

Housing, Communities and Local Government Committee

Oral evidence: Business Rate Retention, HC 552

Monday 5 March 2018

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Members present: Bob Blackman (Chair); Mike Amesbury; Helen Hayes; Kevin Hollinrake; Mr Mark Prisk; Mary Robinson; Matt Western.

Questions 51 - 119

Witness

I: Rishi Sunak MP, Minister for Local Government, Ministry of Housing, Communities and Local Government.

Examination of Witness

Witness: Rishi Sunak MP.

Q51 **Chair:** Welcome, Minister. I believe it is your first appearance before our Committee. You are very welcome. We will ask you some appropriate, direct questions. We are looking forward to the answers. The elected Chair, Clive Betts, is unfortunately undergoing medical treatment right now and the Committee has agreed that I will chair the meetings in his absence. There are two firsts this afternoon in that respect.

Rishi Sunak: Congratulations to you, Chairman.

Chair: Thank you. First, before we go any further, I will take the declarations of interest. I am a vice-president of the Local Government Association.

Helen Hayes: I employ a councillor in my staff team.

Mike Amesbury: I employ a councillor in my staff team.

Kevin Hollinrake: I do also.

Matt Western: I am a county councillor.

Mr Prisk: I have nothing to declare.



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Chair: Minister, you are welcome, to talk to us about business rate retention. First and foremost, local authorities are concerned about how they plan for the medium and longer term. Particularly with the uncertainty there has been about what is going to happen with business rates retention, what advice are you giving them for the medium and longer term about how they should plan their finances as a result?

Rishi Sunak: First of all, thank you for having me today. It is a delight to be in front of you all. I send my best wishes to Mr Betts for a speedy recovery. You are absolutely right: certainty is something that councillors talk to me about a lot when it comes to planning. I have only been in the job several weeks, but it has been a recurring theme. In the first instance, it is important to recognise that we are in the midst of a four-year settlement which has delivered unprecedented stability and certainty to councils. Before that settlement was in place, it was an annual process. They have all welcomed the settlement: 97% of them voted for it and it has proved to be something that they appreciate, but the point is well noted. We are reaching the end of that four-year settlement now, so people are asking, "What next?"

In the short term, what can we do around the fair funding review and business rates retention? I think, get them done as quickly as possible, so that people know what the future looks like. Obviously, there our hands are somewhat tied by the need to go through some proper processes, to get the processes right, to tie in with the spending review. The direction I have given my team is that we want to get to a right answer as quickly as possible and, at least indicatively, be able to publish something for councils—my sense is, in early to mid-2019, around the new fair funding review and the business rates retention, to help them with their planning. In the very short term, we have an annual settlement that typically happens provisionally in December with a final settlement in February. I am very new to the job but I am exploring with the Department what we can do to bring the timing of that forward if possible, to provide, in the very short term, some extra time for financial directors and councillors in general to make plans for next year's budget.

Q52 **Chair:** To be clear, the exemplifications on business rates—retention of the 75% or thereabouts that local authorities would keep—they can expect to hear in mid-2019?

Rishi Sunak: I am happy to walk through the timing.

Chair: It would be very helpful if you could.

Rishi Sunak: There are two processes, running in parallel. There is the fair funding review and 75% business rates retention. Part of the idea for the shift in timing of business rates retention was to align it with the fair funding review process and with the spending review, which, as you all now know, has been confirmed for early 2019. It is helpful for all those things to be dealt with in the round.



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What does that mean from where we are? The consultation on fair funding is about to close, in a week's time. On business rates retention, we will be publishing technical papers over the spring in five specific areas, which I am happy to go into detail on later. Towards the end of this year, autumn or winter, there will be the publication of the broad outlines of the new business rates system. That will not be the numbers but how we think the system ought to work. The technical papers will inform the discussions and will be published transparently and publicly for us to all engage with.

In parallel, the fair funding review process is running. The technical papers will be published after this consultation and at the same time towards the end of this year, autumn or winter, we will publish the broad outlines of the new fair funding formula. Again, that is not numbers but the broad outlines of how the formula will work, the bits and bobs of it, the key drivers and inputs. There will be a period of consultation on that. That will hopefully get us to a period in spring, give or take, or perhaps early summer, where we will be able to publish indicative numbers for both of those two processes. That will be after the spending review, crucially, which is why the spending review timing is helpful.

In summer, two key pieces of data will pop out. One is the updated index of multiple deprivation, which I am sure you can appreciate is likely to be relatively important for the fair funding review formula, not to pre-empt how the formula will work. There will also be the publication of the data that the Department is jointly conducting with the Department for Education around children's services, and the precise drivers of need and cost there. Those will be some extra bits of data that will pop out, the idea being that, sometime around autumn, the final numbers will be laid for local authorities in 2019.

Q53 Chair: Effectively, local authorities that are normally setting their budgets between December and February of the year will be looking at 2020 or when this will kick in, in terms of their finances. Is that your expectation?

Rishi Sunak: Yes, and they should be able to do that with the numbers. But they would have had sight of the indicative numbers six months or so in advance. This is all a work in progress, and I am relatively new, but those are the broad outlines of the timeframe that we are trying to hit. I think that is good; it is probably better than people are expecting, so we need to make sure that we are resourced and can get all the analysis and consultation done in that timeframe.

Q54 Chair: I am sure we will be returning to that expected timescale and timetable in due course. Can I deal with the public health grant as well? What is the rationale for devolving that and how will it be distributed?

Rishi Sunak: The rationale for devolving all the grants was done in consultation with the sector, with the Local Government Association, and your Committee published a previous report where you had put criteria



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that you were looking to see in the grants that were devolved. I think there was widespread support among all stakeholders that the grants we were devolving were the right ones. The public health grant, the Greater London Authority transport grant, the rural service delivery grant and the revenue support grant are the four big ones that get you to 75%. The attendance allowance, before my time, was something that you and others had strong opinions on, and that has not been included as part of the devolved grants.

In terms of how that will work, obviously that is going to be a question for the spending review and the design of the formula. The public health grant is ring-fenced as it is up until the end of this spending review in 2020. There is no reason why that should change and there is no point changing it for one year. Thereafter, it will be part of the broader conversation about how we design the new business rates retention system.

Q55 Chair: To clarify that, at the moment the public health grant would be ring-fenced. Is it your intention to ring-fence it beyond 2020 or not?

Rishi Sunak: No. That has not been fully decided. It will be a question for the overall quantum of funding for the sector.

Chair: To be clear, it has not been decided. It could be ring-fenced or it may not.

Rishi Sunak: Exactly. Those conversations are happening between the Department of Health, us and others. It is currently ring-fenced.

Q56 Matt Western: I did not understand the rationale, Minister. What is the rationale for devolving it?

