our proceedings, that there is a more complex picture about the scale of the challenges facing local government that should be taken into account, whereby those residents make an assessment as to whether the council tax ask they are expected to pay—if, indeed, it goes above the threshold—is excessive or not.

Surely there is a case for recognition of some assessment of need. Surely there is also for recognition of the scale of efficiency savings that councils have sought down the years—they ought to be taken into account. My council, Harrow, has led the way in seeking to become a commercial

[Mr Gareth Thomas]

council. It has worked with organisations such as IBM on new social care apps that have dramatically improved the quality of the marketplace, to use the language of Conservative Members, for private social care providers at a local level. They are commercialising the app that they have developed and generating significant revenues for the local authority. The product they have offered is innovative, increases efficiency and leads to a better quality of service. Sadly, we do not hear enough examples like that. It is in that spirit that I move amendment 20. Much has been made of the £5.8 billion funding gap that the LGA says will be present by 2020. Again, that is a further demonstration of the need for and demand on local authority services. Surely that should be taken into account.

If there ever was a decision by a county council that was well-timed, it is surely the decision of Surrey County Council today not to go ahead with its 15% referendum. The council leader apparently reported to his fellow councillors that he has had lengthy conversations with the Government and has received various reassurances—he would not say what those were, funnily enough. As a result, he has recommended to his council that the referendum should not go ahead, which it has accepted. I suspect that the tireless campaigning of my friend Robert Evans, the one Labour councillor in Surrey, has intimidated the Conservative leader into backing down. If that is not the case, one has to praise the political skill of the leader of Surrey County Council—if the cheque is in the post to him, as it sounds as though it is—for his act of brinkmanship.

What Conservative councils will take from Surrey's experience, if indeed the cheque does eventually arrive, is that all they need to do is threaten big council tax increases and the Government will bend to their will. If at some future point my friend Robert Evans were to become the leader of Surrey County Council—I suspect that prospect is not too far off—and propose a 15% council tax referendum, it would be seized on by the Minister, and various nonsense about the profligacy of Labour councils would be repeated ad infinitum on the Floor of the House and in Committees left, right and centre.

Surrey County Council has exposed the weakness of Ministers' arguments around the threshold. Nevertheless, it will perhaps be interesting to hear the Minister take this opportunity to acknowledge the scale of the funding gap that the LGA has identified and praise local authorities such as Harrow Council for the work it has done to offer more efficient services.

Rob Marris: I wish my hon. Friend good luck with this amendment. Essentially, amendment 20 asks the Government to collate evidence and act upon it. Given what we have heard in the Committee so far, I will be suitably and happily astounded if the Government accept the amendment and the concept that evidence is important.

Mr Jones: I thank the hon. Member for Harrow West for his explanation of the intention and effect of amendment 20, which would require a referendum principles report made by the Secretary of State to include conclusions from an assessment of needs as well as details of efficiency savings for local authority areas.

I appreciate the intention behind the amendment, but I do not agree that it would be appropriate to include the suggested information in a principles report. Council tax referendum principles exist for a very specific purpose: to protect council tax payers by defining an excessive increase, so that they can make a final direct decision. It is open to authorities to set large increases and put them to a local referendum if they feel they are necessary to support local services.

Jim McMahon: I wonder whether, in the spirit of an equal, balanced relationship, the Secretary of State would be inclined to grant a national referendum on the projected 25% council tax increase.

Mr Jones: As I have said many times in this Committee, in real terms council tax is currently 9% lower than it was in 2010. I do not intend to take any lectures from the hon. Gentleman, bearing in mind that council tax doubled between 1997 and 2010 when his party were in power. I am not too sure that I will be blown off course by that advice.

The referendum principles report is not intended to provide an analysis of local authority need, its success in achieving efficiencies or an account of any other matter. It is a technical instrument to set the parameters by which a referendum might be triggered. As Members will be aware, the Bill creates a new requirement to consult representatives of local government before principles are set. That will allow the sector to make representations about their circumstances and needs before the Secretary of State makes his or her final decisions, whatever the future holds. That will be more useful to local authorities than prescribing the content of a referendum principles report.

