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Public Bill Committee

LOCAL GOVERNMENT FINANCE BILL

Tenth Sitting

Tuesday 21 February 2017

(Afternoon)

CONTENTS

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Saturday 25 February 2017

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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 21 February 2017

(Afternoon)

[Sir David Amess *in the Chair*]

Local Government Finance Bill

2 pm

Mr Gareth Thomas (Harrow West) (Lab/Co-op): On a point of order, Sir David. We are always grateful to see you in the Chair. You will have missed the exchange we had with Mr Gapes in which we asked for his help—perhaps with your influence—to see whether the whole Committee, as opposed to one half of it, might have access to a letter that the Secretary of State sent to some Members of Parliament about the future of business rates, which is obviously pertinent to the Bill. We believe that the letter was sent to every Conservative MP, and some of them have helpfully shared it with the media, but the Opposition have not had the chance to see it in full. If you can bring any influence to ensure that it is released to us, that would be extremely helpful.

The Chair: I had not been alerted to the fact that this matter was raised this morning. The Minister has heard what has been said, but I am afraid that it is not a matter for the Chair.

Clause 42

Commencement and short title

Question (this day) again proposed, That the clause stand part of the Bill.

The Parliamentary Under-Secretary of State for Communities and Local Government (Mr Marcus Jones): It is a pleasure to serve under your chairmanship once again, Sir David. The clause makes standard provision in relation to the commencement of provisions in the Bill, as I explained in relation to amendments 52 and 54 before we broke. Subsection (1) sets out that the provisions relating to the telecommunications relief guidance about notices relating to non-domestic rates and Her Majesty's Revenue and Customs expenditure for digital services will come into force on Royal Assent. Powers to make regulations in the Bill as well as the final standard provisions of the Bill will also come into force on Royal Assent.

Mr Thomas: One of the things that is missing from the Bill is any reference to local enterprise partnerships. The Minister may remember that before the former Chancellor, the right hon. Member for Tatton (Mr Osborne), was sacked for incompetence by the new Prime Minister, he made reference to 100% business rate devolution and, crucially, infrastructure supplements that require the consent or support of local enterprise partnerships, but there has been no mention of local enterprise partnerships in any of the clauses, or indeed in the Minister's speeches. Will he set out why there appears to be a change in the involvement of LEPs?

Mr Jones: The hon. Gentleman raises an interesting point. I suppose it would have been more pertinent to our earlier deliberations in considering the Bill, when we were dealing directly with supplements that can be charged by directly elected Mayors and the consultation process that will be gone through with businesses. I do not want to dwell on that point, other than to say that we clearly set out how the matter will be considered. We consulted widely with the business community, including local enterprise partnerships. That is why we came to the conclusion and took the view that we did on how Mayors will have to consult with business if they wish to implement a business rate supplement for infrastructure.

In my response to amendments 52 and 54, I set out the reasons why the Bill commencement regulations should not be delayed until 2019. We have had several discussions on delegated powers. As I have explained, the Bill provides a framework to establish a new business rates retention system. Our approach allows us to continue to work with local government over coming months and years on the details of the reforms, which councils will welcome.

In line with the approach taken in the previous local government finance legislation, the Bill necessarily contains a number of delegated powers, as set out in the delegated powers memorandum, which describes each power's purpose, justification and proposed procedure. The Bill takes a similar number of powers to the previous legislation. As I said at our previous sitting, the majority of those powers amend or replicate existing legislation, predominantly the Local Government Finance Act 1988 and the Business Rate Supplements Act 2009.

Where replicating existing powers, the Bill retains the procedure for each from previous legislation. Where the Bill creates new powers, the majority will provide for parliamentary procedure but, as is normal for this type of legislation, the Bill contains new powers that do not have a parliamentary procedure, such as the commencement regulations under this clause.

Mr Thomas: On the commencement proceedings, the Minister might remember that I asked specifically when he intends the abolition of the local government finance statement to kick in. Does he see tomorrow's as the last such statement, or will there be another one for 2018-19? What is the commencement date for that provision?

Mr Jones: The hon. Gentleman has listened intently to every word I have said in this Committee, so he knows that earlier in our deliberations I confirmed to him that this year's local government finance settlement will not be the last settlement of its type. The local government finance settlement process will continue until the new policy is implemented in 2019-20. Regulations will therefore have to be put in place by 2019, in advance of the forthcoming settlement for local government for that year. I hope that clarifies the matter for him.

The central principle of our approach to implementation of the business rate reforms is that we have developed and continue to develop the detail of provisions through close work with local authorities and businesses. By way of assurance to the Committee and to ensure openness, where possible we will publish draft regulations or policy statements on the content of the provision to be made under the powers in the Bill.

Given the above assurance, I ask the Committee to let the commencement clause stand part of the Bill.

Mr Thomas: I am grateful to the Minister for confirming that the local government finance settlement debate will continue to take place. It is an opportunity for Members

across the House to continue to scrutinise not only local government finance as it operates at the moment but, crucially, as we get more clarity, how business rates might end up working when 100% devolved—goodness only knows, we need that clarity.

We have no sense of how the so-called fair funding review will work for each individual local authority. We have no sense as yet of the consequences of the detail of the financial regulations to accompany the Bill. It will therefore be helpful for us to continue to have the opportunity to debate such matters on the Floor of the House and to explore what they mean for each of our local authorities and the public services that they provide to the people of England generally.

It would be helpful to hear a little more from the Minister about any further arrangements for consultation with business. It seems a little odd that before the Bill is commenced, in the light of the huge concern about the business rates revaluation that has hit the media of late, there will not be further detailed consultation with business through local enterprise partnerships. Here is a quote from the Treasury press release that accompanied the previous Chancellor—before he was sacked for incompetence by the current Prime Minister—which outlined how the infrastructure premium would operate:

"Directly elected mayors—once they have support of local business leaders through a majority vote of the business members of the Local Enterprise Partnership—will be able to add a premium to business rates".

Yet there has been no mention by the Minister of local enterprise partnerships in any of his speeches to date. He might prefer me to have mentioned it earlier in the proceedings—perhaps his memory might have come back to him at that point about why he made the change and decided to cut out local enterprise partnerships from the Bill. It would be good to hear a little more from the Minister about how local enterprise partnerships will be involved in the coming months.

Rob Marris (Wolverhampton South West) (Lab): I am a little surprised, given that when we were talking this morning about timing and implementation of the various clauses in the Bill, the Minister prayed in aid clause 5, on indexation, and clause 7. When he talks this afternoon about developing policy in conjunction with local authorities and liaising—my verb, not his—it would be good if we had some evidence. He challenged my hon. Friend the Member for Harrow West on whether Labour supports clause 7, on rate relief for rural shops, and clause 5, on indexation, to which my hon. Friend gave a clear answer. The Minister relied on those clauses as examples of clarity and the way forward, but if they are so clear, why will their implementation be delayed?

Mr Jones: We have made it quite clear why those matters are to be implemented in that sequence. I made it clear earlier, in answer to the hon. Member for Harrow West, that we consulted widely with business groups, including local enterprise partnerships. This Government do listen. We have decided to bring forward a system in relation to business rate supplements that reflects the views of business, and when proposals are developed in local areas they will certainly need to take into account the views of the business community in that particular combined authority area.

Mr Thomas: If this is a Government who listen, why the complete opposition this morning to a review of business rates, which businesses have been asking for?

Mr Jones: As was shown earlier, the hon. Gentleman seems to have undergone a complete transformation while scrutinising the Bill, having previously advocated that local authorities should be able to increase the multiplier at will and therefore increase the tax rate on business rates. He then seemed to have a conversion, given that he now wants to look at a review. I set out our reasoning earlier, carefully and in some detail. As I said, the Government considered the issue of business rates as recently as 2015. We looked at the issue carefully and consulted business groups and local authorities, which at that time thought the system we had, although not perfect, was one the Government should continue with. On that basis, I will curtail my comments and commend the clause to the Committee.

Question put and agreed to.

Clause 42 accordingly ordered to stand part of the Bill.

New Clause 2

NEEDS ASSESSMENT PRIOR TO EACH RESET

'(1) Before any alteration to the Business Rate Retention Scheme, an independent body must conduct a full needs assessment of every billing authority.

(2) The conclusions of the assessment under subsection (1) must be taken into account when considering any changes to calculations under paragraph 2 of Schedule 7B to the Local Government Finance Act 1988 that are made as part of the BRRS reset."—*(Jim McMahon.)*

This new clause would require a full needs assessment to be carried out for every billing authority in order to inform the new tariff and top ups system at each BRRS reset.

Brought up, and read the First time.

2.15 pm

Jim McMahon (Oldham West and Royton) (Lab): I beg to move, That the clause be read a Second time.

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

New clause 3—*Local Authority Needs Commission*—

'(1) There shall be a body called the Local Authority Needs Commission ("the Commission").

(2) It shall be the duty of the Commission to carry out assessments of the matters specified in subsection (4) from time to time as it thinks fit, but no less than once every two calendar years.

(3) It shall be the duty of the Commission to carry out assessments of the matters specified in subsection (8) when requested to do so by the Secretary of State.

(4) The matters specified in this subsection are, in respect of each billing authority in England, all matters which the Commission considers are relevant to an understanding of the resource need of each billing authority, including, but not confined to—

(a) the extent of social deprivation in the area,

(b) the resident and day-time populations of the area,

(c) the condition of housing stock in the area,

(d) the economic profile of the area,

(e) the population density of the area,

(f) the ethnic composition of the population of the area,

(g) the extent to which the population of the area has a first language other than English.

(5) It shall be the duty of the Commission to assess the impact of any new requirement imposed upon a billing authority—

(a) by legislation, or

(b) by direction from the Secretary of State

as soon as is reasonably practicably after the introduction of the new requirement takes effect.

(6) An assessment under subsection (5) must include a needs assessment of the billing authority in relation to the new requirement, having regard to the matters specified in subsection (4), which must be made publicly available.

(7) It shall be the duty of the Secretary of State, before making a grant to billing authorities under—

(a) section 78 of the 1988 Act, or

(b) section 31 of the Local Government Act 2003

to inform the Commission of the billing authorities intended to receive a grant and request the Commission to undertake an assessment in accordance with subsection (3).

(8) The matters specified in this subsection are, in respect of each billing authority in England intended to receive a grant, all matters which the Commission considers are relevant to an understanding of the resource need of each such billing authority, including, but not confined to, the matters specified in paragraphs (a) to (g) of subsection (4).

(9) Any assessment made under subsection (2), (3) or (5) shall be laid before the House of Commons by the Secretary of State as soon as practicable after the final version of the assessment has been provided to the Secretary of State by the Commission.

(10) Schedule (Local Authority Needs Commission: further provision) makes further provision about the Commission."

New schedule 1—*Local Authority Needs Commission: further provision—*

Membership, chair and deputy chair

1 (1) The member of the Commission are to be—

(a) a chair appointed by the Secretary of State, and

(b) at least four other member appointed by the Secretary of State.

(2) Before appointing members under sub-paragraph (1)(b), the Secretary of State must consult the chair.

(3) The Commission may appoint one of the members as the deputy chair.

(4) The Secretary of State must have regard to the desirability of securing that the Commission (taken as a whole) has experience in or knowledge of—

(a) the management of local government finances,

(b) research into matters relating to social and economic needs and their assessment.

Term of office

2 Members are to hold and vacate office in accordance with the terms of their appointment, subject to the following provisions.