Rishi Sunak: The rationale was to design a system where there was 75% business rates retention—more control for local authorities over the money that they raise. The Government were clear, at the outset of that, that the reform will be fiscally neutral. Then it is a question of what grants and responsibilities are devolved at the same time as the retention increases. Then there is a range of options. Given the criteria that you as a Committee and others had set out, and in consultation with the sector, it was considered that that was an appropriate grant to be devolved. Obviously, councils and local authorities have an important role to play in delivering public health, and have been doing so in conjunction with the NHS, and they felt they would appreciate having that grant.

Q57 Helen Hayes: I would like to turn to the pilots. What have you learnt from the current 100% retention pilot process? How are you using this to shape the system and your decision about the future design of business rates, particularly in terms of the volatility in funding that the pilots have brought to some local authorities, and the appeals process, which in some cases is not working so well?



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Rishi Sunak: Thank you for the question. Thus far, we have had only one year of pilots in the five areas, which I am sure you are aware of. The Department has conducted significant interviews with all the pilot areas. The data from that and the responses to that have not been published yet but they are shortly to be published. You will all have sight of them. They have been shared already with the LGA. That happened either in November or December 2017.

To give you a sense of what we are learning currently, they fed back that they welcomed the idea of business rates, but they made the point that it takes time—what they do with the money to drive business rate growth takes time. They had some thoughts about reset periods in that context. Another point they raised was about having autonomy: “This is all great, but when you devolve grants to us we want as much autonomy and flexibility to spend that money as we think appropriate for our area.”

They also, as you rightly pointed out, talked about appeals and that, the higher the retention, the more potentially volatile or subject to appeals their revenue is. We are moving to a new appeal system: check, challenge and appeal. There was a strong call for a centralised system to deal with that. Those are some of the things that have come out thus far but, as I said, everything will be published relatively soon. On that last one—and you mentioned appeals—one of the technical papers that the Department is working on, to be published in the spring, concerns appeals specifically, looking at a way to share that risk among local authorities. There is strong appetite from the sector for a solution like that with regard to business rate appeals.

Q58 Helen Hayes: On the appeals process, are you looking at the appeals backlogs from previous periods of time? In at least one of my local authorities, I know that is a significant issue.

Rishi Sunak: Yes, you are right. We have the data now at the end of December that I have most recently seen. The backlog on the 2010 rating list is 130,000-odd; 35,000-odd were cleared in the last quarter that we have data for. I am shortly to meet with the head of the Valuation Office Agency. It is important for me that we clear that backlog of appeals as quickly as possible. My expectation is that, by the time we get to the new system, that whole backlog will have been cleared. That, I think, is the VOA’s expectation as well.

Q59 Helen Hayes: The second wave of pilots tests some of the more technical aspects. What are you anticipating learning from those pilots, for example in terms of tier splits?

Rishi Sunak: There was a strong appetite for the pilots, as you know. Initially, there was an idea to do five pilots. We received applications for 24. Over 200 local authorities applied. In the end, the Secretary of State was able to increase the number to 10, including over 100 local authorities. The guidance that was given was that, although not exclusively, the Department was keen to learn about tier splits. We are



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interested in two-tier authorities and more rural areas, and pooling arrangements. We want to see how local authorities could work together when it comes to retaining and then investing business rates growth. Those are all the things that we are keen to learn specifically.

The other thing we have talked about is administration. We want to get a better look at how local authorities administer the scheme in terms of collecting data, dealing with fraud, evasion and things like that, and making sure the accounting and reporting technology works. That is a less front and centre part that the Department is keen to learn more about. Tier splits is a live issue. You mentioned it as a Committee in your report from a couple of years ago with regard to 100% business rates retention. The Institute for Fiscal Studies report last week talked about it. One of the five technical papers we will be publishing concerns tier splits. It is a live issue to figure out if we have got the balance right and whether it needs adjusting.

Q60 Helen Hayes: We had evidence from Essex County Council, which noted that it would have received an additional £8 million had it been able to take part in a pilot. It was a little bit sore about that. What is the current financial outlook for areas not taking part in a pilot in the short term, while all of this is working out? The gains for some of the local authorities that are part of the pilots are quite substantial compared with those that are not.

Rishi Sunak: As I said, having gone through the numbers, there was huge interest in the pilots, which is good. It shows great appetite for this new model. There were other disappointed areas. There are two things to note in terms of good news. First, no one will be disadvantaged by not having a pilot. The money that is funding all the pilot schemes is coming from central Government's share of the business rates pot. It is incremental funding into the system. If you did not get a pilot, you are in no worse a position than you were before. Secondly, we are going to continue piloting and will be announcing those details relatively soon. Essex County Council and others will have the chance to bid for a further pilot.

Q61 Helen Hayes: How are you measuring the impact of the pilots for local authority areas that have easy, straightforward capacity for economic growth versus those where delivering economic growth is much more challenging?

Rishi Sunak: That is exactly what we want to try and learn from the pilots when we talk to the areas. The administration side that I talked about is making sure that we can, as robustly as possible, understand what they are doing to drive economic growth, whether it is working, whether we can measure it and whether we see it in the change in the business rates.

Q62 Helen Hayes: Is there a baseline test on capacity for economic growth, which is not evenly distributed across the country?



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Rishi Sunak: No, but, in terms of the pilots, every area has an equal opportunity to apply, to demonstrate what it would like to do, how it would use the money and how it would pool. In that, just because an area has less capacity, it does not mean it would be disadvantaged in applying for a business rate pilot or being awarded one.

Q63 **Helen Hayes:** Yes, but when you have the pilots, every local authority can be trying as hard as possible to deliver economic growth, and the results of that effort will not be equal across the country. One of the big concerns about business rates retention is the potential for inequality across the country to be distributed in that way. The areas that find it harder to deliver economic growth will be disadvantaged in the process. I am keen to test what the methodology is for evaluating how that pans out through the pilot process.

Rishi Sunak: You are absolutely right in your underlying diagnosis of how business rate growth will happen in different areas. Part of the reason to do the pilot is to see how that works in practice, to see what is happening and how much effort equals reward, to use your example. I am not 100% sure, but I am relatively sure that the Department does not have a theoretical model for every single area saying, "This is what you should be able to deliver and therefore, if you don't, it means either you have not put the effort in or our model is wrong."

There is no spreadsheet for them to be benchmarked against. There will be more of a dynamic conversation with them at the start and the end, looking at what they expected, because they have all given projections. For London, for example, it is £240 million across the pool. They have a model that they think will deliver £240 million of extra growth. We will then be able to evaluate relative to that whether it was more or less, why, and have that conversation together. If there is a capacity number, it is the number that has come from the local authority in its application.

Q64 **Matt Western:** You use the term "effort": local authorities demonstrating good effort to deliver economic growth. Did your predecessor, when handing over to you, give you any idea of what, in their view, that might look like?

Rishi Sunak: Not in an objective, spreadsheet way.

Matt Western: No, but in qualitative terms.

