

Housing, Communities and Local Government Committee

Oral evidence: The Funding and Sustainability of Local Government Finance, HC 514

Wednesday 7 May 2025

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Housing, Communities and Local Government Committee members present: Florence Eshalomi (Chair); Chris Curtis; Mr Lee Dillon; Maya Ellis; Mr Will Forster; Naushabah Khan; Andrew Lewin; Mr Gagan Mohindra; Joe Powell; Sarah Smith.

Public Accounts Committee member present: Mr Clive Betts.

Questions 126-199

Witnesses

[I](#): Jim McMahon MP, Minister of State for Local Government and English Devolution, and Nico Heslop, Director of Local Government Finance, Ministry of Housing, Communities and Local Government.

Examination of witnesses

Witnesses: Jim McMahon MP and Nico Heslop.

Chair: Good morning, everyone, and welcome to the Housing, Communities and Local Government Committee. I am Florence Eshalomi, the Chair of the Committee. May I ask Committee members to introduce themselves, please?

Maya Ellis: I am Maya Ellis, MP for Ribble Valley.

Chris Curtis: I am Chris Curtis, Labour MP for Milton Keynes North.

Andrew Lewin: Andrew Lewin, MP for Welwyn Hatfield.

Naushabah Khan: Naushabah Khan, Labour MP for Gillingham and Rainham.

Joe Powell: Joe Powell, MP for Kensington and Bayswater.

Sarah Smith: Sarah Smith, Labour MP for Hyndburn.

Mr Forster: Will Forster, MP for Woking.

Mr Betts: Clive Betts, MP for Sheffield South East and guesting here on behalf of the Public Accounts Committee.

Mr Dillon: Lee Dillon, MP for Newbury.

Mr Mohindra: Gagan Mohindra, Conservative Member of Parliament for South West Hertfordshire.

Chair: We have had apologies from Lewis Cocking, MP for Broxbourne. Minister and Nico, may I ask you to introduce yourselves for Hansard, please?

Jim McMahon: I am Jim McMahon, the Minister of State covering local government and English devolution.

Nico Heslop: I am Nico Heslop, director of local government finance in the Ministry of Housing, Communities and Local Government.

Q126 **Chair:** Thank you both for joining us. We are having an evidence session with you this morning to discuss the funding and sustainability of local government finance. We have had a number of meetings and received a number of pieces of written evidence over the last few months. This morning's session is to get your take on some of the issues that we have heard about over the last few weeks. We have quite a number of detailed questions, so I ask Committee members to be quite brief and equally I ask you to be quite brief in your replies, so that we can get the most from this meeting.

Minister, we know that local authorities across England provide so many services—over 800—most of which are mandatory services. They range from adult social care and children's services, to waste collection, planning and housing services. The data from a number of big organisations, including the LGA and the IfG, are saying that social care, including children's social care, SEND and temporary housing are causing big pressures on local government. Minister, what is local government for?

Jim McMahon: First of all, I completely recognise all those pressures. They are pressures that we are alive to, first in terms of dealing with the underlying causes that are leading to those pressures, and secondly in supporting local government to bridge to what will be a more sustainable footing. There is no doubt that the impact of rocketing demand for adult social care, children's services and temporary accommodation, and almost the decoupling of neighbourhood services, has led to a crisis in local government. The cost of meeting those people-led, targeted services is increasing at a rate of knots in a way that many councils are finding unsustainable. At the same time, neighbourhood, universal services that most people rely on, that give quality of life and give people security and pride of place, have absolutely been affected over the last decade, and people feel that in the places where they live.



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Our job is to rebuild the foundations, and it is fair to say that the inheritance—the fiscal inheritance but also the structural inheritance—is challenging. If we think about the audit backlog, over 900 sets of accounts were not submitted to us. That meant that we did not have a real test of where money was in the system and where some of the pressure points were in the system. It also meant, in large part, that the early warning system that would give us a heads-up as to problems coming our way just was not fit for purpose. We had Oflog, which in part did a good job in terms of data but was massively underdeveloped and did not have a clearly defined role.

Under the previous Government, we were not delivering multi-year settlements, so councils were going from one year to the next not knowing how much money they would have coming in to fund local public services. The standards regime, I think in most parts of the country, has been shattered. Councillors by and large do a good job. They are good public servants, but they expect that the standards regime will kick in when people misbehave and do not apply the same standards in, I would say, too many councils. That has been absent, and that is the consequence of a standards regime that just has not been fit for purpose. Then there is the underlying needs and resources assessment of what the Government perceive are council needs versus what a council can generate from local taxation, and then what the Government's role is as the equaliser to the system.

Q127 Chair: Is the role of local authorities to do what central Government require of them, or do they have a democratic decision-making role over their activities and services? To go back to my initial question, what is the role of local government? What do you see as our councils' day-to-day functions?

Jim McMahon: In a way it is both, isn't it? They are the delivery arm of government. They are on the ground in communities and they are marshalling frontline workers to deal with the social and economic challenges that the country faces. They are also, I think, the part of government that can unleash community potential, whether that is about early intervention and prevention or about looking at whole-community responses to public services. That is what good public services look like. Equally, there will be local variation where they take a view of their local area and decide that particular services are needed or a particular emphasis is needed in those areas. We should allow for that democratic variance, while providing for the fact that there is not a postcode lottery as to whether people get essential services that every community should get as a baseline.

Q128 Chair: One of the questions that keeps coming up is the increasing demand that local government is having to take; essentially, you turn up at your council's front desk and the range of different services that a constituent member of the public could ask for has increased over many years. Do you think that it may be time and there may be a need for Government to reassess councils' requirements for mandatory services versus discretionary services? We are finding a situation where, if some of

the mandatory services were not ringfenced, some councils would not be in a position to fund those very same services.

Jim McMahon: I think we should be honest and say that even with the current ringfencing—there are more than 300 ringfences applying to more than £12 billion of money given to local government—many councils have been forced to make the decision to move money from the ringfence to prop up services in people areas like children's and adult's, temporary accommodation and other places. We need to be honest about the actual state and how it feels on the ground, and that should be our starting point. If we do not do that, we are not facing up to the real, lived crisis in local government, nor are we realigning it to the multi-year settlement and getting local government back on its feet by the end of the Parliament.

We need to be realistic about where we are, but I think that is quite different, if I can be honest, from a theoretical debate on "What's the meaning of life for local government?" I do not think the time is there to do that. The urgency to repair the system is now. The needs and resources assessment we are doing is fundamental, and for some councils it will be lifesaving. The work we are doing on redistribution is important, but so is the very open way that we have worked in collaboration with the sector to understand the actual cost drivers forcing local government to the edge in some places, or where the cost drivers are having different impacts in different councils.

The needs and resources assessment that we are undertaking, by way of an example, will take into account issues such as deprivation; the costs of rural service delivery; daytime population booms in large cities, where they have a huge population base but maybe not a residential base in that area; and different component parts that have an impact on the cost of operation, which the current system is not picking up in the way we would want it to. There is room in this process to address that.

Q129 **Chair:** You are talking about increasing local government funding, but you are seeing some councils spending almost 50% of their housing budget just on temporary accommodation to sustain that, rural councils spending more and more on transport for SEND provision just to ensure that those children get to school, and some councils essentially coming back to Government year in, year out for additional support. Clive Betts mentioned at one of our sessions that it should not be called exceptional financial support, because there is nothing exceptional about it—it is almost becoming a cycle for those councils not to go under and not to declare bankruptcy. What do the Government see as the vision for local government and how will that be funded going forward?

Jim McMahon: I will say for context that the settlement this year was £69 billion, and £5 billion of that was new money. There is new money going into the system, but that is not to say that the demand is not going up as well. It is going up, and in some places it is going up significantly. The response from Government cannot be that we continue to pay more and more for a system that is providing worse outcomes for local people. We have to get ahead of the underlying problems.



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Take temporary accommodation, for example: it is not the result of council failure on housing, but the result of a failed housing market. It is a result of no-fault evictions and a lack of supply. To deal with temporary accommodation, we have to get to the back and build a housing market that can support local people to live in a safe, decent and affordable home. Children's services is another example. Many county councils pay huge amounts for home-to-school transport to send young people further away from home, when most parents would want mainstream provision to be better than it is—but it is going to take time to build that mainstream provision back up.

Equally, with children's residential care, when austerity first started more than a decade ago, many local authorities took the decision that it was cheaper to go to the private sector, because at the time it would have been cheaper, and to withdraw the public sector direct provision. Now we are seeing private sector providers charging, in some places, £45,000 per head in profit.

Q130 Chair: Andrew Pike, when he came before our Committee, asked whether local government was just "an agency of central Government that we want to deliver services for as low a cost as possible". You have mentioned the issue of the private sector, in some cases, ripping off councils through the fees it is charging. Going back to my question about what we want local government to do on the tin, would you say it is an arm of the Government to deliver those effective services at a lower cost?

Jim McMahon: From my perspective, "low cost" is not the way to frame it; I think "best value" is the way to frame it. If all we do is look at the underlying cost, we end up in a situation, like 10 years ago, where local authorities withdraw from the direct provision of residential care for children and go to the private sector because the unit cost is less, but actually the outcomes are worse. Surely, as public sector providers, all councils have the responsibility to make sure that they are providing decent public services as well as cost-effective public services, and it is that balance that we want to strike in local government.

Q131 Chair: How do we know it is cost-effective when a number of councils have not reported on their accounts for many years? The auditing is not in a good place, to the point where the whole of Government accounts were not able to be presented because of local government auditing and delays there.

Jim McMahon: That is why I made it a priority. For me, a lot of this work is not like retail, politically—most people, when they are speaking over breakfast, do not talk about local government audit—but everyone on this Committee knows how important it is as the foundation of good public services. If you do not know where the money is, you cannot direct it to priorities, and if you do not know what good is, how do you assess the impact of local public services?

