

Housing, Communities and Local Government Committee

Oral evidence: Local government finance and the 2019 spending review, HC 2036

Tuesday 18 June 2019

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Members present: Mr Clive Betts (Chair); Bob Blackman; Mr Tanmanjeet Singh Dhesi; Helen Hayes; Kevin Hollinrake; Andrew Lewer; Teresa Pearce; Mr Mark Prisk; Mary Robinson; Matt Western; Mohammad Yasin.

Questions 154 - 250

Witness

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

Examination of Witness

Witness: Rishi Sunak MP.

Q154 **Chair:** Good morning. Welcome, Minister. Thank you very much for joining us for our final evidence session in our inquiry into local government finance and the 2019 spending review. Before we come over to you, I will ask members of the Committee to put on record any interests they have that may be relevant to this inquiry. I am a vice-president of the Local Government Association. We can go around the table, if anybody wants to add to their interests.

Teresa Pearce: They are on my register of interests, and I also employ two councillors in my office.

Matt Western: I employ one councillor in my office.

Mohammad Yasin: I employ one councillor.

Helen Hayes: I am also a vice-president of the Local Government Association and I employ a councillor in my team.

Kevin Hollinrake: I employ a councillor in my team.



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Andrew Lewer: I am a vice-president of the LGA.

Mary Robinson: I also employ a councillor.

Chair: Okay, that is on the record. Minister, thank you very much for coming to us today. I suppose I am tempted, as a first question, to ask this. Are you now one of the two people, before you look completely bewildered, who fully understand the local government finance system?

Rishi Sunak: I did read that in your previous evidence session. Hopefully there are more than two. Another one has just walked into the room. No, look, I like to think of myself as somebody who has a relatively numerate background, but it is without doubt complex, and I am sure we will get on to that later on in the session. You will be the judge of whether I have a grip on it, but I would acknowledge that it is far from straightforward in parts.

Q155 **Chair:** You will have noticed that, when we began our inquiry, it was about local government finance and the 2019 spending review. It now looks rather as if the four-year spending review to be undertaken this year will be postponed.

Rishi Sunak: You might have more insight into that than I do, as I sit here as a lowly Department Minister not in the Treasury. We are still working under the assumption that the Chancellor's statement is the right one, which is that, pending the outcome of the Brexit situation, there are plans for a spending review, which will happen over the summer, conclude at the Budget and be for a multi-year period. The team in my Department are very much working to that goal and that deadline, and all our preparation work is centred on that assumption.

Q156 **Chair:** Presumably, you are working on a fall-back position in case there is a change in Treasury planning, the spending review for four years is postponed and you have to deal with something for one year.

Rishi Sunak: We work for all potential scenarios, but, fundamentally, the work is not so dissimilar. The work is around figuring out the right resources for local government, not just in the immediate year but for a period going forward. In a sense, the same underlying work is required, regardless of the period.

Q157 **Chair:** In that case, local authorities will only be told what their certainty is for one year rather than four, will they not?

Rishi Sunak: Of course, if it was a one-year spending review, that would be the case, but I have no insight as to whether that would be the case. I can only go by what the Chancellor has said, and that is the latest Government position.

Q158 **Chair:** You are therefore planning still the fair funding review to be completed this year.

Rishi Sunak: That is the current expectation, and the current plan is for that to all happen next year. As some of your previous evidence sessions



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acknowledged, the timing of the spending review has implications for the implementation of what are some quite significant reforms to local government, and there is a requirement to have some statutory time between the outcome of those and the implementation of a new system to consult with local government. Depending on the exact conclusion of the spending review, there might be some implications for that timing, but currently that is our plan.

Q159 Chair: If the spending review was very late, the fair funding review could be postponed.

Rishi Sunak: That is something you heard from your local government session. Indeed, other people in local government have raised that with us proactively: the conversation about whether it is better to have more time to prepare for some quite significant changes versus having to make those preparations in a very compressed period of time. That is a conversation we are open to having with local government as it wants to have that conversation.

Q160 Chair: Presumably, if in the end the Chancellor decided not to do a four-year spending settlement in the autumn, at that point the fair funding review would be put on hold for a year, would it? The two would link.

Rishi Sunak: If I look at it, there is a bigger challenge. The benefit of a multi-year funding review is less to implement the fair funding formula in itself and more about the transition. If you are moving to a new system, it requires an element of transition. You would want a multi-year settlement in order to put in place a transition programme. You might have all the formulas, and the new formula and the new distribution mechanism ready to go, but, if you did not have multi-year sight of how you could transition from one system to the other, that would make it more challenging.

Q161 Matt Western: The LGA is pretty damning of the whole situation and the uncertainty, as you have just been articulating. There seems to be an increasing dependence on ad hoc grants and pots of money being available. It is mind-boggling just how many there seem to be but also how late they are announced. The difficulty is for local authorities to be resourced and to know how to apply for them. This seems to exacerbate the uncertainty. Would it not be simpler to distribute the money as soon as it is available, rather than creating even more bureaucracy in terms of applying for these grants?

Rishi Sunak: In general, I agree with you. I am a localist and a champion for local government. In general, I start from the premise that un-ring-fenced resources are better and local authorities should be empowered to decide how to prioritise money in their area according to what their electorates want and what they think is best for them.

I know there is a narrative around that. If you look at the breakdown of the core spending power, the £46 billion, the bulk of it is not through



ring-fenced grants. There is a few billion through the various social care grants, but the bulk of it, the vast majority of it, is largely coming un-ring-fenced. To your point, why do we have ring-fenced funding at all? It is to respond to very particular pressures, where people have felt, both in Parliament and local government, that there is a particular pressure. That has been most acute in adult social care. It is a determination to ensure that those resources reach the very particular need for which they have been identified.

It is probably unrealistic to assume that we will be in a world where there is totally un-ring-fenced money for all local government. People in Parliament do not always want to see that either. I get questions about having particular pots of money to tackle particular things, for example homelessness. There will always be that need for some specific funding, but in general I do not disagree with you. I would prefer as much of the resource as possible to come un-ring-fenced.

Q162 Matt Western: Is it tracked? Do you have reports that show, over the last 10 years, how much of local authority budgets have become ring-fenced ad hoc grants?

Rishi Sunak: I do not have that to hand. I would be happy to look and see whether we can do that.

Matt Western: I would be very interested to see that.

Rishi Sunak: I also have not been in this job for ever and a day. We have changed the way in which local government is funded over that period, so I do not know whether we can go back the full 10 years, but we can have a look back over the recent past and see how that has evolved.

Q163 Matt Western: In terms of these grants being made available, how do you decide during the course of the year what should be done or what should be made available?

Rishi Sunak: Generally, I would say, in my short tenure in this job, the annual local government budget-setting process and the local government finance settlement in Parliament have been the obvious places to think about those. This year—the one we have just started financially, which was dealt with in December—we were having conversations with the Treasury about local government resourcing. It was helpful in terms of trying to have that conversation as part of the Budget, which was at a different time to normal.

The people you heard evidence from were pleasantly surprised by what happened in the Budget for local government. There was considerable extra resource particularly around social care funding and some extra things as well, and then there was an incremental amount at the settlement. That has been the typical rhythm and cycle of having those conversations.



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Q164 **Mr Prisk:** From both written and oral evidence, it is clear that in real terms in the last nine years spending is down by about 30%. Some argue that it is slightly higher. We have heard a consistent view that that cumulative effect over the nine-year period means many local government services are really struggling now. Which of those services that councils provide are you most concerned about?

Rishi Sunak: First of all, I agree with you that it has been a very challenging time for local government. Without doubt, they have shouldered a very large part of the burden of bringing the overall public finances back into a sustainable place, and they should be commended for the work they have done on that. I would be the first person to say that; there is no point in pretending that that has not been the case.

In terms of where the most concern is, there are two ways to think about this. First, there is a legal obligation, a statutory obligation, on local government to provide certain services. I am sure we can have a debate about the degree to which that is right or wrong. Given that we do have some statutory services that Parliament has put in place, it is right and reasonable that local government has regard to those. If there was a risk that those were not being addressed adequately, that would be the first priority.

As it has happened, that is where the pressures have been most significant, in adult social care and children's social care. Leading up to the point that I got this job, the most acute pressure was in adult social care. Immediately after getting this job, a lot of the conversations were about adult social care. What I can see that has changed over the year I have had the job is that I hear more often about children's services now than I do about adults. In terms of volume, adult social care is obviously a very large part of the budget; it is about a third. But I hear more now than I did a year ago about children's services. If you look at the data, it has been the single largest area of overspend over the past three, four or five years. That is probably the thing people will flag to me.

Q165 **Mr Prisk:** So those two areas are in trouble.