3 Members must be appointed for a term of not more than 5 years.

4 A member may resign by giving notice in writing to the Secretary of State.

(a) resigns that office by giving notice in writing to the Secretary of State, or

(b) ceases to be a member.

6 A person who holds or has held office as the chair, or as the deputy chair or other member, may be reappointed, whether or not to the same office.

Staff and facilities

7 The Secretary of State may provide the Commission with—

(a) such staff,

(b) such accommodation, equipment and other facilities, and

(c) such sums,

as the Secretary of State may determine are required by the Commission in the exercise of its functions.

Research

8 (1) The Commission may at any time request the Secretary of State to carry out, or commission others to carry out, such research on behalf of the Commission for the purpose of the carrying out of the Commission's functions as the Commission may specify in the request.

(2) If the Secretary of State decides not to comply with the request, the Secretary of State must notify the Commission of the reasons for the decision.

Payments to members

9 The Secretary of State may pay to or in respect of the members of the Commission such remuneration, allowances and expenses as the Secretary of State may determine.

Status

10 The Commission is not to be regarded—

(a) as the servant or agent of the Crown, or

(b) as enjoying any status, privilege or immunity of the Crown.

Sub-committees

11 The Commission may establish sub-committees.

Validity of proceedings

12 The Commission may regulate—

(a) its own procedure (including quorum), and

(b) the procedure of any sub-committee (including quorum).

13 The validity of anything done by the Commission or any sub-committee is not affected by—

(a) any vacancy in the membership of the Commission or subcommittee, or

(b) any defect in the appointment of any member of the Commission or sub-committee.

Discharge of functions

14 The Commission may authorise a sub-committee or member to exercise any of the Commission's functions.

Public records

15 In Schedule 1 to the Public Records Act 1958 (definition of public records) in Part 2 of the Table at the end of paragraph 3 at the appropriate place insert—

"The Local Authority Needs Commission"

Parliamentary Commissioner

16 In Schedule 2 to the Parliamentary Commissioner Act 1967 (departments etc subject to investigation) at the appropriate place insert—

"The Local Authority Needs Commission"

Disqualification

17 (1) In Part 2 of Schedule 1 to the House of Commons Disqualification Act 1975 (bodies of which all members are disqualified) at the appropriate place insert—

"The Local Authority Needs Commission"

Freedom of information

18 In Part 6 of Schedule 1 to the Freedom of Information Act 2000 (other public bodies and offices: general) at the appropriate place insert—

"The Local Authority Needs Commission"

Jim McMahon: It is a pleasure to serve under your chairmanship, Sir David. We have had a lot of debates in this Committee about moving to a new system of self-sustaining local government. There have been great calls from central Government for a level of independence, and my hon. Friend the Member for Harrow West has challenged the Government on just how independent local government will be and what safeguards will be in place to ensure it is funded adequately so it can carry

out its legal responsibilities. We are effectively being asked to agree the framework without knowing what the method of assessment will be. We are understandably nervous about that, as is local government, particularly given the kick-off with the business rate revaluation. We are not sure whether the Chancellor or the Secretary of State will grant concessions that mean that even less money is available to deliver local public services.

With these new clauses and the new schedule, we want to set out a positive alternative and show what we could do in a constructive, cross-party way to put local government funding on a fair and firm footing. These are not new ideas. I will be honest and admit that we copied and pasted them. Why reinvent the wheel? If somebody has gone to the trouble of doing the work, carrying out the investigation, understanding the evidence base and consulting with the industry, the sector and those affected, we ought to listen to what they have to say and consider it in the right way.

Members might be aware that the Local Government Association commissioned an independent review into local government finance and whether it is sustainable. The review recognised that we are in a period of austerity, but that demand for public services is increasing all the time. It also recognised that the world is changing, and that how people access and interact with public services is changing, too. How people work is changing, and the part of the workforce that works across different institutions is changing, too.

In the review, the Independent Commission on Local Government Finance highlighted a number of things and set out its vision of a self-financing system that promotes self-reliance and self-sufficiency in local government, encourages areas to be innovative, promotes local decision making on service delivery, ensures transparency in how it works and in the division of responsibilities between central and local government, and maintains support for the most vulnerable people in the community. It came out with a series of recommendations, which are directly relevant to these clauses and are worth talking about in some detail. If we can get agreement on this today, we will not only show the country that some things are above party politics—in my view, funding vital frontline services should be one of them—but show local government that the work it has undertaken in previous years to research and develop an alternative idea has paid off and been respected and adopted by the Government with the support of the Opposition. That is our intention, and I hope the Minister responds with the same degree of charity. Hopefully, we can make some progress.

Critical to the recommendations was the establishment of an independent body to advise the Government on funding needs in each local area and on the allocation of funding to local areas and sub-regional areas that have combined authority arrangements in place. The report talks a great deal about how local freedoms should be in place—in particular, the freedoms to set local discounts and to decide how much, if any, council tax should increase without the Secretary of State imposing a referendum cap. It also talks about a business rate retention scheme that could be introduced.

At times, reports come out of Parliament that say, "Local government just doesn't get it right," and reports come out of local government that say, "Parliament just doesn't get it," but what inspired me about this report is that it is not like that at all. It says, "The system isn't working for any party, so we need to find a new model that works for all concerned." The language used throughout the report is very much about working together. When it talks about an independent body being set up, it is not saying that local government does not trust national Government; it is saying that having an independent body to one side, to advise, would add to decision making and help Government. Government would still have the ability to hold the ring, but they would have the depth and quality of an independent body sat to one side. There is a great deal to be commended in that.

The report should be read, and read in the spirit in which it is intended. The commission's membership is significant: it has the experience of former civil servants, people who have worked in the private sector, people who have worked for health authorities and accountancy firms, and entrepreneurs who have experience of creating value from the ground up and being successful in their industries. It includes people who have experience of working all over Europe and around the world who are, at their core, used to setting up complex financial systems and making them work in their practical application. That has been quite absent from the debates we have had.

We have talked about systems and processes, and we have talked about governance to a degree, but we have not really talked about the pounds and pence. That matters to the communities we are here to serve. When we have asked questions about that, we have been told an assessment will be made at some point that will take into account a range of criteria, all of which we have discussed over the course of the Committee's sittings, but we are still none the wiser as to what that will mean in practice. What will it mean for a town like Oldham or a city like Oxford? The truth is that, today, we just do not know.

If we believe that the best public services are formed around communities and individuals rather than governments and institutions, maybe the answer will not derive from this building. Allowing freedom at a local level to co-produce and having an independent body that liaises and interacts at a local level, reporting and feeding back to Government, would add a lot of value to the work that Government are doing.

I am not the Secretary of State; I am not even a Minister, but I imagine that if I were in either of those positions, I would not relish the current annual responsibility to produce a financial statement to Parliament. There are two ways of dealing with that: we either do what the Government of the day propose, which is to delete that requirement altogether, or—this would be my preference—we have the assessment in place but ensure that we have the cover of a strong evidence base, that the assessment is tested and supported by rigorous criteria that can be objectively assessed and challenged by anybody interested, and that the process is one to which people can contribute if they are affected by the decision that will ultimately be taken. That would be a far more forward-thinking way of running Government post-Brexit.

When people went to the polling stations and voted to remain or leave, I do not believe for one second they were talking about repatriating powers from the EU to this building. I think they were saying, "I want more

[Jim McMahon]

power and determination over my life. I'm sick of having things done to me. When my son, daughter, grandchildren or I need a new house, I want there to be a home to get. When the quality of the school isn't good enough, I want it to improve and be the best it can be. When I want to get a better job, I want to know that the route to that is available to me and I won't have barriers put in front of me." The truth is that our communities are so diverse and different that we cannot design that here; it has to be designed within the community, and there has to be a funding model to support it.

We can talk as much as we want—warm words are great. We are all aware that Brexit means Brexit, but we do not know what the new world means, if we are honest. We do not know what a United Kingdom is and whether we will have one if we carry on. Even if we know the place of a further devolved Scotland, Wales and Northern Ireland, not many people can draw out where the Government intend to take a devolved England. The fragmentation of devolution we have seen so far, the absence of a framework and the complete lack of fair funding to support the delivery of local public services and economic growth are a major barrier to having a post-Brexit solution that works for our communities.

This is more important to the Government of the day than just a technical exercise to establish a body to report to the Government; it is about a fundamental reset of the relationship between local communities and their directly elected local authorities, which determine how much money is spent on local priorities, public services and inward investment.

I do not intend to detain the Committee for much longer, but we think that these new clauses are important. We tabled several amendments, having locked ourselves away in a room and thought, "This is going to be a good debating topic," or, "I'm sure the Government haven't done their work on this; we might expose one or two weaknesses." That is the nature of opposition and, to be fair, those amendments worked quite well, but new clauses 2 and 3 and new schedule 1 were not tabled with that intention at all. We are trying to be the voice of local government in this place and to ensure that its interests are represented. As I said, I think the answer has been presented. If the Government of the day do not recognise that they have a gift, which has been adopted by local government on a cross-party basis, and do not take it, they will miss a trick and face further disquiet from their local government ranks.

Anna Turley (Redcar) (Lab/Co-op): It is a pleasure to serve under your chairmanship again, Sir David. I rise to speak to these new clauses because they are extremely important for the local government sector and would add huge value for the Government. Not only are we struggling to work our way through the Bill without the evidence that we need about the fair funding settlement and so on, as my hon. Friend the Member for Harrow West has said, but year after year, when we come to the local government funding settlement, the Government have to defend themselves against accusations of unfairness, pork barrel politics and so on, in the face of quite extreme evidence—particularly in the last few years as cuts have been applied—of unfairness in the way that local government funding is distributed. Opposition seats are often the hardest hit, and areas of need have seen the hardest cuts. I urge the Government to defend themselves to some extent against such accusations, and these new clauses would provide them with a positive way to do that.

There has been a total lack of clarity in the way that the funding formula is applied. In last year's debate about local government funding, we even saw Conservative MPs stand up and say to the Minister, "I was going to vote against the local government funding settlement, but since our conversation and since I was given some transitional arrangements, I have decided to support it." That is obviously extremely distressing to Opposition Members, who are trying to fight for our communities and have seen our constituencies ravaged by local government cuts. There seems to be a preference: people who can get in and advocate their case to the Minister will get funding. That lack of clarity exposes the Government to criticism, and we are offering them an opportunity to defend themselves and give the rest of the country, the local government sector and Opposition MPs some confidence in the way they distribute funding.

There is a second important issue: if we devolve business rates and give local authorities more power to decide on the future of funding, we could leave them in a difficult situation. During the evidence sessions, I asked one of the local government representatives whether she felt local government could co-operate and work in partnership or whether there would be competition, with local authorities essentially fighting each other for the biggest slice of the cake. I have to say that her answer did not fill me with confidence that there really was a united sense of partnership. In my view, having an independent commission and the evidence base on which to proceed would be extremely helpful to both the local government family and the Government themselves.

My biggest concern is that we hear from Government Members: "We have had enough of evidence." We seem to live in a post-truth, post-evidence world. We are offering the Government the opportunity to have evidence about demand, need and how we can best serve our local communities through local government funding. This is an opportunity for the Government to respond fully and ensure that they are fair and above any accusations or criticism. This seems like an obvious one, and I cannot understand why the Government would object, so I urge them to accept these new clauses.