Within the first couple of months, we took measures to address the audit backlog. As a result of the December backstop date that we introduced,



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more than 900 sets of accounts have been submitted. Some 400 were disclaimed, I accept, but 95% of accounts were submitted to that deadline. We now have a series of deadlines in place to make sure that we eventually catch up through this Parliament and beyond. But we are very honest: we cannot undo 14 years of mismanagement of local government—by central Government, I should say, not by local councils themselves—in 10 months; it is going to take time to rebuild it.

I do think that the work we are doing on the recovery grant, and making sure that we are getting money to the areas that need it most—the councils that are most vulnerable—and having a different relationship, is making a big difference. Rather than forcing councils to declare 114 notices—effective bankruptcy—we have a more productive relationship, where we work together and support councils to address the underlying issues.

That matters on intervention, but it also matters on exceptional financial support. I take the point that we have had a higher number of exceptional financial support councils—30 in total—but that is in the context of hundreds of councils. Had we not taken action on the recovery grant—£600 million, and the biggest beneficiary was Birmingham—things would have been different. The council with the biggest percentage increase in its core spending power was Blackpool. That shows you just how much we are directing money to councils that need it most, with those high levels of deprivation and historically low tax bases.

Q132 Chair: Do you feel that more councils will come forward for exceptional financial support? Obviously, you cannot forecast what is happening, but most councils set their budgets in February and council tax bills have been issued. Do you feel that the funding package that the Government announced last year will be enough, or will you be seeking to get more for local government in the forthcoming spending review?

Jim McMahon: Our view is that the funding settlement of more than £69 billion is enough as a bridging settlement, if you like, to take us to the multi-year settlement. The challenge that we all have is to make sure that by the end of the multi-year settlement, given how much churn is in the system—because we have the needs and resources assessment on one side, but Members will know that we also have a huge programme of local reorganisation at the same time. The underlying finances of those local authorities are critical to balancing the overall system at the end of the Parliament, which will be the third year of the multi-year settlement. All these moving parts have to align to make sure that, at the end of the process, local government is in a stronger position than we inherited.

Nico Heslop: Just to add to that, people always ask about section 114. Exactly as the Minister said, we speak to councils the whole time, and we say to councils, "If you are in any risk, come and speak to us, to my teams, and to the Ministers." We are not aware of any council that is imminently issuing a section 114 in this financial year. It is just worth reminding us all that 114s happen for a range of reasons, and can happen because people make mistakes in accounts. We cannot predict whether



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someone will find a mistake in an historical account, but we are not aware of any council close to a 114 because it is unable to balance a budget in '25-26.

Chair: It is reassuring to know that there are no councils on your radar that you are actively worried about at this present time.

Jim McMahon: That is not to say that we are not supporting councils. The relationship that we have developed is one of collaboration, and we are constantly reviewing our approach to support and intervention. There are councils that will have best value notices issued, because we do have concerns about governance and finances in some places, and there are some local authorities where we have to intervene even more, whether that is through the appointment of envoys or commissioners, to make sure that councils get on track as quickly as possible, but we do that in a way that is collaborative.

I hope that Members see, in the tone of parliamentary updates, of letters that local MPs will receive, and of written ministerial statements, that we are genuinely trying to build a relationship where we work together through what are very difficult issues for a lot of local authorities. As I say, these are structural changes that we are making to the financial make-up of local government, and the intention is that local government is in a much better position by the end of the multi-year settlement than it started it.

Q133 **Naushabah Khan:** Thank you, Minister; it has been really helpful to hear some of your thoughts on that. As someone who has served as a councillor for over 10 years and also as a cabinet member, I would be interested to hear some of your thoughts on this, too. One of the things that I found during that period was that balancing the books in local government became about how to make cuts in non-statutory services in order to ensure that statutory services were able to float.

First, do you think that the multi-year settlements will go far enough in enabling councils to fulfil their duties? Secondly, recognising that for the majority of the public, their interactions with their council will be in non-statutory services, how do you see that progressing in the next few years? If the only answer to make the books balance and really manage finances will continue to be to look at non-statutory services—leisure and all those other things that people really wish to interact with—do you not think that that could create further problems? Is there any work being done to try to balance the overarching way of approaching finance in local government?

Jim McMahon: Councils have an organisational challenge in how they balance the competing interests, because they will want to deliver good neighbourhood services for their residents coupled with the statutory services that they have to maintain. I will be honest and say that there is a political challenge here as well. As you rightly identify, the number of people who receive adult social care and children's services as targeted intervention is a very small number of the overall population, but everybody receives neighbourhood services, and I would say that there is



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a disconnect between the council tax that people pay and what people believe they get in return for that council tax. I would say that most people think they pay council tax for the roads to be repaired, the bins to be collected and the litter to be picked up off the street, and in there is the disconnect.

I do think that the reduction in neighbourhood services and the increase in council tax has led to a breakdown of trust and confidence among the public in the ability of public services to deliver a good service. That is something that we have to rebuild. It will take time, like a lot of this project will take time to do, but I think we can make inroads, providing for the fact that we get money to the councils that have been most severely impacted by the last decade or more.

Q134 Naushabah Khan: I completely agree with that, Minister. I just want to get a bit of clarity. When you say that we need to rebuild that trust, is there anything else, alongside the multi-year settlements, that you think could help us to enable councils to do that?

Jim McMahon: The multi-year settlement, in a way, is only one component part of a bigger project to rebuild the system and shore up the foundations. What a multi-year settlement does is give confidence and the ability to plan ahead. Where councils need to think about their new operating model, it gives time to work through the transitional arrangement. Where there are more structural changes in direct services like children's services or adult social care, it allows them, over a three-year period, to think about investing up-front to get savings at the back end in terms of early intervention and prevention and public service reform.

That is where we see the benefit of a multi-year settlement, but a multi-year settlement is only as good as the money that is put into it, because councils need to be funded sufficiently to deliver the baseline of services that they are expected to deliver. Over a period of time, there has been a disconnect between the distribution from central Government and the need presented in local areas. The most obvious example was the decoupling of deprivation as a driver of demand for public services. The recovery grant has taken into account, for the first time in a long time, that deprivation and a historically low tax base are a significant issue for local authorities in meeting the demand and resource issue at a local level.

We said that the recovery grant was a one-off intervention—a bridging position to get to the multi-year settlement—but it was an indication that we believe that deprivation is a significant contributor to demand for local public services, which, coupled with low tax bases, means that central Government does need to do more in terms of redistribution and acting as the equaliser to the system.

Nico Heslop: Just building on that, the Minister mentioned the other things that we did in the first settlement, which obviously happened very soon after the new Government was in place. I think everyone agrees that the four big challenges are adult and children's social care, homelessness,



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temporary accommodation and special educational needs funding. Within that settlement, we very much began something on each of those things.

If you take children's social care, spending on prevention plummeted in the previous decade. At the same time, more children are entering the care system and, as the Minister said, the market is not functioning very well. The Government have already taken action on the market. There is a children and families Bill going through this building right now, which will introduce powers, if necessary, to basically cap the costs of markets to avoid councils being charged literally millions of pounds to look after a single child. There was very well-respected study done by Josh MacAlister, who is now obviously in this House, which set out a compelling case for investment in children's social care. It was a very well-evidenced report about investment and decreasing costs.

There are things we can do to improve the value for money of what we spend, get control of markets and, crucially, deliver better outcomes. Again, in children's social care, the outcomes when children are put into foster care, versus residential care, are much better. We have seen a significant decrease in the provision of foster care over the last decade, which the Department for Education is now trying to address. As well as all the distributional things that the Minister talked about, there is action underway on service provision and markets. That is just in children's social care, but there are similar things going on in homelessness and SEND, too.

Chair: That is good. We are going to come back to cost pressures and funding, but I want to bring in Gagan on NICs and new burdens.

Q135 Mr Mohindra: We obviously had an increase in employer NICs as of the Budget last autumn. Part of the new burdens philosophy was to cover the costs. The LGA has reported that the direct costs will not be fully covered by the £515 million of additional support that was announced. I think it has estimated direct costs for local authorities to be £637 million, with an extra £1.13 billion of indirect costs. What else will the Government do to protect cash-strapped local authorities from that burden?

Jim McMahon: I will let Nico talk about how we arrived at the distribution of NICs if that is helpful to the Committee. In terms of the overall allocation, we do take—you would expect us to say this—the allocation for local government in the round. On that basis, there has been £5 billion of new money into the system. Most councils in most places have seen an uplift; no council has seen a decrease. On that basis, it is our belief that there is sufficient room in the system for councils to absorb that.

On the point about indirect costs, which we heard from the LGA quite strongly, I will be honest: it is impossible to know what that number is in practice. There is not a clear line of sight, council by council, of how much that indirect cost liability will be attributed back to the local authority. Some councils have contacts in place that would not allow a provider to pass on that cost even if it wanted to. There are some areas where the provider has a reasonable headroom of profit, and it is not an



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unreasonable expectation that some of that profit will be foregone to pay for the additional employer costs, so it is very difficult to know how much that will come through the system overall. Notwithstanding that, the money that was put into the system is still far greater than that in any case, so it is our belief that in the round we have sufficiently provided funding into the system.

Q136 Mr Mohindra: So is the LGA wrong, then, when it says the direct costs associated with the policy are higher than what the Government have given in additional support?

Jim McMahon: No, I take the LGA's figures at face value. My point is that, coupled with the additional payment of over £500 million for NIC costs and the overall allocation of £5 billion, in the round there is enough money in the system to absorb that direct cost. I can ask Nico to talk about how we arrived at the calculation that distributed that money within the system.

Q137 Mr Mohindra: I just want to stay on the point about the difference between the figures that your assessment suggested and what the LGA, which is on the ground, is saying. It says that there is a discrepancy of over £120 million, which is obviously significant. Was a full assessment made of the effect of the policy change to employer NICs on local government funding?

