



Communities and Local Government Committee

Oral evidence: Local Government finance settlement 2014/15, HC 1024

Monday 27 January 2014

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Written evidence from witnesses:

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Members present: Mr Clive Betts (Chair); Bob Blackman; Simon Danczuk; Mrs Mary Glindon; David Heyes; James Morris; Mark Pawsey; John Pugh; John Stevenson; Heather Wheeler and Chris Williamson

Questions [1-75]

Witness: **Brandon Lewis MP**, Parliamentary Under Secretary of State for Communities and Local Government, gave evidence.

Chair: Minister, once again welcome to our Committee, to a one-off evidence session on the local government finance settlement. Part of the stimulus for the session came from quite a large number of petitions, which the Committee eventually received, about the perceived imbalance in the allocation of money to rural areas, so some of our questions will focus on that, but then we will look more widely at the settlement as well. Just to make sure we get everything on the record, it is appropriate right at the beginning of a session—I think it will do for both sessions—if Members put their interests on the record as well. I am a Vice-President of the Local Government Association. Could anyone else with a particular interest related to local government put their interest on the record?

Mrs Glindon: My husband is a councillor in North Tyneside.

Chris Williamson: I have got a couple of staff who are elected members.

David Heyes: Me too.

Simon Danczuk: My wife is a councillor, my father-in-law is a councillor, and some of my staff are councillors.

Heather Wheeler: I am a Vice-President of the LGA and my husband is leader of a council.

John Pugh: I have a member of staff who is a councillor.

Mrs Glindon: I have a member of staff who is a councillor.

Chair: Is that our lot? Thank you very much. Thank you, Minister, once again for joining us.

Q1 Mrs Glindon: Good afternoon, Minister. Do you support the Rural Fair Share campaign for the rural penalty to be reduced from 50% to 40% by 2020?

Brandon Lewis: We do not agree with their figures, in the sense of the way they calculate the 50% and 40%. To compare like-for-like authorities, if you look at unitary authorities, in 2014-2015, the difference is about 10%; if you look at the shire district areas, in 2014-2015 it will be 12%; if you look at fire and rescue authorities, it will be about minus 3%; and for county councils, it will be about 4%. That is because the way they assess what is a rural area is quite different from the way we do. In a simplistic sense—I can give you a colloquial example of this—the way they look at the rural definition, they would include Norfolk as a rural county. I can see the logic of that, but those of us who live in Great Yarmouth, Norwich and King's Lynn would be the first to admit we are predominantly urban and we have deprived areas and areas of high density as well. When we distribute funding at DCLG, we do it in different ways. We would class Norfolk as North Norfolk, Mid-Norfolk, Broadland, Breckland and South West Norfolk, not Norwich or Great Yarmouth or King's Lynn, so it is quite a different way of calculating it. I have had this conversation with SPARSE themselves.

Q2 Mrs Glindon: With regard to what you said on that, is there a reason why you did not take notice of the call for the Efficiency Support for Services in Sparse Areas funding to be increased to £30 million when Graham Stuart MP asked for that?

Brandon Lewis: We put £8.5 million in last year. This year, in the settlement as it currently stands, that is at £9.5 million and we are going to roll it into the base, because we do recognise—we have been quite clear about this—that there is a gap between rural and urban. But, as I say, as far as we are concerned, it is not 50% narrowing to 40% in the first place, so to have a discussion around £30 million would be presuming a set of figures that we do not agree with in the first place. As I say, if you look at it like for like, for 2014-2015 the gap

ranges from a maximum of 12% down to minus 3% for the fire authorities.

Q3 Mrs Glindon: Do you think that the ESSSA is just a temporary fix—a political fix—or do you think it is evidence that the Government and your Department accept there is a rural penalty that needs to be reduced?

Brandon Lewis: As I said just now, we do agree that there is a gap. We were sympathetic to the argument, and that is why we put the extra money in last year. We have increased that money to £9.5 million this year and we have put it in the baseline so that it is not just a one-off; it is rolled into the baseline. We are dealing with that. In that sense we have recognised the issue and dealt with it. Having said that, I also need to be quite clear that there is limited evidence of there being considerable extra cost—which some people would argue—of dealing with rural services. The Department for Environment, Food and Rural Affairs has commissioned some work, which we are working with them on, to have a look at this very issue, as it happens. That will be reporting back later this year and, depending on the findings—and I am not going to pre-judge that; the work is only being commissioned in February or March—that may well give everybody something to look at for the next settlement. But at the moment, as I say, the gap for local authorities ranges from 12% to 4%. It is not a very big gap now.

Q4 Mrs Glindon: There is a big difference between the amount that the Rural Fair Share petition are asking for—£30 million—and that which the Government is saying it will give, so there must be some cause for concern that is justified.

Brandon Lewis: No. As I said, the difference between the figures is the difference between the 12% and the 40% or 50% that you mentioned in the opening question. That is because of the way that they are assessing what is a rural area. As I say, they would class the whole of Norfolk, when in fact there are towns and districts and authorities in Norfolk that are predominantly urban, if not entirely urban, such as, as I said, Norwich, King's Lynn and Great Yarmouth. In terms of how we fund, they are not classed as predominantly rural areas.