Mr Thomas: I made clear that this was a probing amendment. The Minister could have given some sense to local government that he understood the scale of funding difficulties it faces by 2020. He chose not to. He could have praised councils such as Harrow that have led the way in terms of a more efficient offer, but he chose not to. I do not intend to make a thing of it. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Mr Thomas: I beg to move amendment 21, in clause 4, page 6, line 45, at end insert—

"(1C) A report under this section must be approved by a resolution of the House of Commons."

This amendment would require any report on the principles relating to the tax excessive threshold, and therefore principles around circumstances in which a referendum must be held, to be approved by the House of Commons.

The Chair: With this it will be convenient to discuss amendment 22, in clause 4, page 7, line 45, at end insert—

"(3ZA) A report made under this section in relation to any authority must be approved by a resolution of the House of Commons."

This amendment would require the House of Commons to approve any report relating to alternative notional amounts for tax excessive thresholds made by the Secretary of State in relation to any authority.

Mr Thomas: Let me be brief, because we have had quite a trip around the issue of scrutiny of local government finance. Amendments 21 and 22 simply provide the House of Commons with the opportunity to scrutinise

local authority finance. The Minister, as we know, does not want the scrutiny of a local government finance settlement, so perhaps he and Government Members might be willing to support the idea that new council tax excessive thresholds should have to be approved by the House of Commons. That is the spirit of the amendments.

Mr Jones: The amendments would require council tax referendum principles and alternative notional amount reports made by the Secretary of State to be approved by the House of Commons. I appreciate the hon. Gentleman's wish to retain the current practice of requiring the reports to be laid for approval. However, I believe that it is not necessary in a new era where we seek to offer certainty and where there will no longer be a local government finance settlement handing out resources following the approval of the House.

4.45 pm

To be helpful, I remind the Committee that the Secretary of State will for the first time be required to consult representatives of local government about referendum principles. He or she will also be required to consult any authority that will be affected by a report that sets an alternative notional amount, and will take into account representations received from Members of Parliament, members of the public and organisations with an interest. The new approach to determining referendum principles and alternative notional amounts is well suited to the future funding model for local government and offers dialogue and transparency to the sector. I therefore ask the hon. Member for Harrow West to withdraw his amendment, as he suggested he might do.

Mr Thomas: I did not suggest that I might withdraw the amendment, although I sought to be brief, as we have already had a trip around the issues. The Minister's further reassurance that he will consult local authorities is welcome, but he should have to consult the House of Commons as well. In that spirit, I intend to ask the Committee to divide on the amendment.

Question put, That the amendment be made.

The Committee divided: Ayes 6, Noes 9.

Division No. 5]

AYES

Efford, Clive	Marris, Rob
Foxcroft, Vicky	Thomas, Mr Gareth
McMahon, Jim	Turley, Anna

NOES

Aldous, Peter	Mackintosh, David
Double, Steve	Pow, Rebecca
Doyle-Price, Jackie	Tomlinson, Justin
Hollinrake, Kevin	Warburton, David
Jones, Mr Marcus	

Question accordingly negatived.

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

Mr Jones: The clause aligns the process for setting council tax referendum principles with reforms to the wider local government finance system under schedule 1 to the Bill. It will enable the Government to offer local authorities far more certainty about their future financial position by setting referendum principles for multiple years.

Chapter 4ZA of the Local Government Finance Act 1992 allows the Secretary of State to determine a set of principles for each financial year, which local authorities in England must use to determine whether their council tax increase is excessive. Under existing legislation, the principles must be set out in a report and approved by the House of Commons by the time that it approves the annual local government finance report. Where no principles are set, the Secretary of State must lay a report before the House explaining why.

The Government defining an "excessive increase" has been part of the council tax system for decades. As I said to the hon. Member for Oldham West and Royton, council tax in real terms has been 9% lower than it was in 2010-11; it will still be lower in real terms in 2019-20, but only if Government continue to work with local authorities and maintain a referendum threshold, as we promised in our 2015 manifesto.