Rishi Sunak: I would not say they are in trouble. I would say those are the areas where there is acute demand pressure. Those are demand-led services; there is acute pressure. They are also statutory services that local government has to provide, so there is not the same ability as you might have elsewhere to make changes in service provision. Those would probably be the two areas. Cumulatively, they account for over half of spend, somewhere between 50% and 60% of spend. Volume-wise, they are the two most important service areas.

Q166 **Mr Prisk:** You will know that the pressure on temporary accommodation, for example, and housing is very significant and that pressure is getting quite acute in some areas. What investment is the Ministry making to try to mitigate that?



Rishi Sunak: Temporary housing is not my particular responsibility. My understanding is that some of the funding for that comes separately, so it would be slightly out of my purview. To be candid, it does not get raised with me a great deal, probably because local government is speaking to a different Minister and it has a different way of dealing with that. It is probably not one of the things that are on my radar, where people are saying, "This is a No. 1 priority for me". I am not saying it is not important. Just because it is not in my portfolio, it may not be something I see first hand.

Q167 **Mr Prisk:** Let us come back to children in care, because you mentioned that. We have seen a lot of written evidence and heard a lot of authorities sitting where you are expressing their concerns about this. There seems to be, if not conflicting information, quite a lot of data around this area. Do you have the information you need to judge exactly how councils both individually and collectively are performing in this area?

Rishi Sunak: We had a dedicated session on this not so long ago together with the Children's Minister. They have direct policy control of the area. When Nadhim, the Children's Minister, was speaking to you, he was relatively candid in saying—I cannot remember his exact language—that we need to understand better the exact drivers of the increase in the demand for children's services. You heard evidence as well from the chief social worker and others.

Everyone had their various views as to the different types of things that were driving demand, whether it was a change in regulation, a change in behaviour or new things that we thought were acceptable 10 years ago but we now do not think are. The exact empirical mix between those is probably not something we have a precise answer on now, which is why we are now undertaking a considerable piece of joint work, which DfE is leading on, to get underneath that and make sure we get the drivers right, particularly as it pertains to the new formula. LG Futures has been engaged to work with both Departments in an incredibly rigorous way using a per-pupil/per-child database to have probably the most granular understanding of that we have ever had.

Q168 **Mr Prisk:** I have a couple of questions specifically looking at financial performance. First, how many staff at the Ministry monitor local government performance?

Rishi Sunak: We do not have a precise unit that does that or, therefore, a precise number of staff. As you will know, we have moved away from the Audit Commission to a different model. There is a variety of different people whose day jobs do lots of different things and, as required, they will be pulled in to do intelligence gathering, and informal monitoring and assessment of what is going on, to provide Ministers with a broad picture. There is not a precise unit with a precise size of team that is doing this exclusively.



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The Secretary of State has written to your Committee and at least publicly said he is looking at evaluating the current governance and accountability framework. There is an obligation to outline his plans on that before November 2019, as he has committed to the NAO. There is currently a live discussion about whether we have the right governance framework for local government in a post-Audit Commission world. Stand by for more on that.

Q169 Mr Prisk: In the context of that, as we understand it, at the moment, when an auditor goes to visit a local authority and do its work, it will report back to that authority, but that information is not then shared and the NAO is not in a position to set out in public the financial position and performance of individual local authorities. In the interests of transparency and perhaps as part of the Secretary of State's review, is it not time that changed?

Rishi Sunak: He is reviewing the entire system. A decision was made by a Parliament previous to my existence here about abolishing the Audit Commission and replacing it with a more devolved system of accountability. That has been several years now. It is probably worth having a look at that. That is what the Secretary of State is doing. I would not want to pre-empt his work by concluding where we should end up. People have come with lots of different views as to what we should do. We need to get the balance right.

Local government has largely wanted and welcomed the removal of what it perceives as a top-down, quite oppressive and very bureaucratic organisation. We have moved to a different system. People have rightly asked the question: have we moved too far in one direction? Are there gaps? Have we thrown out the baby with the bathwater? It is right that we have a look at that, because ultimately we all want the same thing: we want a local government system that is empowered to do what it wants to do without too much central direction, but we want to make sure that our residents and their residents are getting good value for money, that the local government system is performing well, and there should be proper transparency in the system and then some element of accountability and governance that enables that to happen.

The ballot box is the ultimate sanction. They are of course very accountable in that sense, but there are things we can do to ensure that transparency and accountability is perhaps more vibrant.

Q170 Mr Prisk: So you would like to see more transparency in this matter.

Rishi Sunak: I am always in favour of more transparency. I generally think that having more data available in a comparable and transparent way is a great way for decentralised accountability to work. Indeed, it cannot work without that. It is all very well people saying, "Great, we will not have a top-down person figuring out whether we are doing a good job", but if you are sitting there locally you want to be able to figure out whether your council is doing a good job. The only way to do that is to



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have the data available in an easy-to-read format and an easily comparable format so you can come to that view.

That is why we have pioneered things like the transparency code and tried to streamline some reporting requirements. Indeed, we are talking about how to figure out whether they are as comparable as they should be in order to have that proper conversation.

Mr Prisk: Okay, I will take that as a yes.

Q171 **Andrew Lewer:** The main way local government has had to live within its reduced means is by cutting non-statutory services. I wanted to ask whether you are concerned about that, particularly in the context of the risk that, when you lose services like housing advice and Sure Start—there are a lot of others, actually—you are storing up problems and costs for the future and shifting them to other parts of the public sector, particularly health and particularly acute health.

Rishi Sunak: As I touched on, without a doubt there has been a change in the mix of what local government is doing when you look at it today versus five, six or seven years ago. More of its budget today is consumed by statutory services, and we have seen a reduction elsewhere. As I said, Parliament has made a decision to make some things statutory responsibilities, so it is reasonable that local government prioritises those within the overall resources that it has. I guess the broader question is whether the resources should be bigger in order to do more. That is a live conversation we are having with the Treasury.

I agree—and I think the Secretary of State would fully agree—about the importance of prevention work, with children’s services being an obvious example and the Troubled Families programme in particular being a kind of hallmark programme that the Department is responsible for. Hopefully we can demonstrate well that £1 invested today will save, as it turns out, £2 down the line, beyond the obvious moral impact of saving some very vulnerable people from difficult circumstances. It is right that we are having those conversations. Now is the time to have them. You make a fair point.

Q172 **Andrew Lewer:** It is always difficult to assess the effectiveness of programmes. I have said this to colleagues before, but when I was a county council leader everybody used to come to me and say, “£1 invested in this will lead to a £6, £8 or £12 return”. Everybody used to say that. It was wood for the trees. When you are looking at that and looking at the sustainability of the sector yourself, are you really focused just on ensuring that statutory services are delivered to your satisfaction? In assessing future funding, are you looking more broadly as well?

Rishi Sunak: We are definitely looking more broadly. Local government does—I forget whatever count you use—close to 200 different things. We are not just looking at the statutory things. Interestingly, the statutory things are probably the things that most ordinary families are not interacting with. This is 50% to 60% of the budget. If you are a young



family with two kids or whatever, you are in work, you have no relative who is in social care, and your kids are at home—they are not the 1% of children who engage with the social care system—half of your council tax bill is not spent on the things you probably think of your local council as doing. It is absolutely right that we look at the whole pie, and I am very focused on that.

I also agree completely with your previous point. As I said, I come from a financial background, an investment background. Everyone thinks that they have a programme that will save money or that they are responsible for X% of the UK's economy. If you added it all up, we would have an economy the size of the US. It is right that we are rigorous. I am very pleased with the work we have done to evaluate the Troubled Families programme. As soon as I got into the job, I thought, "Here is a programme that sounds good. I like the sound of what it is doing. Intuitively, it seems like it makes sense. Everyone tells me it is working and they love it, but I know"—this was a year ago—"when I come to the Treasury to justify this thing getting renewed again I cannot just use warm words".

We put in place what has now been described as the most rigorous data-driven evaluation of a social policy programme that Whitehall has seen in recent times. It is not easy to do; it is not easy to rigorously figure out exactly what difference this programme exclusively made. We have had a very good bash at that, working with a lot of academics and doing a lot of number crunching. At least on that programme, I feel in a good place to try to persuade the Treasury that a pound invested really will deliver, as it turns out, about £2.28 of benefit down the line or something, depending on the areas.

Q173 Chair: In terms of the wider issue you mentioned, it is quite right that most people do not access those statutory services where most of the money is now going. Is that a challenge for the whole concept of local democracy in the longer term? People could feel they are paying more, which they are now, in council tax and getting lower services as they are seeing that less is being spent on parks, libraries, road maintenance and the things they see on a daily basis.

Rishi Sunak: It is a general question. We all pay taxes in different ways, and we all consume slightly different services. You could probably look at national spending and figure out all the things it is going on, where your particular family is paying income tax and VAT, and you might say, "Well, I do not know. I am not benefiting from half of what it is being spent on". In a sense, that is the case anywhere as taxpayers and consumers of Government services. It is probably just slightly more acutely felt in local government because people have this perception of how local government is funded and what they pay their council tax for.