2.30 pm

Rob Marris: I salute my hon. Friends the Members for Oldham West and Royton and for Redcar for their perseverance. As I said this morning, the Opposition have solicited evidence from the Government 33 times before today in Committee—and evidence came there none. As my hon. Friend the Member for Oldham West and Royton said a moment ago, he wants a strong evidence base, and so does my hon. Friend the Member for Redcar.

My hon. Friend the Member for Oldham West and Royton also said—I think I have got this right; it was a double negative—that he was not saying that local government does not trust central Government. I have to tell him that I am saying that. I do not trust central Government, and the reason is that they do not want the evidence, because it would lay bare the unfair nature of local government funding and, in particular, local

government cuts over the last six years. I suspect that those cuts have taken their toll in communities such as Redcar and Oldham, just as they have in Wolverhampton. The Government keep hoping that people will not notice and, thus far, they have done not a bad job of keeping away from it. New clause 3(4) would solicit evidence on

"the resource need of each billing authority".

Subsection (5) states:

"It shall be the duty of the Commission to assess the impact of any new requirement imposed upon a billing authority".

Well, the Government do not want that evidence.

Using my own local authority in the west midlands as an example, the evidence is clear that over the last seven years almost, the cut in the central Government grant to Wolverhampton residents has been more than £200 a head, in one of the most deprived cities in England. Correspondingly, the alliterative Wokingham, in one of the most advantaged places in England—good luck to them—has seen a slight increase in funding per capita. I hope that the Minister is going to get up and astound me and say that he accepts these amendments, but I would be extremely surprised, because they would require evidence to be generated and the Government do not want such evidence.

Mr Jones: The distribution of resources and the assessment of the relative needs of local government is an essential feature of the local government finance system, but those elements do not require legislation to determine them. However, I thank Labour Members for providing me with the opportunity to outline the work we are doing in that area.

Before doing so, I would say that I have heard what has been said, particularly by the hon. Member for Oldham West and Royton. It was unclear whether the commission would be there to simply divide the money available at the time between local authorities, or whether there is a role for it to determine the total money available and national policy on council tax. Were it the latter, it is important to set out that those issues have been determined for many years by central Government. Successive Governments, including Conservative Governments, the coalition Government of Liberal Democrats and Conservatives, and Labour Governments, have held to those principles.

In regard to the work already under way, we announced the fair funding review last year, which was universally welcomed by the local government sector. The review is conducting a thorough examination of what a relative needs assessment formula should be in a world where local government spending is funded by local government resources and not central grant. The findings of that review will set the initial baseline for the 100% business rate retention system.

From the start, we have recognised the essential role that local government has to play in shaping those reforms. That is why we have been working collaboratively with the Local Government Association, which is responsible for representing a broad range of views held by different sections of local government and their member authorities. That effective working relationship has already seen the establishment of a steering group supported by a number of technical working groups, which my officials co-chair with colleagues from the Local Government Association. That gives local experts a unique opportunity to help shape the review, and all the work of those groups is available online, adding real transparency to the progress of the review.

The process for assessing the relative needs of local government is well precedented and was, of course, followed by the Opposition when Labour was in power. Our collaborative and transparent approach represents a significant improvement on that process. In the summer, we published a call for evidence that set out key questions that the review will address. The Secretary of State has confirmed that he will report back to the House on the progress of that review.

Creating a new commission to consider needs assessment and new burdens, as these new clauses would do, blurs accountability for that important work and would add another significant layer of unnecessary bureaucracy, over-complicating the process for assessing the relative needs of local government. It is important to point out that it would undoubtedly lead to a situation where it simply costs the taxpayer more money.

Our proposals offer a better guarantee of a transparent process, supported by the best available advice from local government and elsewhere. On that basis, I ask the Opposition not to press the new clause.

Jim McMahon: Thank you, Sir David, for the opportunity to respond to the Minister. I cannot understand why the Government are so reluctant to accept these measures. Of all the changes in the Bill, some are extremely minor and it would not require legislation for the Government just to get on and make them. Their argument is that they have put them in the Bill to give clarity and to ensure that there is a clearly understood framework in place. If they were to establish an independent body to look at a needs-based assessment, potentially with redistribution, it would be right for it to form part of the same transparent framework that has been proposed for far more minor changes.

Rob Marris: Will my hon. Friend join me in congratulating the Minister on decrying the amendments with a straight face, claiming that they would add another layer of bureaucracy, when he has introduced a Bill that will bring in at least 12 sets of new regulations?

Jim McMahon: I absolutely share that point. There are 12 sets of regulations and something like 56 new powers for the Secretary of State. We are not seeing a loosening of what binds the hands of local government; it is much more a tightening. I do not think that that will be well received.

The main thing is how we move forward. There is so much uncertainty now, not just with the amount of demand in the system for public services. We have seen the social care demand, but there will also be child safeguarding and educational attainment demands and mental health and disability support pressures very soon. That is notwithstanding all the other 700 services that local authorities deliver on a daily basis to support our residents.

We are seeing a genuine crisis in public services in many parts of our country. Some have been more protected than others and some have been more affected than others, but there will be an impact across almost every community in the country. Either the Government are lining up to continue to ignore the scale of that

[Jim McMahon]

problem and what it means to individuals, families and communities—following a similar pattern of behaviour to that which we have seen under the coalition and the current Governments—or they genuinely want to get a grip and put in place a more sustainable system that would prevent such shocks to local public services. If local government is saying that, through an independently commissioned report that has been agreed by every party political party—including the Conservative party—on the Local Government Association, I cannot understand for the life of me why the Government do not just take that with both hands and run with it. At the moment, their defence seems to be, "That would cost money. It would cost money to have this independent system in place."

Let us be clear about what the role of that independent body would be. It would be there to assess the need in each area against some objective criteria that would be agreed with central and local government. The Government have said they are going to do that anyway, so let us put that to one side; it will happen whether this body exists or not.

We then talk about redistribution. We know how much money will be required, because a thorough and in-depth review would have taken place. We then need to understand how much money we have and how much we distribute to meet the demand that has now been identified. What Government would not want the ability to say, "This is an independent recommendation"? It would be a gift. We know that they are fearful of scrutiny. We have seen that in the decision that the annual financial settlement will not come to Parliament in the future—they do not want that parliamentary debate. But this gives them a gift to say, "This is not the Government's saying this; this is an independent body that has worked in consultation with local government."

Where we are going and what the end looks like is extremely unclear. We have been promised an independent assessment of need. We do not know the criteria, the timescale, the membership or the status. We do not know whether it will be inside or outside the Government or completely independent. Will it sit within local government? We do not know the detail of any of that. We do not know what the new business rate devolution will be. We do not even know which different schemes have been negotiated in each of the pilot authorities, let alone the sweetheart deal that has been agreed with Surrey, which is the only single authority negotiated business rate retention pilot in the country—I am sure the Minister will say whether this is right or wrong. All the rest have been done through a devolution deal through their combined authority arrangements or the imposition of directly elected Mayors. Surrey is being treated in a very special way—a way that other local authorities are not. The Government cannot craft a special sweetheart deal for everybody. At some point, we have to accept that the quantum of money is a quantum of money and we have to teem and ladle.

Mr Jones: I think the hon. Gentleman knows in his own heart that I have been quite clear that we need a pilot in a two-tier area. Councils across that part of the local government sector will be invited to put their name forward to be part of that pilot. No decisions around that have been made.

Coming back to the quantum of funding that the hon. Gentleman has just mentioned: I am still unclear on this. Is he saying that the commission that he wants to set up would determine the overall quantum of funding and things such as council tax setting? While he alludes to that, he has not actually said that as yet.

Jim McMahon: I hope that the Minister does not mind too much. We have done our best to be helpful and constructive and to offer ideas. Ultimately, there is only one person in this room drawing a ministerial salary and being driven around by a chauffeur and it is not me, yet.

Mr Jones: Will the hon. Gentleman give way?

Jim McMahon: You have to earn the perks that come with the job. I am not going to give way. We need to make progress. I am happy to receive a letter from the Minister if he feels it is necessary to justify his position. What is most important is not to conflate a number of different points that have been made that are legitimate and stand on their own two feet—they are not one and the same thing. There is a world of difference between establishing an independent financial commission to understand the need in each area for public services and then to advise back to the Government what that assessed need should be. Government may well say as part of the remit of that review that there is a quantum of money that is limited and within the criteria that are set, they may well seek advice from the independent body on how to teem and ladle within that quantum. There has been no suggestion that the independent body would take away the right of the Treasury to determine how taxation is generated and spent in the country. It is very clear if the Minister reads the new clauses and the new schedule that the remit is to advise Government.

Rob Marris: Does my hon. Friend agree that it would help the Minister, whether chauffeur-driven, well-paid or not, with all his officials, to do the Opposition the courtesy of reading new clause 3? If he reads new clause 3, it is entirely clear that the proposed commission would not usurp the power of the Secretary of State to decide on the grant.

Jim McMahon: That is absolutely right. I suppose that in some ways I took it for granted that the Minister would read the papers. Perhaps I should not have done that and I should have read it out line by line. What the new clause intends to do is very clear. I am a new Member so perhaps I am entitled to a degree of naivety—some other people do not have that excuse. We were so prescriptive because we did not want it to be conflated or confused, and we wanted it to be accepted as a constructive amendment on that basis. I hope that the Minister has read it. It is clear what it is intended to do and what it is not intended to do.

2.45 pm

Perhaps this is just the way Parliament works: in this type of debate in a Bill Committee, Opposition amendments are not accepted. That is the way that democracy works, and the Government have the right to decide what they will and will not accept. I fully appreciate that. We will be pressing new clause 3 to a vote, but if the Government will not support it, I would at least ask them to negotiate

with the Local Government Association—which represents our local government base—on the best way forward. There is so much uncertainty. When councils are being asked to take on more responsibility as part of the business rate retention scheme, with even more uncertainty about growing demand and less ability to even be able to teem and ladle money across different services in their area, they will want to know that there is transparency in whatever process follows. Every Opposition Member will be open, as am I, to an active debate about what the settlement criteria could be. Some of that will be about sparsity, about understanding the additional cost of delivering services in rural areas. But some of it will be about deprivation; understanding that there is deprivation that requires additional service delivery in an area.

If we cannot have that debate in an open and mature way, then people in our communities will suffer. I have not come to this place for people in Oldham to suffer any more than they need to. It is an open offer. I am here to work, and the Government should take that as an invitation to have an active debate about what that criteria should be and about what type of independent assessment there ought to be. Perhaps we can then reach some common ground that demonstrates to our local government base that we are mature, that we understand the seriousness of the issues that councils face, and that we are willing to look forward and be transparent in that process. I beg to ask leave to withdraw the clause.

Clause, by leave, withdrawn.

New Clause 3

Local Authority Needs Commission

'(1) There shall be a body called the Local Authority Needs Commission ("the Commission").

(2) It shall be the duty of the Commission to carry out assessments of the matters specified in subsection (4) from time to time as it thinks fit, but no less than once every two calendar years.

(3) It shall be the duty of the Commission to carry out assessments of the matters specified in subsection (8) when requested to do so by the Secretary of State.

(4) The matters specified in this subsection are, in respect of each billing authority in England, all matters which the Commission considers are relevant to an understanding of the resource need of each billing authority, including, but not confined to—

(a) the extent of social deprivation in the area,

(b) the resident and day-time populations of the area,

(c) the condition of housing stock in the area,

(d) the economic profile of the area,

(e) the population density of the area,

(f) the ethnic composition of the population of the area,

(g) the extent to which the population of the area has a first language other than English.