Rishi Sunak: What we do have is every local authority's application to be a pilot. In the application to be a pilot, there is a demonstration of what it plans to do with it, how it will organise its pooling arrangements and, indeed, what its estimate of the growth would be. That is our baseline document or a thing we can talk to and say, "This is what you thought you were going to do and why you were going to do it," so when we get to the end we can say what happened relative to plan. What we have there is something that has come from the local authorities, been through our machine and will serve as the reference point to do the evaluation.



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Q65 Kevin Hollinrake: Minister, the underlying reason behind business rate retention is, as you call it, effort and reward: the incentives around local authorities driving business rates growth through economic growth. We had quite a bit of evidence early on in our inquiry that cast doubt upon the relationship between effort and reward. It is quite counterintuitive: economic growth did not necessarily equal business rates growth. What evidence does the Department have that there is a correlation, and that these incentives will drive the right outcomes in terms of behaviour from local authorities?

Rishi Sunak: That is a very good question. You will all have seen the report last week from the IFS. I am not sure whether the IFS was part of your previous evidence session. I feel like the gentleman was, although the report probably was not published. I have not been through the full report, which talks explicitly about this—it came out at the end of last week—but I have been through the high-level findings. The point made in there is that there is an incredibly strong link, as you said, counterintuitively, but it is important to note that the IFS has done the analysis for a relatively short period of time recently. We should probably do that analysis over a longer period of time and see what the data shows.

Secondly, as the report said, it does not mean that it is not worthwhile to look at it this way and set up a system that way, but you need to have a broader view of incentives for behaviour, to your point. That is important. That is something for us to take away and figure out how best to incorporate. Whether you want to flex this model, I am not sure, because that will add a lot of complexity. Across the way that local government is accessing funding, or rather Government Departments are incentivising local authorities to do certain things, are we holistically targeting all the things that we would like local authorities to do to drive growth, whether it is broadband connections, or how we fund local enterprise partnerships or the new shared prosperity fund? It is important we get that right. It is a fair point to raise. It is work for us to go away and think about that.

The other point that that raises, back to Ms Hayes's point, is about tier splits. As part of the conclusion from the data of the IFS report, there is an argument that, because of this slight divergence, adjusting the tier splits deals with a lot of the problem. That is a live conversation. Maybe adjusting the tier splits will help deal with this issue and partly incentivise upper-tier authorities and county councils to do more and share some of the leverage around business rates growth. Those are all the things that we are looking at in that regard.

Q66 Chair: You are planning another bidding round for pilots for 2019 and 2020.

Rishi Sunak: Yes, we are. Details will be available shortly.

Q67 Chair: On the current round of pilots, you are testing some technical aspects. Then, for the next time, you have not decided what you are



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testing.

Rishi Sunak: No, we have not yet.

Q68 **Chair:** When do you expect to announce it?

Rishi Sunak: In the spring.

Q69 **Chair:** The spring of last year was November.

Rishi Sunak: It will be sooner than that—certainly in the next few months.

Q70 **Mike Amesbury:** When will 100% retention be introduced, Minister?

Rishi Sunak: I cannot give you a fixed date. As we have said, the clear plan is to introduce 75% business rates retention by 2020-21. As you can see, we are well on course to deliver that. Beyond that, the aspiration is there to get to 100% retention over time in consultation with the sector and to make sure it is done properly and at a pace that makes sense. I cannot tell you when after 2021 it will happen, but the key priority now is to get 75% business rates retention and the fair funding review right. That is very much the priority of the sector and the Department.

Q71 **Mike Amesbury:** The Permanent Secretary has said that 99.9% of business rate retention could be done without legislation. Are there still plans to introduce legislation?

Rishi Sunak: For 75% business rates retention, there is no requirement for primary legislation.

Q72 **Mike Amesbury:** What about for 100%?

Rishi Sunak: For 100%, there is a requirement for primary legislation.

Q73 **Mike Amesbury:** You still cannot give us a timescale of when that will be.

Rishi Sunak: No.

Q74 **Mike Amesbury:** Why?

Rishi Sunak: Partly because it requires primary legislation, and we need to be cognisant of all the various priorities that Government are trying to grapple with and what is deliverable now at 75% business rate retention. Given it takes time to do that, focusing on that and making sure we can 100% deliver that is the right priority for us to focus on, and one that the sector is keen for us to get on and deliver.

Q75 **Mike Amesbury:** Surely you have a target date in mind.

Rishi Sunak: For 100%, no.

Q76 **Mike Amesbury:** You have touched upon this already, but are you concerned about the divergence in funding between councils with a different size and ability to generate business growth?



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Rishi Sunak: There is over time going to be potential divergence between need and business rate growth among local authorities. Partly, that is a function of the system design. That is an inevitable consequence of it. Partly that is there because we are trying to incentivise economic growth. Some people may be better at that. Some people may be more fortunate or unfortunate, as the case may be. Given that you want to do that, how do you deal with your concern, which is a fair concern? Then it comes to resets and how often you reset the business rate baselines, so that you can bake the growth that has happened into the new baselines and redistribute according to an updated needs formula?

There is obviously a trade-off. Local authorities want some degree of ability to keep business rates growth, because that is what drives the incentive behaviour. At some point, we need to reset that to redistribute to deal with divergent need. That is a conversation that the steering group is having with the sector. You recognised that trade-off well in your last report and it is one that the sector can have a conversation with us about to try to get to the right place.

There is a general feeling that the current 10-year reset period is too long. People seem to be coalescing on something shorter than that. Then it is a question of what kind of timeframe and, beyond that, whether you do a hard reset or a partial reset. Another thing people have talked about in the interviews and other evaluations of business rates retention is the idea that there should be partial resets or phased resets, so you do not create odd incentives when you are coming up to the end of a reset period. You can imagine you start to incentivise some slightly odd behaviour, trying to put things on the other side of a new baseline. Those are all the subject of the technical working group's paper on this point.

Q77 **Mike Amesbury:** Has your Department done modelling? If so, what does it show?

Rishi Sunak: No, it has not done the modelling on this yet, and until we have the broad outlines of how the new formula will work, we cannot do that modelling. Once we know how the new formula, at least in outline, will work, we can start to get into that modelling and see how divergent things could be, how that will impact the reset date and things like that.

Q78 **Chair:** Can I go back, Minister, to something you said earlier, which was in relation to the 75% versus 100% business rates retention? The Permanent Secretary, when she was in front of us, told us that the Department could do 99.9% without any legislation at all. You appear to be contradicting that. Was she wrong, or are you in receipt of extra information that she did not have at the time?

Rishi Sunak: No, I think we are saying the same thing. I am saying 100% business rates retention does require primary legislation.

Q79 **Chair:** But she told us that 99.9% could be done without legislation.



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Rishi Sunak: That is true, but it is not the same as 100%. We are not contradicting each other. I think it—this is the same thing. If you wanted a genuinely full 100% business rates retention system, done in a formal way as opposed to with a kind of workaround, essentially, then you need primary legislation. You can get to 99% with a kind of workaround methodology, as I would call it.

