Communities and Local Government Committee

Oral evidence: Financial Settlement 2015-16, HC 530

Wednesday 13 January 2016

Ordered by the House of Commons to be published on 13 January 2016.

Watch the session

Mr Clive Betts (Chair); Bob Blackman; Jo Cox; Kevin Hollinrake; Liz Kendall; Julian Knight; David Mackintosh; Mary Robinson

Evidence from witnesses:

Questions 1 - 59

Witnesses: **Rt Hon Greg Clark MP**, Secretary of State, **Brandon Lewis MP**, Minister of State for Housing and Planning, **Jacinda Humphry**, Finance Director, and **Matthew Style**, Director, Local Government Finance, Department for Communities and Local Government.

Q1 Chair: Ministers, thank you very much for coming to our Committee this afternoon to give evidence about the spending review. Before we go into the evidence session, could I just ask any Committee members who have a relevant interest to put it on the record at the beginning of our session? I am a vice president of the Local Government Association.

Helen Hayes: I am a councillor in the London Borough of Southwark and I also employ a councillor in my parliamentary team.

David Mackintosh: I am a Northamptonshire county councillor.

Julian Knight: I employ a councillor.

Chair: Those are our particular relevant interests. Before I go into the evidence, could I first of all thank Ministers on behalf of the

Committee for responding to our request for an extension of the consultation on the proposed changes to the NPPF? It was very welcome that you responded positively to that.

Greg Clark: Thank you, Chairman. As I said last time I was before you, I intend to take the views of the Committee when we are considering policy, and that was a good opportunity to do so.

Q2 Chair: Obviously we know who the Ministers are, and the Housing and Planning Minister in particular has almost a permanent seat at our sessions. Perhaps you could just introduce your officials.

Greg Clark: Yes. Jacinda Humphry and Matthew Style are finance officials in my Department.

Q3 Chair: Secretary of State, when the spending review was announced—and I think you said it was a cash flat settlement, probably about a 6% reduction in spending power over the course of the Parliament—were you a little disappointed that the leader of the Local Government Association, Councillor Gary Porter, immediately responded saying that he thought this was a £4 billion cut and did not take account of £10 billion of demand pressures that were in the system coming about by 2020.

Greg Clark: I have the greatest respect and regard for Lord Porter. The Committee will know that, in spending reviews, for all Ministers and Secretaries of State from whichever Administration, there is quite a negotiation to be had. We came out of it with many of the things that local government had asked us to secure: the prioritisation of adult social care and the recognition of that through the ability to raise more resources locally. Knowing the vigour of the discussions, it was perhaps a little better than the sector might have been anticipating. There was the flavour of that in their initial press release.

Q4 Chair: Therefore, how do you square up—or do you not square up—the figures you have given of a cash flat settlement and Councillor Porter saying there is a £4 billion cut in services, aside from any additional cost pressures that may be in the system?

Greg Clark: The figures are well known. Over the course of the spending review period, local government spending—and it is reported in the spending review papers—goes from £40.3 billion in 2015-16 to £40.5 billion in 2019-20. That is not a big real terms increase, I concede, but, in cash terms, it protects the overall resources available to local government. I was perfectly candid in advance of the settlement, including at the LGA's annual conference in the summer of last year, that of course continued savings needed to be made, but we did recognise the pressures that were there. In terms of the letters that I had from local government in advance of the settlement, the Association of Directors of Adult Social Services and others told me that there was a £2.9 billion shortfall in prospects on social care by 2019-20. Overall, we have given up to £3.5 billion.

Q5 Chair: We will come to look at social care specifically in a few minutes. Assuming councils want to try to protect those very essential services where they have statutory responsibilities, would you also envisage that councils will have any chance in the next four years of not making further cuts to library services, to parks and open spaces, to those discretionary areas of spend, which are still very important to local communities?

Greg Clark: The services that councils provide are incredibly important. You know that over the years I have been a champion of having more services provided locally and more decisions taken locally than in the past—decisions which had previously been taken at the national level. But there is a track record on the part of local government of making savings and protecting valued services. They have done that very well. This Committee knows that the overall levels of satisfaction with local government services have been maintained over the last few years, during which very stringent financial savings have been required.

In terms of the savings required in the current settlement, I am sure members of the Committee will have read the Institute for Fiscal Studies report on it. They say that this is a much smaller scale of cuts than experienced over the previous parliament, and talk about it being less than half what it was previously. I recognise that economies will need to be made. I pay tribute to the effectiveness of local government in having made the savings that have been required when you have such a big proportion of public expenditure accounted for by local government. It is, as the IFS acknowledges, a slower pace of savings required, but there are further savings required.

Q6 Chair: Yes, and they are on top of the other cuts and savings that have already been made.

Greg Clark: They are, but perhaps this gives me the opportunity to mention one of the other features of the settlement, which is the offer of a four-year settlement. I was going to say it is unusual, but it is unprecedented that the Treasury allowed that. The argument I made, successfully as it turned out, to my colleagues in Government is that local government has been very successful in achieving efficiency savings. Clearly, advance notice of the likely revenues available allows you to plan in a longer term, more sensible way, and this was something that allowed that.

There are other things in the settlement. It has a lot in it, as I am sure we are going to unpack, but one of the opportunities was to use the proceeds of disposals of assets, for example, to help some of the restructuring costs. We have done a number of things to allow the savings to be made in a way that perhaps introduces a bit more flexibility than was sometimes allowed to local government in the past.

Q7 Chair: Can I just pick up on the four-year settlement? It was going to be the next point that I raised. I was reading some information from a conference that you addressed the other day. There were financial officers from different local authorities, some of whom were saving they welcomed it and were going to immediately engage in producing an efficiency plan, as they have to do to get the four-year settlement. But others were saying it was like jumping into the dark, and they had no idea what was really being required or what they were going to get from it.

Greg Clark: In terms of the efficiency plans?

Chair: Yes.