The perception is probably not in sync with reality, but it is probably no different, really, from the fact that they pay lots of other taxes that get spent on services they do not consume. As I said, with council tax, they



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have a view of what it might be spent on that is different to what is actually happening.

- Q174 **Mohammad Yasin:** An LGA report and independent analysis from PwC has identified a funding gap that is set to rise to around £8 billion by 2024-25. Has your Department done any work to quantify the additional funding that the sector needs? What have you found? Do you broadly agree with these two reports?

Rishi Sunak: Our work is still ongoing, and we do that closely with other Departments to put a holistic review together for the spending review. I take your point. I sat down with the CCN and PwC as that report was published. I have sat down with the LGA to talk about its estimates. Broadly they are in a similar space. The last time I spoke with the LGA, its estimate for what it described as the 2019-20 shortfall was about £3 billion, the CCN one was £4.5 billion, and then they grow at different rates.

The methodologies for those two analyses are different. They use different starting bases, different rates of growth, different assumptions about income generation and different assumptions on the efficiencies that are possible in the sector. They are not exactly the same methodology. They end up in broadly similar places, and you can take from that what you want. We have absorbed those and are analysing them as we speak. As I said, I have sat down with both sets of people to understand them, but, of course, these are people who have a relatively detailed understanding of what is going on in the sector. It is right that their estimates are taken into account and put into the mix as we do ours as well.

- Q175 **Mohammad Yasin:** Surely the Department—it is very essential—needs to know what kind of funding councils need to prepare for the future. Is your Department ready for that?

Rishi Sunak: Absolutely, yes. That is the exact work we are doing. We are not doing it alone, I should say. We do it in conjunction with the other Departments. We will work closely with DfE for children's services and with DHSC for adult social care, et cetera. It is a joint exercise. We have primary responsibility for drawing all those work streams together when it comes to a spending review and putting that together to present a view to the Treasury of what is happening on the ground, what we think the range of scenarios is, what is required and how you might meet those income requirements et cetera.

- Q176 **Kevin Hollinrake:** Is adult social care a ticking time bomb for local authorities?

Rishi Sunak: You guys have spent more time than anyone thinking about this. "Ticking time bomb" might be a slightly extreme description, but, without a doubt, it is a significant pressure. It already accounts for the largest amount of expenditure. We are facing demographics that are moving in a particular way. It is important that we also recognise that



what people think of as adult social care, which is elderly care, is only around half the budget. I did not realise until I got this job that in fact that only accounts for about half of the adult social care budget; the other half is working age adults, which no one really talks about. That is half of this pressure, which is growing equally rapidly and in some areas growing faster.

It is without doubt a big area of focus. It is the key area of pressure. That is why you have seen over the past year, 18 months, several billion extra pounds of incremental funding going into the local government system to spend on adult social care, a lot of it in conjunction with the NHS. It is right that we figure out how to solve this problem. I know the Secretary of State for Health and indeed my Secretary of State are currently absorbing your great report and others to figure out a longer-term solution.

Q177 **Chair:** It was from last year.

Rishi Sunak: It was a very detailed report.

Q178 **Kevin Hollinrake:** You say it might not be a ticking time bomb, but, as you said, around a third of revenue is currently spent on adult social care today. It will be 60% within 15 years. It occurs to the Committee that there is probably a choice here. Either local authorities are going to do less and there is going to be a greater proportion sucked up by adult social care—that is one option—or we completely separate out the funding of adult social care. How do you see that?

Rishi Sunak: I do not disagree with you that it is a major pressure. The reason I would not describe it as a ticking time bomb is that I think of a bomb as something that just goes off at one moment in time, and what we are talking about here is a pressure that is growing incrementally every year, but I completely agree that it is at a relatively significant rate. In that sense, it crowds out other areas of spending.

It would not be appropriate for me in my role to comment on what the potential solution should be. You as a Committee have put a very interesting idea into the mix. There are other ideas. Ultimately, this is a system that needs to be adequately funded. There are different ways that funding can come. It can come from general taxation; it can come from personal contributions; it can come from some hybrid social insurance model. Everyone is agreed that we need to find resource into the system. It is a question of the most efficient and equitable way of getting that resource in. As I said, it probably would not be appropriate for me to speculate further.

Q179 **Kevin Hollinrake:** The key, I suppose, is that you agree we have to find a lot more revenue from somewhere. We cannot just let local authorities constantly leave other services to one side or diminish other services. We have to deliver or find more revenue.



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Rishi Sunak: That is what we have done over the past few years. There is no disagreement there. Unless adult social care is adequately resourced, as you pointed out, it will take share from other areas. None of us wants to see that. We want to see adult social care funded sufficiently so that local government can do that but can also do the other 183 things it does, most of which are things that more people actually come into contact with.

Q180 Kevin Hollinrake: You mentioned convincing the Treasury of certain things to be able to get more money out of it. Lord Porter, who you know very well, of the LGA said that he thinks you get it and you can understand the pressures, but you have this constant battle with Treasury in terms of getting the funding local authorities need. Is that a fair assessment of the situation?

Rishi Sunak: It is kind of him to say that. It is not how it feels when we are having our meetings with him, but I am glad he has told you that. I like to think the Secretary of State and I, primarily, do understand it. We spend a lot of time with local authorities. It is our job to make sure their voice is heard in Whitehall. The sense we get from the sector is that they think we do a good job of that and articulating their case.

Obviously, ours is one voice around the table. There are probably several meetings like this going on all around this House at the moment. There will be one on schools, one on mental health and one on the armed forces et cetera. It is easy to blame the Treasury, but ultimately the Treasury has the job of figuring out the right balance between all these competing priorities. I am not in a position to say to them whether they are getting it right or wrong. It is easy for me to say that, but I only see one piece of it.

Q181 Kevin Hollinrake: Do you feel your message is getting through about the pressure?

Rishi Sunak: I do. You can judge us by what has happened, as I said. In the Budget last year, overall there was a £1 billion package of extra funding announced for local government. One of the panellists from local government who gave evidence to you acknowledged that they were surprised by that and said that it was more than they expected.

We worked very hard in the run-up to that Budget. The Secretary of State and I did extensive pitch rolling and engagement with the Treasury and with No. 10. The Chief Secretary to the Treasury has been personally very engaged in local government. The local government sector benefits from the fact that one of her constituents is a senior leader in local government. The Chief Secretary has spoken at local government conferences; I am not sure how typical that is. You can have a conversation with people who really understand what is happening. That was listened to, as you can see. You can judge that by the numbers at the Budget. It was a strong statement of intent. Our message is getting through.



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Q182 Helen Hayes: To follow up on the issue of adult social care, I do not know whether you saw the very recently screened two-part “Panorama” documentary on social care within Somerset Council. It documented both residents desperately in need of social care and failing to have their needs met, and a council having to take millions of pounds out of its budget for social care. It was a very powerful and moving piece, and it was also a kind of checklist illustration of the issues that our report raised a year ago in relation to a social care Green Paper that was promised in the autumn last year.

I know it is the responsibility of the Treasury and the Department of Health and Social Care, as well as MHCLG, to resolve the issue of social care, but I would like to ask what you are doing as the Minister for Local Government to inject some urgency into this debate. Up and down the country, vulnerable individuals of working age and older residents are being failed catastrophically by the system we have at the moment. It seems that Government is just not with that in terms of the pace and urgency of the need for a solution. Local councils, for which you are responsible, do not know what their funding model is going to be this time next year at the moment.

Rishi Sunak: On that last point I do not disagree. We are at the end of a multi-year spending review and there is no certainty for any part of Government about what happens next year. I have not done this before, but one would imagine that there is always going to be a higher degree of uncertainty when you approach the last year of a spending review, almost by definition.

I fully appreciate that it is more acute for local government than it is for other areas of Government, because they have to set their own budget process, and that starts to happen six months in advance of the financial year starting, so it obviously has greater implications for them. We are doing what we can to see how we can reduce that uncertainty. I do not disagree with that; I would just put it in context.

We have got on to social care. As I said, we have responded. Before I had the job there was £2 billion announced in the Budget, the year before last. In this last Budget there was £650 million for social care. Again, it was more than people expected. It is there to address this very pressing requirement of pressure on the ground. With Somerset in particular, that is a council that has had to make some very difficult decisions across the board. It is getting peer support from the LGA, particularly in children’s services. Essex, which is best in class, is in there helping it to improve its children’s services.

They had a plan for what they were going to do for this financial year as a result of the Budget announcements that we made and various other things. They were able to tweak that plan and to say, “We do not have to make those difficult decisions. This is more resource than we thought we were getting”. They positively welcomed it at the time. In aggregate this



year, in Somerset, their core spending power is up 3.5%, which is in fact one of the larger increases that you would see across the country.