(5) It shall be the duty of the Commission to assess the impact of any new requirement imposed upon a billing authority—

(a) by legislation, or

(b) by direction from the Secretary of State

as soon as is reasonably practicably after the introduction of the new requirement takes effect.

(6) An assessment under subsection (5) must include a needs assessment of the billing authority in relation to the new requirement, having regard to the matters specified in subsection (4), which must be made publicly available.

(7) It shall be the duty of the Secretary of State, before making a grant to billing authorities under—

(a) section 78 of the 1988 Act, or

(b) section 31 of the Local Government Act 2003

to inform the Commission of the billing authorities intended to receive a grant and request the Commission to undertake an assessment in accordance with subsection (3).

(8) The matters specified in this subsection are, in respect of each billing authority in England intended to receive a grant, all matters which the Commission considers are relevant to an understanding of the resource need of each such billing authority, including, but not confined to, the matters specified in paragraphs (a) to (g) of subsection (4).

(9) Any assessment made under subsection (2), (3) or (5) shall be laid before the House of Commons by the Secretary of State as soon as practicable after the final version of the assessment has been provided to the Secretary of State by the Commission.

(10) Schedule (Local Authority Needs Commission: further provision) makes further provision about the Commission."—*(Jim McMahon.)*

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 6, Noes 9.

Division No. 9]

AYES

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

NOES

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

Question accordingly negatived.

New Clause 4

Relief for schools and hospitals

'(1) The Secretary of State shall, by regulations, introduce provision for relief from non-domestic rates in respect of hereditaments used for the purposes of—

(a) the provision of NHS secondary or tertiary care, and

(b) the provision of education in maintained schools." *—(Mr Thomas.)*

This new clause would require the Secretary of State to make provision for business rate relief for NHS hospitals and maintained schools.

Brought up, and read the First time.

Mr Thomas: I beg to move, That the clause be read a Second time.

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

New clause 8—*Relief for public buildings*—

'(1) The Secretary of State shall, by regulations, introduce provision for relief from non-domestic rates in respect of hereditaments used principally for the purposes of a public body.

(2) For the purposes of this section, a public body means any body funded principally through funds voted by Parliament."

This new clause would require the Secretary of State to make provision for business rate relief for public buildings, defined by reference to public funding of the body for whose purposes the building is principally used.

New clause 9—*Relief for licensed markets*—

The Secretary of State shall, by regulations, introduce provision for relief from non-domestic rates in respect of hereditaments used principally for the purposes of a licensed market."

This new clause would require the Secretary of State to make provision for business rate relief for licensed markets.

Mr Thomas: Sir David, could I first dwell on the two new clauses that are linked to new clause 4? New clause 8 draws attention to the fact that many public buildings have business rates bills that they have to pay, particularly in local authorities. Essentially, that money comes back, so public services funded by revenues from Westminster have to pay a business rates bill back to the Exchequer or the billing authority, creating paperwork and bureaucracy. One wonders whether the system would not be more efficient if we tried to exempt those public buildings from business rates in the first place. Obviously, there would be a commensurate reduction in the grant or whatever to the public body in those premises, but that might help to ensure a slightly more efficient system than essentially allowing flows of money around the system, with the additional costs that that generates. New clause 8 would reduce some of the inefficiency in the business rates system.

New clause 9 would introduce a relief for licensed markets—small business at its very best. Licensed market owners essentially provide a platform—for want of a better phrase—for small businesses to come and ply their wares. One wonders whether there should not also be some benefit in relief to allow those markets to continue to operate. They are often crucial to the footfall in town centres. One wonders whether Ministers have properly thought through the potential appeal of town centres and high streets in terms of licensed markets. It would be helpful to hear the Minister's response to those probing new clauses and what the thinking is in those areas.

I want to concentrate my remarks on new clause 4, which would ensure that relief from business rates was given to schools and hospitals. We know from the current revaluation process that NHS hospitals and GP surgeries in England, and indeed in Wales—I appreciate that Wales is not covered by the Bill, but this figure is illustrative—face a £635 million hike in their business rates in the next five years. In the context of the scale of the financial crisis affecting the national health service, one wonders whether, as a small immediate contribution to solving the crisis, Ministers could offer hospitals and GP surgeries an exemption from business rates.

Some of the country's biggest hospitals will see their business rates bill double over the next few years, so one wonders how they will find the money to pay for that increase without having to find further savings. Many NHS trusts say that they are already cutting to the bone on the staffing they need. Analysis by Gerald Eve, a firm that advises businesses on rates, found that business rates for hospitals would rise from £328 million this year to £418 million in five years' time, while GPs and health centres would see their costs rise from £257 million to £332 million a year over that same period. As I understand it, those figures are for England and Wales, and we are talking about only England in the context of the Bill, but the figures are illustrative and helpful to the debate.

Kevin Hollinrake (Thirsk and Malton) (Con): The hon. Gentleman mentions GP surgeries, which of course are private businesses. Does he think that dispensation should also be given to private businesses?

Mr Thomas: Let us be clear: GP surgeries provide a public service. I will come on to some of the difficulties that GPs face. On the news just the other day there was a report by the BBC's excellent health editor, Hugh Pym, on GP surgeries that had had to close because they could not make the finances add up. One wonders whether, had they faced the business rates hike that we are talking about now, that would not have exacerbated the problems.

Rob Marris: My hon. Friend will be aware—as will the hon. Member for Thirsk and Malton, given that I am sure he has read the proposed new clause—that new clause 4 does not cover GP surgeries, because they are primary.

Mr Thomas: My hon. Friend is always helpful to the hon. Member for Thirsk and Malton, as I try to be.

Rob Marris: He needs it.

Mr Thomas: I think it is a tad harsh to suggest that the hon. Member needs help, but perhaps we can offer a little guidance from time to time from this side.

Kevin Hollinrake: Will the hon. Gentleman give way?

Mr Thomas: I will in a second; I have one further point. Some trusts, including Peterborough City Hospital, will see rates rise from £2.5 million to £4.8 million by 2021, while the University Hospitals Birmingham NHS Foundation Trust's bill is set to rise from £4.2 million to £7.6 million. A further example is the Royal London Hospital in east London, which according to the Gerald Eve consultancy will see its business rates bill rise by nearly 60% to £9.7 million. I will happily give way to the hon. Gentleman; presumably he is going to say how he thinks these bills should be dealt with by the hospitals concerned.

Kevin Hollinrake: I wonder whether the shadow Minister will comment on whether the hon. Member for Wolverhampton South West was paying attention to his own comments, or whether he switched off in the middle, on the basis that it was he who mentioned GP surgeries? I was responding to that point.

Mr Thomas: All I will say is that I have never known my hon. Friend the Member for Wolverhampton South West be anything other than switched on. I learned that to my cost in a statutory instrument Committee a long time ago.

When the NHS is under such huge budgetary pressures, the fact that hospitals face these new, potentially huge, business rate liabilities may result in pressure for further reductions—for instance, in staff. That must be profoundly worrying, not only to Opposition Members but to Government Members who represent hospitals facing similar business rate increases. When we consider that NHS trusts posted a deficit of £886 million at the end of

the third quarter of this year alone—£300 million more than the target for the end of this financial year—we have some sense of the scale of the pressures on NHS hospitals. If Ministers were so minded, perhaps a little business rate relief now might help to ease some of the pressure on finance directors and chief executives in NHS hospitals who are trying to make hospital budgets balance.

You will know, Sir David, because you are very knowledgeable about these things, that the Secretary of State for Health, clearly as a result of the scale of the pressure that hospitals are under, has suggested that the four-hour A&E target might be downgraded and no longer apply to minor injuries. One wonders whether he would have gone to those lengths had there not been the scale of pressure on NHS hospitals that we are seeing at the moment, particularly financially. He might have been more willing to defend what is an essential management target and an indicator of the quality of healthcare in our communities. I gently suggest that abandoning the four-hour target is a total admission of failure by the Government. One can understand the context for that abandonment in the light of the financial pressures, which new clause 4 seeks to ease a little. One wonders whether the Secretary of State for Health would welcome ministerial support from the Department for Communities and Local Government in negotiations with the Treasury, perhaps through the easing of the business rates burden, to reduce some of the financial pressure on NHS hospitals.

3 pm

You are knowledgeable about such things, Sir David, and have followed the debate about the business rates revaluation, so you will not be surprised to learn that some of the biggest hikes in business rates will be for hospitals in London and the south-east. The hon. Member for Thirsk and Malton does not worry about what happens in London and the south-east, but you are a representative from the south-east, Sir David, and I am a Member from London, so we share concern about the additional business rates burden on our hospitals and, implicitly, on our communities as well.

A&E departments turned patients away more than 143 times between 1 December 2016 and 1 January 2017. In one day last month, 15 hospitals ran out of beds. That is a further indicator of the scale of the financial pressure that NHS hospitals are under. I gently suggest that that is another reason that the Minister might want to consider providing additional help to the NHS by relieving the business rates burden a little.

One wonders whether the former Prime Minister, now that he has a little more time on his hands, remembers, when looking back on some of his commitments and speeches, words he offered up on the future of the NHS back in June 2011:

> "We will not lose control of waiting times—we will ensure they are kept low."

That has not happened, and in part it is because of the financial pressure on our national health service.

The new clause provides one way—one small way, granted—to ease some of the financial pressure on the NHS so that waiting times can be brought under control again. The protestations of the Conservative party that the NHS is safe in their hands—a notion that, as Labour has always known, is for the birds— might then at least look more convincing. The chief executive of the British Red Cross described the NHS as experiencing a "humanitarian crisis". Why have we got to that point? Again, it is because of the scale of the financial pressure on the NHS, which our new clause might help to ease through business rates relief.

Rob Marris: Does my hon. Friend remember a single winter between 2001 and 2010 in which there was a so-called winter crisis in the NHS?

Mr Thomas: What I do remember is more recent comments of which I am sure my hon. Friend is also aware: people have talked about the NHS suffering a permanent winter crisis—

The Chair: Order. I am listening very carefully to what the hon. Gentleman is saying and to how he is tempted to respond to that intervention, but I call on him to make his remarks conform much more closely to new clause 4.

Mr Thomas: I am very grateful to you, Sir David. My hon. Friend the Member for Wolverhampton South West has long experience on Public Bill Committees and, out of respect for him and the experience that I suffered at his hands on a previous occasion, I always try to respond to him. However, I am grateful for your help on this occasion.

Let me turn, as I was about to before my hon. Friend's intervention, to the second element of the new clause, which is the issue of whether schools, too, should receive business rates relief. I was minded to make a case to my hon. Friends in the closed room to which my hon. Friend the Member for Oldham West and Royton has alluded. We thought about issues to raise in amendments and discussed the problems with school funding. The Conservative party is overseeing the first real-terms cut in school budgets for more than two decades and the steepest cuts our schools have faced since the 1970s.

You might reasonably wonder, Sir David, whether the new clause is needed. I would point to a National Audit Office report on the financial sustainability of schools. It said there will be an 8% real-terms reduction in per-pupil funding for mainstream schools between 2014-15 and 2019-20 "due to cost pressures". Those are the words of the National Audit Office—no one can fault its impartiality. It is not a Labour body, a Conservative body or a Liberal Democrat body; it is an independent, impartial body, and it has set out clearly and explicitly the scale of the funding cuts that our schools will experience. Were Ministers willing to protect funding for pupils in the future, they might be tempted to use business rates relief as one part of the package to help our schools.