Nico Heslop: What happened with the employer NICs is that the Treasury undertook an economy-wide assessment of the direct cost of that change, which was a policy choice. The approach that the Treasury took was the same as it took under the previous Government, when they did something similar. It is a well understood and consistent approach. As part of that, for local government, we were allocated £515 million which, as the Minister set out, we distributed. I come back to the fact that, when looking at a £70 billion system, we do not look at every single input on its own; we look at the totality. With £5.4 billion of additional grant announced as part of the spending review for local government, in the round and—as the Minister said—in the bridging for '25-26, we think that there is sufficient funding in the system to enable the vast majority of councils to set balanced budgets.

Q138 Chair: Did the Treasury run this past you before the decision was agreed?

Nico Heslop: Run what past us, sorry?

Chair: The NICs.

Nico Heslop: We work with Treasury in terms of providing data inputs, but the decision on raising national insurance was obviously a tax matter, and that is for the Treasury.

Q139 Chair: And in terms of the assessments?

Nico Heslop: We worked with Treasury, but as I said, the methodology used is not a new methodology; it was the same one that was applied a few years ago as well.

Chair: Let us come back to some of the stuff about ringfencing and burdens and deprivation—Joe.

Q140 Joe Powell: Minister, you mentioned how to calculate deprivation. As you know, there are a few questions about how to do that in order to deliver the best outcomes, so I will ask a couple of them. One is on the inclusion of housing costs. In some of our big cities, housing costs have accelerated massively. Is your plan to include housing costs so that deprivation is calculated after housing costs?

Jim McMahon: With all indices of multiple deprivation, I suppose the only direct instruction politically is that we need to go down to the smallest possible unit to make sure that we pick up deprivation wherever it exists in the country. We do not want to have such a high level of assessment of deprivation that we pick up big clusters, but miss pockets of deprivation that might exist in coastal or rural communities, where deprivation is to be found but the system might not pick it up. The indices that we go on in the super output areas are population sizes of about 1,000. That should pick up the deprivation wherever it exists. I ask Nico to come in on the housing cost question.

Nico Heslop: That is one of the things we are looking at now. We have a good group of representatives from the sector, whom we are working with very closely, but as the Minister mentioned, there are a number of issues—housing costs, daytime populations, transport costs and so on—which we could include in some formulas. We will set out more detail in the next consultation document, but I think it is fair to say that the sector has made strong representations that housing costs should be included. That is something we are considering and will work with Ministers on, setting out more detail in our next consultation, which should come after the spending review, in about mid-June.

Q141 Joe Powell: It is good to hear about trying to find those pockets of deprivation even in areas where that might not show up, but in London, for instance, housing costs obviously dramatically shift the funding formula. Poverty, after housing costs, rises significantly, so you can understand why people are concerned if that will not be taken into account. The previous Prime Minister talked about mucking around with the formulas to move money from deprived areas to wealthier areas, but we want to make sure that that is properly dealt with.

Nico Heslop: We have definitely heard that from the sector. As I say, it is one of a number of things that we are looking at and will come back on. We totally understand.

Q142 Joe Powell: Is it the spending review allocation that will drive that decision, or a needs-based assessment?

Nico Heslop: In coming to what Ministers think is the right balance of things within the formula, there are a number of things. We have had lots of representations from places like London or Birmingham, which receive lots of daytime visitors, and from people saying that we must include housing costs. We have had strong representations from people saying



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that we must include housing costs and from others in rural areas saying that we need to take greater account of, say, scarcity. There are many more examples. We will want to look at them in the round and we will set out in the consultation in June the appropriate approach. But to reassure you, we have absolutely heard and understood the point about housing.

Q143 Joe Powell: My final question about the assessment is on population. The 2021 census was in the middle of a pandemic, when there will have been population shifts that may not now be the case. How are you planning to account for actual population?

Jim McMahon: For all the baseline datasets, whether in our Department, the Department for Education or the Department of Health and Social Care, we want to use the most up-to-date, reliable and robust data possible. That is the intention; obviously, we will come forward with the needs and resource assessment in the round.

To reassure the Committee, from a political leadership point of view I want this to hold up to any scrutiny offered by any part of the system. What I do not want is for any part of the system to believe that this is a double-reversal of the type of political manoeuvring that you referred to earlier, in which different political parties move a finite resource from one place to another depending on the political will.

We have started the consultation with integrity. We have said that we want to hear from the sector about where there are legitimate costs that should be taken into account in whatever is considered to be a fair funding system. If those are not taken into account in the system, it cannot be considered to be a fair funding system. We have been open about that.

The submissions that we have had cover a huge range of different areas. Some are quite small: the issue of the population base for deprivation has been significant for coastal and rural communities in particular. However, as Nico said, there have also been cities that say that their cost demand does not reflect the resident population; their huge office market means that the daytime population booms and they do not collect that in council tax. How do they reconcile the public service demand that that is driving? You will hear that in London, Birmingham, Manchester and other places.

Equally, on the other hand, rural councils will say that on an evidence-based assessment it costs more to deliver public services in their areas because of the distance needed to travel from one appointment to another or to empty a bin from one address to the other. Where the evidence base supports the argument being made, we are keen to make sure that the argument is accommodated. What weighting it is given is a separate issue in terms of the allocation across the system, but we have started out with integrity and we will finish with integrity in terms of it holding up to scrutiny.

Q144 Sarah Smith: Coming back to the issue of cost pressures and service reform, what are your proposed timings? I am assuming that ideas are coming forward about significant service reform in the key areas that we



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have been discussing so far. I am interested in specific ideas about what those might be and when they might be coming forward. Will that be before or with the spending review, or after it?

Jim McMahon: Some of the work is taking place now. At a more localised level, we are working with the Cabinet Office on the test, learn and grow pilots, which are about understanding where placed-based, hyper-local early intervention in public sector reform partnerships can deliver better outcomes at a reduced cost. That work is ongoing, and the Treasury gave £100 million in the last spending review.

But we also recognise that time is not on our side: we cannot wait for a pilot project to come to evaluation and fruition when demand is in the system. So we are supporting areas such as Greater Manchester, where the 10 local authorities are working together to look at a public sector provider model on the residential side of children's services, in a way that provides a ballast to private sector provision, which is increasingly more expensive and in some cases is not delivering good outcomes. That real-time public service reform and partnership at a local level is working well.

There is a huge opportunity. Almost the biggest pilot for local government is the fact that a third of England is being reorganised. That is an opportunity for all councils and all councillors to think about the council of the future that they are building—how technology and the workforce can be deployed better and how we really bake in local place-based public service provision at a neighbourhood level. If we do that, there is a huge prize, but we also recognise that that is a huge project to undertake as well.

An example of that might be where local areas are looking at adult social care. We have a commitment in the English devolution White Paper to align ICB/ICP boundaries with mayoral combined authorities, and we are on with that now. However, it would make sense then to have co-alignment of the adult social care boundaries as well, from a partnership point of view. This is not about creating super-county councils, and it is not about the mayoral combined authority taking on adult social care at all. It is about saying, for the new unitary councils that are created, there is a partnership model to be had there, where those councils can collaborate and work together, where they might want to provide cross-commission specialist services, which aligns with the ICB health boundaries. When you bake in early intervention, prevention and work at a neighbourhood level, I think we begin to get the savings out of the system and have better outcomes as well. There is a huge opportunity in those areas that are being reorganised, but learning right across the system is taking place.

Nico Heslop: On some of the service reform, in the settlement we have just delivered, we put in roughly an extra £250 million to begin some children's social care reform. There was £1 billion of funding announced on special educational needs funding. There was an extra £230 million on homelessness. I doubt anyone has done this—not even me—but if you read the actual detail of the spending review documents, there is a clear



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signal about the need for this future SR to make further progress on children's social care, on SEND reform, and on homelessness and temporary accommodation.

Through the combination of the spending review and our follow-up consultation on funding reform in mid-June, you will see where the Government are headed across all those services. Obviously, on adult social care there is a slightly separate review being undertaken by Baroness Casey but, as the Minister said, our consultation will go out in mid-June after the spending review, and then in the autumn we will be able to set out a three-year funding settlement for local government, which will contain a lot more detail on the reforms of those big services.

Q145 Chair: When is the Baroness Casey review due to come back to Ministers? I know that is in Health, but obviously there is an impact for you as well.

Nico Heslop: From memory, I think the final report is due in 2028, but there is an interim date of, I think, 2026. I will triple check that, and if I am wrong on those dates, we will clarify that with you.

Q146 Sarah Smith: Specifically on the issue of SEND, it seems like almost every week there is an inadequate report coming back from a county council or council in the country on this issue, which leads to the question, what is your assessment of the systemic challenges that are faced? Do you do you agree that it is about the system, and what solutions are you bringing forward, rather than it being about individual failure council by council?

Jim McMahon: All the evidence says that the number of young people who need specialist educational support outside of mainstream provision is increasing all the time, and the cost of that provision is increasing, too. Where there is a coming-together is that I think most parents want their child to go to the local school, and for that local school to have the capacity and the skillset to be able to deal with a range of educational needs in that school, with the exception being specialist support if that cannot be provided. But it has to be specialist support in the right way—not because you have been displaced because the mainstream support is not good enough.

Honestly, in too many schools, the hollowing-out of staffing numbers has had a huge impact on the ability of schools to deal with children in mainstream provision. Teachers do not have the time to do that; many schools now do not even have classroom assistants to be able to teem and ladle the need in the classroom; and many schools do not have the specialist support needed for young people either.

It has been a shift over the last 10 years. The role of the local authority as the local education authority, providing central specialist services, in large part has been affected by the academy system and the fragmentation of the system overall. There is a rebuilding needed within local government and within the school system to be able to provide that support. If we do that, we will reduce the cost, but probably more importantly, actually, just

deliver better outcomes for the young people who are going through the system.