Chair: I just wanted to clarify, so that we do not have a dilemma.

Rishi Sunak: I would like to think we are saying the same thing.

Q80 **Matt Western:** That is interesting. Minister, you will be well aware, as we all are, of the cost pressures on local authorities. Do you plan to use the additional rate revenue under the 100% retention to alleviate some of those cost pressures before you devolve further responsibilities?

Rishi Sunak: In the first instance, for the 75% business rate retention, it was clear at the outset of the proposals for that scheme that it was going to be fiscally neutral, which is why we have had the conversations about which grants were being devolved for that purpose. On the 75% business rates retention, it is fiscally neutral. To your broader question about quantum for the sector—whether there should be higher business rates retention without additional responsibility or devolved grants—those are conversations for this and future spending reviews. It is not something that I have a direction of travel on today.

Q81 **Matt Western:** Do you have any thoughts about what areas of devolved responsibilities these may include in future?

Rishi Sunak: No. At the moment, the priority and my focus is on delivering the 75% retention system.

Q82 **Matt Western:** The other area, as I think has been picked up by other Members, is how this may be linked to an area's ability to raise revenue through promoting economic growth. You alluded to that a bit earlier. Is there anything else you want to say on that?

Rishi Sunak: It is important to note that we are doing this in parallel with the fair funding formula and an updated needs assessment. We all know that the current formula, the relative needs formula that we are working off, is outdated and complex; that would probably be the politest way to describe it. As part of this, there will be a brand-new, up-to-date and hopefully very accurate assessment of relative need. The starting point for our new system is going to be a much better place than where we are today.

To the points about needs diverging, one side of the coin is how often we reset the business rates baselines to deal with that, and that is a trade-off with the incentive effect we want for local authorities to drive growth. The flipside of the coin is how often we update the fair funding formula to take into account changes in relative need. Again, there is a relatively direct trade-off. We can update it every year to make it dynamic. Populations will be changing and people's needs change by the year. That



then means there is uncertainty and instability. There is again a trade-off there. You would have a conversation with the sector about the right balance. To put those two things together, should those two processes happen at the same time, for simplicity, or do you want to have them at different times—different periods, which would cause you to be changing things every couple of years?

Those are the conversations we are having. As I said, at the starting point it is going to be a lot better. Hopefully our new formula will be much more dynamic, to keep in line, potentially every year or over a time period we choose, with changing needs. The combination of those should reassure people who are worried about divergence and this question of how we get the balance right between the different trade-offs that are inherently there.

There was some concern from people, reading through all the historic things, that the new system would not have any system of top-ups, tariffs and things like that. That is not the intention. The new system will absolutely have a similar system that redistributes according to an updated needs formula. The fundamentals and that principle that there will need to be some element of redistribution are firmly there.

Q83 Matt Western: When you first arrived in this job, you will have seen the trends and forecasts for future revenues from council tax, potentially from business rates, pressures on local services and so on. On those forecasts, there will be a massive amount of pressure on the delivery of existing services against those spending needs. How do you think the system will respond to that?

Rishi Sunak: I am the first to say that councils and local authorities in general have been doing a terrific job in relatively difficult circumstances. There was an overall deficit target, which the Government are committed to. A large part of the burden of meeting that has fallen on local authorities, and they should be absolutely commended for the work they have done. In many cases, when I have spoken to them, difficult as it is, they have at least acknowledged to me that they have learnt things through that process; there are things they have learnt to do better and more cheaply, and that has been good, but they feel they are reaching a relatively difficult point now.

The system, in some senses, has responded. As concerns were raised about pressures on adult social care, the adult social care precept was introduced, and the £2 billion of incremental funding at the budget a year ago. The combination of those has meant an extra £9 billion going into adult social care over these three years. That is the system responding, certainly in the short to medium term. Now there is an adult social care Green Paper, which will look at a sustainable funding model for that, which is welcome and sensible.

Beyond that, we need to make sure the new funding formulas are dynamic and that they project need accurately. That is the conversation



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for future spending reviews. You alluded before to the conversation about the right level of retention and what level of incremental responsibility or devolved grants or not should be given to local government, to make sure that the overall quantum of funding is appropriate.

Q84 Matt Western: The difficulty we all have—and as I said at the outset, I am a county councillor as well—is that it is quite evident that in so many of those authorities there is massive pressure. I am sure you see that too. The delivery of some really critical services, like children's services, child and adolescent mental health services and so on, is under a huge amount of strain. It is whether the moneys are going to come through in the very short term, let alone the long term.

Rishi Sunak: Obviously, we have just been through the local government settlement. Over the five years, it is £200 billion, with real-terms increases over the two years that we have got left of the programme. In cash terms this year, it is 2%, on top of which—which is not in all the figures—there is an extra 3% from business rates growth that councils get to keep, which does not show up in the core spending power that is used as the metric. In the short term, there are real increases overall for the sector.

We responded in the provisional settlement to concerns around social care with a new £150 million social care grant, and responded to some pressure around rural areas with a small increase in the rural services delivery grant. In the short term, the Government are doing what they can to respond to the sector and get extra resources where they can. They listened in terms of changes to the new homes bonus and not changing the formula there, and around flexibility for capital receipts and revenue transformation. These are all things the sector said are helpful, in the short term, for them to meet the objectives you have outlined. To the best of its ability, I think the Department has done a good job of trying to respond to those.

Q85 Matt Western: I may have misheard you. Did you say there have been real increases in the support to local authorities?

Rishi Sunak: Yes, over the two years left of the settlement, the quantum of funding that is there over those two years represents a real-terms increase in core spending power.

Matt Western: Ahead of inflation?

Rishi Sunak: Yes.

Q86 Mr Prisk: Can I turn, Minister, to how the system operates? You have touched on a couple of these issues about resets and appeals. Let me look at appeals to start with. The evidence we have read and heard so far is that councils are very anxious that, under the new system, they are more exposed to the revenue risk that appeals will generate. You have touched on this, but what is the Government's plan for shielding authorities in those circumstances?



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Rishi Sunak: It is right that, in a system where there is a greater degree of funding coming from business rates retention, by definition you are more at risk from appeals. On top of that, there is a new appeals process, which is relatively new, so people are uncertain about how it will operate. The first thing to say is that part of the reason for the new process is to reduce the amount of speculative appeals. As you will know, because you are all very familiar with this from your own backgrounds and the Committee's work, close to 70% of appeals were dismissed under the old system. There were a large number of appeals, which were clogging up time. The engagement between the parties happened too late in the process, and the scarce resource that is the tribunal's time was being tied up on lots of different things. The new system is designed in part to reduce the number of speculative appeals. In that sense, that helps deal with some of the uncertainty, because there should be fewer things in the system that will be causing local authorities to worry about what will happen.