Greg Clark: I will be completely candid with the Committee. The discussion around this very novel, unprecedented four-year settlement was around this. I and my colleagues made the case for this for local government. One aspect of the case, the first we talked about, is the ability to plan efficiency savings over time. The second is the ability, if you do that, to be more efficient than if you have to think of every year as a completely new settlement. The conversation went like this: if it is the case that this four-year settlement, which after all involves the Treasury giving up quite a lot of its own budgetary flexibility over four years, will allow councils, as they have said and as the representations were made, to operate more efficiently, it would be reasonable to see some of the ways in which each council proposes to use the four-year budget to be more efficient.

What we agreed and what I have proposed to local government is to ask them to share some indications, some plans, of how the opportunity of a four-year settlement is going to allow them to be more efficient. As I hope you might expect of me, I have not prescribed in great detail and given a very prescriptive template of boxes to be ticked, but I think it is a reasonable request of a council that wants to avail itself of a four-year budget to say how this will help them become more efficient.

Q8 Chair: A very important part of the announcement in the spending review was the change from Government giving grants to local authorities, to local authorities keeping 100% of the business rate. Obviously, there are a lot of details to be done, and, following conversations, we are going to have an inquiry of our own to help inform that process. It is probably difficult to look at the totality of the settlement without knowing precisely what extra responsibilities local authorities will have to take on as part of this change. Is that a fair comment? Until that is defined and decided, it will be a bit unclear precisely what the overall impact of a settlement is for local authorities.

Greg Clark: I think it is clear what the settlement will be. What the Chancellor promised by 2019-20 is the 100% devolution of business rates. What I said to the conference that you heard about, at which you perhaps did not have the joy of being present, was that we are introducing two big reforms at the moment. The first is to take this longer term view and to allow councils to have a four-year settlement; and the other is this 100% business rates retention, which is something that has long been campaigned for. We want to go straight on to set the parameters of that, in consultation with local government. I am delighted to hear that the Committee will conduct an inquiry into that. I am sure its recommendations will be very helpful and influential. We want to get on with that so that, over the course of the next few months, we will have both pieces in place. You are absolutely right that that is a big piece of unfinished business.

Q9 Liz Kendall: Is public health one of the areas of responsibility that you would expect local authorities to deliver?

Greg Clark: Again, at this stage, we have said that we want to consult local government as to what kinds of services it should take on. Obviously, public health is one of the shared responsibilities, and a lot of councils have made very good efforts and achieved successes in that. But I know that there will be different views in local government as to what kinds of responsibilities they want to take on.

Q10 Liz Kendall: Does that mean they would no longer get any transfer from the NHS? My council would have to find, for example, £25 million a year from any of the business rates that are devolved to them. They would no longer get that from the NHS.

Greg Clark: It is far too early to say even whether public health spending could be contemplated as part of that.

Q11 Liz Kendall: It has been identified as one of the issues they could take on responsibility for.

Greg Clark: There is a whole range of areas, and it is for us, together with local government, to see what would be best. Some have argued that, since it is about business rates, those services, those areas of spend, that are related to the economy, for example, might be the most appropriate areas. Some have identified, since we have been talking about adult social care and its importance in the sector, the care responsibilities. We have not taken any view of that at this stage, and I very much want to be guided by what our colleagues in local government and, indeed, this Committee, no doubt advised by them, suggest.

Q12 Kevin Hollinrake: Secretary of State, the way the provisional settlement has been proposed, there seem to be winners and losers, depending on the makeup of your core spending power and how much comes from each particular source. Local authorities that get a lot of their funding from council tax, for example, are hit harder than a flat cash settlement would be. Why has it been done like that?

Greg Clark: The first thing I should say to the Committee is that we are in a period of consultation on the provisional settlement; we always have a consultation. That closes on Friday. Various councils, groups and perhaps members of the public will be making representations there, so I have to be circumspect in approving or disapproving of anything by way of my suggestions here.

To answer your question directly, as a result of the retention of business rates that we already have and the reduction of the RSG over the years, we are in a very different position for local government financing than previously was the case. At the beginning of the last parliament, 80% of local council funding came from central Government grant. As a result of the spending review settlement, for the next financial year, for 2016-17, 16% will be financed by the RSG. In a world in which 80% of local government revenues come from RSG, you can do things through the prism of RSG, looking at how much councils will need, and that is a pretty reasonable guide to it.

When it is 16% and then reducing, it becomes not a prism that you can use in the same way, because different councils across the country will have different capacities to raise the three major components of revenue: business rates, council tax and RSG. You have to increasingly see them in the round. By 2019-20, RSG is 5% of the revenue sources of local government, so you have to move to that world, as a result of the very local determination of resources that local government wanted. That is not the case when a centralised government grant is dominating, so you need to have a different perspective on it.

Now, of course, any change will have different consequences for different types of authorities, so the reason for my preamble was that it is open to local government as a whole to comment on that as part of the consultation.

Q13 Kevin Hollinrake: It obviously needs to look fair, right across the country. My local authority, for example, is getting around £6 million less than a flat cash settlement. Even if you apply the precept for adult social care, they are still £2 million worse off than they might have expected to be against authorities in other parts of the country. It is about that fairness.

Greg Clark: Of course, the aim of my determination is to be fair. As a result of it being a four-year settlement, the shape of the settlement varies from year to year. It is very clear and transparent that the social care precept, for example, if it is used, builds up over time. It is the case for counties, for example, that their spending power starts with a reduction next year of 2.9% and, by 2019-20, in cash terms, it is ahead by 2.2%. There is a transition, which is one of the reasons why I argued for a four-year settlement, so that people can see what is coming as well as what is immediately in prospect.

Q14 Jo Cox: Secretary of State, what is broken about the current system of funding local government?

Greg Clark: I think you are referring to what the Chancellor said in the spending review. What is broken is that, as successive members of this Committee have said for many years, we have been one of the most centralised countries on earth. As I said, within recent memory, five years ago, 80% of the spending of local government was accounted for by central Government grant, which meant that the annual Christmas gift, or otherwise, of the local government financial settlement was a very significant date in the life of every local council. That, I think, captures the ridiculousness of it. It should not be the case. It is a totem of the dependence that local councils have had on central Government that their finances depend on that single day's announcement each year.