Q147 Maya Ellis: The Society of County Treasurers said that there is a direct connection between cuts to universal services for families at the start of austerity with the previous Government, and the current crisis in SEND and social care. Going back to how we are going to build sustainability in local government, could you touch on how the Government are going to support preventive services—for example, supporting families in the first instance—without relying on ringfencing and grant funding?

Jim McMahon: We probably ought to avoid trying to reinvent the wheel. There were more than adequate examples during the last Labour Government of what good, early, family-based and neighbourhood-based intervention can be. Perhaps the problem in politics is that it takes a long time to prove the concept, and a young person may have grown into teenage years and adulthood by that time, but it absolutely makes a difference and it leads to stronger economies and communities.

We have all seen that the removal of support for things like the Sure Start centres has had a material impact on outcomes for young people, and on the school readiness of young people going into primary and then secondary school. There are separate issues about the fragmentation of the system and how siloed some parts of it can be. There is not a whole system built around young people and their families in the communities where they live. The new family hubs will go some way to solve that, but in the end, we need to better align the authority and legitimacy of local government to be the leader of a place. Aside from the financial crisis in local government, the thing I have seen over the last 10 years is that local government's authority has been diminished. Referring to councillors as essentially the volunteer army or Scout group leaders is not a fair view of local government, and it does not represent at all the level of responsibility that they have.

There has been a fragmentation of place-based partnerships, such as the local area partnerships or the local strategic partnerships, as they were, where local government held the ring and brought partners to account around a table to work on a single plan for a place. In some areas they still exist a bit, but in many areas they do not exist at all. We have to rebuild that whole architecture in the system from the top, across the whole of a local authority area, to make sure that public services are aligned around a single plan for the place and the people who live there. It really has to be rooted in the neighbourhoods where people live. If we can do that, we can begin to get to a better system. Without sounding too much like a broken record, it will take time to undo 14 years of going backwards, but I think we are building the foundations for it.

Chair: We will move on to financial distress.

Q148 Mr Betts: Section 114 is not really a solution, is it? It simply transfers the problem from today to tomorrow.



Jim McMahon: Thankfully, we have not had any section 114s this year as a result of financial distress. We touch wood every day that it has not happened yet, because we recognise that the system is very fragile. We also recognise that we have supported more exceptional financial support cases, because of the different approach that we have taken. Our view on financial distress is that, with the support we are giving on the recovery grant and overall investment into local government this year, which takes it to £69 billion, and the work that we are doing on not just best value but support with the LGA and capacity for local leadership, we are getting to a better place. You will know, Clive, from your experience, that we have to address the underlying structural faults in the system to make sure that money goes out the door to the places that need it.

Q149 Mr Betts: If 114s were avoided by simply allowing local authorities to capitalise, again, that would simply transfer the problem. I wonder how that fits in with your discussions with the Treasury about the Treasury's directive to other Departments, particularly Health, that they should not use capital for revenue purposes. That has been going on for too long and has created a backlog of capital under-investment.

Jim McMahon: Councils are all in different positions. There definitely will be examples of councils that have sold everything they can sell, by and large. The libraries have gone, the youth centres have gone, the Sure Start centres have gone. Any kind of low-hanging fruit in terms of operational premises, like depots, have been rationalised a long time ago, and they are at the end now. At the same time, they have probably exhausted their reserve levels, too.

There are definitely councils in that category. There will be an overlay of councils in that category that also have historically low tax bases and high levels of deprivation, too. There was a perfect storm brewing there, which we are trying to address with the recovery grant and the multi-year settlement, and the needs and resources work that we are doing, too. It will go a long way to do that. Equally, there will be councils that have not made the decision to move to a more efficient future operating model, and they do need to do that. There will be councils that legitimately want to be able to capitalise the transformation cost up-front to get the savings out at the back end. We need to be mindful that councils are in different positions.

Through the EFS process, every council gets a named person in the Department who will work with them very closely. We also work with CIPFA, in terms of the analysis that it undertakes for individual councils. That gives us a very granular level of insight into councils that we can support. All the cases on EFS this year have been appropriate, proportionate and the right thing to do.

Q150 Mr Betts: Going forward, there are two issues I want to mention. Where councils have used capital or borrowing to fill a hole in their revenue finances, is the intention of the new settlement to ensure that authorities do not have to continue doing that going forward?



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Jim McMahon: If it worked, there probably should be an overlay. The multi-year settlement will allow councils to plan for the medium term for the first time in a decade. In that planning and being able to step back from the immediacy of setting an annual budget that just holds, there will be councils that say, "Actually, over that three-year period, we do want a transformation programme"—in, for instance, adult social care or children's services—"and we need up-front capital investment into the system to fund that new model." The use of IT models is a good example of that.

Q151 **Mr Betts:** I get using capital for transformation, but the intention is that capital should not continue to be used simply to plug holes in revenue budgets.

Jim McMahon: Agreed.

Q152 **Mr Betts:** The issue of SEND deficits and the statutory override is quite key. The number is getting bigger each year. Is there a plan now to deal with it? It is going to stop at the end of this financial year, apparently. Is it going to stop and, if so, what is going to happen to the debt that is not currently on local authority accounts?

Jim McMahon: There are live conversations now about how we deal with that. I cannot go into detail about what the end will be, other than to say that we absolutely understand, first, the financial pressures that the DSG deficit is placing on local authorities, and that if that whole liability were to transfer to local government as a cliff edge, that would not be sustainable for many councils. We absolutely understand the seriousness of it, and also that we need a more sustainable position on it. Those are live conversations taking place.

Q153 **Mr Betts:** While you cannot tell us what the answer is, could you at least indicate to us what the answers might be—the alternatives you are looking at?

Jim McMahon: No, because that would be giving you the answer, which I am not allowed to do. We absolutely understand the pressures that councils are facing, and also that a cliff-edge approach does not work for central Government any more than it works for local government.

Q154 **Chair:** In terms of exceptional support and distress, there are commissioners in a few councils. Can you outline how many councils currently have commissioners working with them? If you do not have the figures, you can write to us.

Jim McMahon: I am not sure I know most of the numbers on things like that off the top of my head, but I will go back and check that. We have taken a very pragmatic approach on commissioners. You will see that there have been a number of best value interventions and notices removed. Liverpool is one example, but we have also removed notices in Cambridgeshire and Peterborough combined authority and the West of England combined authority.



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There are councils that, for a range of different factors, need a warning signal that things are not okay, that they are on our radar and that things need to improve quickly. You will see those coming through every month or two, and you will also see interventions. My belief is that there was not an adequate transition from being on the radar in terms of best value to having a more robust intervention. It was either a flag being raised or absolute intervention, when something in the middle was needed. In Tower Hamlets, for instance, we have tested for the first time an envoy model rather than just sending in commissioners.

Q155 Chair: Yes, because commissioners can be quite expensive, would you not agree? That, in a sense, puts an additional strain back on to the councils.

Jim McMahon: It is less about the cost and more about what purpose it is trying to serve. If councils need direction and specialist support, we should provide that specialist support.

If all we had before was to take over key parts of the council to achieve that, it was like using a sledgehammer to crack a nut in some cases. The envoy model allows us to have the backstop powers that commissioners can have, but they are not deployed up until the point that the council demonstrates that there are no other alternatives. By that point, the envoy will have been in place for a period of time and working in partnership to try to get it resolved through that partnership level of support. However, it is a new model, and we need to see how it works in practice.

I also think that we need a whole-system approach to intervention and peer support, and we are moving on to that. The work that we do with the LGA is important, including the contract with the LGA to provide that peer-to-peer support with peer inspections and reviews, as well as the mentoring-type programmes. We then need to think about the role of the new local audit office as a replacement for Oflog and how that will fit in a system of accountability, checks and balances and early warning as well. The plan is that, by the end of this project—whether it is the soft support that the LGA provides, the hard support that we provide with best value notices and intervention, or the early warning system from the local audit office—that it will work as a single system.

Nico Heslop: There are seven councils that are currently in intervention with commissioners, and Ministers have also announced that they are minded to appoint commissioners in Spelthorne.

Q156 Chair: So it could be eight.

Nico Heslop: Yes, that would take it to eight, but it is seven at the moment.

Jim McMahon: And two have envoys.

Chair: We will come on to early warnings and exceptional support.

Q157 Joe Powell: Just to build on that, on exceptional financial support, how do

you choose which councils receive EFS and how much they receive?

Jim McMahon: We do not quite choose the councils as much as they choose themselves. The EFS process was really about offering councils an early conversation. Rather than waiting and holding back until you find yourself in distress and after a 114, it is far better that you speak to the Department early so that we can work together to see what you need. For some councils, they actually only need a very light level of support through capitalisation directives, which did not require a 114 to be issued—without that capitalisation, they would have been forced to issue a 114. Just getting in early and having that relationship in place has been the difference for many councils. It is more that councils will yell the Department that they believe they are struggling to balance their books and need additional support.

Q158 Joe Powell: Do you think that councils understand that? Is there enough transparency in the system about the different levels of EFS that they might get and why they might come to the Department?

Jim McMahon: Nico can talk about the technical assessment that is done, because it is not just about whether we have a willingness to help. There is a full financial and technical assessment made of the local authority—obviously, CIPFA has a role in that assessment. The Treasury obviously has a keen interest in exceptional financial support agreements as well. I would say that, of the 30 that have been agreed, we have struck the right balance of proportionality. We are not providing any more support than is absolutely necessary, but we are providing enough support that gives councils the ability to—

Q159 Joe Powell: There are some councils that are coming back for multiple rounds of EFS.

Jim McMahon: That will always be the case until we address the foundational problems in local government finance.

Q160 Joe Powell: For how long do you anticipate using EFS?

Jim McMahon: Well, to a point, how long is a piece of string? There are lots of moving parts to the system. I will not repeat what I have said already about the number of moving parts, but the hope and expectation is that, by the end of this Parliament—so at the end of the multi-year settlement—the councils will be on a sustainable footing and able to balance their own books. I would say that there will always be an exception to the rule. Whatever system you design, you can never account for a council that is at the extreme ends of any system. You always need a bespoke way of accounting for that.