Q5 Mrs Glindon: Is the purpose of revenue support to ensure that everybody would receive the same level of local service if they were paying a notional uniform council tax across the board?

Brandon Lewis: The idea of every single person in the country paying the same council tax would be an interesting thing to take forward, and some councils might have different views on that to others. The money

that is distributed through grant predominantly—and obviously the most deprived areas get the highest amount of grant—is in order to make sure they can provide the core services. Depending on where you are, different councils will make decisions on what their primary focus is and what their priorities are. I have said to this Committee before everybody expects to have their waste collected—the Secretary of State would argue vehemently that it should be on a weekly basis—and to have the streets kept clean, but the priorities for an individual authority are a matter for the local authority. That is localism.

Q6 Mrs Glendon: So there would be different problems in urban and, perhaps, rural areas.

Brandon Lewis: I am sure some local authorities would argue that there are not only different issues to deal with in a rural area compared to an urban area, which is undoubtedly true. In an urban area you are dealing with density of population but in close proximity to each other, generally, because of how it is built up; a more rural area will be dealing with higher transport costs or gaps and differences between areas and villages. Equally, you will find rural areas will make the point, depending on where they are and their proximity to the next town, that they are dealing with different issues according to their area—and the same with urban areas. I have two of the most deprived wards in the country in my constituency. Great Yarmouth would make the point that they have very different issues to deal with from some of the areas in the Midlands and the North, partly because they are a seaside town, partly because some of it is rural. Parts of Norfolk would argue there are areas of rural deprivation. It is quite difficult to say that rural is just different from urban and all rural is the same. One of the beauties of our country is wherever you go there is something unique and something different, and that gives a different challenge to that authority. It is also why that power for local authorities to make their own priorities is so important, because they know what they need to deliver most for their local residents.

Q7 Chair: Could I just turn Mary's important question around a little bit? Is the principle of the grant settlement that it equalises out differences in needs and differences in resources between authorities, to the extent that if everyone were to pay the same level of council tax, they would get the same level of service?

Brandon Lewis: Do not forget the whole structure of how we finance local government is changing. The basic baseline—for want of a better phrase—has the banding in; it has the four bands, which does recognise that. That is why some authorities will be more grant-dependent than others, so they get that basic funding to be able to

provide basic services. But we have moved to a whole new way of funding local government through the business rates retention scheme and the New Homes Bonus. We are moving away from a system that is grant-dependent to a system where local authorities are incentivised to do things.

Q8 Chair: So that principle has been eroded, effectively.

Brandon Lewis: Yes, there is a big shift away from the begging-bowl structure of the past to an incentive-based structure for the future.

Q9 Mark Pawsey: Minister, can I follow up the concerns of rural communities that Mary has just spoken to you about and particularly ask you about the sparsity ratings, or the sparsity allowance? The sum of £200 million was put on one side to reflect that, but then damping provisions were introduced, which meant that three-quarters of it would not get out to the local authorities. Was it the Department's intention to effectively give with one hand and then take away with the other?

Brandon Lewis: First of all, not every authority—to the point you made, Mr Pawsey—was detrimentally affected. Technically, you will find some examples of rural authorities that get the benefit of the extra £9.5 million and benefit from damping. It depends on where you sit on the scale. The decision that was made in late 2012 for the settlement for 2013-2014 put damping in and widened and stretched the bands to make sure there was more protection in there for the most grant-dependent authorities, because there was recognition that although there is a gap between rural and urban—and I have to say this is underlining the fundamental difference between the 50% argument and our 12% at-worst-this-year argument—the most grant-dependent authorities, which tend to be in some of the most deprived areas, needed that extra protection to make sure they had the basic funding. It also avoided volatility for the business-rates scheme.

Q10 Mark Pawsey: I accept that. You have said that we will look at the situation today and there will be no assessment until 2020. Is that still the case? You spoke just earlier about looking at a report later this year. Will that change things, or is that a separate issue?

Brandon Lewis: There are two different things going on. The business rates retention scheme is locked in until 2020, and if we unlock that, then we start disincentivising the growth opportunities through that scheme. However, the Department for Environment, Food and Rural Affairs are doing some work on the issues for rural areas. Our Department is working with them on that. That work will be done over the summer; it is due to report back in the autumn. I am not for a moment saying that there will be things in that that we need to look

at, because we do not know what is in the report yet; it would be pre-judging it. The SPARSE argument is that there are big differences in the ability or the cost of providing services in rural areas as opposed to urban. If that report backs that up, it will be the first time realistically there has been solid evidence to back that case up, and then the Government will have to have a look at that. However, at the moment, that evidence does not exist, and we do not know quite what that report will feed back. The movements we are able to look at—for example, this year, with the £9.5 million—give us some flexibility, but, again, I would underwrite that and say, if you look at like-for-like authorities, the worst gap is only 12%.

Q11 Mark Pawsey: But you are saying to those authorities who feel that they have not done particularly well this year that it does not necessarily mean that there can be no changes between now and 2020, because this report may provide the evidence they need, in which case the Government will act.