My ambition for many years has been to give greater autonomy and independence to local councils. We have done a lot in getting to where we are today, including the 50% business rate retention, but the ambition that we have and the Chancellor has committed to—getting to a 100% business rate retention—will have transformed a system that is broken. If you think, as I do and the Chancellor does, that places need to be able to take more initiative and more decisions themselves, that does not work if you have a system of financing that is very centralised. That is the broken system, and the new system will put in place a much clearer connection between what councils do, the choices they make and the revenues they raise.

Q15 Jo Cox: Building on that, though, you have touched on this already but do you think there are any inherent dangers in a dependence on business rates to determine what councils spend their money on? Do you think it is time for a more diversified income for local authorities that is not wholly dependent, eventually, on business rate?

Greg Clark: It is not entirely business rate; it is business rate, council tax and the fees and charges that councils have in other respects. It is a big step forward to have that available to local government, because the opposite has such perverse disincentives. Before you had the current level of business rate retention, which is very new—since 2013—you had a situation where it was not in the financial interest of a particular authority to encourage businesses to prosper and to locate in an area.

I remember, when I was a member of the Westminster City Council, responsible for Oxford Street, the paradox that it was in the financial interests of the council that as few people came to Oxford Street as possible, because the more people came, the more cleansing was needed, the more street patrols and things were needed. Because we were a good council, of course we took our responsibility seriously, but it was ludicrous that the prosperity of a street like that should not benefit the council. Writ large across the country, that is something that is being corrected.

Across the whole of local government, are there places that do not have the same capacity as others to raise business rate revenue? Of course there are. That is why the conversations we are going to have and the advice I hope you are going to give me will advise how we can make the system fair across the whole of local government.

Q16 Jo Cox: Do you have any plans to avoid a race to the bottom in terms of local authorities competing with each other to reduce business rates?

Greg Clark: I would not see it as a race to the bottom. The idea that councils are focused on doing the right thing to attract businesses and grow their business rate base is very much in our interest. As a nation, we want to attract businesses to locate in our country. I know from the work that I have done on local growth, going overseas, that when overseas investors decide to make an investment it is not just the country they are choosing. We want them to choose the country and it is right that we have the right conditions, but you cannot just invest in the UK or in England; you have invest in a particular place if you are locating somewhere. The idea that the local authority there is enthusiastic, is positive and wants to attract them is really important for getting our local and national economy to grow.

Far from seeing it as a race to the bottom, I think the orientation of local authorities towards attracting businesses is very positive. I might say, since I admire the efforts that local authorities have been making, I think they know that, in all our areas. I very often work with local council leaders to attract inward investors where they are pitching to say, "We will provide a very good home for you." It is a race to prosperity, rather than a race to the bottom.

Q17 Jo Cox: How do you envisage that business rate income will grow if local authorities have the capacity to cut business rates as much as they like, to quote the language you are using? How are those two things consistent?

Greg Clark: Let me give you an example. One of the proposals that the Chancellor has made is that, in mayoral authorities, with the agreement of the business community, a supplement to the business rates can be charged to be invested in infrastructure. These judgments are sophisticated judgments. A business that wants to locate in an area is not looking just at the level of business rates, important though that is. It is looking at the support for businesses, whether it is the demeanour of the council, whether it is the supply chain, whether it is the infrastructure, whether this is a supportive and congenial place for business.

For example, businesses have sometimes wanted to have greater investment. As so often, good ideas come from the bottom up. We have seen through business improvement districts, not imposed by the Government, businesses coming together for investment. I think they can make those judgments and it is good that they have the ability to do that.

Q18 Jo Cox: One last question: how does allowing local authorities to set their own business rates differ from the existing powers they have under the Localism Act 2011?

Greg Clark: One of the difficulties in taking up the powers in the Localism Act, which I took through Parliament—in fact, my colleague Mr Lewis was a Back-Bencher on that committee too, so we both went through it—is that, although you can give business rate discounts, because it is 50% retained, the council has to stump up the other 50%. That is more difficult. They can do it, but it requires a positive financial contribution from the council. In a world of 100% business rate retention, there is much more discretion to do that.

The line of questioning is very helpful, because it allows me to explain that it is not necessarily a uniform policy that might be taken. A place may want, for example, to give discounts for a period of time to start-ups, if they think there is a big opportunity there. In Nottingham, a city I have worked with quite closely over recent years, there is an area of the city where they are hoping, with some success, to attract start-ups, especially in tech companies, to go there.

To give an initial period of business rate discount, just as a commercial landlord might give a rent-free period to get a new business in, can be an attractive thing. It could be a particular parade of shops. Sometimes, if there is an area of town that needs a bit of revival—and the effect can be cumulative—to give that place a bit of break to attract businesses in is a good way to do it. It seems to me that to have local authorities with that discretion, rather than to have a very blunt, national system, is much more likely to be successful.

Q19 Bob Blackman: Secretary of State, the Chancellor in his speech indicated that council reserves have increased by £10 billion over the last parliament and that he expected, quite rightly, to see some reduction in those local reserves to cope with transitional arrangements as we move to a new financial regime. Clearly, local authorities maintain vastly different levels of reserve depending on their particular local requirements. What do you expect to see happen over the four-year settlement period in terms of council reserves?

Greg Clark: I have made no assumptions in the financial settlement that reserves should be used. There were suggestions in advance of the spending review that, since reserves had gone up, it would be reasonable to require the use of those reserves to meet the pressures. I have not done that. It is the case, as the Committee knows, that reserves increased across the whole local government family in England from £13.2 billion to £22.5 billion over the last parliament: an increase of £9 billion. That is not—

Q20 Bob Blackman: Can I just interrupt? There are two sorts of reserves, of course. There are allocated reserves, where a local authority may have acquired money to spend in another financial year, which is the capital programme that they may be pursuing; and then there are the unallocated reserves, which are in case there is an emergency, for cash flow or whatever.