To your second point about how we deal with this, what the sector has proposed, which is a sensible idea, is to develop some form of centralised risk sharing. Rather than you, as a local authority, taking the risk individually of what may or may not happen with business rate appeals, which are largely out of your control, those should be centralised for the sector, so that there is a common insurance pool and local authorities individually will not bear the brunt of an adverse set of opinions that they had nothing to do with. They all seem to want that. As an industry, they will self-insure themselves. That will be the subject of one of our technical papers that will be published in the spring. We will explore this idea a bit further.

Q87 Mr Prisk: On the idea of pooling the risk, one suggestion was that this could be done by the pool of risk that exists under the central list: in other words, general assets, such as railway stations and so on, which currently are taxed but the Government retain the revenue. Would you see the central list as a useful potential part of that pool, or would you see only local government assets in that?

Rishi Sunak: Primarily local, because that is what they are impacted by when the appeals change. There will be a separate technical paper re-examining the current distinction between central and local, how it should interplay with the new system and whether changes need to be made. That is something we could consider as part of that process. I will feed that back to the team as well.

Q88 Mr Prisk: Thank you for that. Let me come on to how the current system is operating. Your very understandable desire to see the number of applications for appeal go down in the first place is welcome, but you will be aware that there is quite a lot of concern in the business community about the level of appeals and the backlog. You mentioned the figure of 130,000 earlier, from the 2010 re-evaluation, as being the current backlog. Are you satisfied with the performance of the Valuation Office



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Agency?

Rishi Sunak: In a word, I am new to this so I do not have anything to compare it to, but I would like there not to be a big backlog. It is not helpful for anyone's planning purposes for there to be what is potentially, on the current run rate, several months' worth of backlog. I would like to see that come down as quickly as possible. In all candour, there has also been an issue around the new IT system for the check, challenge and appeal process, which has meant in particular that people with multiple properties have struggled to input them all on one form, so to speak, which has caused obvious hassle. Those things are being worked out. I am shortly due to set up a meeting with the head of the VOA. As an agency, it is formally accountable to the Treasury rather than our Department, but obviously we have a keen interest in it. I will be doing everything I can to work with it to expedite the clearing of the backlog and ensure that the new check, challenge and appeal process works smoothly and efficiently for all concerned.

Q89 **Mr Prisk:** Presumably, if it is an agency of the Treasury, should the chief executive when you meet seek more resources, you would be happy to sign that off for the Treasury.

Rishi Sunak: Should she ask me for more resources or ask the Treasury?

Q90 **Mr Prisk:** I was merely wondering whether, given it is somebody else's budget, you might be willing to recognise the need.

Rishi Sunak: You are tempting me into areas that probably would be imprudent for my first outing. Of course it is important that the VOA can do the job it needs to do. The new check, challenge and appeal system should reduce the call on its resources. We need to clear the backlog, and that is a temporary situation, which hopefully we can deal with. Beyond that, the new system should mean that, with the resources the VOA had before, the workload should be reduced, because the new system is designed to get rid of a lot of these speculative appeals and make sure it is focusing just on the things it needs to focus on.

Q91 **Mr Prisk:** Eleven months into check, challenge and appeal, is it working? Is the volume going down?

Rishi Sunak: It is dangerous to compare like for like, because they are two very different systems. To give you an example, under the old system, any claim got turned into a formal appeal if it sat there for three months, whereas in the new system there are specific stages that one has to formally get through. You are going to have far fewer things in appeal anyway. It is probably not right to compare apples for apples. We do not have the data, yet, that I have seen. We do know that, in the new system, the clearance rates seem to be much higher in the check phase. In the challenge phase, they are lower. We have not got to appeal phase yet, as of the data that I have last seen, so it is probably too early to say whether it is working in that sense. What clearly has not worked is the IT,



as I alluded to earlier. That is being fixed. These are all the things that I will be raising when I sit down with the VOA.

- Q92 **Mr Prisk:** It would be quite helpful, Chairman, if we had a little feedback after the first 12 months of check, challenge and appeal. I appreciate, as a new Minister, you are coming to it fresh and have not had a chance to sit down and look at it, but it would be quite helpful for us to know, because a lot of businesses in our constituencies, and I suspect in yours as well, are concerned about the backlog. This is a new system; it is important it works. But I take your point.

Rishi Sunak: I would be delighted to do that because I would like to do that for myself, anyway. I would be very happy to share that.

- Q93 **Mr Prisk:** That would be very helpful, thank you. Lastly, on how the system is operating, you touched on the question of the reset. A lot of people initially had some idea of a large button about to be pressed. Would it were so simple. We have seen evidence about a partial five-year and a wholesale five-year—there seem to be lots of varieties, lots of different buttons. What progress has been made on this? You said that a discussion was being undertaken. Take us through what options there realistically are on reset.

Rishi Sunak: To distinguish two things, in the first instance, there will be a full reset for starting this new system, which has been clear from the outset and is absolutely the right thing to do. We want to kick off this new set of funding formulas, and the new system for rates retention, with the cleanest, most up-to-date data possible. We want to start with a blank sheet of paper and make sure everything is reset perfectly at the beginning. If we were to not do that, we would be carrying through legacy imperfections in the current set of baselines, which we should avoid. That is the full reset. That is a live conversation. It is a conversation that is happening between the sector and the Department in the official steering group, and it will be the subject of one of the technical papers that is published in the spring. The options are as you described it: is it a hard reset or some kind of phased reset? If it is a phased reset, for how many years? What kind of average does it take?

These are questions of process and questions for the sector to be comfortable with. There is an obvious issue with a hard reset, which is that you can imagine a situation where, if you had a big business project and you were coming up to a reset period, you would be incentivised to delay it, or not do anything for the last six months, thinking, "I am going to get a reset anyway, so let me move it all to the fresh new period." Clearly, that does not seem sensible. Some element of a phased reset seems appropriate. The sector has been working on it. The Department is working on a technical solution for how best to do that. That is where we are. At the moment, the body of opinion seems to be more supportive of some kind of phased reset.

- Q94 **Mr Prisk:** Are you satisfied that the IT systems are up to it? You



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mentioned the VOA system. Is the Department system up to it?

Rishi Sunak: Yes, I am. Doing the phased reset is relatively simple, smoothing or averaging of a multi-year thing. That is relatively straightforward analysis on spreadsheets, as opposed to complicated IT infrastructure where people are inputting data on one end and having to interface with the VOA on the back end. We have all the data for the individual year, for example on the business rate baseline. Then it is a question of smoothing and averaging. It is a calculation I am relatively confident we should be able to handle.

Q95 **Mr Prisk:** I admire your optimism about Government computer systems.

Rishi Sunak: It is more optimism about my team's analytical ability. I probably share your scepticism about IT systems in general.

Q96 **Chair:** May I follow up on one point that Mr Prisk was making? The draft Bill, which was dropped, in relation to introducing 100% business rates retention, talked about a compensation scheme for local authorities that lost money under the appeals process. That was part of the legislation and has gone. Do you have a means to bring that in without legislation? What is your plan to do that?