Q161 Joe Powell: So your goal, by the end of this Parliament, is to reduce the use of EFS because funding is more sustainable?

Jim McMahon: Well, what does good look like? The vast majority of councils, in the vast majority of cases, are able to stand on their own two feet and they are sustainable in their own right. The number of councils that come to us for exceptional support are absolutely exceptional and

around the edges. It is a result of not the underlying funding tensions but localised decisions that have led to an issue that needs to be resolved.

Nico Heslop: Exactly. There are a range of decisions. There are some councils, as the Minister has said, that have come to us that, once we have had undertaken the funding reforms, you would expect to no longer require EFS. They might need another year, but in the longer term they should be more sustainable. There are some councils that receive EFS that have got themselves into difficulties because of a commercial investment. There are some other cases of EFS, such as one that we had a few years ago where a council had a big cyber-attack and had to do some rapid investment. As the Minister said, there will always be exceptions—hence exceptional—but definitely in the longer term you would want to see fewer cases, once our funding reforms have materialised.

To your question about whether the sector know what to do, I think yes, they do. Every year we are engaged in many more conversations with authorities who say, “We might need exceptional financial support”, and then it turns out that because of good work by officers, they do not. The kind of transparency that we have with the sector and the relationship we have at both ministerial and official level means that we have a good understanding of where people are.

Q162 **Joe Powell:** In your assessment you mentioned the local audit backlog. Do you anticipate that with the local audit backlog reduced, that will help you with your decision making on EFS?

Jim McMahon: The backlog is only a rear-view mirror, isn’t it? It only tells you what has happened. It does not tell you what is going to happen. EFS is about putting councils on a surer financial footing for the year ahead.

Q163 **Joe Powell:** You mentioned there could be things that you discover through the audit process.

Jim McMahon: That is down to the relationship between the local authorities and their auditors. It is also about rebuilding capacity in the audit market more generally so that those are mature and developed relationships. There will be examples almost certainly in the system where councils could take action that they have not taken already, if there was a better understanding of their financial position and their own accounts, their assets and liabilities, et cetera.

On EFS, though, as it stands—I know this is quite a technical approach in terms of how we deal with it—I would not underestimate how important the relationship is. It gives councils the confidence to come forward. We have reset the relationship with local government. I will be blunt. The previous Government took a large degree of political pleasure in parading around councils that were in distress for public shaming. I thought that that was a plague on the whole sector. I do not think that was the right approach. By resetting the relationship we can give comfort to all local authorities, regardless of their political leadership.



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There are more varied political leaderships around England today than there were a week ago. From a Government point of view, we will support all councils of all colours in all parts of England to make sure that they provide good local public services. None of them should fear coming to the Government for a partnership conversation about how to do that if they need support. Just having that reset of the relationship has gone quite a long way to reducing the number of 114 notices and having a more collaborative approach on exceptional financial support cases.

Q164 Maya Ellis: I have a question about equal pay claims and their recent impact in Birmingham. How many other councils are exposed to such claims, and is the Government doing anything to support those councils to avoid another situation like the one in Birmingham?

Jim McMahon: From a sector point of view, we do not assess at the moment that there are structural vulnerabilities in the sector, but there will be historic liabilities that some councils have built up where, historically, men have been paid more for equivalent roles compared to female workers. Most councils dealt with that issue quite a long time ago. In some cases, it has been more than a decade ago. Part of the reason why Birmingham is the example that you point to, where 7,500 women have legitimate claims for underpayment, is because it has taken so long to be dealt with. We do not see that the situation in Birmingham will be replicated around the country—almost the opposite. Birmingham is at the tail end of a problem that many other councils dealt with earlier on. But that is not to say that there are not localised issues where a trade union or a law firm acting on behalf of employees might not challenge the status of female workers against male counterparts in very particular roles. That can happen anywhere.

Q165 Maya Ellis: Very specifically, Unite the union says it will not accept the council's offer at the moment because it would leave 150 of their members £8,000 worse off, but Birmingham city council says the offer would only negatively affect 17 people. Has the Government offered to provide any independent support to help get to the bottom of that?

Jim McMahon: I was on the phone to the leader of Birmingham this morning. We are in regular contact about the situation there.

First of all, I must say that we really appreciate the efforts of frontline workers to clear over 30,000 tonnes of accumulated waste from the streets of Birmingham. A public health crisis was developing in plain sight. Addressing it has been no mean feat, and frontline workers have worked around the clock to make that happen; they are owed our appreciation for that. In the end, though, that is a temporary measure to deal with a public health consequence of strike action. We need to address the underlying cause of the strike action.

It is not an option in Birmingham to continue the unequal pay of men and women; that must be changed. How to reconcile that change is subject to negotiations between Birmingham as the employer, the trade unions and the employees who are affected. At the moment, the signs are



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encouraging, but there is still quite a long way to go. It is encouraging that people are in the room talking, having meetings and there are proposals on the table. It is encouraging that Acas is leading that in terms of providing independent support, and that there is willingness on both sides to negotiate in good faith. If that holds up, it is our hope and expectation that the strike action can be called to an end and an agreement can be put to the members who are striking. Hopefully, with a fair wind, that agreement will be supported by the workforce. We have some way to go, but it is encouraging that people are in the room with Acas and having those conversations.

Chair: Minister, I know that many councils—two being Woking and Thurrock—still have unsustainable levels of debt that you are looking at. We have some additional questions on them.

Q166 **Mr Forster:** I draw attention to my entry in the Register of Members' Financial Interests.

Further to the equal pay claim that Maya mentioned, we have another legacy issue of debt. Without going into the details of Woking, Surrey, and Thurrock, Essex, which will be the guinea pigs for how the reorganisation of debt will be handled, what will the financial support to authorities to reduce debt burdens look like? When will it take effect, and will the cost of that debt write-off come out of the local government budget or be a wider cost borne by the Treasury?

Jim McMahon: Quite a lot in that question pre-empts our position. First, we have not yet reached agreement with individual local authorities in the round, as in all those going through reorganisation in the counties where some of the councils might have quite excessive levels of debt. Nor have we agreed a final position with the Treasury about the treatment.

I would not call the councils that are in scope "guinea pigs". I would call them proof points in terms of addressing up front how we are going to deal with this in an open and transparent way and in partnership. Part of the reason why it is difficult to say this is a plan to deal with individual councils is that it is, in large part, dependent on the type of proposals that we get through the LGR process regarding the structure of councils proposed for a particular county.

We know that some of the proposals will recommend quite large unitary authorities—500,000 or 600,000, in some cases—but we have seen counter-proposals that look for smaller unitaries of 300,000 or 400,000. Until we see the final proposals and reach the end of the negotiations, we will be unable to assess how the new unitary authority will deal with the transfer of assets, liabilities and workforce in a way that means it is a sustainable council that is being put in place.

These are live conversations. We are working in good faith. We recognise that some of the debt levels are extremely high and that they need to be addressed in one way or another. We accept that the Government must play a role in that, but the extent of our role has to be worked through.



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Nico Heslop: In terms of timing, as the Minister said, the particular reason for Surrey going on an expedited thing on LGR was so that we could align that with the timetable for the spending review. Again, through the spending review and then the LGR proposals, we will be able to set out a proposal on that.

Q167 **Mr Forster:** Timetable is quite important. Obviously, if proposals for reorganisation from across the country, particularly the south-east and East Anglia, have been submitted, as a Minister, you need to digest them; we then have a spending review in June, and then a decision on reorganisation. That is a huge amount of work to do in a very tight timescale. Even after you have digested what local councils have recommended, you have to then lobby the Treasury, because that will come with a significant cost. How is that possible and do you think you can genuinely meet that timetable?

Jim McMahon: In a way, not meeting it is not an option. If we don't have a clear eye on what the new unitaries will be in a third of England, without knowing what the architecture of those councils is going to be, there is no way that we can have a local government finance settlement and a multi-year settlement that balances at the end. It is critical that reorganisation continues at the pace that it has. It is critical that we address some of the big issues, which is why Surrey has the 9 May deadline. We will address that as part of the spending review.

We do not shy away from the fact that the areas in the devolution priority programme will have to submit by 26 September, and all others will have to submit by 28 November. The reason for that is to ensure that, as we go into the first year of the multi-year settlement, we are clear about the transitional arrangements to go from the existing two-tier system to the unitary model at the end of that multi-year settlement. It is tight, and we appreciate that for local authorities—and for the Department, I should say—this is no mean feat, but it is critical if, we want local government to be sustainable at the end of this Parliament.

Nico Heslop: To reassure, I would characterise it not as lobbying the Treasury but as working in lockstep with the Treasury. Given the size of some of the debts, there has been very close working over a number of years. We are clear, and the Minister has written to leaders in Surrey to say that we will set out more information ahead of the 2026-27 financial settlement about how we will support Woking to enable the local government reorganisation to happen. We could not have done that without the Treasury agreeing to it, so we are very much working as one with it.

Q168 **Andrew Lewin:** The dominant theme this morning has been pressure on local government finances. I want to take a step back, because the defining mission of this Government in their own terms is to grow the economy. My question is about business rates. I am interested in an update on the reset set for 2026-27. Do you consider that a pro-growth measure? How will the reform of business rates interact with local government reorganisation?



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Nico Heslop: We think of the reset as an integral part of the needs and resources formula that the Minister set out. That is all part of the consultation that we put out and are looking at now. We will set out the final proposal on that in June, as part of the wider reforms of needs and resources. We have lots of very technical work under way with the sector, which is key.

A large part of the redistribution is re-baselining the business rate system. That will allow us to move some of the acquired growth around the system. When the system was introduced in 2014, it was always envisaged that the reset would happen every three years, so you have the incentive to grow. We think that because the reset has not happened for 10 years, the system has been allowed to get out of date. Some local authorities—I am not blaming them in any way—have acquired and kept growth for a decade, and that has probably led to some of the inequality in the system.