Greg Clark: Absolutely, and that is one of the reasons I have not made a settlement that requires the disposal of those reserves. But, overall, they have increased. Again, one of the reasons that, in advance of the spending review settlement, local government gave its traditional call for a multi-year budget was that it has to maintain a higher level of reserves to meet the year-to-year unpredictability in the financial settlement. For the proportion of reserves that they might allocate, at least this takes away the requirement for that. I am conscious that different authorities will have different levels of reserves, and it will be open to some authorities to smooth the path, but it depends on their particular circumstance.

Q21 Bob Blackman: Would you expect those local authorities that, quite reasonably, are having financial uncertainties from one year to the next, with a four-year settlement period and certainty over their funding, to reduce their level of reserves and spend the money on services for the people who are paying the council tax?

Greg Clark: Where there is a proportion of reserves kept as a buffer against the unpredictability of the annual settlement, a four-year settlement, if it is taken up, allows those to be released and deployed.

Q22 Bob Blackman: What expectation would you give as guidance to a local authority as to the percentage of their revenue budget they should retain in reserves?

Greg Clark: I do not have a particular intention to give guidance on that, but I would hope that the advantage of a four-year settlement—which is not obligatory, but if a council does opt for one—is that you can smooth between those years in a way that you cannot if it is a staccato series of settlements each winter.

Q23 Bob Blackman: Can I ask about another area? You mentioned fees and charges in answer to Ms Cox. Do you have expectations about the levels of income that local authorities would be gaining from fees and charges? One of the issues of concern is that these are monopoly services that should only be cost recovery, in the main. However, local authorities all over the country are examining various different creative schemes. I personally have done a study of what they have done in London, and it makes very interesting reading when you compare one local authority to another. Is your Department looking at this particular aspect as being a means by which local authorities may secure additional funding?

Greg Clark: We do keep an eye out on these things, as I think you know, Mr Blackman. Of course, councils charge for services, and planning fees is a regular source of conversation between the Government and local authorities. Planning fees bring in income, but they involve costs, and they are there on a cost-recovery basis. What you said is right, planning fees being a case in point—that there is a monopoly ability to charge that fee—so I would be concerned that people who did not have any alternative had to pay whatever was charged.

I do not think local government is inclined to be abusive of that monopoly position, if I can put it that way. There is a conversation about the future level of fees and charges. In this, I am always concerned that the applicant—sometimes householders wanting to build an extension—cannot go anywhere else and should not be disadvantaged.

Q24 Bob Blackman: Another issue many authorities are now looking at is, for example, collection of garden waste. The differences in London alone for the same service are vast. Some local authorities provide a free-of-charge service; lots of others charge quite heavy fees for the collection of garden waste, which seems to me to be somewhat bizarre. They are not just doing cost recovery, or, if they are, they have some very inefficient and ineffective services. I wonder if your Department has looked at this at all.

Greg Clark: In general, my view is that the ballot box is a pretty good discipline. Local campaigners, including MPs, can compare and contrast the charges in different boroughs and different authorities. Where there is any evidence that a particular authority—and my general experience is that it tends to be a very small number—is pushing it a bit far and taking the length, as it were, then I would be very interested to see that, because I do not think it help the reputation of local government, especially at a time when my ambition, and Brandon's, is to devolve more powers to local government. The responsible exercise of existing powers, including charging powers, is very important if we are to continue to make the case for trusting them more.

Q25 Mary Robinson: Secretary of State, you referred earlier to the Chancellor's announcement regarding the disposal of assets, in particular that local authorities would be able to spend up to 100% of their fixed asset receipts on the revenue costs of reform projects. Central Government Departments are not usually allowed to fund resource expenditure from capital sales, so why does the spending review encourage local authorities to do just that?

Greg Clark: It is a pragmatic view that is taken. We are issuing an invitation and, indeed, because of the efficiency savings that are required, a requirement for local authorities to do things differently, to change the way they do things. There are opportunities in parallel; not everything is through the local government financial settlement. The devolution deals we are doing invite authorities to be creative and innovative.

Sometimes, as we know, there are transitional costs in changing the way services are provided. In a world in which councils are not flush with money, sometimes you can have a paradoxical situation in which they would like to do something that would make them more efficient in the medium and long term, but they simply cannot fund the transition costs. So what to do about that? It would be paradoxical if they wanted to do something that everyone agreed was a good idea but they could not fund the transition costs. There is no more money in the Treasury, beyond what we have in the settlement, so I thought the pragmatic response to that would be to allow disposals to be used for that purpose. It is not for general expenditure; it is for the types of spending that lead to greater efficiency.

Q26 Mary Robinson: Home improvements to keep older people in their homes, rather than in hospitals, have been specifically mentioned. Is that the transitional type of arrangement?

Greg Clark: We have not specified these things too tightly. In general, I would rather proposals were made and we considered them, rather than setting out a great dossier of things that were allowed and things that were not.

Q27 Mary Robinson: If it is transitional, talking about the sustainability of these types of sales to fund project costs, how sustainable do you think it is to encourage local authorities to fund what may be day-to-day resource spending with a one-off asset sale, bearing in mind that you can only sell an asset once?

Greg Clark: Sure, but the sale of the assets is often part of an efficiency improvement itself. If you are reducing the estates footprint you have, then that leads to the windfall gain of something that is not being forced upon you in order to meet a shortfall. That is what I see more. I see when I visit places across the country, as I am sure all members of the Committee will know, that there is hardly a council that is not looking, quite rightly, at its estate and how it can make better use of it, so this helps with that.

Again, it was a request of local government. A lot of the things we are doing we have been petitioned by local government to allow, and I think this is the case. I am probably in the limelight. Matthew Style has longstanding experience of this. Has this been a perennial request?

Matthew Style: It has been. It has been requested numerous times over and, indeed, has been welcomed in the responses we have had so far from local councils. In particular, local councils have welcomed the flexibility to which the Secretary of State referred, in terms of the judgments about appropriate use of these resources being in the hands of local authorities and their statutory officers, and so on.