Brandon Lewis: From their point of view, if that report provides evidence, then it is a very strong piece of argument for them to put to the Government. There is a track record of our looking year to year at what we need to do to make sure we get the settlement in the right place. For example, last year, we put the £8.5 million in; this year, we put £9.5 million in. Last year, we had the de minimis for some authorities—the lowest quartile of charges. There have been variations and flexibilities quite regularly within settlements. I am not pre-judging what may or may not happen next year, but certainly in the past there is evidence that, where there needs to be flexibility, the Government will look at it.

Q12 Mark Pawsey: So there will be a regular review. One of the great concerns is that there is a bit of a cliff face coming. If there is a perceived unfairness now, the Government are not going to do anything about it until 2020; if there is a review in 2020, there could be then significant change. How will local authorities prepare for that? Or will Government simply defer yet again? How can you reassure authorities that that is not going to happen?

Brandon Lewis: I might be going a bit beyond my remit to pre-judge what a Government in 2020 might do, because technically I could be binding the Government after next, just about, depending when in 2020 we are talking about.

Mark Pawsey: But you understand the concerns.

Brandon Lewis: I do understand the point, but to make the business rates retention scheme properly able to incentivise, there needed to be

a baseline, and then beyond that, that growth allows the councils to benefit. The view was that to lock that in until 2020 was the logical thing, bearing in mind the baseline does recognise the banded floors in the first place.

Q13 Chris Williamson: You have probably heard that the Rural Services Network has complained that authorities in the Home Counties have seen the smallest reductions in settlement funding during 2013-2014 through to 2015-2016. People are asking why these affluent areas are being given an easier ride than more deprived rural and urban local authorities.

Brandon Lewis: I would argue they are not, in the sense that the most deprived 10% of authorities have a spending power that averages just over £3,000, whereas the least deprived 10% have a spending power of £1,952. They have a much higher starting point in the first place.

Q14 Chris Williamson: The indicative figures for 2015-2016 suggest that there is going to be a 0.6% increase for South East England but a 2% reduction for England as a whole. I just wondered how you thought that can be fair.

Brandon Lewis: There were about 40 authorities that had an increase last year; there are some this year; and there will no doubt be some next year. That potentially could grow. Those authorities who had those increases had them because of the New Homes Bonus. It is proving the incentive is working; they are building the houses and they are getting the money. As the business rates retention scheme works and as we start to see economic growth, there is a real potential some authorities will see growth through that as well.

Q15 Chris Williamson: Can you understand, though, why some people think that the Government is in some ways rigging the situation in favour of more affluent parts of the country, whichever measure you look at, whether it be spending power or grant settlement? For example—and this is often an example that is cited—the Prime Minister's own local authority area, West Oxfordshire, has seen a per capita increase of £57.23, whereas my own local authority, for example, has seen a reduction of £354.13. One area that is affluent has seen an increase; an area that is less affluent has seen a massive reduction. Derby is by no means the worst-affected in that sense; many other local authority areas argue that they have seen even bigger reductions. People just see that as being fundamentally unfair. I just wondered how you square that circle. How can you justify that as being reasonable?

Brandon Lewis: Just to help my memory, because I have not got it in front of me, could you remind me what the spending power for your council is against West Oxfordshire?

Chris Williamson: I cannot off the top of my head.

Brandon Lewis: I think you will find that it is considerably higher than West Oxfordshire in the first place. As I have said, West Oxfordshire and the authorities that have had increases, as I have said, have had them because they have the New Homes Bonus. The incentive scheme is working. That is something we should be pleased about. It works, and other authorities can benefit from that. But you have just highlighted the issue. For example, as I have said, the most deprived areas tend to have a spending power that is well over £1,000 more than the areas that are more affluent. For example, people tend to use West Oxfordshire, Woking and places like that, which have spending power of between £1,500 and £1,900 per household; if you look at areas like Newcastle and Liverpool, they will be between £3,000 and £4,500 in some cases per household. As I say, they have a much higher spending power per dwelling in the first place.

Q16 Chris Williamson: That is because there is a great deal more deprivation. I think you would accept that.

Brandon Lewis: They have deprivation to deal with; that is why they have this higher grant in the first place. My point is you cannot do a direct comparison of somewhere that is getting £4,500 per dwelling in spending with somewhere that is getting about £1,800 and argue that the one that is getting £1,800 is better off.

Q17 Chris Williamson: We constantly get into this battle, though, don't we, between this definition of spending power and grant settlements? There is a constant tension, it seems, between DCLG's interpretation of what the figures are saying and your arguing, "These more deprived areas are doing better in a sense because they have got more to start with". I just wonder, therefore, what your thoughts would be about whether it is time to have a local government equivalent of the Office for Budget Responsibility. That would then settle it, would it not? Would you support that?

Brandon Lewis: I do not think there is anything to settle. I appreciate you do not know the spending power for Derby at the moment, but I think you will find, if you look at it, it is much higher than West Oxfordshire in the first place. That is quite a simple fact. It is the same for Newcastle, Liverpool, Leeds and Manchester; they are much higher than the more affluent areas.

Q18 Chris Williamson: What about the point, though, about a local government equivalent of the Office for Budget Responsibility?