Jim McMahon: On the pro-growth element, there is the quantum—how much are businesses being asked to pay in business rates—as well as a rebalancing of the business rates system to ensure that we better account for the online and on-street spheres. When we speak to our constituents about the economy, most people think about the everyday economy: their high streets, their communities and how it feels in their places and reference points.

The work that we have just done—we received Royal Assent to the business multipliers—will mean that qualifying retail, hospitality and leisure premises, including national operators, will see a cash reduction in the rates that they pay in a way that was not taken into account in the temporary covid relief. That will be self-funded in the system by charging more on properties worth more than £500,000, which are primarily, although not entirely, your large warehousing and distribution centres that many of the online retailers use. In terms of pro-growth, it is important that we root growth in people's everyday lived experience as much as in the macro.

Q169 **Andrew Lewin:** I am conscious that, as we have had a good discussion this morning, there has been talk about equalising the system and making sure that all local authorities benefit. I am interested in how we strike the balance with the powers given to local authorities over business rates. I am keen to know a little more about the ambition to give local councils more power to set their own reliefs and multipliers. Is that part of the ambition for further reform?

Jim McMahon: It is not a piece of work that we are currently looking at. The English devolution White Paper is trying to do two things on devolution: to widen devolution to make sure that every part of England has a route to further devolution, and to deepen devolution to make sure that areas with existing mayors or combined authorities, or that are looking to that arrangement, have a clear path to building up the type of devolved powers that they receive.



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It is an important moment that Greater Manchester and the West Midlands together have now £1 billion of integrated settlement freedoms. Another batch of combined authorities are coming down the line—South Yorkshire, West Yorkshire, the North East and Liverpool city region. That kind of financial freedom to move money around the system is very much where we want to be.

I will also say, however, that there is naturally a difference: many at a local level would want more freedoms, flexibilities and the ability to change, but the Treasury will always want to have the ability to look at business taxation in the round to make sure that the burden on businesses is assessed in an equal way across the country. We believe that, by and large, we have struck the right balance, and the type of freedoms that mayors will now have in areas with an integrated settlement will lead the way in that sense.

Q170 Andrew Lewin: Thank you. I am very conscious that different local authorities and parts of the country are at different stages on this journey. Going back to business rates, the reset is clearly an important moment. This question is probably for the Minister: in this Parliament, is there an ambition to go beyond the reset and look in bigger terms at a reform to the system, or is the focus just on the current business rate reset?

Jim McMahon: The introduction of the two new multipliers is actually quite a significant change. To now have the lower multiplier for retail, hospitality and leisure will mean a cash saving for many of the foundational businesses that are important for our communities. The other thing it does is take away the cap on national multiplier operators. Under the covid scheme, there was a cap on how much a business could claim. That meant that if you were a regional occupier of premises or a national occupier, you could only really claim for one or two at the most.

Think about most high streets, with your opticians and chemists. Our national occupiers are actually very important as the foundational businesses on the high street. If they were not there tomorrow, the high street would feel that. This new system does account for that, so I think that is actually quite a significant change. It is self-financing in the round, so it has to be sustainable, but we think that is the right way to do that.

When it comes to challenging the system and modernisation, whether it is the structure of local government itself, devolution, where power sits, the creation of new institutions and political accountability, the audit system, the fundamental financial foundations of the system, including how we assess need and how we assess money going out the door on the other side, the standards regime and the work we are doing on the local government pension scheme, there is a significant amount of modernisation and reform taking place in the system, being done by a Government who are determined to change it.

The real test of this is not just about balancing the books. That is the day job of our Department. The real test is that at the end of the Parliament, when people in every community in England walk out of their front door



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they see that things are materially better than they were at the start of this Parliament. This is about the streets being cleaned, the potholes being repaired, the street lighting working, people feeling safe and the park being maintained in the way that people have the right to expect. The small things that make a place worth living, feel more secure and give pride of place will, in the end, be the test. The work that we are doing here is foundational to achieve that.

Nico Heslop: The Minister is absolutely right. For the stuff that is been introduced at the Budget, there was also a longer-term document published by the Treasury. I am just looking it up. It is called "Transforming Business Rates". That sets out some very initial thinking about what may come after the stuff that the Minister has just been talking about.

Q171 **Chris Curtis:** Can I just do one follow-up on the business rates reset? I think this is an important point that will become more important. Over the past 10 years, the country has been incredibly economically unequal geographically. That is a real problem, and I appreciate that we have to account for that, but probably the biggest difference—or at least a good chunk of the difference—between councils that have managed to grow their business rates over the past ten years and those that have not is attitude.

Some councils have actively gone out and tried to encourage investment in their local area, worked to grow and done everything that this Government believe they should be doing in order to grow their local economy and contribute to national growth. However, some councils have done the complete opposite and deliberately tried to block investment in their local areas in order, often, to make their life slightly politically easier by appealing to some people who basically just do not like new building in their local area. Is there not a fear that a business rates reset will take money away from the pro-growth councils—Manchester being a great example—and give it to those that oppose investment, particularly given that we have heard from some people in the Reform party over the last week that they are actively going to go further and faster in trying to block investment in their local areas?

Jim McMahon: By and large, on business rate retention, which is coupled with the revaluation in the growth sense, the revaluation needs to happen and was always intended to happen. It is just that the previous Government decided that it would not happen. Whatever the tax system, it should be based on the most up-to-date, reliable information, and the tax system should reflect that. When it does not do that, there will be winners and losers in the system.

That is quite different, though, than having a system of incentives where councils that are willing to take difficult decisions and invest up front see the upside and the benefit of that. The business rate retention schemes were meant to be that. The evidence base is very mixed about whether the business rate growth in an area has been directly attributed to the actions taken in that area versus areas that were already economically



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quite healthy continuing to grow. There will be a relationship between areas that were always, in our modern history, good, solid places where the economy was stable. You overlay that with good political leadership that is willing to make tough decisions, and growth comes.

However, the system has to account for areas that have the same political intent and the same political energy but do not have the same underlying business rate base to build from. The system at the moment does not account for that at all. You can work in a post-industrial town, a coalfield community or a mill town like mine, and you can work as hard as somebody in the most affluent part, but the economic advantage of that effort is not equal.

Q172 Chris Curtis: The question is about incentives. My point is that, when you look at the way you are going to approach this reset, will you look at how you can ensure, both with this reset and future ones, that there is still a strong incentive in the business rates system to encourage people to attract investment in the local area?

Nico Heslop: That is exactly the sort of thing we want to do. That will be determined slightly by how long we say there is until the next reset. Some people would argue that the longer you have, the more of an incentive there is. If you reset it every year, there is not much of an incentive to try to grow.

Q173 Chris Curtis: The other point is that you would have to completely reset it. The extent to which you do a reset could also encourage incentives.

Nico Heslop: Yes, it could. As the Minister said, the extent to which the business rates retention system has led to incentives is questioned by the sector. Lots of people say a version of what you have said: that it encourages people to do it. But, as the Minister said, when we have looked at the evidence, a lot of places that benefit from the current system are places that you would not necessarily describe as that pro-growth in terms of their house building statistics, or whatever. Of course we want a business rate system that has incentives. There might be a case in the longer term, once we have got through these sets of reforms, to think again about what a proper incentive is within the system and what you want the local government funding system to incentivise, whether it be house building, growth or whatever.

Chris Curtis: Sorry, Chair; I spent a lot of time on a question that was not mine.

Q174 Chair: Just on that, are you essentially saying that we are going to have a series of rolling resets? If you go back to when business rates retention was introduced, the Government promised a big reset seven years later that has never happened. I assume that you are working with business colleagues on this for 2025-26. Will that be a one-off, or do you envisage this as something that will evolve?

Nico Heslop: We have not reached final decisions. We are still looking at consultations and we will have another consultation. The fundamental



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principle of everything we want to do in the reform is to make sure that the system is updated. That means updating population statistics; it means always—not every year, but at a sensible period—updating formulae; and it means resetting any incentive that you have. You would not want to do it annually because that would not be much of an incentive. The question is: what is the right period between resets? We will set out more details of that in the consultation.

Jim McMahon: There is a transition that is pretty explicit in the White Paper, which is about moving to strategic authorities that are basically the arm of growth, coupled with a reasserted local government that is the arm of public service reform and early intervention. If you think of growth and reform as two sides of the same coin, the freedom that comes from the removal of ringfencing—having more integrated settlements that would then give the freedom to move money around the system on things like transport and skills—will give many areas new powers and levers over the system that they have not previously had. For many areas, that is more of an incentive even than business rate capture, through a delayed reset or any other measure.

Q175 Chris Curtis: Can we look at council tax more generally? You have said in the past that council tax is unfair and regressive and that it has increased significantly over recent years with no improvement to services, and this disconnect is a real danger to the democratic process. Do you think that the Government should think more about significant changes to the way the council tax system works?

Jim McMahon: I think I recall those comments, which I assume were made in opposition, as supported by the evidence: in terms of the unequal nature of council tax, it is a fact that areas with lower tax bases have to charge more per band A and band B property than areas with more affluent properties in higher bands. That is a matter of fact. The relationship between household value and household income—the disconnect—is a matter of fact, and how that features in lower-income households versus higher-income households is evident.

I think it has always been accepted that council tax is pretty imperfect, but I think most people would say that it is still pretty good in large part. First, collection rates are high. Secondly, it is understood by the public—people know what it is. Coupled with a fairer redistribution that puts less of a burden on the individual council tax payers, where central Government are acting as an equaliser in the system, it becomes more tolerable.