Q28 Mary Robinson: Will the judgments be entirely in their hands or will there be some oversight?

Matthew Style: We have a responsibility to issue guidance on the use of capital receipts. We will issue statutory guidance, but the intention is to keep that as broad as the Secretary of State has suggested.

Q29 Julian Knight: Secretary of State, how is the extra estimated £2 billion through the social care precept going to fund genuine qualitative improvements in social care if an estimated £1.4 billion will be swallowed up through the national living wage increase?

Greg Clark: Again, there are different and longstanding pressures on adult social care. It was one of the requests of local government that we should respond to that. I was in receipt before the spending review of a number of letters from local government as to what the estimated costs were. The view that ADASS, the CCN and the LGA took was that it would be £2.9 billion by 2019-20 in total, including the national living wage.

Q30 Julian Knight: That is after the national living wage is factored in.

Greg Clark: Yes, indeed. Of course, the pressures will vary from authority to authority, and these are estimates of the future; no one quite knows that. But I think colleagues in local government would concede that we have made a very significant move to accept what they told us: that they had pressure on adult social care.

Q31 Julian Knight: Is there no disquiet, though, that a large proportion of the money raised will be going, effectively, on increased salaries, and that alone?

Greg Clark: That is one of the reasons why local government argued that we needed an increase. Looking at the table that was sent before the spending review, the national living wage pressures increased to £800 million by 2019-20, so we have done what was asked for in recognising the importance of adult social care and responded to the submissions that were made to us.

Q32 Julian Knight: Do you expect this funding model to become more permanent, and have you had discussions towards that end?

Greg Clark: When you say "this funding model"—

Julian Knight: Well, the idea of a social care precept and also the idea of a longer term span.

Greg Clark: So it is on both points. On the longer term aspect, I would like to see that this is not the only four-year settlement that we have. In fact, the notion of a settlement from the Treasury becomes somewhat redundant once local government is fully financed by its own revenues, so it becomes long term as a result of the reforms.

In terms of the social care precept and the opportunity for that, again, this was recommended by local government. We have agreed that it should be there for the next four years, and it is to address something that I think we all accept: that, happily, there are more elderly people in the population. This is a demographic fact. If you have more elderly people, happily, to look after, it is no reflection on the efficiency of the council that it is going to cost more to help those people, whether it is with a care home or whether it is domiciliary care. Looking over the next four years, we see a big increase in the elderly population in almost all authorities, and that is the period that we have looked at. This takes us to the end of the parliament. I suppose it is for our equivalents in the next parliament to look forward again.

Q33 Liz Kendall: The King's Fund says that your claims about this extra funding for social care are based on "completely implausible assumptions". Do you believe every single council will put that 2% precept on social care?

Greg Clark: First of all, in terms of the King's Fund, I have reported on the representations made before the spending review, and I have regarded the LGA and ADASS as a pretty reasonable and credible source in this. I will share with the Committee the table that they suggested on this. It seems reasonable to take their representations into account. In terms of the use of the precept, it is not obliged that every authority should make use of the 2% precept. If they can fund their adult social care needs without recourse to the full precept, there would be no one more delighted than I; well, perhaps the local council tax payers would be more delighted than I, but I would be very pleased if they were to do that. But we have responded to a request to give them that ability, to recognise the increasing elderly population.

Q34 Liz Kendall: If you cannot guarantee that they will use that precept, why do you claim you are providing an extra £2 billion for that social care?

Greg Clark: We state that this is part of the spending power of local authorities. It is there for them to spend if they choose to. It would be wholly against the direction that I intend to take, and which this

Committee has advised me to take in the past, if I were to oblige local councils to do an increasing number of things. My invitation was to change the settlement to allow them the resources to meet their local requirements.

Q35 Liz Kendall: Do you acknowledge that the councils with the greatest need for publicly funded social care will be least likely to be able to meet those needs because of their lower council taxes? The King's Fund says places like Newham will be able to raise a maximum of £5 per head, and yet they have much higher levels of need, and places like Richmond will be able to raise £15 a head. How is that fair?

Greg Clark: Because what we have done with the other component of the adult social care settlement, the improved Better Care Fund, is allocate that in a way that reflects and respects the difference in capability.

Q36 Liz Kendall: What year does this extra Better Care Fund money come in?

Greg Clark: It comes in in the second year of the settlement, 2017-18.

Q37 Liz Kendall: What do councils do this year?

Greg Clark: The reason for the four-year settlement, as we have discussed, is that they can, first of all, make use of the 2% precept, if they want to do that. They can look forward to the resources that they have over a four-year period, which never before under any previous Government have they been able to do, and they can plan ahead for that. In terms of what is available and what we have been able to achieve, in a very tight financial settlement, to make the best use of that to help local government, I think our colleagues in local government would acknowledge that we have done a pretty reasonable job in helping them manage through the next few years.

Q38 Liz Kendall: Can I ask, just finally, will you and your civil servants commit to monitoring which councils use this money and how much extra really is going into social care? At the moment, the claims that you and others make about how much extra money is going in are based on an assumption about councils' behaviour that you yourself will not require.

Greg Clark: It is the case that the 2% precept is to be spent on adult social care, and Section 151 officers in councils will be required to certify that. I am sure not just I and my officials but this Committee will want to hear from councils in future years, to satisfy themselves that they have done that. It was open to us not to require this to be spent on adult social care, but, in agreement with our local government colleagues, there was no dispute between us that it would be spent on that because they want to spend it on it.

Q39 Liz Kendall: As, over the last parliament, 400,000 fewer elderly and disabled people who needed social care got it, would you be concerned if a similar figure was the case over this parliament?

Greg Clark: I have been concerned to recognise and respond to the request from local government and to provide them with more resources to be able, in their own way—and they will make their own decisions—to care for their elderly residents. That is something we all want to see happen. I do not think there is any council in the country that wants to neglect its elderly population or, indeed, those members of its authorities and areas that have other needs. I do not see any reason to suspect their motives in this—to spend it on the mayoral car or whatever. We are providing the funds and I am sure that they will spend them on the purposes for which they are intended.