Rishi Sunak: I am assuming, but I am not 100% sure, that that is referring to the system that I alluded to before, where you pool collectively, as a sector, the provisions that you currently have to make individually against potential business rate appeals. If you are an individual local authority today, you would set provision aside for the expected business rate appeal. That is less revenue for you to spend and, if you get that wrong, that is not good news for you. We would like to see a pooled system, so that that risk is shared among all local authorities. In that way, you would be compensated if you had an excessive negative decision on rates. That would be offset by someone else's better-than-expected decisions.

Q97 **Chair:** This would be a voluntary system of local authorities implementing this, rather than a Government-controlled one.

Rishi Sunak: Yes. It would be part of the design of the system, in how it redistributed money among local authorities.

Q98 **Chair:** It requires consent from local authorities to do that.

Rishi Sunak: Yes. I have not thought about whether it needs to be mandatory in order to get the common pooling working; otherwise, if the good-risk people opt out of a common insurance pool, that causes problems. From what I have seen thus far, there is a strong desire across the sector to have a system like that. Most local authorities would take the same view, which is that they have little control over business rates revaluations and appeals. They are quite happy to commonly pool because they just do not know, ex ante, whether they are going to benefit or be hurt by appeals. A system that is in proportion to your



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business rate base seems a relatively sensible idea, which I think everyone would be really happy to agree to.

Q99 **Chair:** The point that I am making is that that was in the draft Bill, which local authorities had been working to.

Rishi Sunak: I will go away and check that point to make sure that is referring to the same thing.

Chair: It would be helpful if we could have a note.

Rishi Sunak: Yes, to make sure that it is talking about the same thing, and, if it is not, an explanation of what that is.

Q100 **Kevin Hollinrake:** Turning to the fair funding review, Leonardo da Vinci once said that simplicity is the ultimate sophistication. If that is the case, the current system is very unsophisticated. Some members of this Committee sat through an hour or so of some very clever people trying to explain to us the current system and the 159 different drivers in the system. Nobody really understood how it worked; we certainly did not. I am speaking personally.

It got complicated because people were trying to make it fairer. You could argue that, anyway. There are probably different reasons why people have made it complicated. How do you make the system both simple and fair?

Rishi Sunak: The current system, as you clearly know, is incredibly complicated. There are 15 or 16 different relative needs formulas. There are 120 different indicators that make up all those needs formulas, and a lot of them are out of date. The original basis for these things was 2013-14, and a lot of the underlying statistical methodology predates even that. There is still data in there that relates to the 2001 census. There is other data that relates to day visitor numbers in local authorities that is at this point two decades old. So, clearly, the system is not fit for purpose. Your Committee very helpfully engaged LG Futures. I have read through its piece of work in your submission, which illustrated the point perfectly that you can reduce complexity without sacrificing accuracy.

That report did not make any judgment about whether the current formula was right or not, but it did the analysis to show that you can remove lots of those 120 indicators and not really change the actual distribution of money that is currently distributed to local authorities. LG Futures just used an arbitrary threshold of 1% and was cutting off indicators left and right. That is one way to simplify, which we can clearly do.

There is another simplification. There are lots of small formulas. The National Audit Office at one point that estimated there are potentially over 1,000 different things that local authorities do. You clearly do not need individual formulas for every one of those. Lots of them will be



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correlated to one underlying driver, such as population. They can all be consolidated because they are individually quite small.

The LG Futures report mentioned that and you mentioned that as a Committee. That is another obvious area of simplification. Starting with a blank sheet of paper, my approach is to tell the team, "I would like you to use as few drivers as possible to achieve x degree of accuracy, which is measured as: what percentage of the variation of need between authorities can we capture?" There is no perfect science to that but we will look at the trade-offs. If you can capture, for example, 95% with two variables, but it takes you another 20 variables to get to 100%, you probably would not bother. You would say, "We are relatively comfortable with two variables and capturing 95%." Looking at it fresh gives us the opportunity to do that.

There is a consultation that is live now, which closes in a week's time. It talks about the idea of having a foundation formula, which is one formula that would cover the vast majority of needs. Do you then need to layer on a few specific formulas for some of the big drivers of spend, which are not well correlated to something like population because they are not universal services? Children's services, adult services and highways are the three obvious ones that might not correlate well with overall population.

As you have amply demonstrated, there is enormous opportunity to simplify and improve accuracy during this process. We are all, as stakeholders, quite lucky to be doing this at a time when we have the opportunity to sort this out. It is a major need.

Q101 **Kevin Hollinrake:** You have highlighted two issues there: first, accuracy, and, secondly, futureproofing and making this thing dynamic and making it move with time. I think you used the word "dynamic" earlier. In terms of accuracy, okay, two drivers might get us to 95%, but if I have a local authority that is affected by that missing 5% I will want you to do something about it. So you will end up going back towards 22 again. How are you going to make sure that does not happen and still provide an accurate outcome? How are you going to make it dynamic and futureproof?

Rishi Sunak: No formula is going to be 100% accurate because, otherwise, you have to have a formula for every single driver and every single local authority's needs. We need a formula that is accurate as defined by some threshold. There are multiple different formulas within it. It is unlikely that, for the local authority in your example, it is the same 5% on everything. In some senses, you will be fine; in others, you are in the off-chance. Then we have to talk about magnitude. Yes, it might not have captured you perfectly on that formula but maybe that means only a few percent off.

If that 5% was very big need, that would be a problem and you would probably want to go to a higher threshold, but if the standard deviation at



that point is just a couple of percent you can probably live with that and you will make it up elsewhere. To your point about making it dynamic, that is key for when we set it up. We need to set it up with underlying drivers that we know are updated regularly, or we know when they are updated, and that everyone has confidence in. It is a question of how often we want to do that. Then we revisit the conversation we have had before. There is a direct trade-off between making it as dynamic as possible, and providing local authorities with some degree of medium-term certainty over their funding. Updating it every single year means you cannot do multi-year planning. As we have talked about, there is the flipside of the coin, with the business rates reset, so what is an appropriate time period where we balance some certainty but some degree of updating, so that we are periodically updating need?

Q102 Kevin Hollinrake: Do you see that as likely to coincide with the reset periods?

Rishi Sunak: That is an open question. There is clearly a logic for doing that. There is clearly a beautiful logic where that all happens at the same time as the spending review. If that was a sensible period and everyone agreed on it, it would make life administratively quite simple. The question is what you lose by having that administrative simplicity. If the spending review is five years, are you willing to have your need grow for five years or not? Is five years the right period to incentivise local authorities to drive economic growth and see the benefits of it? From an administrative perspective, aligning them all makes sense.

Q103 Mary Robinson: Minister, councils have varying levels of ability to raise council tax. For instance, the Committee heard from Manchester, which told us that 76% to its properties were in bands A and B. How will councils' ability to raise council tax be taken into account in the new formula?