Local authorities must determine each year whether they have set an excessive increase as soon as reasonably practical after the principles have been approved. Where an authority's functions or structure have changed, the Secretary of State may set an alternative notional amount to enable a like-for-like comparison to be made with the council tax set in the previous financial year. That must also be set out in a report and be approved by the House of Commons.

The clause amends sections 52ZB to 52ZE of the 1992 Act. The provisions introduced by clause 4(2) mean that when setting council tax for the first year to which the principles report applies, local authorities must determine whether it is excessive as soon as reasonably practicable after the report is made. In other years, they must make the determination as soon as reasonably practicable after they have made their council tax calculations.

Subsection (3) changes the processes of determining council tax referendum principles and alternative notional amounts. In particular, it allows the Secretary of State to set the principles over multiple years, providing councils, police and crime commissioners, fire authorities and the Greater London Authority with welcome clarity about their council tax income.

The Secretary of State is required by subsection (6) to finalise the principles before the beginning of the first financial year to which they apply. The provisions introduced by subsection (8) mean that he must also send a copy of that report to each billing and major precepting authority, and publish it in an appropriate format, to bring it to the attention of other authorities that may be affected. Separate reports may be made for different categories of authority for the same year.

Mr Thomas: Has the Minister been privy to any conversations within the Department for Communities and Local Government, or across Whitehall more generally, about Surrey County Council's proposed 15% referendum, and what the Government might have said to the leader of Surrey County Council to persuade him not to go ahead with that referendum?

Mr Jones: That probably takes me slightly wider than the scope of the Bill. I think that the hon. Gentleman is presupposing the discussions that happened and the

[Mr Marcus Jones]

outcome of the situation. It is more likely that Mr Robert Evans had more of an effect, as he said was the case; perhaps he will be the next leader of Surrey County Council, although that is about as likely as the right hon. Member for Islington North (Jeremy Corbyn) becoming the next Prime Minister, which many of us believe is not very likely.

Moving on, clause 4(8) also allows referendum principles to be amended by making a further report to replace a previous one. That must be done prior to the start of the first financial year to which the new principles apply. Finally, subsection (13) means that authorities subject to a proposed alternative notional amount must be consulted and receive a copy of the final report, which must be made prior to the start of the financial year in which it will have effect.

In conclusion, this measure will enable Government to provide local authorities with greater certainty about their future council tax income, and complements other provisions in this Bill.

Question put and agreed to.

Clause 4 accordingly ordered to stand part of the Bill.

Clause 5

POWER TO SPECIFY INDEXATION RATE FOR NON-DOMESTIC RATING MULTIPLIERS

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

Mr Thomas: In passing, I thank the Minister for his praise for the campaigning efforts of Robert Evans, and his support for Mr Evans's re-election campaign.

I do not intend to encourage the Committee to object to the clause standing part of the Bill, but I want to mention some of the unintended consequences of the former Chancellor's suggestion that in 2021, the retail prices index be replaced by the consumer prices index when it comes to uprating business rates. As we have said in earlier debates, that will potentially cost local councils some £370 million in 2020-21 alone. Ministers have given no indication of the cost in future years, but those outside Whitehall and this place who know their local authority finances have calculated that over 10 years, as a result of the decision, there could be a £3.3 billion windfall for the business community and a £3.3 billion loss to the people of England who want good services to be provided.

Kevin Hollinrake: I refer the Committee to my entry in the Register of Members' Financial Interests. Do not the people of England rely on the success of businesses to pay taxes and to fund local and central Government? Anything that can reduce the burden on business should be welcomed.

Mr Thomas: I am all for reducing the burden on business, but one does like to think that the benefit will be used for investment in future economic growth, not used to pay the rest of the tax bill or squirrelled away through some tax avoidance scheme. My purpose in speaking in the clause 5 stand part debate is to encourage the hon. Gentleman, among others, to consider the perhaps unintended consequence of the former Chancellor's decision, which is the impact it would have on services for North Yorkshire residents and—since I appreciate that he cares a little for those in other areas—on public services throughout England.