Brandon Lewis: The problem is you are also looking at it from the point of view of the grant settlement. Bear in mind, of course, 70% of local authorities' money—it used to be 50%—now is locally derived. That will hopefully grow as we see economic growth. You also have to bear in mind we are working within a constrict in which we are having to reduce the deficit and pay down, eventually, the debt that was inherited from the last Government. The Secretary of State made the point to you last week that, with local government accounting for about a quarter of all Government expenditure, it has a big part to play. If the authorities that are getting the largest part of the grant are losing 2.9% of their funding, in cash terms that will be a different figure compared with somewhere that gets a much smaller grant in the first place.

Q19 Chris Williamson: Can I just press you one final time with regard to this point about a local government equivalent of the Office for Budget Responsibility? I accept you are making the argument that the Government's figures are reasonable, but there is this tension that a lot of people would take issue with your interpretation. In terms of taking the tension and the politics out of it somewhat, if we had that equivalent of an Office for Budget Responsibility for local government finance, that would settle this argument once and for all, would it not? No matter how strongly you argue today that the Government is being fair and reasonable, there will be many voices in local government who say, "Well, I am sorry; that is just disingenuous".

Brandon Lewis: The Office for Budget Responsibility looks at Government expenditure, so you could argue that a part of DCLG is within what the Office for Budget Responsibility looks at. I am sure that is an argument, if you want to put it, we can debate in a backbench business debate or a Westminster Hall debate at some stage in the future.

Q20 Chris Williamson: As far as you are concerned at the moment, then, you would not necessarily support—

Brandon Lewis: I am not sure what it particularly would add to the fact that, at DCLG, we have to set a budget for local government; we have to work out what the grant settlement is for local government. That is changing dramatically, because local government itself is controlling more and more of its own finances; less and less of it, regardless of who is sitting in my chair and what party they are from, is going to be coming from central Government. As I say, it has already

moved from roughly 55% or 56% to 70% in the last couple of years. As the economy grows, hopefully that will grow and local authorities, as a result of that, will become more and more autonomous. That, in the long run, has to be good for them.

Q21 Chair: Minister, you talked about the proportion of spending that local government takes in terms of the national cake, so you would expect, therefore, there to be a reasonable proportion of any reductions in local government. Is it fair, therefore, that from 2010-2011 to 2014-2015, local government will see the cash made available to it from central Government decline by 15% but central Government itself, on its own expenditure—its own direct services—will have increased its cash spend by 15%?

Brandon Lewis: As I said, local government has got a huge part to play. It has still got a lot further to go.

Q22 Chair: A 15% cut for local government; a 15% increase for central Government. It is not very fair, is it?

Brandon Lewis: We are down about 60% in terms of our reductions at DCLG, so we do practise what we preach. We even go as far as sharing, effectively, our chief executive—our Permanent Secretary—and we are going to be moving our offices to be even more cost-effective this year.

Q23 Chair: It is not the real question, is it? 15% increase in cash for central Government as a whole; 15% reduction in cash for local government. It is not very fair, is it?

Brandon Lewis: Local government is still spending more than it did last year. It is up at £117 billion from £114 billion. The actual spend in local government and the amount of money it has in reserves is showing local government is still doing a very good job.

Q24 Chair: 15% down in cash in four years.

Brandon Lewis: It went from £114 billion last year to £117 billion this year. It has managed to increase its reserves and keep providing good services.

Q25 Chair: Can you justify the fairness of why local government has been picked out for the biggest cuts of all?

Brandon Lewis: There are certain departments that have been protected, because the Government took a political decision about what was to be protected. Local government is responsible for about 25% of

all Government expenditure, so it is going to end up taking a big chunk of the savings that have to be made. We have to pay down that debt and deficit, and it has to come from somewhere. Equally, we have given the power to local authorities to be more in control of their own finances as they go forward. As I said earlier, some authorities have seen increases in their grant money from Government through the incentive schemes.

Q26 John Pugh: I have some questions on timing, but can I just take you back to a previous question probed by our Chairman? What we are trying to find out is whether there is a change of principle behind the allocation of resources. I think you said something like you wanted to move away from a “begging-bowl”—that is the expression you used—system to incentivising local authorities. Is that what you said?

Brandon Lewis: Yes.

Q27 John Pugh: I do not think councils traditionally beg, but they do expect that their funding is somehow a reflection of a needs assessment. Are you saying that you want to move away from a needs-based system of funding local authorities to a different system not based on need?

Brandon Lewis: Need is built into the baseline that is there for the business rates retention scheme. The business rates retention scheme, the New Homes Bonus, the Efficiency Support Grant and the Transformation Challenge Award are moving the grant-based part into an incentive-based system; absolutely.

Q28 John Pugh: So you are moving away from a needs system.

Brandon Lewis: The needs system is built into the baseline, but where you move from there is incentive-based, yes.

Q29 John Pugh: If you do that, would it not follow that over time those authorities that have great needs but limited opportunities will continue to have less money to spend and those areas that have limited needs but huge opportunities—like, for example, Oxfordshire with its house building—will continue to do better? Is that not the obvious trend that will result?

Brandon Lewis: No. I would argue that is an unfair assessment of some of the authorities. When I meet local authorities, whether it is from the north-west, the north-east, the midlands or anywhere else, they talk about wanting opportunities for growth, and what they can do to see businesses grow and develop business. There is a real appetite for that out there, and if they do that and they drive forward with that,

they will see the benefit. In my area, where we have big issues with deprivation in a couple of wards, the energy industry is driving the economy forward; in parts of the north-east there is a similar effect. I do not necessarily think just because a council has in the past relied purely on a needs-based formula that they should not be able to be incentivised by a growth formula.