As I said, I am not saying for one second that there is no pressure. We have responded with several billion pounds over the last few years, and I agree that there is a need for a longer-term solution. It is not in my gift to deliver that, but you can rest assured that I press upon my colleagues the importance of trying to find a resolution to this issue.

Q183 Bob Blackman: I have a follow-up on that issue. One of the concerns in adult social care, and children's social care as well, is that the people delivering the service tend to be on very low incomes indeed. The Government have quite rightly sought to increase those incomes by increasing both the living wage and minimum wages. The knock-on effect of that on providers is that their costs are going up considerably.

Has the Department done any work with the Treasury on this? If you increase the wages of people at the lower income levels, the impact on local authorities and providers is huge. We already see a number of providers going out of providing the service because they say they cannot make ends meet. Increased spending power is good for local authorities, but as a consequence of raising people's income, which is something I strongly support, it is putting a squeeze on both adult social care and children's care.

In the representations you are making to the Treasury, are you factoring that in so the Treasury does not unfortunately create an environment in which it increases the cost for adult social care and increases the cost for children's care and therefore we see fewer providers and less decent provision?

Rishi Sunak: You highlight an excellent point. Yes, we are acutely aware of that. The Department of Health and Social Care and the Social Care Minister are very concerned—concerned in a broader sense, not worried—with that particular issue. They are responsible for the analysis on the provider market, the stability of the provider market and indeed the workforce. In terms of the micro-detail of all those things, she would have a more granular view than I do.

When the social care grants were issued last year, the language around them particularly talked about being able to stabilise the provider market. There have been concerns about that raised with the failure of Southern Cross, which was in the news. We are acutely aware of that situation. Partly that money was there to help stabilise the provider market, and councils have the flexibility to have regard to that as well as regard to broadening the service.

You are right to highlight the tension. Ultimately, it will always be a tension. There is no way to resolve the tension. Whatever amount of money there is, if people's wages are going to be higher, there is less volume of service that can be provided. You might think that there is an improvement in quality and productivity with higher wages that offsets



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some of that, but fundamentally that is a choice we have to make. When we have conversations about raising minimum wages and national living wages, we should in the same conversation also understand what that means in sectors where resource is being spent on those people to provide the service.

Q184 **Bob Blackman:** We are agreeing on the need to do this. Has the Department done analysis and presented it to the Treasury on the impact on local authorities?

Rishi Sunak: I am trying to think whether I have done that specific analysis. In general, we factor cost inflation into our analysis. In that sense, when we present to the Treasury, "This is what we think the adult social care needs or children's social care needs are for the next few years", there is in there a very specific area-by-area or service area-by-service area inflation element as well as a volume element.

Q185 **Bob Blackman:** Inflation can be RPI or CPI.

Rishi Sunak: No, the inflation would be specifically driven—

Bob Blackman: By wages.

Rishi Sunak: Yes, and I have told the team. We go down to a granular level on the inflation that is relevant for each individual service area. For example, take local government pensions, or whatever it might be, for the core HR component of local government infrastructure. That should feature; you are absolutely right, and it does. If that was a specific question, the long answer is yes.

Q186 **Chair:** Before we move on to fair funding, in terms of the spending review and the four years, the LGA has made the point to us that it might be helpful if a system could be devised where you had a rolling four-year spending plan to stop the cliff edges happening. Is that something the Department is looking at?

Rishi Sunak: Interestingly, that has not been raised with me in any great way. I guess it is news to me that that is a major ask from them. The problem with rolling is that you then have to change every year. One of your panellists from the local government finance panel made that point. That is the problem with rolling things. You change all the time, so there is no stability.

Q187 **Chair:** But you have not had any discussions about it.

Rishi Sunak: It has not been proactively raised with me as a major ask.

Q188 **Matt Western:** Moving on to fair funding and the impact on different councils and so on, the Institute for Fiscal Studies has noted that the more disadvantaged areas seem to have received the most significant cuts. County councils, where the cuts have been perhaps less severe, seem to be hurting most. In your view, which councils are under the most pressure?



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Rishi Sunak: It is probably hard to generalise. Interestingly, when I was going over the evidence, I thought it was reasonably clear from the evidence the Committee had that there was broad agreement that counties were the area where today there was the most pressure. When I was going through the evidence, that seemed to be the consensus opinion of the various people you spoke to. Rob Whiteman from CIPFA said that, for example, and some others agreed with him.

You talked to them. I probably would not generalise. What I would say is that upper-tier authorities are clearly facing pressure, because they are the ones dealing with these statutory social care services, which we have discussed already. I would highlight that. County areas are struggling for the reasons Rob and others have mentioned. Relative to a unitary or a met they might have a smaller base to amortise that over. You can see why that would be a challenge. If you talk to the counties, they would strongly agree with that. They would also say they face a historic underfunding penalty, which is why they are suffering more than anyone else while having council tax that is relatively higher than anyone else. I am not going to say whether they are right or wrong, but that is the argument they would give.

Q189 **Matt Western:** You are saying that, in essence, those with the greatest responsibility or exposure to statutory services are the ones under the greatest pressure.

Rishi Sunak: That is broadly accepted.

Q190 **Matt Western:** What is your plan in terms of the fair funding review? How do you imagine or expect to improve the situation for those authorities?

Rishi Sunak: It will be a fresh evidence-based look, from a blank sheet of paper. It ought to be the most accurate and contemporary picture we can paint of what is driving need. If it is as good as it should be, the distribution of resource will accurately reflect need where it occurs on the ground, whether that is in a county, a London borough, north or south, urban or rural, take into account people's relative ability to raise resource and make appropriate allocations to get a fair distribution.

Q191 **Matt Western:** Where there are financial problems in authorities, do you have any information or knowledge as to whether those problems are being caused by poor management within or whether it is due to forces beyond their control?

Rishi Sunak: Management clearly plays a significant role. We saw that with Northamptonshire, where the inspector's report was pretty clear that the issue there was not one of overall resource; it was about management, culture, how that resource was spent and how the council was run. There is a pretty extreme example of management failure, so to speak, that has led to an intervention. Management does play a very significant role.



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Q192 **Matt Western:** On that, do you get reports on financial circumstances and how that is trending by authority?

Rishi Sunak: We do not performance manage authorities. The current governance system is not one where we performance manage all 300-odd local authorities. I do not receive a report every week on all 300 and how they are doing. Using the intelligence we get through the LGA and others, through reviewing accounts and through the peer-review process, we will highlight areas that might cross our radar screen, which might be in the newspapers or whatever. That is why we fund the LGA quite considerably to provide peer reviews and peer support to those councils that could benefit from mentoring or improvement in some management practices.

Q193 **Kevin Hollinrake:** When the Department for Education introduced fairer funding, it had lots of problems because some local authorities were losing out and some were gaining. Are you going to do the same thing and then face lots of pushback or is this going to be a rising tide that lifts all boats?

Rishi Sunak: The answer to that is dependent on the spending review settlement. I would say there clearly needs to be transition. If I was going to articulate a couple of principles for how I think about that transition, one is that there needs to be a distinct period, where we start here and we finish there, and everyone knows what that is. Secondly, it should be separate from the formula. We should not bake in adjustments that just become part of the formula. We should have a formula that we think is right and we should move people from A to B to a new formula, not just bake in permanently some halfway house compromise.

In terms of how we do that, it is a function of looking at the overall quantum and the overall output of the fair funding review to see what degree of variation the funding review is causing, and how that fits with the broader quantum that is available for local government and how it is changing. When you have those pieces of information, you can figure out an appropriate transition mechanism.

Q194 **Kevin Hollinrake:** It is separate from the standard funding, so it is an extra amount of money, presumably, which is going to plug those gaps for a period of time so nobody loses out. Is that correct?

Rishi Sunak: That is not a commitment that I would make right here, right now. Clearly, there are two elements of funding. You are right: intellectually, there are two bits of funding. One is core funding and one is transition funding. From the Treasury's point of view, it might well say, "Here is the amount of funding. You guys split it up how you want". Those in the Treasury are probably not the right people to tell us how to design a transition mechanism and how much money should be allocated to transition.

From the Treasury's point of view, it might say, "Here is your number. If you want to split that between X for transition and Y for core, or however



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you want to split it, that is really a function of what you guys want to do". I am anticipating that. I am assuming they do not have a very firm view on how exactly we should split it, but there we go.

Q195 **Kevin Hollinrake:** Is this a zero-sum game, in that there will be some winners and some losers, or will nobody lose and some people win?

Rishi Sunak: It is probably not right to look at it like that, in the sense that there are so many moving parts in a fair funding review. There is also a review of resources; there are also income-generation opportunities. Alongside all of this, there is a broader agenda that I am keen on, which is about having more freedom and flexibility for local government. All of that impacts different areas in different ways.