Rishi Sunak: It certainly will be. We have said that this fair funding formula and review will look at both relative need and resources. It is right that we look at the relative resources. On council tax, the example you gave is relevant. There is an easier example, which is people in the same band E property in different places paying different band E rates, and to what extent that should be taken into account or how we should adjust for that. There are discretionary council tax schemes that, at the moment, are not taken into account.

To give you an example, a local authority that decides to be very generous with its discretionary council tax schemes is not in any sense penalised for that and, in fact, because of the way the formula works, may end up ultimately receiving more central money than one exactly the same next door that did everything else the same but was less generous with its discretionary schemes. That raises a genuine question: is that fair? If you are a constituent in the second local authority, you would say, "Hang on; they are choosing next door to be more generous and I am paying a higher council tax for that in our area. Why is that fair? Central



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Government should be distributing more money to the people next door.” We should look at that.

More broadly, we will look at the question of other ways of raising money and whether they should be included or not. There are lots of different ways that councils raise money. Council tax has been the main one we have looked at, but, even then, not fully. There is a broader conversation that should be had, and work should be done on whether we should look at things like parking and so on.

Q104 Mary Robinson: Given the discussion around discretionary schemes, will those be maintained?

Rishi Sunak: The ones that are discretionary are for local councils to decide themselves. What is important, in terms of how they interplay with the formula, is that the local authority needs to have regard to what it is doing on those schemes. Central Government or the redistribution mechanism should also have regard to that. If one local authority is choosing to be more generous there and another is not, Central Government should be able to look at that and say, “Hang on; something is different there.” The formula should adjust to that and should not subsidise that, with the people in the area next door that has not been as generous getting penalised for that. That is the right thing for the formula to do. The question is how we should do that.

Q105 Kevin Hollinrake: In terms of the overall quantum, redistribution means some people hopefully will gain and other local authorities, presumably, will lose out. When the Government tried that in education, they could not really square that circle and had to provide some extra funding to fill some of those gaps. Which one of those two is it going to be?

Rishi Sunak: That is definitely tempting me into an area that is probably not appropriate for me to answer. This is about, first of all, getting the relative needs assessment right and updating it. There is a separate question about how we adjust to that and make sure our funding quantum, whatever it might be, reflects a fair distribution. Then how do we get from A to B? As the Department has said, and I would say, of course there need to be sensible transition measures in place that are fair, transparent and affordable to get us from A to B. At the appropriate time, that will be the subject of the consultation. That is why, to your broader point, it is good to have these conversations at the same time as the spending review. It is a good thing that these three things have coalesced at the same time.

Q106 Kevin Hollinrake: We have definitely heard concerns expressed around that particular issue. Back to Mr Western’s point, the other issue about the quantum meeting the growth in business rates and the correlation between that and the growth in need, there does not seem to be an obvious correlation between the two things. How are those future pressures going to be catered for as we go down the line?



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Rishi Sunak: That is exactly why spending reviews are the right time to have those broader conversations. In the same way, when you come to a spending review, there will be many competing demands on central Government. In the context of all those conversations, one can look at the 75% figure and decide whether it should be higher or lower, and whether it should have more devolved responsibility or not. Any question about quantum in the round is best done as part of a spending review when all the competing priorities can be compared and analysed.

Q107 **Chair:** As a follow up to that, you have mentioned other sources of income being taken into account. For example, car parking charge revenue is ring-fenced towards either further car parking measures or measures on the highway. Are you therefore considering un-ring-fencing some moneys around this to take account of local authorities' ability to raise council tax?

Rishi Sunak: I am not considering anything in particular at the moment. We are looking at all the different things, without having prejudged what they might be. It might be that, for various reasons, it is not appropriate to take it into account. We started with a blank sheet of paper. It is the right thing to do to look at all the different options, to make sure we get this formula right. If councils have sources of revenue that should be taken into account, and in all else two councils are exactly the same but one raises money from something it is able to, where we are talking about resources and needs, whether that should be taken into account or not is the conversation we should be having. At the moment, we only look at council tax. Even that, we do not look at fully or in enough detail.

Q108 **Chair:** Fair enough. Moving forward, local authorities' funding will be either council tax, other charges or, alternatively, business rates. Business rates are what we are talking about today. At the same time, the Government have the Green Paper on adult social care funding. Is there a direct linkage between 100% business rates retention and funding adult social care?

Rishi Sunak: Not that I am aware of. The Green Paper process is separate to any of this and is happening because it is important we find a sustainable way to do social care funding. That Green Paper process is looking at lots of different options and will report in the summer. Depending on the outcome of that, that will then feed into how we design our business rates system or what the prospect of retention in future might be.

Q109 **Chair:** One of the concerns that local authorities have is that the funding of adult social care is dwarfing all other increases in demands on their budgets. Given that is the set of circumstances, to what extent do you consider that local authorities will have to fund adult social care from their locally raised revenue?



Rishi Sunak: It is very hard for me to prejudge the outcome of that Green Paper process. That is exactly what that Green Paper process is looking at. It is looking with a blank sheet of paper at all the different ways one could fund social care. There are a range of models. It is too early for me to say where the endpoint of that process will be. You and the Committee have spent some time looking at this. You have visited other countries. There are social insurance schemes, levels of personal contribution, funding out of general taxation, local authority revenue. There is a whole gamut of different options. Depending on what was picked, that would obviously have implications for local authorities' future rates of retention, etc., but it is too early to say what the Green Paper will suggest.

Q110 **Chair:** Before I move on from that, Lord Willetts has either made a speech or is making a speech today, talking about the way council tax works, the way adult social care funding works and looking at much wider aspects. Are you taking advice from Lord Willetts on what should happen in the future?

Rishi Sunak: I would be delighted to take advice from Lord Willetts. I have huge respect for him, and enjoyed his books when I was at university. I will look out for his speech and read it with interest.

Q111 **Mr Prisk:** Can I turn the issue round slightly the other way? Increasing numbers of individual councils are being quite entrepreneurial in finding other sources of revenue. This is not simply buying shopping centres on cheap rates through the Public Works Loan Board. There are also some very interesting examples of how councils are announcing that they wish to become independent of the need for raising, for example, council tax. This may or may not happen. Is it the Government's view that this kind of thing should be encouraged?

Rishi Sunak: In general, yes, I am all about encouraging entrepreneurial councils. That is why I said that, when you look at taking resources into account, you want to make sure you do not disincentive exactly that type of behaviour and make people feel, "There is no point in me doing something entrepreneurial that no one has thought of that will lower costs and improve revenues, because I am just going to have money taken away over here." It is important that we do not disincentivise that kind of behaviour.

In the first instance, in terms of how we take into account council tax, it is very clear there is probably work and improvement to do there. With regards to things like parking, there is a perception from some that have fed into the consultation that parking in some areas is in some sense a windfall gain, which has little to do with the local authority's particular policies on something—it just happens to be in an area where it is—and so there is an issue about whether that should be taken into account when considering the overall resources that they have access to. That has provoked a broader conversation about looking at things in the round. I am very much in favour of entrepreneurial behaviour.