Q30 John Pugh: I am perfectly happy to accept that councils may seriously underestimate the economic opportunities they have in front of them, but there are certain areas of the country that every economist would acknowledge offer greater opportunities than others—say, for example, the south-east compared with the north-east. That will continue to be the case regardless, won't it?

Brandon Lewis: Do not forget that there is a baseline, so it is about the growth that they show. Some areas of the south-east would argue that there is a limited amount of space for them to grow business rates because they have so much there in the first place, whereas other parts of the country that have not got so much have more room for growth and to develop more space for businesses. That argument can be played either way round, and I have heard authorities make that both ways. You have to also bear in mind, as I say, that it starts with a baseline that does build in needs through the four bands.

Q31 John Pugh: With regard to timing now, the settlement was announced over the Christmas period and local authorities, many of whom are now making economies by closing down over the Christmas period, had 17 days to respond. Why was it done like that?

Brandon Lewis: We do the settlement after the autumn statement.

Q32 John Pugh: Was it because the autumn statement was so late?

Brandon Lewis: Yes. Actually, it was a pretty similar timeframe to the year before. Bear in mind this year was much easier for authorities, because the previous year we gave a two-year indication, and the changes that came through this year from the original indication were generally beneficial for them, so authorities had a pretty good lead-in time this year. In the same way, this year we have given them an indication for next year.

Q33 John Pugh: But you have been a council leader yourself; you would have preferred probably more lead-in.

Brandon Lewis: I do appreciate authorities make the case they would like the settlement earlier. I have absolute sympathy with why they

want that, which is why last year we gave them effectively a year's notice. To me, it is difficult for them to argue this year they did not have enough notice when they had about a year's notice.

Q34 John Pugh: What about the council tax referendum threshold? That is quite critical, and it is something that has been quite confused in recent years. Could you not have established that earlier? That was irrespective of the numbers the Budget came up with, wasn't it?

Brandon Lewis: We gave an indication it certainly will not be more than 2%. We will make a final decision and a recommendation to Parliament very shortly.

Q35 John Pugh: Why is it not possible to do it earlier?

Brandon Lewis: Through the consultation, we have had representations—

John Pugh: Well, begin the consultation earlier.

Brandon Lewis: We cannot start the consultation until after we have done the draft settlement. Through that consultation, we had representations about the referendum level. Last year, there was a variation in the referendum principle levels for some authorities because of the de minimis.

Q36 John Pugh: There was confusion about the referendum threshold, wasn't there?

Brandon Lewis: Last year, it was local authorities who argued for de minimis, which we put in, which was welcomed by those authorities. This year, there have been authorities making a case for a lower referendum threshold than 2%, and we are looking at that.

Q37 Simon Danczuk: Minister, is the Local Government Association accurate when it says that the cut in central funding for council tax support to 2016 "could be as much as £1 billion"?

Brandon Lewis: The Local Government Association has from time to time made claims about what it thinks might happen. In the past, local authorities have made claims about the council tax freeze grant. They have argued there is a cliff edge because of where they think that will end. That is why this year we have made it very clear that it is in the baseline, so there is not this cliff edge coming, but it would also be a bit beyond my purview to go beyond the spending round.

Q38 Simon Danczuk: What is your estimate of what it is, then?

Brandon Lewis: As I say, we have given the settlement this year; we have given an indication of next year. I am not going to be judging now what might happen in the settlement after that, but we have rolled the freeze grant into the baseline so that we avoid the cliff edge that some authorities thought they might face if they took the council tax freeze grant. That simply is not there now. Coming back to the point Dr Pugh made about the referendums levels, the Government would really like all authorities to take the freeze grant and freeze the council tax to help people.

Q39 Simon Danczuk: Let us, Minister, turn to what was the Social Fund, which has been devolved to local authorities. Could you just very briefly give the Committee a flavour of what vulnerable people use crisis loans and community care grants for?

Brandon Lewis: It would be a range of things. A lot of authorities have not had it taken up fully, but it would be for a range of things, around needing money in an emergency for whatever it happens to be for that particular person at that particular time in that area.

Q40 Simon Danczuk: So people needing a cooker because it is broken, or something like that, to be able to warm up food to be able to feed the children. Things like that.

Brandon Lewis: It could be a whole range of things.

Q41 Simon Danczuk: Yes. Like that. Vulnerable people in real need.

Brandon Lewis: Yes.

Q42 Simon Danczuk: I am right in saying the Government passed the responsibility for this type of safety net down to local authorities to administer. They reduced the amount. It was £175 million in 2013-2014; it has gone down to £172 million in 2014-2015. The Government said at the time when they introduced this and passed it to local authorities that they would carry out an assessment after the first 12 months, but you now know, as I do, that just before Christmas the Government announced that they were stopping funding it completely. That is right, isn't it?

Brandon Lewis: Yes. The Department for Work and Pensions made that announcement a couple of weeks ago.

Q43 Simon Danczuk: So local authorities have to fund that £172 million or £174 million now, do they?