Q40 Mary Robinson: Local authorities will make the decision over whether or not they wish to raise this extra precept, and it has to be spent on social care; it is quite clear that that extra money needs to be spent on social care. I want to relate this to Greater Manchester where, in terms of devolution, there has been a £6 billion investment. The 10 local authorities and the 12 CCGs have made an agreement, which will be coming in to force in April, in terms of pooling arrangements. They will have the responsibility for how this devolved money and the adult health and social care budget is spent. What would be the position operationally should these pooling arrangements be in place and yet one of the local authorities chooses not to raise extra funding for that particular element of social care? Do you see any operational difficulties in this?

Greg Clark: The devolution arrangements we have entered into in Greater Manchester, for example, have been based on a level of confidence that we have had in the dependability of local arrangements. When it comes to health and social care, this has not featured and will not feature as a standard item in every devolution agreement, because in some places there is not the history of working together. I will say that, when we have been able to reach agreement with the 10 Greater Manchester authorities, they have delivered on what they have promised, and I have no reason to suspect they will not. If they did not, I dare say we would have to take a look at what to do about it, but it is not something that I expect to happen. I would rather not menace them with the suspicion that they are about to renege on the agreement—quite the reverse.

Q41 Mary Robinson: I suppose I am looking at the opportunities that there are, because the local authorities individually will raise this money through the precept, and how that would feed into the pooling arrangements.

Greg Clark: Through their history, the authorities in Greater Manchester, which have been led by three different political parties, have achieved a degree of cordiality in their working relations that has led to that not being a problem. They tend to do things together by agreement and stick to those agreements, so I think we should let them do what they said they would do. It is a good example.

I am pleased that they proposed this because, as we all know—you on the Communities and Local Government Select Committee, but also Health Ministers and our colleagues on the Health Committee—the people that we are dealing with are the same, whether they are a resident in a care home or a patient in a hospital. They are the same people, and the idea that we are bringing them together and not being stuck in silos is a very important step forward. I hope the Committee will encourage this, and I am sure you will want to scrutinise, perhaps with the Health Committee, the progress they make in Greater Manchester and other places, but I think it is the right way to proceed.

Q42 Chair: Finally on this point, before we move on, personally I welcome the increased flexibility on social care funding; it would probably be inconsistent of me not to do so, given what I have said about council tax restrictions in the past. But were you a bit concerned when you got a letter from ADASS, the social services directors, as well as the NHS Confederation, CPA and CSA, all saying they thought the settlement was insufficient? The Health Foundation as well has said it thought the gap was around £6 billion, excluding the living wage, which is only partly met by the increased arrangements that you facilitated in the spending review.

Greg Clark: All I would say is, of course, if more resources were available, I am sure they could be put to good use. I understand that, but one of the responsibilities that I and my colleagues in Government have is to balance the books. We responded very positively when it came to the representations we had from ADASS, the LGA and the different groups in advance of the spending review. As I say, they talked about a £2.9 billion requirement; the resources provided were up to £3.5 billion, but I respect the contributions of eminent people such as those you have listed.

Q43 Chair: So you think they did not ask for enough in the first place.

Greg Clark: I would not put it that way, but, if they reflected on what they proposed, I think they would, in their hearts, acknowledge that we responded very full-heartedly to what they proposed in advance of the spending review.

Q44 Helen Hayes: Turning now to housing, there has been a gap, over the last few years, between the number of planning consents granted for new homes and the number of homes delivered, either by starts or completions; there is about a 100,000 difference in the numbers. Why do you think homebuilders are not delivering more homes? Do you think it is mainly due to lack of finance, capacity, skills or resources

Greg Clark: For the sake of variety, can I ask my colleague, Brandon Lewis, to answer that?

Brandon Lewis: I was really enjoying myself. There is a mixture of things going on. By the time a developer gets planning permission, for the majority of homes, the financing will be in case. The issue around the gap between planning permissions that are in place and build-out rate is a mixture of things. There will always be a small percentage of people who have planning permission, maybe speculatively, for land that possibly is not appropriate or does not have market value to be built out, but that will be a relatively small amount.

There will be a fair percentage included in that that are properties on large sites. It will count if a site for 5,000 homes is given planning permission, but, in that first year, although a developer will have built a certain number of those homes, they certainly will not have built 5,000, and yet those 4,500 or 4,900 will be in that figure. That is a very large number. There is also a period from when planning permission is granted where those homes are counted as having got planning permission, but of course there is a huge number of preconditions and other things that can then mean, from the local authority's point of view, as much as a developer may want to get on site on day 1, they are not able to, because of these preconditions. So there is a range of things going on.

Now, there is a real challenge in terms of the skill-sets. We do need to see more people coming into construction more generally, but again—and I am generalising about this—by the time a developer is going for planning permission, they are going for planning permission on land that they want to build out and have programmed in the ability to build out, which is why skills is not such an issue at that stage.

As part of the overall picture, we need more people coming into construction. That has a big impact. We have had this conversation in the Select Committee before, but, if we look at the summer of 2014, one of the industry magazines interviewed a number of large developer and housing investment chief execs, and they all raised different issues about what their challenges were for the years ahead. The one thing that every single one of them mentioned was the skills shortage. We do need more people to come into construction. That is not just brickies on site, although we do need those; it is right across the skill-set.

Q45 Helen Hayes: The increased funding in the autumn statement for housing is back-loaded. Will this be new money from the Treasury, or is the amount that is allocated essentially an estimate of the proceeds from the forced sale of council homes?

Brandon Lewis: No, this is £20 billion to spend within the spending review period on a range of the housing products out there, whether that is delivering affordable starts by 2021 or help to buy. It is right across that range.

Q46 Helen Hayes: Just to push you again on this, how certain are you that that money is available?

Brandon Lewis: That money is available. It was announced at the spending review.