Anna Turley: Does my hon. Friend share my view that it is absurd to the point of offensive that private schools in this country get business rates relief, on the basis of being a charity, of up to 80% of their costs? Those schools are educating children on the basis of their parents' ability to pay, not the child's right to an education. They are reinforcing social inequality in this country and are getting rates relief of up to 80%. Would the new clause not go some way to creating a level playing field for our maintained schools to compete on?

Mr Thomas: My hon. Friend makes an interesting point. I would put it slightly differently. It seems odd that some schools offering a service to one group of children benefit from business rates relief, while other schools offering a service to another group of children in the maintained sector do not. My hon. Friend's broader point about equalising the treatment of schools has considerable merit.

Mr Jones: I will give the hon. Gentleman some background. He is right to say that local authority maintained schools do not get the charitable relief that, say, an academy school does. However, as I am sure he will be aware, those schools are compensated for the business rate they have to pay in the funding formula provided by the Department for Education through local authorities.

Mr Thomas: Let me address the question of the funding formula, because that opens a whole can of worms in terms of the financial pressures facing many of our schools. Some immediate business rates relief, without the compensation to school budgets suggested by the Minister, might provide an additional increase in funding to schools at a time when they most need it.

It is important that we discuss new clause 4 and relief for schools in the context of the funding formula. Almost half of the schools in this country will lose funding. They are already being hit by the 8% real-terms cut that the NAO has identified, but almost half face further cuts in 2019-20 under Department for Education proposals that are on the table for consultation.

At the Public Accounts Committee recently, a number of headteachers laid bare the scale of the challenge facing their schools. Liam Collins from Uplands Community College told the Committee that his school had reduced staff numbers by nine teachers and five support staff over the past four years. He argued:

"We cannot afford to buy text books...We cannot afford to send staff on training."

That is a dire financial situation. Perhaps a little bit of business rates relief, without a reduction in school budgets, would provide one way to help that particular school.

Kevin Hollinrake: I am struggling to understand the relevance of the hon. Gentleman's argument, for two reasons. According to the Institute for Fiscal Studies, the Opposition's manifesto pledges on education at the last election completely mirrored ours with regard to the funding pot. In addition, their manifesto did not specify or propose anything about business rates relief, including for schools. The hon. Gentleman is playing cheap party politics.

The Chair: Order. Before the hon. Member for Harrow West replies, this is revisiting old ground. I hope he will talk about his proposals for prospective funding.

Mr Thomas: I am grateful to you, Sir David, for the offer of protection from that outrageous slur from the hon. Member for Thirsk and Malton. I suggest that Government Members might usefully remember the old maxim: when circumstances change, good politicians have to recognise that that has happened and try to adjust to the financial realities that, in this case, schools are facing. My amendment, in the context of the Bill, is simply one small effort to offer a bit of additional financial support to schools that have very serious financial problems, and Government Members should not make light of that.

Rob Marris: My hon. Friend will be aware that one circumstance that has changed—and that this measure would help address—is the apprenticeship levy, which will be paid by maintained schools but not by academies. That is a change of circumstance; hence the change of our position.

Mr Thomas: My hon. Friend makes a very good point. A series of additional costs, some with the best of motives, are causing financial pressures on maintained schools. New clause 4 might be one way to provide additional financial support to deal with some of those costs and pressures.

Mr Jones: Despite the fact that grant maintained schools are compensated for the business rates they incur, the hon. Gentleman wants to exempt them from business rates, although he does not want the same treatment for academy schools, which by definition of the policy he advocates would be out of pocket compared with maintained schools.

Mr Thomas: With all due respect to the Minister, I want the terrible financial situation facing schools across the country to be sorted out. I am merely proposing new clause 4 as one potential route to address one part of that problem.

Stuart McLaughlin, head teacher of Bower Park Academy, said:

"I have cut my teaching to the bare bones. Every teacher is teaching at full capacity. I have very little spare capacity in terms of spare lessons on the timetable, so I am now starting to hit the support staff. My worry about that is that it is going to affect the most vulnerable students."

Another example of a school in serious financial trouble for which new clause 4 might provide one route for a bit of additional support.

The Institute for Fiscal Studies has also backed up the National Audit Office conclusions about the scale of pressure on schools. It did not identify the apprenticeship levy but it talked about the additional costs from the public sector pay settlement, the increased employers' national insurance contributions and the increase in the employer pension contribution to the teachers' pension scheme that started in April 2015 and was not funded by the Conservative party. All that leads up to the 8% cut in real terms that our schools are facing. That situation is exacerbated by the new funding formula for at least half the schools in the country, which will see significant losses.

Organisations within the schools sector, such as the National Association of Head Teachers—not the sort of body to sound the alarm unnecessarily—are also profoundly worried about the funding situation facing schools. It is in that spirit that the Opposition tabled new clause 4. I look forward to Ministers saying why they are so determined not to solve the financial crisis facing schools and hospitals. I also look forward to the Minister's response to new clauses 8 and 9.

3.15 pm

Mr Jones: I thank the hon. Gentleman for tabling the new clauses, which would require the Government to provide a range of additional reliefs from business rates. New clause 4 would require the Government to introduce a relief from business rates for non-domestic properties used for the provision of NHS secondary or tertiary care or the provision of education in maintained schools. New clause 8 would include a similar but wider requirement for relief to be provided to all properties used principally by public bodies.

Although I appreciate the intention to provide support to important public services, I do not agree that exempting public bodies from the payment of business rates would necessarily be a helpful step. It may help if I remind hon. Members that buildings occupied by the vast majority of public services, including NHS hospitals and maintained schools, have been subject to non-domestic rates since they were introduced in 1990. That is part of delivering a fair and consistent system of non-domestic rates.

Given that long-established position, I am sure Opposition Members will appreciate that operational costs associated with property occupied by public bodies are taken into account in determining the overall funding level for the relevant public services. More importantly, I should highlight that granting an exemption of such a nature would ultimately reduce the income under the direct control of local authorities through 100% business rate retention. It could also have a disproportionate impact on those authorities that receive a greater proportion of their business rate income from public bodies.

Jim McMahon: I am not sure whether the spirit of the new clause has been understood. To clarify, my understanding is that my hon. Friend the Member for Harrow West is trying to achieve a reduction in what is effectively a paper transaction in the system. If the money were taken away from the council because a business rate was no longer payable, it would be taken away from the public body and given to the council in a different way. The money would still get to the council; the new clause would just stop the in-and-out transaction that takes place.

Mr Jones: I hear what the hon. Gentleman says. As I have said, the current system has been employed since 1990, and for 13 years of that period we had the misfortune of a Labour Government, who did not seek to change the system because they recognised that it was the fairest way of applying non-domestic rating to non-domestic property, including public sector buildings.

Jim McMahon: This is about fairness. I am interested in the Minister's response to this. It makes no sense for a school that was a local authority school yesterday and is today an academy to be exempt today from paying business rates.

Mr Jones: I think I made it clear earlier that there is no disparity in the system in that example. Local authority-maintained schools are given a dedicated sum to pay their business rates. Academy schools do not get that sum because they are exempt from business rates. There is an implication, particularly in terms of when the new clause would come into force. The way in which the system currently operates is that at a spending review, when the spending decisions about need are determined in relation to a particular public service, the cost of the business rate is taken into account.

I am not absolutely certain of the hon. Gentleman's intention in tabling the clause, but if, as is implied by what has been said today, the Opposition want to apply this more quickly than the next spending review, that would involve a cost for the Exchequer. That would have to be met either through increased borrowing or additional taxation. Of course, as we all know, the Labour party does not mind racking up a deficit or taxing the public for its spendthrift nature.

Kevin Hollinrake: The Minister is absolutely right. The shadow Minister was saying exactly that: that the hospitals would be better off. That implies that the money is not going in and out; it is just not going out any more. The £360 million would have to be found from somewhere. Would the shadow Minister find it from increased borrowings or increased taxation? There are only two places it can come from.

Mr Jones: That is a really good question and very pertinent in this context. It highlights one of the challenges we have with the Opposition. One party at the general election pledged significantly more money to the NHS than the other party. The Government are now putting an additional £10 billion into the NHS, while the Labour party committed to £1.5 billion extra for the NHS; that shows that the Labour party is raising a bit of a red herring, I think, to hide its embarrassment about not being willing to back the NHS as the Conservative Government have.

Rob Marris: May I caution the Minister about praying history in aid and going back to 1990? He referred to 13 years of a Labour Government. Under 13 years of a Labour Government, the real-terms increase in funding for Wolverhampton City Council was 40%; under a Conservative Government, the real-terms cut has been 40%. Under a Labour Government for 13 years, the national debt fell; under a Conservative Government, it has gone up by 70%.

The Chair: Order. Before the Minister responds, I should say that I get the sense that the Committee is becoming demob happy. I ask the Minister and the Committee to deal specifically with the response to new clause 4 and not to become partisan and drawn by what has gone on in the past.

Mr Jones: Thank you, Sir David. I was tempted to go down the route of mentioning the £150 billion deficit that was left over, but I entirely take your point.

I turn to new clause 9. I am grateful to hon. Members for raising the important issue of support to licensed markets. I am sure that the Committee will agree that markets are an important and valued part of our local economies. When I was Minister for high streets, which included responsibility for markets, I was a very keen supporter of our markets and supported the "love your local market" competition, towards which the Government contributed and supported.

[Mr Marcus Jones]

While we should certainly be supporting our markets to survive and thrive, I do not agree that introducing a new relief targeted at market stalls through new clause 9 is necessary or justified. At Budget 2016, the Government announced a package of cuts to business rates worth over £6 billion over five years. That included the permanent doubling of small business rate relief and an increase in the relevant threshold for 100% relief from £6,000 to £12,000. That will be of significant benefit to stall holders in licensed markets, many of whom qualify for the relief. As a result of the change, more than 600,000 small businesses will pay no rates at all.

It will be for the valuation office to decide on the facts of whether individual market stalls are rateable. Typically, temporary and infrequent markets in the street are not rateable, whereas permanent markets in their own dedicated hall or site will pay rates. I hope Committee members agree that where market stalls are rateable, it is right that they are subject to the same rules as other non-domestic properties. Again, that ensures they are treated fairly in comparison with other properties, whether a small high street shop, a café, a fishmonger's or a baker's.

Jim McMahon: Does the Minister accept that there is a fundamental difference between a market site or a market operator and an individual market trader who operates from that site? A small business will most likely be under the threshold for attracting the relief. Because the business rate is paid by the operator of the market, a market trader will almost certainly be above that threshold and liable for business rates.

Mr Jones: I have been clear that the liability for rates will operate differently in relation to different types of market. I have also been clear that the same type of regime should apply to non-domestic property, which is certainly the case in this sense. It is for the valuation office to decide on the facts whether an individual market stall is rateable or not.

To conclude, I hope the Committee is reassured that the new clauses are not necessary and would not further our collective aims to support an independent and self-sufficient local government sector. I ask the hon. Member for Harrow West to withdraw the new clause.

Mr Thomas: I am grateful for the opportunity to sum up our debate on new clauses 4, 8 and 9. New clauses 8 and 9 were very much tabled as probing amendments. Although I am not 100% satisfied by the Minister's response—something that I have had to get used to—I do not intend to divide the Committee on the new clauses.