Brandon Lewis: Yes, although some local authorities, including some of the larger ones, were finding that they were not using it, and they were closing the schemes; they were not getting the call for it.

Q44 Simon Danczuk: So there was a demand for £178 million-worth of—

Brandon Lewis: I do not know what the actual demand was, but I know it was not the full amount.

Q45 Simon Danczuk: We know what it was from when the DWP administered it.

Brandon Lewis: I know what the DWP had allowed for it, but I believe there were some authorities that were not using the full amount.

Q46 Simon Danczuk: But we know what the demand was.

Brandon Lewis: We know what the claim levels were, yes.

Q47 Simon Danczuk: So it has gone from £178 million, or around that figure, in parts of the country to zero. That is what you are claiming, is it?

Brandon Lewis: I have not got the exact figures in front of me, so I am not going to pre-judge.

Q48 Simon Danczuk: Fair enough. Would you not share my view that government—whether it be central or local—should really be the crisis-lender of last resort for vulnerable people?

Brandon Lewis: Again, what local authorities do has to be decided according to what they feel the priorities are for their local areas. It is one of the reasons that local authorities now have that general power of competence to look at what they think is right for their area. They have also to bear in mind we are all living in a fiscal envelope in which we are still dealing with the debt and deficit of the last Government, and that has to be paid down.

Q49 Simon Danczuk: By vulnerable people.

Brandon Lewis: By all of us, unfortunately. The previous Government spent money it did not have, and we now have to make cuts in the expenditure of central Government to get that deficit down.

Simon Danczuk: By vulnerable people not being able to get a cooker to be able to warm food to feed their children. They have to help pay the deficit down.

Brandon Lewis: That is not what I said, Mr Danczuk.

Q50 Simon Danczuk: Minister, you said that some local authorities, spending only 1% of the money given to them by central Government, will choose, and have already chosen—and they have, because I have done research on this—not to provide this help at all. They are not being the crisis-lender of last resort, so some people will not get any help whatsoever, and you are comfortable with that.

Brandon Lewis: I would make the point that local authorities have a duty to their local communities. If, in a local community, there is a need for that, those councillors in that authority should look at what the priorities are for their local authority and how they spend their budget accordingly. That is a matter for the local authority.

Q51 Simon Danczuk: The only alternative for many vulnerable people as a result of this change in policy—and you have decided not even to assess it before the time is up on it—will be payday lenders. What the Government have effectively done in many parts of the country is privatise—because these are private companies—crisis-lending to vulnerable people. That is a fair assessment, isn't it?

Brandon Lewis: No, I would not agree with that. As I say, it is a matter of the priorities that are decided on by the local authority and the councillors on those local authorities.

Q52 Simon Danczuk: Would you give a guarantee that all local authorities will provide some sort of support?

Brandon Lewis: I cannot give that guarantee, because that is a matter for the local authorities.

Q53 Heather Wheeler: Minister, can I take you back to conversations in the autumn statement for 2012? I am particularly thinking about the business rate relief. There have now been other statements for 2013 as well. Very understandably and, from my point of view, laudably, the 50% relief for small businesses was extended and it has been a great success, but at the time councils had budgeted for that money to come in and out of their coffers and it stopped. The councils are still waiting for that agreed amount of money to come back in. Are you any closer to being able to give a date when 70% of it or 90% of it might come their way?

Brandon Lewis: I cannot give you a date now, but, if you will allow me, I will write to you on that.

Heather Wheeler: Thank you very much indeed.

Q54 John Stevenson: The business rates retention scheme was introduced to incentivise local authorities to promote business and economic growth in their area, but, according to the LGA, less than a third of councils believe that the business rate retention scheme provides sufficient incentives. What do you say to that?

Brandon Lewis: The proof will be in the pudding over the next couple of years. We will get the first full set of NNDR figures at the end of this week—so the business rates take-up. I appreciate there will be local authorities who would argue they would like a bigger share of the pie, but, again, we are working in a constrained fiscal environment. It is an incentive for them. If they get growth from business, they will get the benefit through more income through the business rates. There is an incentive there, and my hope is that authorities will seize that and take advantage of it. When I meet local authorities, a large number of them are very keen on moving forward with that, but, like any organisation, they would like to move further and faster. I have great respect for that, but we are all working in constrained fiscal environments.

Q55 John Stevenson: Why shouldn't we just move to the point where all business rates growth is retained?

Brandon Lewis: There is just a pretty simple answer to that, which is that that has an impact on public expenditure, and it is unrealistic to think that central Government and the Treasury are not going to want to make sure that we have a grip on that kind of expenditure. To see it move much beyond where it is now in the near future, while we are where we are economically—

Q56 John Stevenson: But would you not agree with me that if you did move towards the local authorities being able to retain the whole amount, that would be a real incentive for them to promote economic growth, which would then benefit the wider economy?

Brandon Lewis: That is a fair point. It depends on how you do it, in the sense that if every local authority kept its entire business rates for its area, then that goes even further down the road in terms of the equalisation of the funding that goes to authorities. Certain authorities who have a massive business rates income, such as those around where we are sitting right now, would be at a massive advantage to authorities in more rural areas, more deprived areas or areas of lower business levels. That is why we have set the baseline and then it is

about growth. It is not just giving people the benefit of the businesses they have already got; it is incentivising them to get the benefit from growth. As I say, some form of long-term control over local government finance from the centre is not entirely unrealistic in the sense of where we are economically.