Q47 Helen Hayes: The allocation for 2020-2021 is in a new spending round under a new Parliament, so can you be absolutely certain of that allocation?

Brandon Lewis: We have allocated that money over that spending review period, so that is there.

Q48 Helen Hayes: Notwithstanding the decisions that a new Government might take post a 2020 election?

Brandon Lewis: I appreciate the point you are making. I know you have a background in planning, and many on the Committee will know how housing works. Apart from anything else, you will appreciate that most of the housing that comes forward in 2020-2021 will have been planned in 2018, 2019 and 2020.

Q49 Helen Hayes: London help to buy and shared ownership allow those on medium incomes to purchase more expensive homes than they perhaps otherwise would be able to purchase. Those are initiatives that are responding to demand. Is there not a risk that, in responding to demand, they draw down latent demand, which therefore increases actual demand, which pushes up house prices? Should we not be instead focusing much more on increasing supply?

Brandon Lewis: The evidence we have seen over the last couple of years, some of which has been published in independent magazines and what have you as well, shows that the help to buy programme does not have an impact on house prices. Bear in mind that 82% of the properties bought under help to buy are bought by first-time buyers, and first-time buyers on average—as you may recall from our evidence at the Bill Committee for the Housing and Planning Bill—pay substantially below the average price of a home, both in London and outside London. The majority of help to buy is outside London, as it happens, and the north does particularly well with help to buy.

If you look at London in particular, shared ownership has a very, very large part to play, because it makes home ownership achievable for a great number of people. A deposit of £3,400 will get you into home ownership in London using shared ownership; it is just £1,400 in some places outside of London, where there are those kinds of rates. That is a really big game-changer. Equally, do not underestimate the potential effect of starter homes. If you bear in mind that the average price a first-time buyer pays for a new home, then put a 20% discount on that, with London help to buy at 40% equity share—if you link those two things together—it makes it very achievable again.

Now, it is right that we do what we can to help people on the demand side, because, after the economic crash, mortgages have changed; the amount of deposits banks need has changed. Help to buy has changed that. It has a dramatic effect on supply, also, because it gives confidence to developers that there is demand coming through for the product we are asking them to plan years ahead to build. That is why it was such good news for the housing industry that the Chancellor extended help to buy right through to that period at the end of the spending review, 2020, so it gives that confidence going forward. That, in itself, drives up supply. Supply will also benefit from the vote we had yesterday on the Floor of the House of Commons, responding to Zac Goldsmith, the Member from Richmond Park's requirement to have two homes built for every one sold through the high-value assets in London. All of this will see supply going up even further than it has been, but it is right that we work on the demand side, as well.

Q50 Helen Hayes: There is a time lag between those two things, because the demand side measures are instant; the supply side measures, as we know, for all the reasons that have been discussed at length, lag behind. There is a time lag in homes coming through the pipeline, and so it is that short-term pressure from measures that are increasing demand now that may potentially place upward pressure on house prices.

Brandon Lewis: Yes, that is true, but there are a couple of points I would make on that. If you are looking at right to buy, for example, the person who buys that home remains in that home for five years. They have to, under the way the scheme works, and the replacement has to be within three years, so there is not a pressure there and we end up with increased supply. If you look at the high-value asset sales, yes, there will be two homes built for every one sold, but the one sold is a vacant property.

Now, in terms of overall supply, it does take time for supply to come through. That is why it is good that we saw last year a record number of planning permissions coming through and also housing starts up 25%. That is the highest we have seen in 28 years. That is also why we now have the fastest building programme for affordable housing that we have seen in over 20 years, with the biggest building programme since the 1970s. It is also why the opportunity to develop using things like permitted development rights is important, because that has a much shorter delivery time. The physical unit is already there; it is a conversion rather than a clean build, so it is a much quicker process.

Q51 Helen Hayes: Coming now to affordable housing and socially-rented housing, there is no discrete budget line in the comprehensive spending review for affordable housing and social housing. We understand from conversations that the Committee had with officials earlier in the week that there is a figure—from memory, £1.6 billion, but I might have that wrong—for affordable housing in the budget, which relates to the delivery of homes that are already effectively in the pipeline. There is no new money for additional affordable and socially rented housing over and above plans that councils and housing associations may already be progressing. Are you effectively giving up on the delivery of affordable and social-rented housing?

Brandon Lewis: No, not at all. In total, we will be looking to deliver around 400,000 affordable homes. Yes, we also need to make sure we deliver homes that are affordable for people to buy as well; we make no apology for that, bearing in mind that 86% of our population, last time they were surveyed, want the chance to buy their own home. There is £1.6 billion specifically on one side for affordable or intermediate rents. Some of that is legacy work, not all of it, but let us not forget that the biggest deliver of social-rented housing, all through history, has been local authorities. They built out more in the last four or five years than in the previous 13, and they still have over £2 billion worth of headroom to deliver more. It is really good that authorities are starting to take advantage of that and deliver that as well.

Helen Hayes: I will stop there. I could go on.

Q52 Chair: On that point, a few weeks ago, I met a number of large housing associations who all want development programmes in the Sheffield area, and they said that they were not sure there was a real market for shared ownership. They were not against it in principle; they wanted to try to promote it, but if there were still a housing need in the area, they were finding shared ownership was not working. Is there capacity to have any flexibility in this funding to put some of this money into rented homes that might be very well needed in the area?

Brandon Lewis: We are always talking to local authorities and housing associations, both with the representative body—in fact, I think we are meeting next week with the National Housing Federation—and with individual housing associations. I met some this week about opportunities. The Secretary of State and I are always interested in innovative, new ideas they might have to deliver more housing. We want to drive up home ownership, but that is part of driving up housing supply.

Very specifically to that point, one of the challenges out there is that the model and the regulatory framework around shared ownership is quite restrictive. The Chancellor said at the spending review that we are looking to do something about that. Some of that is dealt with through the deregulatory packages in the Housing and Planning Bill, but I am also talking to housing associations—and, potentially, other providers—about what more we can do.