New clause 4 was also a probing amendment, to find out the extent to which the Minister and his colleagues have really grasped the scale of the financial crisis facing both schools and hospitals. What we have had back from the Minister and from some Government Members in interventions suggests a profoundly worrying complacency about the financial situation in schools and hospitals. One has to hope that the Chancellor of the Exchequer sees things slightly differently, but we are where we are. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 7

DUTY TO ENSURE NO LOSS OF FUNDING FOLLOWING WITHDRAWAL FROM THE EUROPEAN UNION

'(1) This section applies where any funding is provided to a billing authority or Combined Authority by the Secretary of State in consequence of funds made available by EU institutions in the financial years beginning on 1 April 2017, 2018 and 2019.

(2) Where this section applies, it shall be the duty of the Secretary of State to ensure that, in the five year period beginning with the date on which the United Kingdom leaves the European Union, the funding made available to a billing authority in question is not reduced in respect of any funds that were made available by EU institutions in the period specified in subsection (1).'—*(Jim McMahon.)*

This new clause would ensure that funding available from EU institutions is replaced by funding from the Secretary of State for the five years after exit.

Brought up, and read the First time.

Jim McMahon: I beg to move, That the clause be read a Second time.

I do not intend to spend a great deal of time on the new clause, which does what it says on the tin: it would secure the money that is currently provided to local areas through European funding post exit from the European Union. For many of our areas, that money is integral to their local economic development plans, to their education and training plans and, in many cases, to their devolution submissions. In a number of our areas, particularly those with combined authority arrangements in place, the local authority is the accountable body for EU funding in its area.

There is one thing that Members may not appreciate about European money. We always discuss whether it is being spent in the best possible way, although that is usually determined by the local community and not by the European Union. It is the communities themselves, through their councils, that make the applications, not the European Union. We talk about the north-south divide, but it is really London and the south-east that has a significantly different financial settlement from everywhere else in England. European funding and the way it is allocated by region provides an element of rebalancing.

I remind Members of the transport investment figures that have come out just this week, which highlighted that London gets £1,940 per head compared with £220 per head for those in the north-east, £680 per head for those in the north-west—although quite a lot of that is temporary funding; it is time limited—and just £190 per head for those living in Yorkshire and the Humber.

London gets £93 per head in European structural funds, compared with £285 in the north-east, £161 in the north-west and £150 in Yorkshire and the Humber. Therefore, there is a strong argument to say that European Union funding is being used partly to counterbalance a centralising Government in Westminster who advantage the London boroughs.

3.30 pm

Justin Tomlinson (North Swindon) (Con): On that point, will the hon. Gentleman join me in congratulating the Government for today awarding £235,000 to my constituency for smart traffic management, showing that they do look well beyond London?

Jim McMahon: I will join the hon. Gentleman in congratulating the residents of Swindon on that investment. I have no idea what it has got to do with the new clause though.

Steve Double (St Austell and Newquay) (Con): I note with interest that the hon. Gentleman did not include any figures for the south-west or Cornwall. Historically, Cornwall has received just about the lowest level of investment in its transport infrastructure, yet it receives the highest level of EU funding. Despite that, Cornwall voted 62% to leave because we recognise that the EU programme is so prescriptive we cannot spend the funding on the things we actually want and need to spend it on to improve our local economy. I believe we will be far better off running our own programme. I am not worried about it being pound-for-pound matched, but I do want it to be fit for purpose for our local needs.

Jim McMahon: I am absolutely delighted that Government Members are supporting the new clause on that basis because that is exactly what the new clause is there to do. It is not there to stick with the current assessment criteria outlined by the European Union; it is not even there to ensure that the programme activity is continued. The new clause is about maintaining the amount of money being provided to those regions at current levels.

Kevin Hollinrake: The hon. Gentleman makes a good point. I would like to pick up on an earlier point made by the hon. Member for Harrow West, who talked about the antipathy to London. Nothing could be further from the truth. I think London is a wonderful place. It is so successful economically, but that is because it has had more investment. That is the point that is being made.

Southend-on-Sea, for example, is very badly treated in terms of local government funding—it receives around £720 a year per head, when many rich London authorities get £1,200 a year per head. It is simply not fair. The position is similar with transport projects. This is not a metropolitan versus rural issue; it is a London versus the rest of the country issue.

Jim McMahon: The rebalancing discussion was more about making the point that there has to be a recognition that more public sector investment goes into London. There will be reasons for that. This is not about London not being entitled to the money it gets. However, there is a call from other regions, not to say, "We want London to get less," but to say, "We want the same." A conversation on that basis is far more productive than setting one part of the United Kingdom against another, which other parties might to seek to. No one in this room would want to do that.

On that basis, there would be an open door for retaining European funding to the regions and, absolutely, allowing flexibility on how that is spent, even tied to negotiation with Government. However, as it stands, there is no certainty that that money will continue when we leave the EU. More than that, there is concern that in order to pay the divorce bill—not just for the lawyers, but for the settlement in terms of pension costs and historical and ongoing liabilities—the nation may have to provide a lot of money up front, which could be used for regional funding in the way that has been discussed.

If the new clause is agreed today, at least we will be able to lock down the funding that is sent to the regions to ensure that they are not paying a price for that divorce. There is a world of difference between people saying, "I'm going to vote to leave because I want more determination by my nation of the future of my nation," and "I voted to leave because I want less investment for my community." We need to be careful. Our challenge to the Government is to prove that their flavour of Brexit is not going to leave our constituents poorer than they were before. The new clause would help to show that they will not necessarily be poorer and that the Government understand that our regions need to be supported.

I should perhaps confess that it is a probing new clause. However, if it is not supported by the Government, we run the risk of providing further evidence to our local authorities that those in this grand place simply do not get it.

Mr Jones: I thank the hon. Gentleman for providing the opportunity to discuss the new clause, which aims to ensure that local authorities see no loss in funding following our withdrawal from the European Union. The Government will want to consider the future of all programmes that are currently EU funded once we have left the EU.

Over the coming months, we will consult closely with stakeholders to review all EU funding schemes in the round to ensure that any ongoing funding commitments best serve the UK's national interest, while ensuring appropriate investor certainty. We will, of course, ensure that local government's voice is heard in negotiations with the EU. I think that is what the hon. Gentleman was alluding to with some of his concerns. The Government have already announced that local authorities will be guaranteed EU funding for European structural and investment funds projects that provide good value for money and meet domestic priorities that are signed off before the UK's departure from the EU, even when those projects continue after we have left the EU.

I hope the reassurance I have provided means that the hon. Gentleman will stick to his confession and decide not to put the new clause to a vote.

Jim McMahon: I thank the Minister for his comments. We have had a good debate but I do not think we have had clarity that the Government have committed to ensure that the EU funding will be in place over the life of the programme. The programme, of course, takes us only to 2020. Beyond that date, our regions have no idea how much money they will receive for research, development and skills investment. I do not accept the Government's response as sufficient to give comfort to those areas. However, it was important to table the new clause in order at least to elicit that response. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 10

Non-domestic rating: exemption for nursery grounds

'(1) Schedule 5 to the Local Government Finance Act 1988 (non-domestic rating: exemption) is amended as follows.

(2) In paragraph 3(b), after "market garden" on each occasion where it appears, insert "or nursery ground".—*(Steve Double.)*

This new clause would provide that the definition of an agricultural building for the purposes of the exemption from non-domestic rating includes a building which is or forms part of a nursery ground and is used solely in connection with agricultural operations at the nursery ground.—(Steve Double.)

Brought up, and read the First time.

Steve Double: I beg to move, That the clause be read a Second time.

With the new clause, I seek clarification of the legislation and confirmation of my belief of the original intention of the Local Government Finance Act 1988 regarding the agricultural exemption from non-domestic rates for nurseries and market gardens. This has been prompted by a court case brought by the Valuation Office Agency in 2015 against Tunnel Tech Limited, mushroom growers who grow their product under polythene or glass.

For more than a century, legislation has dictated that agricultural land and, latterly, buildings have been exempt from rating liability. The principle of an agricultural exemption is well established. The Court of Appeal, however, interpreted the legislation as not to include nursery grounds consisting wholly of greenhouses, polythene tunnels or buildings with the exemption.

The horticultural industry in the UK has undergone significant changes in recent years in order to increase our home food production, something I am sure we all support. That has included more and more crop-growing operations taking place under the cover of polythene tunnels and other buildings. It has also led to more sophisticated growing techniques being explored.

There is no longer a distinction between enterprises that would have been classified as a "market garden" and those classified as a "nursery ground", as per the legislation. They are instead simply "food growers". Many growers are a combination of both "nursery ground" and "market garden", operating from the same premises with no distinction of areas. The Valuation Office Agency argument in the case centred around the fact that Tunnel Tech did not produce mushrooms that were ready for market.

In order to become more productive and cost-effective, the industry has become increasingly segmented in its approach to production. There has been a move towards businesses specialising in niche production. Growers may now only produce one stage in the development of an end product, such as plug plants for vegetable production. That is more economical for the industry, allowing it to be more competitive in the global marketplace. Significant increases can be made in production, where each stage can be carried out at individual premises designed solely for each specific stage of production. Dealing with all production stages on the same premises has substantial limitations.

With more and more agricultural land being taken up with housing provision for our expanding population, there is a need to be able to produce food for the country over smaller areas more efficiently and more reliably. That can, to an extent, be addressed by growing more product under cover.

The Tunnel Tech case has highlighted how outdated or ambiguous the current legislation is in that regard. It makes a defined distinction between "market gardens" and "nursery grounds" and treats them differently for exemption purposes, whereas enterprises today are, in reality, simply growers.

It is unlikely that, in drafting the legislation, it was Parliament's intention to limit UK horticultural production, as will be the case potentially should the legislation stand as it is. A significant ratings bill in addition to other rising costs will prevent investment in growing businesses. It will prevent growers from exploring new techniques requiring under-cover operations. It may also have a reverse effect on operations that already do grow under cover, forcing them to abandon these growing methods. I have tabled the new clause simply to clarify the relevant legislation, which is the Local Government Finance Act 1988, and to ensure that the agricultural exemption from ratings liability is protected as the industry evolves and modernises. I do not believe that there will be any significant fiscal impact to the Treasury from this change, as it is not revenue that the Treasury has historically been receiving.

Mr Thomas: I am sympathetic to the new clause. I just wanted to clarify the question of cost. We would not want to support anything without knowing whether there were cost implications. It would be helpful for the hon. Gentleman to clarify whether he has checked with the House of Commons Library or with other sources about the potential financial cost to the Treasury of the new clause.

Steve Double: I am grateful for the hon. Gentleman's intervention, and indeed for the revelation that he has come to the view that we need to consider the costs of all new moves, which is welcome. I have not got the figures from the Library, but my understanding, from speaking to people in the Treasury and people from the National Farmers Union, is that this is not money that the Treasury has historically been receiving. This is a recent development; it has happened only in the last few months. Therefore, if the change happens, this will be new money—increased revenue—to the Treasury. It is not something the Treasury has been receiving historically; I believe that is the case. Therefore, I am seeking support for the new clause to restore the position that I believe was Parliament's original intention when the legislation was introduced in 1988, to clarify the position in the light of the court ruling and to continue this vital support to our food producers.

I do not intend to push the new clause to a vote. I simply seek the Minister's response and put down a marker that I believe that this issue needs to be addressed by the Department and by the Treasury to provide clarity and certainty for our food growers that they can continue to enjoy the relief, which I believe was the original intention.

3.45 pm

Rob Marris: I rise in support of the new clause. As the hon. Gentleman has said, the background is that for the past 20 years at least, food security in the United Kingdom has been much overlooked. We import an increasing proportion of our food and the strain on our food security may increase or decrease because of Brexit, depending on what we do. The measure proposed by new clause 10 is very helpful in that regard.