When you look at the package of all the things that are going on in local government at the same time, with the new business rates retention system and perhaps new tier splits et cetera, I find it inconceivable that there is going to be someone who looks at that and says, "That is all bad for me". Local authorities have lots of different things going on, and there are lots of things that will change. There will be plenty in there so all areas will feel, "This is good. This is an improvement in my situation".

Q196 **Kevin Hollinrake:** You are going to have to get buy-in from all the councils for this. If some win and some lose, some people are going to be completely offside with this. How are you going to make sure that all local authorities decide this is the right thing to do?

Rishi Sunak: So far I have been relatively pleased that there has been quite a lot of consensus from the working groups the LGA has put in place. Lord Porter and Paul Carter have acknowledged this. They have been positively and pleasantly surprised about the degree of consensus on the principles of the review, the structure of the formula that we have articulated and broadly the way we are going about it.

I am hoping we bring people along in a process they have confidence in, an overall structure. If we get to the end and people are unhappy about their number, at least we can be clear about what it is. We are then dealing with a problem there that is distinct from saying, "The process was unfair" or, "The answer is unfair". As I said, then it comes down to the importance of transition. If everyone agrees that the methodology is correct, fair and accurate, and says that this is what should happen, it is hard for someone to say at the end, "Now I think that it was actually all wrong". It is a question of getting them from here to there, and that is why the transition is important.

Q197 **Kevin Hollinrake:** What about the idea that has been proposed to us that we have some kind of independent body, a commission or somebody to give you confidence that this is truly fair and not just one side of the political argument?

Rishi Sunak: First of all, there are significant elements of the formula that have been developed by "independent people". LG Futures, which



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you have also engaged with as a Committee in the past, is doing the work on the children's formula. The adult social care formula was actually developed a few years ago. I am not sure whether you held hearings on it at the time, but it was developed and put together by a group of academics at three different universities. Again, it was not politically driven. These are very significant elements of it.

Those are the two biggest areas of spend, so those two formulas have been developed in that way. Overall, it is right that the final decision on the structure of the formula is ultimately taken by Ministers. That is what we are elected to do; that is what we are accountable to do. There are no objectively right answers to many questions. Not every question on the fair funding review is, "Does two plus two equal four?" There are degrees of judgment and balance.

Ultimately, we have a system where that is what we are elected to do. Again, all the evidence you received, whether it was from the Centre for Cities, LGIU or Tony Travers, everyone was reasonably consistent in saying that they did not think going down the independent route was the right course of action. That is what I am elected to do and what we are elected to do as a Government.

Q198 Kevin Hollinrake: Local government financing is one of those things that about three people in the world understand. One is dead, one is mad and one has forgotten. Is this going to be transparent so that everybody can understand it? We had a session a year or two ago that made all our heads hurt. The whole thing was so complicated. Is this going to be something we can understand?

Rishi Sunak: I am just wondering whether I am the mad one or the one who has forgotten. Maybe I did not even make your list, which may be worse. I do not disagree. It is complex. I am someone who is relatively numerate, and I would say it is relatively complicated. I worked very hard on the last consultation we issued, which explained, "Here is the broad structure of the fair funding formula. This is how we think it should look. Here are the six buckets. This is why we have done what we have done. Here are some questions for you".

I worked hard to make sure that document was very easily understandable. I would love to get your feedback at some point. We specifically made sure that the language in there was very clear so someone who is not an expert in local government finance would be able to understand that and broadly understand what we were doing and why. To me, that was the key document. I really hope it achieved that aim. If it did not, I would be disappointed, because I specifically sat and worked on the language and the understanding to make sure it did that.

I would like to think that, yes, people do not need to understand the type of regression analysis we used to produce a particular variable. No one needs to understand that, but they need to understand the broad



structure, which I think they will be able to do, and why we do what we do.

Where I would probably say it will always be very challenging is in business rates retention. The business rates retention system and how it works is very complicated.

Chair: We will come on to that in a moment.

Rishi Sunak: We are trying to simplify that, but I would welcome any feedback on that consultation that we issued. Hopefully it is a plain English version of what we are trying to do.

Q199 **Kevin Hollinrake:** That is the perfect segue, actually. The Chair and I sit on the Treasury business rates inquiry. Business rates retention for local authorities is coming along at the same time as lots of changes and concerns about business rates. As you said, it is complex. The sum of money you can derive from business rates is likely to be finite at best; it may even start reducing, perhaps. We have heard evidence that there is limited incentive for local authorities to drive business. There is no real correlation between the work you can do as a local authority and the extra revenue you can derive from it. Redistribution also has to stay in place, because of the different revenues in different places. It probably will not keep pace with the extra demands on local authorities.

I guess this is the question: what is the point? Why are we doing this at the same time as we have all these other challenges for local authorities?

Rishi Sunak: We had this exact same exchange, Mr Hollinrake, when I had just been in the job a few weeks. You had a session on business rates retention, I remember. The IFS report had just been published at that time. It talked about this point. I was relooking at our exchange then.

To the statement that there is no link, the IFS report was based on a relatively short timeframe, and no one has updated that to look at a longer timeframe. They also acknowledged, rightly, that it does not mean you should throw out the whole system, because it is one part of a broader set of incentives. Taken in aggregate, it is probably valuable. The third thing to say is that, analytically, when you look at how it is done, the impact of tier splits is quite significant. Obviously, tier splits are under review and they are likely to change going forward. Again, that will change the conclusion the IFS reached.

I have seen, culturally, quite a strong reaction. If you talk to local authorities themselves, they all like it. They like the idea that they get to keep more of the locally generated growth. If you ask them what thing it does most, there are two things that people say to me. First, they say, "It makes us think in a more entrepreneurial, pro-enterprise mindset". I am a Conservative; I think that is a good thing. It is a good thing for our country, because, ultimately, whatever we want to spend money on, it has to come from somewhere, and it comes from driving growth in our



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economy. I hear that from councils of all stripes. They enjoy thinking like that. That is point one.

Point two is that they say, "It makes us work together". Because of the pooling arrangements that are in place as part of the pilots—that is the part where the learning from all these pilots has been really interesting—it forces councils to work together, especially in two-tier areas or over a slightly larger area, and to think about what kind of investments we should be making that would benefit all of us collectively that we would not, on our own, be thinking about. Those are two very positive changes.

Q200 **Kevin Hollinrake:** You are supportive.

Rishi Sunak: I am supportive of the concept of business rates retention.

Chair: We will move on to that in detail in a minute. We are getting a little short of time; that is all.

Q201 **Helen Hayes:** I have a super-quick follow-up on the fair funding formula. The proposal in your document to remove deprivation as a criterion for the funding formula calculation has been met with universal condemnation from across local government. Can you confirm that you will be reinstating deprivation as a criterion?

Rishi Sunak: I cannot confirm that today, because we are engaging with everyone and having all the consultation; that is the point of it. We will come back with a final view on that when we do the next round of it. "Condemnation" is probably a strong word, because people were very happy to have a system that was simplified with fewer variables driving it. Deprivation was found not to be a particularly significant variable, and it was a way to reduce complexity in the system. If it is added in, they are fine with it, but they want it added in at an appropriate weight that reflects the actual degree of variability it has per spend.

To make another point on deprivation, on all the other formulas where it clearly has a role, it is there. Deprivation or a deprivation proxy is there. That accounts for at least two-thirds of the current formula, as it is set up. Children's services and adult services of course have a deprivation proxy.

Q202 **Chair:** The impact of deprivation depends on which years you do the measuring from, does it not, as the research from the University of Liverpool showed?

Rishi Sunak: We are absorbing all the various representations we have had.

Q203 **Teresa Pearce:** Good morning, Minister. On the issue of business rates retention, you said the councils you have spoken to like it, but the evidence we have had is that there is a real concern about the increased complexity. You sort of answered the question, but do you think it is a good idea to have introduced that at the same time as so many other big cuts and changes are going on in local government?



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Rishi Sunak: No one wants to go backwards. No one I have spoken to says that, unless they are telling you. They are not telling me they do not want to have business rates retention. There is widespread agreement that the system is complex. I would agree with that. We received a proposal from a group of councils; I am trying to remember their names. I think they were largely metropolitan districts, but they had a different idea for how we might do business rates retention. We have taken that on board and fleshed it out. We will shortly be responding with our view on that, and we will see whether the sector would like to move to that system, which would help simplify the system.

Q204 **Teresa Pearce:** The complexity is an issue. The Department itself has made errors in the business rates pilot. Is that because of complexity or was it something else?

Rishi Sunak: It is complex. I am not disagreeing. I am in violent agreement that it is a complicated system and, if it is possible to simplify it, we should. We are trying to figure out ways to simplify it. We are constrained by various accounting rules and other things like the timing of when various returns are submitted. There are some constraints that we work with, but we are desperately trying to simplify it.

Q205 **Teresa Pearce:** Apart from the fact that it is complex, what other lessons have been learned from the pilot, good and bad?