As I said, £3.3 billion could be lost over 10 years. The hon. Members for Thirsk and Malton, and for Northampton South, will have paid much attention to the evidence that Guy Ware, director of finance at London Councils, gave to the Communities and Local Government Committee. He suggested that over 20 years, the cumulative loss to local government finance—in other words, the cumulative gain to businesses that pay business rates—would be £78 billion. The Library suggests a degree of caution about using such figures so far in advance, but the point is that while businesses will benefit, which is clearly a good thing, local authority finances will take a further hit. The effect of that on the provision of public services in Harrow, North Yorkshire, Oldham or Nuneaton is surely a concern that this great House should reflect on a little further.

I asked the Local Government Association what local authority services £370 million might buy. The association suggested that I look at the universal infant free schools meals grant to local authorities, which is some £334 million. Councils are planning to spend some £550 million on Sure Start children's centres, and they are spending £376 million on mental health support for over-65s. That gives some indication of the public services funding that may be lost as a result of what I suspect are the unintended, un-thought-through consequences of the former Chancellor's decision. I say gently that it makes even more of a case for some sort of regular opportunity to scrutinise local government finance on the Floor of the House, so that measures that may be good for one part of the country do not have serious unintended consequences for other parts. It is in that spirit that I took this opportunity to raise concerns about clause 5.

Rob Marris: I echo my hon. Friend's concerns. It is simplistic to suggest that business rates are merely a burden on business; they are also a benefit. They help. I say that as someone who has been a partner in a business that had 1,000 people in it. Not having potholes, and having street lighting, less litter and free wi-fi in town centres all help businesses, but they are paid for by local authorities, who will have less money.

5 pm

Clause 5 will do away with the 1988 reliance on using the RPI. However, it does not say that we will use the CPI. It is likely that Government will choose to use the CPI, in line with what the Chancellor said in last year's Budget, but the clause does not say that. The Minister has understandably been banging on about certainty, but this proposal would introduce uncertainty. The Government are getting rid of a measure that has been used for 29 years and saying, "We'll think up another measure and stick it in regulations."

Most people expect the CPI to be the indexation measure used in place of the abolished RPI measure, so why can the Government not say so? Why do they need the flexibility under regulatory powers that is to be introduced under the clause? Perhaps the Minister can explain, but it seems potty to me. Why can the proposal not be much more simple and much clearer, and provide

much more certainty by saying, in legal terms, "We will no longer use the RPI pursuant to the Local Government Finance Act 1988; we will use the CPI"?

Mr Jones: The Government have committed to changing the indexation measure used in the calculation of business rates—currently the retail prices index—to bring it into line with the main measure of inflation, which is currently the consumer prices index. The clause therefore amends schedule 7 to the Local Government Finance Act 1988 and introduces a new power for the Treasury to alter through regulations the inflation measure used in the calculation of non-domestic rating multipliers. The measure was part of the £6.7 billion rates reduction package announced in the 2016 Budget. It represents a rate cut every year from 2020. It will be worth £370 million in 2020-21 alone, and the benefit will grow significantly thereafter. Those savings would help businesses to grow and support local economies.

To pick up on the point made by the hon. Member for Wolverhampton South West, the clause provides the flexibility to set the appropriate measure of inflation through regulations. However, any changes would be subject to House of Commons approval; I hope that gives him some reassurance. We are working with local authorities on the reforms to business rates to allow the sector to keep 100% of their rates. We will also consider how future changes to the indexation rate impact on the reforms, and we will respond to ensure that the financial sustainability of local government is not adversely affected.

Mr Thomas: When the measure was introduced, there was some suggestion of compensation for local authorities. Will the Minister comment on that today, or does he perhaps want to write to us ahead of our next Committee sitting?

Mr Jones: As I said to the Committee, we are certainly considering how future changes to the indexation rate will impact on the reforms that we are making. We have been clear that we will respond to ensure that the financial sustainability of local government is not adversely affected as a result of the change to the indexation rate on the business rate multiplier. I hope that the clause stands part of the Bill.

Question put and agreed to.

Clause 5 accordingly ordered to stand part of the Bill.

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

5.4 pm

Adjourned till Thursday 9 February at half-past Eleven o'clock.

Written evidence reported to the House

LGF 01 Northern BIDs Group