On the question whether there is a plan to look at this in the round, the work that we are doing—on business rates, resource assessment, the multi-year settlement, deprivation-based allocations, the structural reform to create new strategic authorities, with a third of England going through reorganisation, as well as a new audit body coming in, a new standards regime on the local government pension scheme and its investment pools—is a lot of change to the system in a very short space of time. We need to be careful that we do not stretch ourselves too thin. With council tax, there are quite easy and understandable criticisms of how it sits



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today; there are less clearcut options for making it better that do not have consequences to the system. There is not a plan at the moment to look at council tax. The work programme of the Department is busy enough, and it is important that we land what we have already promised.

Q176 Chris Curtis: If the busyness of the Department is a reason not to do “big bang” reforms—and as a Committee that is scrutinising a lot of the work the Department is doing, we fully appreciate that point—is there not an appetite to at least look at some of the smaller changes that could be done to improve the council tax systems? That could be introducing new bands, changing the ratios between bands, or giving those powers to local councils to help alleviate the pressure on the poorest households, which we know has been so difficult for so many families in recent years.

Jim McMahon: I will let Nico talk about what the art of the possible might be. In the end, there will always be things that you could do—you have given some examples of the type of interventions that you could make—but there are no interventions on council tax that do not have consequences for somebody. It is a system that has to generate an amount of money, and at the end of that, it still has to generate that amount of money; it is just that you will be seeking to move that burden around the system. There probably are ways of doing that, but at the moment the focus has to be on ensuring that the work we are doing on the funding formula and the multi-year settlement holds, because if we do not get that right it will be fatal to local government over the rest of the Parliament. We are clear-eyed on that being the priority. We also have to take capacity into account with the rest of the system.

Nico Heslop: That is absolutely right. There is no work under way at the moment. The big thing with council tax is that it has impacts on a household level and on a local authority level, and it is quite hard to find a change that benefits both of those groups.

For instance, you talked about introducing new bands. That is quite hard to do without primary legislation and without a total revaluation exercise, which the Government have ruled out. But theoretically, if it were to happen, the places that would gain from a new band are not the sorts of places that are hugely deprived. I do not think it is an easy issue to solve.

Q177 Chris Curtis: My final question is about what we would assume would be a small, easy win. I was not born when the property prices that we use to evaluate council taxes were set. We have lots of data. It would not be a particularly burdensome task to redo it based on new property prices. Do you have a date in mind for that?

Jim McMahon: No. There is no current work programme to embark on a revaluation, any more than there is one for redrawing the council tax system. We get ideas and suggestions all the time: “Wouldn’t this make a good intervention?” I will be honest and say that with any system like this that is established but also very complex, what feels like a minor change on the edge of it can be a significant change by household and by local authority at the back end.



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I will give an example for the banding issue that was raised. If you wanted to introduce a higher band above band H, you would have to do a revaluation, because when the original valuation was done it accounted for all values "in excess of", but it did not break down the individual values of the properties to allow you to build new bands in above it. The capacity, the time and the political capital needed to steer a revaluation would be so significant that I think you would only do it if you had a view that the system would change as a result. It would have to be part of a bigger project.

Q178 Chris Curtis: I suppose that is why I framed the question in that way. I know that the business rates reset has not been in the expected timeframe, but there was a sense of "This is what we are working to for this date." Surely there could be a long-term plan that says, "Obviously we will have to look at the value of properties dramatically changing over time and use that to re-evaluate." That could be a 10-year programme or whatever it happens to be, but it is a reasonable timeframe to set out.

Jim McMahon: I am working to a timeframe for rebuilding, within the Parliament, the foundations of a system that was on the edge of collapse. The work that we are doing on structural reforms to local government is a significant project. To change a third of England's governance structures is not simple at the best of times, but to do it when the financial foundations are so weak and some of the debt levels are so high, in a way that balances at the end of the multi-year settlement, is a significant task. We have to get that right, and it has to be landed in the right way for local people who are affected by it.

On top of that, we will do a complete revision, first of how we take into account needs and resources, and secondly of how we allocate money around the country to equalise the system. That is a significant change, and we are looking at changes to the business rates system on top. That is a lot of change in the system to land within this Parliament, and land well. It is really important that when we set out to do something, we have a clear eye on our capacity to deliver it well. With that comes an obligation to make sure that we deliver it.

Q179 Chair: On that point, Minister, you have a situation in which the Government are rightly going to build new properties, but the Valuation Office will value those properties based on 1991. Everyone agrees that this is a regressive form of taxation. It is not fit for purpose. Successive Governments keep ignoring it. It is the big elephant in the room. We are talking about reform and reset. Is this not one area where a new Government, with the strong mandate for change that we are talking about, will look at something?

Jim McMahon: I do not accept that it is the elephant in the room. If it is, we're all at the circus, because everyone keeps talking about the elephant. It is more about the priorities of the Government. The priorities of the Government have got to be stabilising a system that is on the edge of collapse from the inheritance we had. That is evidenced by the audit



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backlog. It is evidenced by the number of councils that are financially not sustainable. It was evidenced by the number of 114 notices.

Beyond that, there is the standards regime and the lack of an early warning system. Getting that right is a priority of the Department. If you do not have clear priorities, then you do not have priorities. We could set ourselves so many tasks that we spread ourselves so thinly we do not achieve any of them. That would be a failure to the sector, frankly. There might be disagreements about whether we have chosen the right priorities, which I accept, but I think the Government saying, "These are our priorities" is responsible.

Q180 Chair: Essentially, you feel that it is right to continue imposing a national approach to council tax increase, because that is effectively what is going to happen over the next few years.

Jim McMahon: My honest view is that many councils have been forced to increase council tax to the absolute maximum at every opportunity, in a way that, for some households, has proven a significant burden. In part, that has been driven by the previous Government, which actively took away revenue support grant from councils to be able to provide decent local public services, and the only place those councils had to go was council tax.

There is not a lot we can do about what we have inherited—that has been and gone—but we can do something about what we do going forward. That is why the work we are doing on needs and resources, the formula and the allocations to individual councils will provide that equaliser to the system, which will mean that councils finally get the support they deserve. I think that is the right approach.

Q181 Mr Forster: Minister, we have heard that you do not want to reform this due to capacity and concerns about the positives and negatives of revaluation. Would the Government consider allowing councils more flexibility on council tax, including doing their own revaluation? They are democratic organisations, after all. If they do it badly, they can get voted out of office. They might have the capacity. At the moment, the Government say that councils do not have the capacity to do it, but you are stopping those who might feel they have that capacity. Wales has done revaluations every now and again.

Jim McMahon: Wales is a nation; it is not a council. There is a difference between doing it on a national footprint and doing it council by council. On an issue like this, which is so fundamental to the funding of local public services and to individual households, in terms of the bill that is passed on to them, as a Government you either do it and do it well, as a focused project, or you say, "It's not for now." At the moment, we are saying, "It's not for now." Allowing hundreds of different councils to run off and do their own scheme would not help the problem; it would probably add more confusion.

Q182 Mr Dillon: We have spoken about how the Government can support councils through multi-year funding settlements—giving cash—and we



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have just looked at how we raise tax locally. I want to move on to other income sources for councils. Should councils be seeking other sources of income, such as commercial investments to get returns on, as an alternative to funding from central Government?

Jim McMahon: From the infancy of local government in England, councils have always played a bit of a role in supporting local economic development. Many of the commercial assets that councils hold are not held purely as commercial investments. They might have a commercial return on that investment, but they are primarily about supporting the local economy. Where a council operates a business centre or an industrial park and rents out the units, the starting point would have been about providing that economic support to the local community.

We would warn strongly against councils almost having an investment arm. That is not their day job. The council's day job is to run good local public services and to support their local communities and their economies. They might do that through local investments, and they might receive a return on that investment, but they are not equity firms. It is not their job to go and buy assets around the country that are not core purpose. A lot of the work we are doing in support of councils in financial distress is in some part—not entirely—a result of councils that have taken the enterprising route writ large, and the chickens have come home to roost on those.

Q183 Mr Dillon: I do not think I would disagree with that, but if the council were buying the expertise in, would that provide some safeguards against concerns that councillors are not knowledgeable enough to be making decisions on investments, which is what resulted in investments going wrong and some of the funding pressures that councils are facing? If it was done with an investment service brought into a council, would that safeguard against your fears?

Nico Heslop: The first thing to say is that over the last few years, we have changed the guidance around borrowing for public works loan boards, which says that we will not lend to councils that are borrowing to invest only for profit.

Mr Dillon: That was done under the previous Government.

Nico Heslop: Yes.

Mr Dillon: This is about whether the Government will consider that as an additional income source going forward, but with safeguards.

Jim McMahon: I would say that, a decade ago, councils were almost directed by the previous Government to be enterprising, to be entrepreneurial, and to go out and make their own luck in the world, but that has consequences. I should say that the relationship between central Government and local government is one of trust and respect, so this is not about dictating or telling councils how to do their jobs. It is reflecting that councils' core purpose is to provide local public services and support their local communities and economies. They may choose to have localised



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investment to support them in that core purpose, but the core purpose is not that they are enterprising, equity-type investors that seek places to put money and may deliver some council services at the back end of it. That is a path to ruin, as we have seen.

I think most councils are not in that place. Most councils act responsibly and absolutely understand that they are there for their core purpose. They also understand that they have an important role to play in driving their local economies. Wherever you visit around the country, you will be taken to local examples of councils investing in things like co-working spaces or industrial units, where they would not have that economic activity were it not for that investment.

I think we need to be careful here. We have to be clear about where the guardrails need to be, and that is where we started from, but let's not pretend that that is where councils are. I think most councils are doing a really good job, and many of them have been doing that in quite difficult circumstances.

Nico Heslop: On your guardrail point, a council should obviously bring in expertise if needed, but some of the councils where it went spectacularly wrong were overly reliant on so-called experts. The systems of accountability and scrutiny, from both the officers and the local political leadership, were not there. We absolutely need expertise, but we need to maintain the accountability and scrutiny of the experts.