Rishi Sunak: The main ones are the ones I have alluded to. The clearest one is people working together outside their immediate area.

Q206 **Teresa Pearce:** That is a good thing, is it?

Rishi Sunak: It is a good thing.

Q207 **Teresa Pearce:** Are there other things that have been learned, with hindsight? Apart from complexity, are there other problems?

Rishi Sunak: I am trying to think. The volatility of appeals is the big thing. The system is generally complex, but appeals volatility is cumbersome for councils to deal with. We are trying to find ways to reduce that volatility.

Q208 **Teresa Pearce:** Are you still of an opinion that 75% retention should be rolled out by April next year?

Rishi Sunak: That is the current plan, and it makes sense to do that.

Teresa Pearce: It might be the plan.

Rishi Sunak: That is the current plan. We are trying to stick to the timeline, notwithstanding all the previous comments I made about the impact of spending reviews. It is probably sensible and makes sense to do both things at the same time, so you start the new system with both systems, which are two sides of a coin, being redone at the same time.

Q209 **Teresa Pearce:** But do you accept with the decline of the high street, for



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instance, there are times when a local authority has no control over the loss of those business rates?

Rishi Sunak: That is why we have a safety net. There is a safety net in the system. You cannot have it both ways; you cannot just say, "Heads I win and tails you lose". If you want a system where the local authorities have the ability to keep extra growth, there is the ability, where they are not doing a good job, to lose some of that growth. There is a limit to that because we have a safety net, and there is some downside protection, but a system where it is only reward and there is no exposure to risk is not appropriate.

Q210 **Teresa Pearce:** Given the rise of the internet and people not actually shopping at local businesses on the high street, some large businesses, Tesco for instance, have put forward an idea of an internet sales tax. Do you have a view on that?

Rishi Sunak: I know everyone is so keen to talk about this, but I am simply not responsible for business rates taxation. I know I am responsible for the execution of the system as it relates to local authorities, but it is just not anywhere near my purview to comment on how we should tax businesses that way. I know it is very topical. We have introduced additional services taxation; the Chancellor announced that at the last Budget. There is a Treasury Select Committee hearing that you are participating in, so these are clearly live topics.

Q211 **Teresa Pearce:** As far as you are concerned, it is a good idea. It has good things about it that make people work together, look more towards the future, plan and look at business development, and that incentivise them for economic growth. It is still online for April 2020 to increase to 75%, but it is too complex.

Rishi Sunak: That is an excellent summary.

Chair: It is a good job application.

Q212 **Helen Hayes:** There is quite a lot of concern that business rates are just not fit for purpose, particularly in relation to the health of high streets. They tax and redistribute in entirely the wrong way relative to the things communities value, which are thriving town centres with a broad and diverse range of independent shops. In relation to representations to the Treasury, is that a point that you are making, that this tax hits some of the things that local communities value hardest, while allowing a free pass to businesses that have no responsibility at all to town centre and high street environments?

Rishi Sunak: Again, we are straying into territory that is slightly different. We have a direct response to the challenge of our high streets, and I am sure you have had evidence from the High Streets Minister. I know you have just had a debate on your report last week. There is a £675 million high streets fund, and a future high streets task force, to tackle that particular issue.



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Q213 Helen Hayes: With respect, Minister, that is another single-part bidding process that is short-term funding. What we are talking about, and what our Select Committee report showed, was a much more fundamental problem with the basis of taxation as it relates to town centres. My question is not whether you have a solution to that that you are going to implement. My question is whether you are making those representations to the Treasury that this tax is not fit for purpose for high streets and town centres.

Rishi Sunak: As it relates to local authorities, the changing basis of business rates does not impact them individually because top-ups and tariffs are adjusted to ensure that their revenue is neutral, and then the money they get is determined by a fair funding review of distribution. That changing mix in the short term does not impact an individual local authority because its funding allocation, and then its ability to raise resource, is determined by needs. The adjustment is then made as it is. In that sense they are not directly impacted by that. There is a broader conversation to be had about whether you do not want to fund local government from business rates directly at 75%. If that is your view, fine, but what would replace it? It would just be general taxation, at which point there would not be a local link to local areas. If you wanted to move to general taxation, how would you have any local incentive for areas to do things differently themselves?

Q214 Chair: Finally on that, this is one of the explanations of why business rate retention is so complicated. You are trying to do two things. You are trying to give incentives to local authorities to grow their businesses, but you are also trying to put the same amount of money through related, integrated mechanisms to equalise the money, so you help those areas that often cannot grow their businesses, for various reasons, and have greater needs. You are trying to do two things: you are trying to do equalisation and incentives with the same formula.

Would it not be easier if you took business rate retention on one side and used it as an incentive and encouragement for businesses to grow, and still kept a revenue support grant from general taxation to do the equalisation? There would be more money in the system then, so you would go back to the original intention of Government to give local authorities more responsibilities for spending that money.

Rishi Sunak: There are different ways of getting to the same answer. In a sense it does not matter; what matters is the quantum of money. Either the quantum comes from 75% times the business rate base, or it is something else, and then it is distributed according to a needs formula. Maybe I do not understand your question.

Q215 Chair: You are trying to equalise and incentivise with the same amount of money, with formulas that are interrelated, making the whole calculation more complicated.

Rishi Sunak: I would have to go and think about that, because I am not sure I see that it is an issue. I will think about it.



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Q216 **Matt Western:** On the business rates, there is huge pressure on businesses in this country, but particularly on the high street and in our communities. Would you favour a reduction in business rates?

Rishi Sunak: There has been £30 billion of various reliefs and changes to the business rates system to reduce the burden of business rates, particularly on small businesses, so now a third—635,000 to 650,000 businesses—pay no business rates at all.

Matt Western: Smaller businesses.

Rishi Sunak: A third of businesses in their entirety pay no business rates at all. Those are disproportionately small businesses because of the doubling of the threshold for small business rate relief, and the doubling of the actual amount of relief. There is now the new retail relief as well, to particularly tackle high street pressures. There has been considerable relief on businesses around business rates, so that has already happened.

Q217 **Matt Western:** For example, we hear about larger businesses looking to establish on industrial estates and business parks, considering the UK versus other countries in Europe, and saying, "Well, siting in the UK is going to cost us 60% more, simply on that type of business rate" for want of a better term, whatever might be the equivalent in France or Germany. Does that not actually act against us?

Rishi Sunak: Again, we are straying way from my brief. Almost all international surveys of competitiveness rank us higher than every major European developed economy. Business rates are just one aspect of the tax system. If I think about my previous investment life, that is one thing, but the corporate tax rate is important. Employment taxes are important. Employment flexibility is important. General business regulation is important. The immigration system is important. The rule of law is important, and everything else. Pinning it on one thing is not what any business would do.

Chair: We are now starting to stray well beyond it.

Rishi Sunak: If you look at the World Bank, the OECD or any of these people who do competitiveness surveys—the best place to start a business, the best place to grow a business, who attracts the most FDI—we consistently do better than all these places because it is a package of things that the UK offers.

Q218 **Matt Western:** I will leave it, but corporation tax can be paid wherever. Business rates are very much a physical thing. Can I now go on to specifically council tax as opposed to business rates, and just look at it as a proportion of house prices? For a band E property in the north-east the figure paid is £1,886 a year, which is 28% higher than in London. Do you agree that that tax is in need of reform?

Rishi Sunak: No, actually. I am not interested in revaluing council tax bands or introducing new rates. There is broad agreement that a hybrid property/personal tax is a sensible tax. That is what we have, and we



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have the balance right between local government broadly having discretion to set it where it wants but there being some element of protection for people against high tax bills.

Q219 **Matt Western:** You would accept that it is extremely regressive.

Rishi Sunak: I do not necessarily accept that it is extremely regressive. There are also significant local council tax support schemes in place to help those who are more vulnerable in paying their council tax.

Q220 **Matt Western:** But, as a proportion of the house price or the income, it is seriously disproportionate.

Rishi Sunak: The system we have is one that is in place. I am not in favour of revaluing council tax bands, and if you are, fair enough, I appreciate that.

Q221 **Matt Western:** So it is not regressive; you would say it is progressive.

Rishi Sunak: Property tax, the way it is, is obviously not progressive in the same way as income tax is. It is a part of the tax system. It is a hybrid personal and property tax, so it could not mimic the features of an income tax unless it was designed in a very different way, which it is not.

Q222 **Matt Western:** Moving on to looking at the overall spend by councils, it is forecast to rise by 2.8% in 2019-2020. That is based on local authorities increasing their council taxes by 4.5%, which is way ahead of inflation. Do you think it is right that our communities and residents have to make up a significant shortfall from the cut in central government grant?

Rishi Sunak: I would say a couple of things on that. First of all, since 2010, over the last eight or nine years, the average council tax rise has been about 2%. Over the previous Government, it was going up at 6%, and it doubled over that period. There has been a very clear deceleration in the rate of council tax increases under this last Government versus the previous one. Those are just the figures as they are.