One of the things that I want to do is to work with lenders as well, because one of the challenges is that, in the way the model works, if you are going in to buy a home that is already a shared-ownership home and is not a new build, it is quite difficult to do. That secondary market is quite difficult. We need to look at how we free that up to make the primary market even better. There are a few things we are looking at on that, working with the sector itself. That will make it easier and more attractive for them and other providers, potentially, to come into that market.

Q53 Chair: Is there likely to be a formal consultation on these arrangements at some stage? Do you anticipate that? I think we can all agree that shared ownership is a great concept that does not always work in practice.

Brandon Lewis: It is a superb concept, and it gives great access to people. Whether we do consultation depends on what kinds of changes we need to make, whether they are regulatory or not. We will have to wait and see what changes are required.

Greg Clark: It is fair to say, as with all of our discussions, things often work differently in different parts of the country. The housing market in South Yorkshire is very different from that in London, and, as Brandon said earlier, the opportunity through shared ownership and help to buy to have a small deposit on a 25% share will bring the opportunity of home ownership to people in London that might have eluded them if it was not on a shared ownership basis.

Brandon Lewis: Things change as time moves on, as well, in different areas. Manchester has quite a big regeneration building programme going on, and we have seen an extension of the private rented sector. I visited Stoke recently, which is looking at all of these: shared ownership and the private rented sector, as well as a very good custom build project. These are new ideas. They are looking at other places and looking at what is working. As their economies are changing, they are looking to drive these changes to fit what is right for local people. That comes back to the comment I have made at this Committee before: it is about having the right homes with the right tenure in the right places, and, of course, at the right time.

Q54 Kevin Hollinrake: There has been a doubling of the housing budget, and a lot of that money is going to be allocated for starter homes. How is that money, in reality, going to be used?

Brandon Lewis: We will be working with the sector over the next few weeks and months, consulting them as to how we best use that, but it is going to be about—as we did with some money last year—getting those sites going, getting sites moving, and making sites viable so we can deliver those homes.

Q55 David Mackintosh: One of the challenges with planning any local authority's budget is when something unexpected happens. One of the things that I am currently talking to my local authority in Northamptonshire about is the Syrian refugees. I just wondered whether any of the DCLG budget will be used to fund the £460 million worth of expenditure on the Syrian refugees.

Greg Clark: No. We are participating in the programme, and Richard Harrington is working on this—I do not know whether you have had him before you; he is a joint Minister in my Department and the Home Office—but we have not been obliged to make a contribution to that fund.

Q56 David Mackintosh: Will local authorities receive any funding from the official development assistance budget if local authority facilities, such as housing, are used to look after any of the Syrian refugees?

Greg Clark: In the first year, the costs are eligible for overseas development funding. Depending on who has incurred them, it is available for that.

Q57 Helen Hayes: In relation to the discussion about business rates earlier, I wanted to ask about the distribution of cuts to local authorities during the last parliament. It was very uneven: we saw councils like Lambeth, which is the 29th most deprived area in the country, experiencing something like the 13th highest level of cuts. Already, the distribution is not even and not necessarily fair.

In relation to the greater reliance on business rates, there are areas where the ability of councils to achieve economic growth is not necessarily entirely dependent on actions that the local authority can take. I am thinking particularly of areas in the north that are peripheral to, but fall outside of, combined authorities, which are not going to benefit from significant infrastructure investment or from really big moves that can significantly change their capacity to raise additional business rates. Are you not concerned that the disparity we have already seen over the last five years might further be reinforced by this change in the funding towards business rates?

Greg Clark: We have not agreed, or even proposed, a mechanism for these transfers between local authorities. My invitation to local government is to make suggestions on it. In fact, I was with the LGA this morning, and you have a perfect opportunity there. Almost every authority in the country is represented in the LGA. They may be able to agree between them a system that they want to propose to us.

I know that in some of the devolution deals—Hampshire, Portsmouth, Southampton and the Isle of Wight, for example—one of the contentions is that, within the area, the various flows, top-ups, tariffs and the historic influence from the national economy makes it a mini-version of the country, and that they can contain this within themselves. There is an approach from the authorities—some metropolitan and some two-tier—that they should operate a system themselves. That is a proposal; we have not done the due diligence on it. We will have to consider it, but the reason I mention it is that, if that area can do it with different types of authorities and different political parties, it is not impossible that local government, through the LGA, could make a proposal to the Government as to how they think they can do it. I would be delighted to receive that.

Brandon Lewis: Having been involved in and responsible for local government finance settlements as a Minister in the last parliament, I wanted to pick up on your opening point around the way that the cuts and reductions were structured. It is worth having a look at and being fair about the baselines. My authority was one of the worst-hit, because of the way the formula we inherited worked, but you will tend to find that those authorities with higher reductions have a much higher base level of spending power in the first place. Bear in mind that we go from about £3,500 in the best-funded down to £1,800 and below, and the ones that had the higher reductions tended to have the higher spending power in the first place. You may need to make sure that you are looking at like-for-like.

Q58 Helen Hayes: But often they have a higher level of need, as well.

Brandon Lewis: I do not disagree with that, but you need to make sure you are comparing like with like.

Q59 Chair: I have one final, easy question to the Secretary of State. We raised it with you when you came in a different capacity to our devolution inquiry in the last parliament, and we raised it with your Permanent Secretary on Monday. Presumably, once local authorities fund themselves totally from council tax and business rates, the Treasury no longer has any interest in prescribing the overall level of local authority expenditure in any year.

Greg Clark: Well, the Treasury is very interested in all sorts of aspects of government, so I do not suppose they are not going to be interested in local government. But our ability as a national Government and Parliament to micromanage and determine what local authorities do is very much less than it is in a world where almost all funds come from central Government, usually, historically, with strings attached.

Chair: On that interesting note—and we will be having further discussions at our next inquiry into that very important issue of business rate retention—thank you both, Secretary of State and Minister, for coming with your officials this afternoon to give evidence to us. Secretary of State, we hope your next meeting is as enjoyable as this one.

Greg Clark: Thank you very much.