The Tunnel Tech case, as I understand it, related to the tunnels where mushrooms are produced, ready for market. Paragraph 2(1)(a) of schedule 5 to the Local Government Finance Act 1988 provides the definition of agricultural land, whereas paragraph 3 provides the definition of an agricultural building. The definition of agricultural land includes meadows, which are extremely important, whether they are in Cornwall or elsewhere. However, as I understand it—I am not an agriculturalist or a horticulturalist—meadows do not produce food that is directly ready for market. Even so, they are an important part of our landscape and can contribute to the food chain. Therefore we have an anomaly. Paragraph 9(1) of schedule 5 to the 1988 Act exempts fish farms, so the provision applies more widely than suggested by paragraph 2, which defines agricultural land as

"pure arable meadow or pasture ground".

I am sorry that the hon. Gentleman does not intend to press his new clause to a vote, but I understand his reasons for that. In supporting his amendment, however, I advise him—he may have liaised with others on this—to consider whether a change needs to be made to paragraph 2, which provides the definition of agricultural land, as well as to paragraph 3, which provides the definition of agricultural buildings. He and I both want clarity so that the matter is not ventilated before the courts again, and I suspect that a tweak to the definition of agricultural land would also be helpful.

Mr Thomas: I am minded to press the new clause to a vote, such was the clarity of the argument of the hon. Member for St Austell and Newquay. My hon. Friend the Member for Wolverhampton South West has made a compelling case in support of it. The hon. Gentleman has reassured me that, having had conversations with the Treasury, there is no cost associated with it and he clearly has the support of the NFU. The Minister will have to make a pretty powerful speech to convince us not to press the new clause to a vote.

Mr Jones: It looks as if there is no pressure on me to satisfy the hon. Gentleman. I am grateful to my hon. Friend the Member for St Austell and Newquay for raising this important issue. The Valuation Office Agency faces a challenging task of maintaining non-domestic rating lists covering a vast array of different types of property throughout England.

The background to the amendment originates from a rating case concerning a property producing mushroom mycelium, which is essentially the material from which mushrooms are grown. It is then sold on by the ratepayer to mushroom farms, which then produce the final product. The VOA felt that, because the property was not producing the mushrooms itself, it was not able to claim the agricultural building exemption and therefore should not be rateable. The ratepayer disagreed. Eventually, the matter reached the Court of Appeal which ruled that the property should be rateable.

On business rates, there is nothing unusual about that chain of events. Usually, further discussion of such technical rating cases would be confined only to the most dedicated members of the ratings profession. The Government are not usually involved in that sort of discussion, but the Court of Appeal decision has wider implications in this case.

The judgment clarified that there is a difference between market gardens and nursery grounds where buildings are involved. In effect, that means that there is a difference between the exemptions available for market gardens and nursery grounds. The Court of Appeal judgment means that where the activity at a nursey ground takes place only in buildings, it is not exempt because it is not an agricultural building as defined by the legislation. Previously it was a long-held practice to treat such buildings as though they were exempt from business rates. The VOA has been discussing with the industry what the decision means in practice. We understand that it would mean that some ratepayers operating nurseries producing plants prior to the point of sale to the consumer could face a rate bill for the first time. However, the proposed new clause would ensure that those nurseries were again exempt from business rates.

I stress that the Government believe that the exemption for agricultural property is an important part of the rating system. It ensures that large areas of agricultural land and buildings are not liable to pay a property tax that could have a significant impact on the cost of farming. We firmly believe that it is necessary for a line to be drawn for all exemptions and the Court of Appeal has clearly done that in its judgment. It is also important that reliefs and exemptions are targeted where support is most needed. I have therefore asked my officials to look at the impacts of that decision, how it will be applied in practice by the VOA and what it means for the companies affected. I will also meet the NFU to discuss it. The Government keep all taxes, including business rates, under review and I assure my hon. Friend that that includes the implications of the Court of Appeal decision.

Mr Thomas: Given that one should support even Government Back Benchers when they suggest very sensible amendments, I want to clarify whether the Minister will take a serious look at the merits of the amendment and potentially bring something back on Report, or is he just going to go through the motions of a quick chat with the NFU on the back of something else, while his colleague is sent away with nothing?

Mr Jones: The hon. Gentleman is taking an interest in this subject, but I have spoken a number of times to my hon. Friend the Member for St Austell and Newquay, who came to me with this important issue, and I have also spoken to several other hon. Friends on the Government Back Benches who are concerned about it. I have been clear today that the Government take the situation seriously and I have asked my officials to look at the impacts of the decision, how it will be applied in practice and what it means for the companies affected. I will also speak to the NFU. Given the gist of my comments, I hope that hon. Members are assured that we take this matter seriously and that we will consider it carefully before we get to the next stage of the Bill. I hope therefore that my hon. Friend will withdraw his amendment and that, in the spirit of my comments, Opposition Front Benchers will not seek to press it to a division.

Steve Double: I thank the Minister for his response and I am grateful for the support of Opposition Members. I am happy to take the Minister at his word at this stage

[Steve Double]

and hope that they will, too. I have put down a clear marker and believe that the Minister takes the matter seriously, but I will be watching closely to ensure that it is addressed in the near future. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 11

POWER TO REMOVE OR REDUCE MANDATORY RELIEFS IN CASES OF BUSINESS RATES AVOIDANCE

(1) Part 3 of the Local Government Finance Act 1988 (non-domestic rating) is amended as follows.

(2) In section 43 (occupied hereditaments liability) after subsection (8C) insert—

"(9) For any hereditament for any charging day to which this section applies, if the relevant billing authority has reasonable grounds to suspect that the occupier is taking inappropriate steps to reduce liability for business rates, the billing authority may treat that hereditament instead as if section 47 (discretionary relief) applied to it."—*(Jim McMahon.)*

This would enable billing authorities to have powers to treat mandatory reliefs (which are specified in section 43 of the Local Government Finance Act) as discretionary reliefs, which are dealt with in section 47 of the same Act, if they had reasonable grounds to suspect that liability was being reduced through business rates avoidance.

Brought up, and read the First time.

Jim McMahon: I beg to move, That the clause be read a Second time.

Again, like the best ideas, this one has been nicked. It was taken from the LGA, which has been consulting its members on how the business rate scheme has been abused by some landlords who have sought to avoid their liability to pay business rates. During the consultation, which was held in 2014, the LGA asked local authorities what types of tricks and techniques were used by companies and landlords who wanted to avoid paying business rates.

Some of the methods shared included repeated short-term periods of occupation; declaring that vacant properties are intended for future use by a charity; and fictitious occupation of properties by charities: for instance, certain window displays are used to decorate the building, but the activity carried out inside is quite different. Landlords also use insolvency to rack up high bills. When the moment comes for them to face court, the company is wound down, and people avoid paying them. Avoidance also results from properties not being on the rating list at all; people not reporting where properties have been split and should be subject to separate assessment for rating liability; the use of shell companies or offshore companies; and the use of vacant properties whose ownership is not known, although the owner might be local and using a fictitious address or name to avoid liability.

The new clause would ensure that when such techniques are discovered, safeguards are in place to ensure that the same occupier is not entitled to apply for a discount in future. They have effectively abused their chance to play the system fairly; the intention was to support those businesses and landlords who need it. I hope that the Government see that it is about fairness and balance. It is also about showing that where fault is discovered and people are proven to have been abusing the system, the Government have no truck with them and will hold them to account and restrict them from taking advantage again in future. If the Minister supports the new clause, he will win friends in local government and show that the Government have listened to what they have said.

Mr Jones: I thank the hon. Gentleman for giving us the opportunity to discuss the important matter of business rate avoidance, which the new clause seeks to address. New clause 11 would provide billing authorities with power to treat any hereditament to which section 43 of the Local Government Finance Act 1988 applies as if it were subject to section 47 of that Act where they have reasonable grounds to suspect that the occupier took inappropriate steps to reduce their business rates liability.

The effect would be to provide the billing authority with the discretion to grant or withhold any mandatory relief that the hereditament would otherwise be eligible to receive under section 43. That would include charitable relief, rural rate and small business rate relief; however, it would not extend that discretion to empty property rates relief.

The Government have been clear that we wish to retain the benefits that the system of mandatory reliefs brings. Mandatory reliefs provide businesses and charities with certainty and a consistent framework within which to operate and grow. For example, the small business rate relief scheme provides uniform support for all small businesses, applied evenly across the country. I have some sympathy with the hon. Gentleman's intention to ensure that mandatory reliefs and exemptions are used appropriately, and I recognise some of the questionable methods used to avoid paying business rates; I have seen them in my own area. However, I do not agree that giving local authorities a power to decide whether to grant mandatory reliefs where they have reasonable grounds to suspect that steps are being taken to avoid business rates is the right approach. Nor would it follow due legal process to enable a local authority to withhold reliefs without evidence, solely on having reasonable grounds of suspicion. It would create inconsistencies in the application of reliefs and risk penalising legitimate charities and businesses that are rightly entitled to these important reliefs and penalise those whom the policy is designed to support.

4 pm

The vast majority of ratepayers pay business rates that are due. However, as we know, there are a small minority that seek to avoid paying by exploiting legislation, which was not what Parliament intended, solely to reduce their business rates liability. I certainly agree with the hon. Gentleman that that undermines the confidence in and fairness of the business rates system and has a direct financial impact on council services.

Local authorities already have powers to tackle and prosecute fraud to protect the public purse. For example, under the Local Government Finance Act 1988, if a ratepayer provides false information in their application for small business rate relief, that individual is liable to a summary conviction, a fine, or both. Additionally, the 1988 Act makes a similar provision. If an individual provides a false statement following a request for information from the valuation officer, they will face

the same penalties. The Fraud Act 2006 provides local authorities with the legal powers to prosecute fraud and protect the public purse.

The Government have been clear in their commitment to tackle tax avoidance in all its forms. Although I disagree with the approach taken in the new clause, which would undermine the system of mandatory reliefs and exemptions, I would welcome the opportunity to work with the LGA, the Charity Commission and others to explore what legislative and non-legislative steps we might take to protect the system and tackle business rate avoidance. In that spirit, I hope the hon. Gentleman will have a degree of assurance and withdraw his amendment.

Jim McMahon: We had intended to press the new clause to a vote. We are committed to it and are convinced we had the support of local government, but equally we appreciate the Minister's constructive response. We will watch with interest how those conversations with the LGA develop. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 12

REMOVAL OF PROVISION FOR REFERENDUMS RELATING TO COUNCIL TAX INCREASE IN ENGLAND

(1) Part 1 of the Local Government Finance Act 1992 (council tax: England and Wales) is amended as follows.

(2) Omit Chapter 4ZA (referendums relating to council tax increases in England).—*(Jim McMahon.)*

This new clause would remove Chapter 4ZA of the Local Government Finance Act 1992, inserted by Schedule 5 to the Localism Act 2011, which provides for council tax referendums.

Brought up, and read the First time.

Jim McMahon: I beg to move, That the clause be read a Second time.

You will be pleased to hear that this will be a quick speech, Sir David. It should not be for anybody in this building to determine the relationship between local authorities and the council tax payers in their area. It is for local people to hold decision makers to account through the ballot box, as they do with central Government. When people go to vote in a general election, they take a view on the decisions of the Government during their period in office and whether their fiscal decisions have been good or bad for them and their families. Local people should have the same ability to do that with local government. It should not be for the Secretary of State to impose an arbitrary referendum limit. The LGA, a cross-party organisation, supports that view, too.