Secondly, on whether it is unfair because they have to make up for shortfall elsewhere, it is all taxed money. You say, "We are putting an unfair burden here but it should come from central Government", but central Government's money also comes from those same taxpayers. It comes from different sources.

Q223 **Matt Western:** It is spread more evenly. There is a much wider tax base that gets funded back into this.

Rishi Sunak: That is a different point, about distribution. Then you go back to the funding formula, which specifically takes into account each area's ability to raise resource. That particular question ensures an area with a smaller council tax base is going to have that taken into account when the funding formula that comes from central Government or the redistribution of business rates is done. We deal with exactly that



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particular issue through distribution and take that notional council tax and council tax base in each area into account, which is why, if you pick an area such as Liverpool or Manchester, around a third of that core spending power would come from locally generated council tax. I keep being told in the Chamber, "Look at Surrey; look at Berkshire", as 85% of the money spent there is paid for by their council tax payers. That perfectly illustrates how that is taken into account.

Q224 Matt Western: You would accept that residents are basically paying 4.5% more, or 6%, whatever the figure may be. Most residents think they are paying 6% more because it includes fire and rescue, police and so on. They just see it as one lump of increase. They do not see more police. I know that we are not looking at police here, but they see fewer police on the streets. In actual fact, they are seeing fewer services being delivered locally but they are seeing a significant increase in how much they have to pay. That is why they are feeling aggrieved.

Rishi Sunak: I am on the side of trying to keep council tax low. On one hand they are now aggrieved that it is going up, but we also think that you should revalue all the council taxes; imagine how much more aggrieved they would be if you did that. I am broadly in favour of keeping council taxes as low as possible. It is a significant bill for a family; at £1,700, it is one of the largest bills they pay, so we should be very cognisant of making sure that council tax rises are not excessive. As I said, in the last Government they were going up 6.5% a year over that period. They have been going up 2% in this Administration.

Q225 Matt Western: Would you advocate more bands, yes or no?

Rishi Sunak: No.

Q226 Matt Western: You announced that you were doing some work to ensure that council tax debt is collected in a fair way. Is that not part of the reason that more people are in arrears? It is essentially a regressive tax, and you have reduced central funding for council tax support.

Rishi Sunak: No. Actually, I would hope that people would welcome that, and it was widely welcomed. There is a difference in collection practices, and some areas have shown that with a slightly different approach to collection, regardless of the level of deprivation or whatever it might be in their area, they can improve the collection rate, through a different way of engaging with people and providing advice. We have seen that in Hammersmith and Fulham, and there was a slightly more rural council that provided good evidence of that. I have committed to figuring out what we can learn from these councils, and innovating on debt collection practices to treat people compassionately and well, while maintaining that collection rates remain high, which they are, at just over 97%. They are high and they have been stable, so we have not seen any dramatic fall in them. There is a way to keep them high while being compassionate as well, which seems like a good thing to pursue.

Q227 Matt Western: Finally, Minister, you will understand that a lot of people



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have not had pay increases for many years, or maybe 1%, but certainly below inflation, yet here we are proposing 4.5%, and the same last year. That is why they are hurting. That is why they cannot pay.

Rishi Sunak: Collection rates have remained at 97%, so they have actually remained very high and very stable. We can do a better job of being compassionate and raising those rates. If we can do both things together, that seems to be an opportunity that we should seize.

People's take-home pay is one aspect of it. Raising the personal allowance to £12,500, raising the national living wage, keeping fuel duty frozen, all of those things, combine to make sure that people's take-home pay at this point is increasing faster than it has increased in a very long time. As I say, I am on the side of keeping council tax low, so I do not want to do any revaluation and all the rest of it, because as you rightly point out it is a big bill, and it is better that it is smaller than larger.

Q228 **Bob Blackman:** This is a quick follow-up. Property prices were valued in 1992 in order to get us to the council tax levels they are at. We have had huge numbers of properties built in this country subsequently, which have slotted into those various different bands across the way. The whole system is outdated. Do you not favour a position whereby we end up with a revaluation of council tax, but with a big proviso that the revenue raised per local authority would be the same after revaluation as before?

Rishi Sunak: In general I am not in favour of revaluing council tax bands, for the reason we have just discussed. It is already a very large bill. Even if you are just changing the redistribution around, you are going to have people who bought a house at one point in time, which, through no fault of their own, is worth a lot more, suddenly landing them with a much bigger bill.

Q229 **Bob Blackman:** No, that is the key point here. You do not have to increase the bill. You have the fairness of the value of the property now, and say to the local authority, "You can still raise the same amount of revenue; you just adjust the value of the property to its current value rather than a historic value that has no relationship to the current value".

Rishi Sunak: Sorry.

Bob Blackman: I will explain it to you later.

Rishi Sunak: Right, but it would not raise any more money.

Q230 **Bob Blackman:** That is the point, but it does increase the degree of fairness on properties that have been built over the last 27 years.

Rishi Sunak: We will pick it up; I am conscious of time. I will happily pick that up.

Q231 **Chair:** I could suggest, Minister, that you are in favour of business rate revaluation as long as it does not produce any more money. It is a zero-sum game. I really do not get the difference in principle between the



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two.

Rishi Sunak: There is a statutory requirement for business rate revaluation.

Q232 **Chair:** I accept that, and it was an issue for council tax as well, but it got changed. Whatever measure you take, whether it is the percentage of taxation raised locally as a percentage of total council spend, or, if you look at national taxation, the percentage raised by councils, we are an outlier in this country. We are centralist. Local authorities have less ability to raise their own resources. Do you have any ideas about how we might change that?

Rishi Sunak: I agree. We are trying to move in that direction with things like business rates retention as well. The thing you have to answer, and Tony Travers was very good at explaining this when he was in front of you—having read his stuff and engaged with people like him on this topic I have come to the same conclusion—is that all those other countries you look at also have a far lower degree of equalisation than we are used to in this country. They do not start from a place where we have nationalised, centralised everything, and you have a Minister answering on the Floor of the Commons for everything that happens in individual areas.

Tony Travers used the phrase: the precision of equalisation that we have in this country is unlike anywhere else. When you ask him the same question, he says that is the problem. You cannot do both. If you want to introduce a bunch of new discretionary tax-raising or income-raising powers for local authorities, but with the same degree of precision equalisation, what is the point in doing them? He is an expert on this, and that is a basic question of economics. I am broadly more in favour of a system that is locally driven, but it means that you have to accept outcomes will be different in local areas even after some degree of equalisation, which probably almost has to be less precise and less redistributive than it is currently. People will have different views on the right balance there.

Q233 **Chair:** What big change could you make? It would have to be something like local income tax, which is what the IFS said.

Rishi Sunak: It is all very well saying that, or a tourism tax or whatever else, but how do you deal with the redistributive aspects of that? How much do you let areas that are going to do that tax disproportionately benefit from it? With a tourism tax Westminster would be very excited. Lots of other areas would say, "Well, hang on". Then we would say, "Okay, so we are going to take all that money from Westminster and give it to all these other areas", and then that reduces the need for Westminster to do it in the first place. That is the same thing with income tax and all the rest of it.

Q234 **Chair:** A halfway house would be to allocate local government a certain percentage of a national tax like income tax.



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Rishi Sunak: Potentially, but you run into this same essential trade-off between discretionary local incentives for things and redistribution, and the precision of equalisation. If you are going to move in one direction, for it to work economically effectively, the economists would also tell you that you have to accept a lower degree of redistribution and equalisation. As I said, if people are happy to move in that direction, that is great, but I do not think there is consensus that that is what people want. They all want one half without the other half.

Q235 **Chair:** In terms of fees and charges, local authorities are looking to fees and charges now to raise more money because of the pressures they are under. Do you have any concerns about that, or do you generally support local authorities charging? Should there be even greater freedom to charge?

Rishi Sunak: I generally support it. I am looking at exploring opportunities for freedoms and flexibilities in that regard, alongside the spending review. Yes.

Q236 **Chair:** Do you get back to the point that people say, "We paid for that in our council tax, and now they are making us pay again?"

Rishi Sunak: You do, but, again, it is local democracy in action. If people do not like that, they can vote out those councillors and vote some different ones in.

Q237 **Chair:** That is true of Governments as well. One of the other concerns the NAO raised in a recent report was that the welfare reforms the DWP had brought in had quite a significant impact on homelessness and spending there, and there was not any proper linking up or thinking through. Do you have concerns that there is not sufficient joint working between what DWP does on welfare matters and what your Department and councils are doing?