Q57 David Heyes: Just to follow up on what were you were saying then, whether the councils keep the entire business rates or it is just a matter of growth, how do you square that with the fact that the Prime Minister this morning announced that the Federation of Small Businesses is going to act to reduce the business rate burden?

Brandon Lewis: We are saying to local authorities, "If you develop more businesses, you will benefit from business rate growth".

David Heyes: But the Prime Minister is going to cut the amount of business rates and therefore cut the resources that are available to local authorities.

Chair: We will have to suspend the session.

Sitting suspended for a Division in the House.

On resuming—

Q58 Chair: David, do you just want to repeat the question that you raised and then we will carry on from there?

David Heyes: Yes. All of these discussions about devolving power to local areas in one way or another seem to hinge on the idea of giving greater power over business rates, and retaining a greater amount of the business rates within the local community. That seems to me not to sit well with the Prime Minister's announcement this morning that central Government under him would act to reduce business rates.

Brandon Lewis: There are a couple of things. Local authorities have the power now to offer business rates discounts if they want to and if they feel they can afford it. We part-fund that. The idea behind that, just briefly, is they might want to use that to incentivise businesses to come in and get going, and then eventually they benefit from the business rates down the line; it is an investment. What the Prime Minister was referring to particularly focused on the package that was announced in the autumn statement, around the £1,000 discount, which is particularly beneficial for high streets and town centres; the small-business rate relief; and the re-occupation relief that will come in. That is central Government funded, so the local authorities will not

lose out from that. They could actually benefit. Once we get those businesses in and once they get going, they can benefit in the long run.

Chair: We are going to have to suspend again; I am sorry.

Sitting suspended for a Division in the House.

On resuming—

Q59 Chair: Minister, for the third time, could you have a go at answering the question from David Heyes?

Brandon Lewis: I think I had kind of finished answering, but yes, I will. I would also just like to take the opportunity to say—these breaks do give me an opportunity to double-check things—just in terms of Mrs Wheeler’s query around the business rates money coming back to local authorities, by the time she gets the letter from me explaining it, the authorities will probably already have had the letter giving them the details, but I will write to her. It is imminent; it is already signed off.

The point I was making to Mr Heyes is that the Prime Minister was referring to the package that was put out as part of the autumn statement that is central Government funded. There is a £1,000 discount for small businesses, in particular in the retail sector and the high-street, town-centre sector. It is a really good thing that the Government has been able to recognise business rates are a pressure on businesses. There is also a discount in there for getting businesses and properties back into use for 18 months. That is a really good thing. Yes, that does mean there is a discount on those business rates, which is central Government funded for that period, but then after that, there is a chance for those businesses to survive. It just gives them that opportunity to have that bit of pump-priming, for want of a better phrase. There was a really good package of things in there that do not cost local government but could well be quite a good stimulus for local government to benefit from in the medium term and, indeed, the long term as well.

Q60 Chair: Minister, finally, I will come on to the issue of 2.3% once again, which was the figure the Chancellor used in the spending review as to how much spending for local government will fall in 2015-2016, a figure that the Prime Minister then repeated on *Sunday Politics* in October. I have raised this with the Prime Minister; he referred me to the Chief Secretary, who told me it would all be revealed when the local government finance settlement was announced. You said the same when you came to the Committee. At the time of the finance settlement, you

said that you would write to me with the figure explaining how the 2.3% had been calculated and put the figures in the Library. We have not seen anything yet.

Brandon Lewis: I will chase up the letter. I think it might be on its way to you, but I will chase that up and make sure you have that. I will do everything I can to make sure you have it this week. What I can say is the Treasury's local authority spending figure—the 2.3% you referred to—which was published back in June was an approximation of the total potential amount of funding available to councils in 2015-2016. At the Department, we publish spending-power figures when we do the assessment in December; that in itself is based on the latest information and our methodology. This year, it is 2.9% on average, and next year it will be 1.8%.

Q61 Chair: It would be interesting to know how the 2.3% was calculated.

Brandon Lewis: I see your point.

Chair: Yes. The Treasury must have had a way of calculating it; it cannot have been a figure they plucked out of thin air, presumably. To see that figure and the calculations would be helpful.

Brandon Lewis: I will chase up the letter.

Q62 Chair: Just in terms of the way figures for local government spending are dealt with in general terms, you said previously that local government spending has gone up this year. It has gone up because public health is included in the figures, hasn't it, and for no other reason?

Brandon Lewis: Spending power covers the money the local authorities have influence over and decisions over in terms of the spend within their local communities.

Q63 Chair: But spending would have gone down if public health was not included. Is that right?

Brandon Lewis: I would have to check that. I would not want to give you a definitive answer on that, because it depends on how the business rates retention works in. I am not sure, but I can confirm that for you.

Q64 Chair: Right. You can have a look at it. We see figures about local government spend in future years, but they include, don't they, this NHS money of £1.1 billion next year and £3.8 billion the year after? It is interesting that those figures also appear in the NHS spending figures. They are there to fulfil the Government's commitment to keep NHS

spending at least level in real terms, but they are also being used at the same time to show that local government spending is not going down by as much. Is that not double counting?