I would appreciate a response from the Minister. I am sure he appreciates the growing calls from local government to tell the Secretary of State to mind his own business, and I hope the Minister will look at the new clause and take that message back.

Mr Thomas: This is, if you like, Sir David, the David Hodge memorial clause. Surrey County Council has blown out of the water the rationale that the Government once used for referendums. There is a deep irony in the situation this year, where the one council that is likely to impose a 0% council tax rise will be a Labour council and the one council that proposed the single biggest increase in council tax this year is a Conservative council. We have to admire the chutzpah of Mr Hodge. He has managed to get himself a sweetheart deal by completely blowing away the rationale Ministers once had for referendums. It is in that spirit that we move this probing new clause.

Mr Jones: I thank the hon. Member for Oldham West and Royton for his explanation of new clause 12. It was a slightly more constructive effort than that of the hon. Member for Harrow West, who seems to be preoccupied with sweethearts. Perhaps that would have been best placed last week, when the House was in recess and it was Valentine's day. He seems to persist with a misplaced line of questioning.

The new clause would remove chapter 4ZA from the Local Government Finance Act 1992 and thereby abolish the system of council tax referendums. That would allow local authorities to set whatever increases they choose, without having to seek the approval of local voters.

Arguments in favour of abolishing council tax referendums, or for not setting any referendum principles are certainly familiar to the Government. However, they are not arguments that the Government accept. Government defining an excessive increase has been part of the council tax system for decades. Council tax is currently 9% lower in real terms than it was in 2010-11. It will still be lower in real terms in 2019-20, but only if the Government continue to work with local authorities and maintain a referendum threshold, as promised in their manifesto.

The referendum threshold is not a cap. Councils can set any council tax increase that they like, provided that they have obtained the consent of their local electorate in a referendum. That is direct democracy in action. Local people have the right to choose whether they wish to pay extra council tax for additional spending and councils have the right to make the case to them.

In setting the referendum threshold, the Government listen to the views of local authorities, but clause 4 will formalise that by requiring the Secretary of State to consult their representatives. I believe that that flexible and constructive approach to setting excessiveness thresholds is crucial in striking the correct balance between funding for local services and protection of council tax payers.

Council tax is 9% lower than it was in 2010. That makes a significant case—unlike the 13 years before then, when council tax actually doubled during the Labour Government. I hope that, having reflected on the points I have made, the hon. Member for Oldham West and Royton will consider the challenge that this proposal would present to many council tax payers and withdraw his new clause.

Jim McMahon: It was interesting to hear that response from the Minister. I am not sure that the spirit of where the new clause is trying to get to was fully appreciated. This is not about the appropriateness or not of council tax increases; it is about the balance of power in the relationship between local government and central Government. The fact is that the Secretary of State in this place wants to determine what goes on in every single community in the country. I do not think that that is in the spirit of localism. We have seen in Surrey, where the 15% proposed increase—

Kevin Hollinrake: Surely the point is that the power is not with local government or central Government. The power is with the people. All any local authority has to do is go to the people and ask them to endorse the proposed rises, and they can have whatever rise any local authority may propose.

Jim McMahon: The funding of the new elected mayors for our combined authority areas is being met by council tax payers in those areas, as an additional burden. There was no referendum about whether local people wanted that, so talking about seeking a referendum if local people are to be expected to spend more money does not, I am afraid, hold water.

We will not make progress on the point today, because I think there is a fundamental gap between the spirit of localism—which can be heard from the Opposition Benches and is about empowering local communities and giving them the tools and levers to effect change, and the resources to make change happen—and the centralising, command and control way in which the Government are seeing through their devolution of financial settlements.

Steve Double: Will the hon. Gentleman give way?

Jim McMahon: I am about to wind up. Local government will say that the issue is beyond party politics, but when they look to this place they will see that the party speaking for local government devolution is the Labour party. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 13

Power to impose a charge for business rate appeals

'(1) A billing authority or major precepting authority may charge a ratepayer a fee in connection with activities undertaken as a result of an appeal by that ratepayer to alter the authority's local non-domestic rating list under section 55 of the Local Government Finance Act 1988.

(2) The amount of fee payable must be calculated by reference to costs incurred by the authority when undertaking activities relating to that ratepayer's appeal and the amount of fee payable must not be calculated by reference to costs incurred by the authority in the undertaking of any other activities.

(3) The Secretary of State may, by regulations, make provision about the circumstances in which those fees are to be refunded.' —*(Mr Thomas.)*

This new clause would enable billing authorities or major precepting authorities to charge fees on a cost recovery basis to ratepayers in connection with business rates appeals.

Brought up, and read the First time.

Mr Thomas: I beg to move, That the clause be read a Second time.

I understand that Ministers intend to charge £300 for large businesses and £150 for small businesses that want to make a business rate appeal. The new clause is a probing measure to explore how Ministers arrived at those figures. Given that there are likely to be substantially more appeals as a result of the current business rates revaluation, it would be good to understand what the thinking has been about the charges.

In the context of business rates bills being reduced on six out of nine warehouses of a very large business such as Amazon, one wonders whether £300 is not rather low. It costs £250 to submit a claim for unfair dismissal and £950 if the case goes to a tribunal. Funding has been cut from the Valuation Office Agency and I wonder whether a fee of £300 for a big business submitting a speculative revaluation claim is truly appropriate.

It would be good to hear what Ministers have to say and whether they will keep the matter under close review, with the potential for amending the charges as evidence begins to emerge.

Rob Marris: The charge for business rate appeals is understandable, given the regrettable trend of recent years, which started under a Labour Government, of charging for access to justice. However, we also need to see things in the context of something that was raised with me and the hon. Member for Thirsk and Malton—the margin of appreciation, as I think it would be called; the flexibility. A business pays a charge and there is an appeal. It wins, but is told that the difference between what it would have been charged and what it will be charged post-appeal is less than 15%. Then it has lost—even though it has won. That does not seem to me to be a good way to proceed.

Mr Jones: I am grateful to the hon. Member for Harrow West for tabling the new clause as it gives me a further opportunity to remind the Committee of the work that we are doing to improve the business rate appeal system.

The system has always suffered from too many speculative applications clogging it up, causing delays and uncertainty for those ratepayers with genuine cases. It has for far too long been too easy for rating agents to lodge speculative appeals with little or no supporting evidence.

More than 1 million appeals have been made against the 2010 rating list, using the system that was put in place on 1 April 2010. Of those that have been resolved, only 29% resulted in a change to the rating list. With the introduction of a new rating list on 1 April 2017, we have a fresh opportunity to reform the system. Our check, challenge, appeal system will introduce a new three-stage process. We will put the emphasis on early engagement and resolution by all parties to ensure that, where ratepayers and rating agents decide to make a formal challenge, they must bring forward proper evidence cases. In turn, it will support local government, giving it greater certainty over its rates income.

4.15 pm

New clause 13 would allow local authorities to charge fees to ratepayers making appeals. We agree that fees are needed in the business rating appeal system. Our check, challenge, appeal reforms will include fees to be payable at the appeals stage and refundable if the appeal is successful. Those fees will be payable to the independent valuation tribunal and then to the consolidated fund, ensuring that neither the Valuation Office Agency nor the valuation tribunal benefit from those fees.

We will ensure, as part of our reforms, that local authorities have a role in the check, challenge, appeal process. We will be giving them the statutory right to provide evidence to the valuation officer in respect of a

challenge, and we intend to place a clear duty on the Valuation Office Agency to provide key information on challenges to assist local authorities in planning for any potential impact.

While there may be some costs associated with a local authority providing evidence, there is only a right to provide evidence and not a duty. The task of maintaining an accurate rating list falls to the valuation office and local authorities are not obliged to take any part in the challenge process. If a local authority chooses to take part in the challenge process and provide evidence in such a way, it should do so at its own cost. I do not think that right to provide evidence should come at the cost of the ratepayer in the form of more fees in the system. Therefore, I hope that the hon. Gentleman recognises that we are striking the right balance in regard to fees on ratepayers and I hope he will withdraw his new clause.

Mr Thomas: I do intend to withdraw the new clause. I am grateful to the Minister for the clarification; I think it is something that he should keep under review, but we have had a useful trip around the issue. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

Mr Jones: On a point of order, Sir David. I would like to thank you and Mr Gapes for the skilful and diligent way in which you have chaired proceedings over the past few weeks. There were times at which the Committee may have stepped near to the edge of being in order, and at every opportunity you and Mr Gapes kept us on the straight and narrow, so I thank you and Mr Gapes for that.

I also thank the Committee Clerks for the part that they have played in this Committee and the assistance that they have provided in supporting members of this Committee. In that context, I would also like to thank the people who are here from *Hansard.* I also thank the Government's officials for the hard work that they have put into the Bill so far and for the support that they have given to me throughout the Committee stage.

Finally, I would like to thank the members of the Committee. At times, it has been an interesting Committee and although not all Committee members have always seen eye to eye, I think that we have conducted it in a reasonable spirit. Despite the fact that both sides have not seen eye to eye on a number of amendments that have been put to a Division, debate has always been conducted in a respectful way. I would like to thank the members of the Committee for the part that they have played.

Mr Thomas: Further to that point of order, Sir David. I echo the thanks to you and to Mr Gapes for chairing the Committee. The way that your interventions have been very helpfully timed to stop Members going off track is remarkable. You have the perfect knack of intervening at just the right moment to stop temptation getting the better of us.

I should add the Committee's thanks to the Clerks, who have ensured that amendments that were debated were in order, to the Doorkeepers and to the *Hansard* writers for the important job that they have done. I thank too those who crucially submitted evidence and who have appeared before the Committee. Their contributions without doubt made the Committee's deliberations more informed.

It would be entirely remiss of me not to also thank my hon. Friends on this Committee. In Bill Committees, the odds are always stacked against Her Majesty's loyal Opposition, but the quality of my hon. Friends has meant that it has not felt quite such an imbalance on this occasion. I thank in particular my fellow shadow Minister, my hon. Friend the Member for Oldham West and Royton, whose expertise has been particularly welcome. That of my hon. Friend the Member for Wolverhampton South West has been particularly important too. My hon. Friend the Member for Redcar made an important contribution this afternoon. My hon. Friend the Member for Eltham has been a lurking presence throughout, which brings me lastly to my hon. Friend the Member for Lewisham, Deptford, who has helped to make sure that we have stayed firmly in order on this side. There have on occasions been moments of edge, as there should be between two different political parties but, as the Minister says, in general this has been conducted in a friendly, good-hearted and provocative way, which is surely exactly the purpose of a parliamentary Bill Committee.

The Chair: I thank hon. Members for their kind and generous remarks. Mr Gapes and I have thoroughly enjoyed chairing the Committee, because proceedings have been conducted with good temper throughout. Hon. Members have fulfilled their duty of thoroughly scrutinising the Bill and being kept in good order. I thank the *Hansard* writers and the Doorkeepers for their support, and I particularly want to thank our Clerks, whose wisdom has prevailed at all times and whose firmness has ensured that I have not been as lax with the Committee as might otherwise have been the case.

Bill, as amended, to be reported.

4.22 pm

Committee rose.

Written evidence reported to the House

LGF 03 Association of Convenience Stores

LGF 04 Core Cities

LGF 05 British BIDs

LGF 06 British Property Federation

LGF 07 British Chambers of Commerce

LGF 08 Local Government Association (LGA)