Rishi Sunak: There are two major things. One is around the local welfare assistance schemes, and the other around local council tax support. There was a review; Eric Ollerenshaw, who was a previous Member, did a review on LCTS, and came to the conclusion that the current system was a good one. I think he described it as a retrograde step, or a backwards step, to go back to an old system of more centralised control. He said that universal credit is entirely distinct from that and should be, and you would not want to integrate 320 individual systems, or whatever it is, into one. The DWP review of the assistance schemes found that local authorities deliver that support more effectively than when it was done centrally, so the evidence we have is broadly supportive of the approach we have taken, but you are right that there should always be good, joined-up work. For example, there is very good, joined-up work between the Departments in the Troubled Families programme.

Q238 **Chair:** One suggestion is that it might be easier if local authorities actually did the administration of universal credit. They do the assistance



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for council tax, and very often they refer people to councils for discretionary housing payments when they get in difficulties. There seems to be a bit of disjunction between that; if the authorities were just doing it, that might be easier to join up.

Rishi Sunak: It might well be. I am not an expert on that. It has not been massively proactively raised with me. In general, where it makes sense for local authorities to deliver things on the ground, I am broadly supportive of that. We have seen that work in some senses quite well in public health, so I am broadly open to that.

Q239 **Helen Hayes:** Some of our witnesses called for more integration, in particular for health and social care, but they also reflected on what they considered to be the siloed and centralised nature of the public sector in England as something that made this more difficult. Do you agree with that? What can be done to make local government work in a more integrated way, particularly on health and social care?

Rishi Sunak: You are absolutely right. I think we all want to see that. What have we done in the first instance? Let us take a step back. At the moment, we start with a system of locally elected people who are rightly protective of what they do, and the last thing they want is for someone from Whitehall to come down, reorganise and restructure them, tell them exactly what is going to happen, and that we are going to merge you all. You can start with that as a premise. We all think that integration is a good thing for our residents. It will lead to better outcomes where it works well, so we have tried to encourage that.

This is to our debate before about ring-fenced funding and things like that. You can use funding to drive certain behaviours that you want to see. One of the benefits of the ring-fenced funding for adult social care going into the Better Care Fund is that it is a pooled fund alongside the NHS contribution, and by putting the funding into that pocket and creating a joint board at a local level it forces that co-operation between healthcare bodies, the NHS and local government. That has been an enormous success. Local government overwhelmingly likes that model and thinks it has led to better outcomes. We see that in the data as well, so that is a very clear example of what we are doing to drive that agenda forward.

Q240 **Helen Hayes:** What is your assessment of the way in which integration is working in Greater Manchester?

Rishi Sunak: It seems to be going pretty well. I have recently met with Jon Rouse; I forget his exact title, but he was walking me through the model. I am not familiar with the exact stats on the ground, but it seemed like there were some interesting examples of things that other people might want to emulate over time. At the moment, Northamptonshire is in conversations with the NHS about potentially doing something differently there. There is an opportunity to think differently; there is a new start. As more of these models emerge, that is



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great, because we will get to see what a more integrated model could look like and the difference it could make.

- Q241 **Mary Robinson:** The integration of health and social care in Greater Manchester is really pivotal to the devolution of Greater Manchester. It is really part of the package there. However, in Stockport, which is one of the areas in Greater Manchester, they have had a scheme called Stockport Together, which is the integration between the hospital trust, the council and the CCG. Earlier this year, Stockport Council pulled out of the pooling arrangements that had been in place. One of the reasons that they gave was that, as a council, they cannot set a budget deficit, and they were concerned about the input that they would have into the pooling arrangements. A hospital and a CCG can go over, but that is not something that they can do. Are councils going to be the real sticking point in the integration of health and social care?

Rishi Sunak: I defer to your obvious knowledge on the ground in that part of the world. I have not heard of that example, so I will take a look at it. Your broad point is right: local government is held to a very high standard in not being able to run deficits, in a way that other parts of the public sector are not. It would clearly not be ideal if that was preventing them from participating in things that they thought would otherwise be sensible, but one might also argue that it is probably sensible that people are not running deficits as well, so we may not want to relax the criteria in that regard. I will happily have a look at that.

Ultimately, we cannot have a situation where we centrally dictate structures on the ground. Local government would rightly be very resistant to that, so our way of encouraging and incentivising it is a good one, but ultimately it is going to be for local areas to come together to figure out what works in their area. If there are structural impediments in doing that, we should have regard to that, so I will make sure to take that away.

- Q242 **Mary Robinson:** How important is the integration of health and social care to devolution and to devolution deals? Should it be pivotal?

Rishi Sunak: It is not my portfolio, so I could not comment on it. To be honest I do not candidly know the exact content of every devolution deal or the extent to which it is in there or not. Every devolution deal is slightly different. My sense is that Government are happy to engage with areas on this if that is what they want to do. I am sure DHSC has some criteria for when it might make sense. There is probably an element of scale that is required, et cetera. We are having those conversations in Northamptonshire at the moment, which would be the first of that kind of local area, if we did something there, which would be exciting. Manchester is a relatively new model in a big urban area, so we are learning from that. At this stage, letting local areas seize the opportunity if they want it, with us maybe incentivising it if we can, is the right way to go.



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Q243 **Helen Hayes:** I want to turn finally to the issue of public health. The public health grant is due to be replaced with retained business rates from April 2020. Is that still going ahead?

Rishi Sunak: Yes, that is still the current plan.

Q244 **Helen Hayes:** Do you know on what basis? Will it be 75%? Will it be more than that?

Rishi Sunak: The plan as it was outlined was to move to 75% business rates retention for next year, subject to the various conversations we have had previously about spending review timing, and the grants that were identified to be rolled in. In order to get to the 75%, the public health grant was a large one of those.

Q245 **Helen Hayes:** With the removal of the grant comes the removal of the ring fence. There is some really troubling data about public health outcomes at the moment. We are seeing a rise in diagnosis of sexually transmitted diseases. We are seeing a reduction in the rate of vaccinations. MIND is raising concerns about public health expenditure on mental health, and we had some really troubling evidence to this Committee from Cancer Research about smoking cessation. When I asked a WPQ recently of the Department of Health and Social Care about public health outcomes, it said, "That is for local authorities. We do not worry about how local authorities spend money. That is a choice for them". Will you have a watching brief on the public health outcomes that are being delivered once the grant has gone, the ring fence has been removed and local authority expenditure on public health is competing with all the other demands on resources?

Rishi Sunak: That nicely bookmarks your previous question, where you were theoretically posing a criticism about ring-fenced money. Now there is a criticism that the money is pooled into a general grant. This is exactly the conversation you have; if things are pooled into a general grant, it is up to local authorities to prioritise it as they want. The answer to your question in both cases is that you need to have a strong assurance framework to evaluate whether local government is doing a good job, which people can take a view on, and which is comparable and transparent. For public health, it is right that we have one of those in place, given the importance of it, as part of moving the grant into un-ring-fenced business rates retention. It would be important to have an robust assurance process that provides all of us with the outputs that we would want to see. The point is right: as part of that process of moving the grant in, we and DHSC are already in conversations about how to achieve the aims.

Q246 **Chair:** The original idea was that the extra money from business rate retention would go to fund extra services and extra responsibilities that local government would take on. It has now shifted to replacing grants that already exist. Is there any chance of going back to the original view about more devolution?



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Rishi Sunak: I am not sure where that original view was proposed. It was probably before my time, but with regard to the 75% business rates retention, which, again, predates my time, it was always the case that that was meant to be a fiscally neutral move.

Q247 **Chair:** Yes, fiscally neutral, but local authorities were taking on more responsibilities for the extra money. That was the original idea.

Rishi Sunak: Sorry, so they are taking on more responsibilities.

Chair: No. The idea now is that, through the extra business rate retention, 75% rather than 100%, that extra 25% will replace grants that are currently given. Previously it was going to be given to local authorities to take on more responsibilities. That was the original idea.

Rishi Sunak: What would be an example of that?

Q248 **Chair:** There was a discussion with the LGA about what those responsibilities would be, and some disagreement. One idea was a tenants' allowance, which everyone thought was a bad idea. A wider devolution package could be funded, rather than simply replacing grants.

Rishi Sunak: That is what you are seeing in all the devolution deals.

Q249 **Chair:** This would be across the country for all councils.

Rishi Sunak: The broader devolution framework is something that obviously Jake deals with, and I am sure you speak to him. There is a range of extra responsibility that any local authority can get as part of those devolution deals. We have seen the full spectrum, health and social care, training, all the rest of it. There is not a standard: "Here is the entire country with a new devolution model for everybody".

Q250 **Chair:** So there is no chance of going back to what the original idea was with business rate retention, then.

Rishi Sunak: Because I am not entirely sure I have fully grasped what it is, I am loath to say, "No, there is not". It might well be that elements of that are what we are doing through our devolution deals. I am not trying to be evasive; I just do not want to say it is not happening, because it might well be that it is, in a slightly different way.

Chair: Minister, thank you very much for coming in and answering our questions today.

Rishi Sunak: Thank you.