Brandon Lewis: No, it is not. It is just showing what is available for a local authority to have influence and decisions over. One of the things I would stress and, while I am on the record, I think it is a really important point to make, is that the local authorities are involved in the Better Care Fund negotiations at the moment—I have been very open about this; so has Norman Lamb, the Minister at Health I am working with on this—to make sure that we get something different, that it is a proper partnership, and that the local authorities are involved in the decision making and involved in the planning of the service that is going to be there. That is not just because they have influence over it, but also because it is how we get the better outcome in the end. It is a really important shift, and it is a massive opportunity for local government to show that local government is a vehicle that can facilitate bringing the public sector together in a way we have not been able to achieve as widely as some of us would have liked in the past. Community budgets have proven it works. The transformation network is taking that further forward. The Better Care Fund is a massive opportunity for local government to really step up and prove that.

Q65 Chair: Minister, I was not taking any issue with the policy, which I think is a very good idea to try to join up the approach.

Brandon Lewis: No, I appreciate that, but it is part of what local authorities will have—that influence and decision-making power.

Q66 Chair: Is it reasonable and fair accounting practice to include that amount of money both in the NHS spend and in the local government spend in the same set of accounts?

Brandon Lewis: It is NHS money, but it is local authorities who will be involved in the planning of it and decisions about how it is spent.

Q67 Chair: Yes, but it cannot be shown twice in the accounts. Is that fair? Is that not trying to get the same sum of money and saying, “It is there for NHS purposes because it justifies the policy there, and then we include it in the local government spend as well”? It cannot be both.

Brandon Lewis: No, because we are not saying local government spending power is the grant money central Government gives just to local government and is not part of anything else; spending power outlines the money that is spent in a local area that a local authority makes decisions on or has influence over. That has not changed. That Better Care Fund will be an increasingly important part of that, particularly for the authorities dealing with adult social care.

Q68 Chair: It is true, is it, therefore, that in terms of local government spending power, that same amount of money is included under local government spending and under NHS spending?

Brandon Lewis: It is included in the spending power.

Chair: And it is included in the NHS budget as well. It is the same money.

Brandon Lewis: It is part of the NHS budget, yes.

Q69 Bob Blackman: I apologise for not being here when we were talking about the allocation of resources. My understanding for 2015-2016 is that for London councils the New Homes Bonus is being included in their spending power, but for the rest of the country it is not. Can you explain the inconsistency in that approach?

Brandon Lewis: It is being spent across London through the local enterprise partnership. In the rest of the country, that money has gone back into the local authorities following the consultation over the summer. I am not quite sure what you mean in terms of spending power.

Q70 Bob Blackman: My understanding is that what is being talked about for London authorities in terms of their spending power includes New Homes Bonus money for 2015-2016.

Brandon Lewis: The New Homes Bonus is in the spending power for all authorities. The difference in London is that, in other areas, the New Homes Bonus money goes back to that district authority or that local council; in London it is pooled through the LEP, because London has a rather unique structure—in terms of how it delivers housing. London is pooled, and the team in London are working together at the moment to get the right structure to govern how they spend that, with all the local authorities in London.

Q71 Bob Blackman: That then gives an inconsistent pattern. When the figures are being looked at in terms of how much reduction there is, given that the London authorities will have no control over that money whatsoever, their spending power has been reduced even more than the figures would purport to suggest.

Brandon Lewis: No, that is not necessarily the case. It is money for London authorities. It will go into London; it will be spent in London.

Q72 Bob Blackman: But the local authority will not have the power to spend that money. That is the key.

Brandon Lewis: It depends on what the final structure is, but they may well be involved in deciding how that money is spent. They have not decided that yet. It depends on how they structure what they do, but it will not be for the individual local authorities, no, because it has been pooled.

Q73 Bob Blackman: That is correct. So it is different.

Brandon Lewis: It is different in London.

Q74 Bob Blackman: A local authority outside London would have their spending power reflected with the New Homes Bonus money allocated to them to spend as they wish, but that will not be the case for London local authorities. For example, if they wanted to take that money and use it for another purpose, my understanding is they are not able to do that.

Brandon Lewis: It will be up to the enterprise partnership how they spend the money because it has been pooled. It will be spent in London by London authorities, but it will not be under the control of the individual authority.

Q75 Bob Blackman: This London-wide body could decide to spend all the money in one borough in east London, and that would be fine. All the rest of the London authorities would lose out, and that would be perfectly okay, but the spending power would not be there for another London authority. That is the key issue.

Brandon Lewis: In theory, I assume that is technically possible, but it depends on how they get the governance structure set up in London to make the decisions. I do not think there are any local authorities in London that I have met—I have met most of the London authorities over the last few weeks—who have fears over one body deciding to spend all the money in one authority that they are not happy with. It is about recognising the issue of that duty to co-operate to make sure you get the money for the housing structure spent correctly in London. London is being treated differently from the rest of the country, because London has a unique structure compared with the rest of the country.

Chair: Minister, thank you very much indeed for coming back for a third time to see us this afternoon. Thank you very much.