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Q112 **Kevin Hollinrake:** On the Green Paper, you mentioned there is a blank sheet of paper and a chance to look at this with fresh eyes. You also mentioned that the Committee had looked at other systems. We went to Berlin to look at the German system of social insurance. I quite understand you will not be drawn on what solution we are going to plump for. As a Committee, we were quite impressed by the solution they found in Germany. Can you confirm that that social insurance is on the blank sheet of paper?

Rishi Sunak: It would not be appropriate for me to say, because I am not the one sitting in those meetings.

Q113 **Chair:** As a further follow-up point on issues such as parking and other related charges, are you then taking into account the capability of local authorities to consider getting other sources of income, such as parking charges, which they could increase? Are there other fees and charges that potentially could be utilised?

Rishi Sunak: These are all the questions that need to be thought about. These are far less progressed ideas than maybe I have given you the impression of. It may be in the end that it is complicated and difficult. The broad point is trying to treat similar areas in a similar way. It is about asking whether, if you are redistributing money, if there are councils or local authorities that are taking decisions that mean they raise less money and are doing those actively, is it fair that the council next door who has made some difficult decisions and is not doing what they are doing should be treated worse by the redistribution mechanism? That is the underlying approach that I take to make sure it is fixed.

This is why the examples from Mr Prisk are relevant. There is a certain type of thing where you want to make sure that fairness is corrected, but, in doing that, you do not want to stop councils doing entrepreneurial things. How do you measure and say, "You ought to be entrepreneurial? We will not give you—"

Q114 **Chair:** In other words, a council could be penalised in terms of funding if it did not seek to raise funds in ways that other local authorities are doing. Is that what you are looking at?

Rishi Sunak: Whether it is penalised or not, it is making sure that the redistribution mechanism takes into account an area's ability to raise resources itself. If there is a reasonable expectation that a local authority should be able to raise x , then if it is not doing so, they should not necessarily get a top-up from area y , which is doing that. The question is whether or not, in the practice and the detail, you can get to a point where you say, "Yes, it is reasonable that this local authority should be able to raise as much as the area next door, and therefore we can have an adjustment in the formula." It may be that in practice it is hard. In a hypothetical example, where there are two areas that are exactly the same, where everyone had the same job, income—everything—and one said, "I am only going to charge £1,000 of council tax" and one was charging £2,000, if that meant that the area charging £2,000 was



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distributing money to the other area, that would feel unfair. That is a hypothetical example. The question is how much we can approximate real life to that example.

Q115 Matt Western: If I may, Minister, following up on Mr Prisk's question and that of the Chair, it sounds like you would strongly advocate raising the cap on an authority's ability to borrow to be entrepreneurial.

Rishi Sunak: At the moment, local authorities have access to the Public Works Loan Board, which is subsidised funding, which is obviously very attractive to them. That is a way for them to be entrepreneurial. Correct me if I am misquoting him, but I think Mr Prisk was talking more generally about entrepreneurial activity, not necessarily just borrowing money to go and buy shopping centres. There are different types of entrepreneurial activity that Mr Prisk was referring to. With regard to that, the Government have recently published guidance and have not prohibited any of that kind of behaviour; what they have done is clarified the guidance and improved the disclosure around that, which strikes a sensible balance between allowing local authorities to do things they think are in their interest but making sure the people they serve have access to transparency around what they are doing, why are doing it and whether it relates to their core principles or not.

That is the right balance and tightens up something around what is called the minimum revenue provision—the MRP—which is how local authorities have to account for depreciation, so to speak, of whatever they are buying. That was sensible because you do not want local authorities being able to game the system and pretend they do not have to pay a lot of this money back or replace the asset, because they stretch it over a much longer life than the asset has. That is what the Government have recently done in the area. They are sensible provisions that do not prohibit local authorities from doing things but make sure that transparency and disclosure is there, and that those have been done with proper accounting in place.

Q116 Matt Western: I am not so familiar with that, as it happens, but it was an honest question. It was not trying to catch you out at all. I just thought your response was very interesting to that, in terms of enabling authorities to be original and perhaps a little inventive, but also look at, say, housing, where they are paying out significant sums of money to the private rental sector, and whether it sometimes makes more sense for them to be investing in the housing themselves.

Rishi Sunak: That is straying from my particular brief; when it comes to housing and access to the HRA, that is not my strict brief. My understanding is the borrowing cap there has been raised. I forget whether it is £1 billion or £2 billion. I forget the exact number. That has been raised specifically for areas where there is demonstrated need. I am sure some people would like to go further than that. I can appreciate that but this is a step in the right direction.



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Q117 **Matt Western:** That neatly segues into the situation with Northamptonshire. You are well aware of their decision to issue the Section 114 notice. Have you made an assessment of what the potential is for other councils to follow suit in the next financial year?

Rishi Sunak: We have just been through a consultation period on the local government finance settlement. The Department is extensively meeting with local authorities between provisional and final settlement. Since I have had the job I have met with scores of local authorities and their representatives. Certainly none of the conversations that local authorities have had with the Department or with me suggests that there is someone imminently about to file a similar notice.

Q118 **Matt Western:** How would you support them in the future if this does arise?

Rishi Sunak: Particularly with regard to Northamptonshire, as you will know, there have been some concerns for a while, which is why the Secretary of State, towards the end of last year, appointed an inspector to go into Northamptonshire. In the first instance, that is the Department's primary role. There is money given to the LGA and the LGA runs a system of peer review and assistance for local councils. There is £20 million-odd being funded to them to do that. If things reach a particular point where there are serious calls for intervention, the Secretary of State has the powers to appoint the inspector. The inspector has been appointed and is due to report relatively shortly. It is hard for me to comment beyond that. We have to wait for his report and then decide what action to take as a result of that. You will all be very familiar with some of the previous interventions that have happened in different local authorities. They take different forms depending on the situation, but it would be wrong to prejudge his report.

Q119 **Matt Western:** It must be very difficult. With local authorities and the pressure on local businesses and so on in the current climate, this sort of situation is very hard. Do you think in hindsight, with 20:20 vision, as they say, this was a good move by Northamptonshire?

Rishi Sunak: It is not for me to say. The statutory officer has triggered the notice. The thing to note, interestingly, is the comment from the CEO of CIPFA, the chartered body of financial accountants for local government, who made the point that there are other authorities with a similar financial situation to Northamptonshire who have not ended up in this situation. Clearly there is an issue there around proper governance process and financial management. That is why the inspector has been sent in. It is right that we let that process run its course.

Chair: On behalf of the Committee, can I thank you, Minister, for coming along and answering our questions? We look forward to the additional information you will supply us in due course.

Rishi Sunak: Brilliant. Thank you very much for having me.