Q184 **Mr Dillon:** I have two further questions on income sources. If I go to visit Chris in Milton Keynes, I can pay 80p an hour to park; the council cannot increase it, because that is their transportation budget. Would the Government allow councils more flexibility to un-ringfence what income, for example from car parking, is generated for? Secondly, planning fees are set at a national level, but that does not recognise the cost pressures of, for example, living in Newbury in west Berkshire, compared with living somewhere up north. Could you comment on that?

Jim McMahon: I will let Nico comment on how it features in the round.

Nico Heslop: On parking—or what is known in the sector as sales, fees and charges—the consultation document that we published in December we had a whole chapter on that and asked for views from the sector. We will set out more in the follow-up consultation in June.

This is a very complex area, and different sales, fees and charges are owned in different places across Government. Doing some work on that is probably for the slightly longer term, but we are very open to hearing views—we are now we are in regular dialogue the LGA—on whether there are any obvious areas to look at. We will set out more detail on it in the June consultation.

Q185 **Mr Dillon:** Does that include car parking charges?

Nico Heslop: Yes, those would be within sales, fees and charges.



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Q186 Mr Dillon: Car parking is slightly different. The licensing, tax and excise, and planning fees are set by your Department—I accept those fees. But on income generation from parking, in Oxford it is £20 a day to park, whereas in Milton Keynes it is 80p, just because they cannot generate more money than they spend, yet I am sure that there are pressures in Milton Keynes and that an extra 10p an hour would help to fill some gaps in budgets.

Jim McMahon: I would consider that in the round, because what we cannot do is to have a sales, fees and charges policy that is about Milton Keynes car parking rates.

Q187 Mr Dillon: No, no—it wasn't about that. It is about the formula of car parking income, isn't it?

Chair: Lee, you should be taking the train to Milton Keynes.

Jim McMahon: But my point is that we need to take that in the round. And as Nico said, there are so many different Government Departments that have a view on this, or even hold the ring on some of the regulations around it, and that needs to be worked through the system. We then need to have an eye on what it means for the fee-paying public on the other side.

Q188 Mr Betts: Minister, I agree with your comments, in your previous incarnation, that council tax is regressive. Indeed, you agreed with Michael Gove when he was Secretary of State, who said exactly the same thing. Going forward, if you are not going to reform council tax as a whole for the foreseeable future, will there need to be very careful regard to future demands on councils and the need to have more finance? How much of that finance comes from council tax, which is regressive, and how much from central Government funding, which can draw from more progressive forms of taxation?

Jim McMahon: In there is our starting point, with the work that we are doing on the funding formula, which is to accept—I have said this in this Committee—that it is a matter of fact that there are areas that have had to go to council tax in the absence of central Government funding, just to be able to keep up with demand. But even that is not enough anymore. There has always been a role for central Government. I think that, for too long, in large parts of the country, and generally in poorer, more deprived, more post-industrial parts, with lower tax bases, the Government, honestly, have walked off the pitch.

We tried to reconcile that a bit this year with the recovery grant, which is £600 million that has been directed to those areas with high deprivation and low tax bases. But we also have to make sure that the main funding formula, in the way that we account for the needs in a local area—that is the population size, the number of young people, the demand for different services, alongside the area's resource pot, so how much it can legitimately generate at a local level—then calls on Government to act as an equaliser, to make sure that all local authorities can deliver local public services.



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We have found over the last 10 years that the Government have not been doing that, so councils have had no choice but to increase council tax in the way that they have.

Q189 Mr Betts: That is about better distribution between councils. Within councils, if there are not going to be changes to bands, could the Government at least look at revisiting how much support it gives to council tax support schemes? The last Government effectively withdrew that and left councils on their own with it. Is that something the Government could look at—putting money into those schemes, which would really help the poorest in communities?

Jim McMahon: I think it is a matter of fact that the localisation of the council tax support scheme for working-age households has led to a genuine postcode lottery. I usually avoid using that phrase, because it does not allow for local variations that are legitimate. But on this front, it is a matter of fact that you can be in a very similar financial position and have a similar household make-up in one part of the country, and get a different level of support than you do in another. For some people, that is difficult.

The cost of a national scheme, though, is not insignificant; £1 billion of investment would be needed to fund that. So the question—these are live and legitimate questions—is this: are you better to fund individual councils through the funding formula, or do you want to use the same investment to fund individual households at a household level, or do you want to do a bit of both but then make trade-offs within that system? These are all part of the considerations as we get through the next few months.

Q190 Mr Betts: Finally, in terms of more radical reforms going forward, one that the Treasury would absolutely hate is to look at what happens in many Scandinavian countries, where local government is guaranteed that a certain percentage of national taxation is paid to it, or the central Government fund a major local government service, such as social care, at least in advance of the Casey review. Are either of those possibilities under consideration at all?

Jim McMahon: Not in the way that you describe it, which is essentially the hypothecation of a local income tax model. It is not something that we are looking at.

Q191 Mr Betts: Not at all? No talks with the Treasury, even about more funding for one particular service that is clearly a major requirement of local government, with virtually no choice about the demands it has to respond to?

Jim McMahon: It is very difficult for central Government to make an absolute assessment of the cost of delivering services, given that councils' delivery models are so different and their cost bases are so variable. That makes it difficult for Government to have a funding formula that can meet that, which is why we always take funding in the round. We do take into account the needs and resources, and we take pressures in the round. We then look to see what we can do to be the equaliser in the system, to



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make sure that all local authorities have enough to sustain their activities. I think that is the right way, and certainly the way the Treasury wants us to look at it.

Q192 Chair: I want to go back to the issue of council tax, Minister. For many residents, when that bill comes, they will see the adult social care precept, which continues to go up year on year. Do you think it is right that central Government are not fully considering the cost of those demand-led mandatory services, such as adult social care and temporary accommodation, going forward?

Jim McMahon: Council tax in most areas is far in excess of what a local council spends on neighbourhood universal services anyway, just because of the amount of council tax that is now generated. In terms of the notional attachment or hypothecation of council tax to universal services, with central Government then funding targeted people-based services, that does not tally at all with the funding pots that are drawn on to fund local public services. I think it is more a question of how real a presentation of that council tax payment on a council tax bill is, versus the actual spend on adult social care in that context. That is more presentational than factual.

Q193 Chris Curtis: This is on a significantly smaller scale than what Clive was just talking about, but most of the evidence we get is, "Of course you should introduce a tourism levy—it's been a success," and there are enough examples where it could be. Is this something you are now looking at giving strategic combined authorities the power to implement?

Jim McMahon: Ultimately, any tax like that is a decision for the Treasury, not for our Department.

Chris Curtis: But the Department is you.

Jim McMahon: Well, on issues like this—

Q194 Chair: Are there active discussions with the Treasury on this?

Jim McMahon: Our view is the Treasury's view, but we do reflect that there are particular mayors and cities making the case for an overnight visitor levy or tourism tax, and a number of voluntary schemes are already active around the country. However, it is a matter for mayors and local authorities to make the case, and for HMT to hear that case and make the decision.

Q195 Chris Curtis: We will see where the Treasury ends up, and I hope they end up pushing this forward. However, there is one very specific example, probably where it will have the most impact, that is relevant to your Department. Without wanting to speak on behalf of Bedford council, I imagine there are many who are incredibly nervous about the millions of pounds of extra spending they will have to find to support the brilliant universal project that this Government have committed to, and the extra pressure that that will put on them.

Do you not think that your Department needs to urgently look at how a



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strategic authority can be implemented across that region—including Luton airport, where there will be an increase in business rates—to ensure that Bedford council will not go to Mr Heslop in a few years' time and say, "We are really struggling under the financial pressure to do this"? There needs to be a strategic authority in place that can support the infrastructure going in around that, so that all the burden does not fall on Bedford council.

Jim McMahon: Maybe we do not start at the same point, but I think we finish at the same point, which is that there are arguments for a levy, and some of them are quite strong. The fact that there are voluntary schemes in place says that in some parts of the country—but not all—there is a coming together of local political leadership and local business owners to say, "That is the right thing for our area", and the voluntary schemes are in place. That is quite different from the end of the conversation, which is our ambition to see universal coverage of strategic authorities around the country to make sure that everyone has that level of governance, whether that is with a mayor or a foundation authority, to get money out the door. We have had many conversations about Milton Keynes and Bedfordshire, and the economic potential there. That means it is an obvious candidate.

Q196 **Chris Curtis:** Do you think that the introduction of the Universal project adds extra urgency, given the potential increase to costs to ensure that a strategic authority is in place across that geography?

Jim McMahon: That is certainly a fair case to make in terms of the economic impact that that investment will have, and it should be capitalised. With more co-ordination across that sub-region, that feels better. I should say, though, that there is no reason why local authorities in that area cannot do that now, with a foundation agreement as the first step to devolution. Our ambition for devolution, and particularly devolution in that part of the world, is clear. The arguments that you have made, Chris, over quite a long period of time in favour of devolution are heard, as is the urgency for devolution. We should continue that.

Q197 **Chair:** Would you support more BID areas introducing their own form of tourism taxes and levies?

Jim McMahon: We have moved on to more mayoral strategic authorities being created, not more tourism tax authorities. The point was more about capitalising on the investment in the new theme park—a strategic footprint that really draws in the economic impact of that.

Q198 **Chair:** So if all those new mayoral authorities decided to have additional business improvement districts with a local tourism levy, you would not object to that.

Jim McMahon: They are slightly different things. The business improvement district, which is done thorough a localised referendum, is a route that is available to areas today. There are live BIDs that have come through the system since we have been in Government.

Q199 **Chair:** Essentially, they would have the mandate to do that if they balloted their members, which a number of them do every five years.



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Nico Heslop: Liverpool is introducing it.

Jim McMahon: That is slightly different from the tourism tax, in the way that it has been requested in other parts.

Chair: We have had a wide range of discussions, and we appreciate your time this morning, Minister and Nico. These discussions will continue as we continue to look at the funding and sustainability of local government finance. Thank you for attending.