



## House of Commons

Monday 13 December 2010

The House met at half-past Two o'clock

### Local Government Finance

4.19 pm

**The Secretary of State for Communities and Local Government (Mr Eric Pickles):** With permission, Mr Speaker, I should like to make a statement on finance for English local authorities for 2011 to 2013.

The spending review set out how the Government would tackle the catastrophic levels of public debt by delivering necessary reductions in public spending to accelerate deficit reduction and put the public finances back on a sustainable footing. This has involved difficult, but essential and responsible, decisions. Every part of the public sector needs to do its bit to help to reduce the highest deficit in the UK's peacetime history and the rapidly rising national debt that this Government have inherited.

Last year, the Government borrowed one pound in every four they spent. That threatened our economic credibility. In contrast, our plans to eliminate the current structural deficit over five years have won the backing of the International Monetary Fund, kept our credit rating steady and held interest rates down. The Office for Budget Responsibility's forecast confirms we are taking the right steps. Its message is that Britain's recovery is on track.

I have sought to achieve a fair and sustainable settlement for local government by listening to what the local government community has asked for. It will be a progressive settlement that is fair between different parts of the country. First, we have focused on the most vulnerable communities with significant social challenges. These are often the areas that are most reliant on Government grant, so equal grant reductions would leave the poorest places worst off. We have insulated them by giving more weight to the levels of need within different areas and less weight to per capita distributions. We have also grouped councils into four bands, reflecting their dependence on central Government. More dependent places will therefore see proportionally lower falls than more self-sufficient places.

Secondly, we have listened to concerns about the front-loading of the reductions. The Local Government Association asked me to focus on local government total spending, including not just grants but income from council tax and NHS funding to support social care and benefit

health. It said that reductions in spending should be limited to 8%. As far as possible, I have given the LGA what it asked for. I have made sure that no authority will face more than an 8.9% reduction in spending power in either 2011-12 or 2012-13. In fact, the average reduction in spending power for 2011-12 is 4.4%. To fund this, I have transferred an extra £30 million of my Department's budget to local government for 2011-12. I have also provided a grant of £85 million for 2011-12 and £14 million for 2012-13 to fund councils who would otherwise have seen sharper falls.

The spending review also announced that the Government will protect the public from excessive council tax rises. We have set aside £650 million so every council can freeze council tax next year without hitting local services. We will provide councils that freeze council tax with the equivalent of a 2.5% increase in funding instead. That will provide real help to hard-working families and people on fixed incomes, such as pensioners. The

**13 Dec 2010 : Column 680**

Government also want to ensure that council tax payers are protected against authorities that reject the offer and impose excessive council tax rises. We will introduce powers for residents to veto excessive council tax increases through a local referendum. In the meantime, the Government will take capping action against councils that propose excessive rises.

When the House debates the final local government finance report next year, I will set out the capping principles. I will also publish shortly details of the figures that will be used to compare authorities' budgets between years, should capping be necessary. The previous Government had planned to cap the police authorities of Greater Manchester and Nottinghamshire after they set excessive increases in 2010-11. Subject to challenge, we will ensure that, should they decide not to freeze the council tax, neither can impose an increase of over 2.5% in 2011-12.

This settlement also supports the Government's commitment to adult social care, providing councils with sufficient resources to protect people's access to care and to deliver improved quality of outcome. That includes £150 million of NHS funding in 2011-12 to support social care services, promoting integrated working between primary care trusts and local authorities and benefiting the health system. The settlement directs more formula grant to authorities that deliver social care.

Despite all the actions we have taken, I recognise that local government still faces significant challenges. The vast majority of councils have been making sensible plans to address them. I support that and I am restoring real power to councils, ensuring that Whitehall interference, red tape and the burdens of inspection and regulations are gone. The Localism Bill, published today, will deliver a new democratic settlement to local councils, overturning decades of central Government control.

For too long, councils have been barred from using their initiative and creativity to improve services. The limited "power of well-being" acted as an obstacle to cost savings, such as mutual insurance companies. Today's Bill will fundamentally change councils' freedom to act in the interest of their local communities through a new general power of competence. That will give councils the legal reassurance and confidence they need to innovate, drive down costs and deliver more effective services. I am also giving councils greater control over their budgets.

With very few exceptions, we have ended grant ring-fencing so that councils can decide for themselves how their money is spent. We will also allow them to borrow against future business rates receipts. Councils now have the freedom and responsibility to concentrate on what residents want: protecting front-line services. To support them, I have set aside £2 million to help councils to modernise and reduce back-office costs.

Councils can protect front-line services by sharing services and back-office functions, improving procurement to get more for less, bringing increasing senior pay under control and using transparency to cut waste. Proactive councils are already taking the opportunity radically to rethink and transform their services. There are also substantial incentives available for councils to invest in long-term projects, which include the new homes bonus and £1.4 billion of regional growth funds over three years—a fund that goes well beyond the working neighbourhoods fund. There will now be a

**13 Dec 2010 : Column 681**

statutory consultation on the settlement for 2011-12 and I look forward to hearing representations from councils.

Finally, this is a transitional settlement, using an inherited system. That is why I have set out details only for the next two years to strike a balance between the need to help councils plan and the need to reform the system. This system, based on redistributing business rates, makes councils heavily reliant on handouts from central Government—some depend on us for up to 75% of their spending power. It is part of the trend that has led to some areas of the country becoming completely dependent on the public sector. It makes planning difficult, weakens local accountability and stifles local innovation. There is no incentive for councils to invest in their local economy as they will see most of the proceeds disappear.

That is why I have set up a review of business rates with the intention that, in future, local government will be able to keep more of what it collects. Ultimately, the councils that invest and support the local economy will be able better to use the finances themselves. The local government resource review will begin in the new year. I commend the statement to the House.

**Caroline Flint (Don Valley) (Lab):** I thank the Secretary of State for giving us 40 minutes' advance notice of his statement and its 11 attachments. Obviously, we will have to look very carefully at the detail of today's settlement because, as we all know, the devil is in the detail. I welcome his acknowledgement of the concerns about front loading caused by the comprehensive spending review profile. Many have made that case, although even today the Minister for Housing and Local Government seemed to deny, on a programme that we both appeared on, that front loading would be a problem. The fact is that it still exists, even after the Secretary of State's statement, but it is a shame that it was not uppermost in his mind when he raced to the front of the queue to settle his Department's cuts with the Chancellor.

At first sight, there is little else to be thankful for, because today's announcement includes heavily front-loaded cuts to local government that are not only damaging but deeply cynical. The Secretary of State comes to the House with his statement in one hand and a localism shovel in the other, because he thinks that today is a good day to bury bad news. We have been inundated with empty rhetoric about localism, three written ministerial statements on localism, the publication and First Reading of the long-awaited and much-delayed Localism Bill and a stream of articles and briefings over the weekend, including appearances in which he has waxed lyrical about devolving power to local government. All those promises ring

hollow when at the same time he imposes unprecedented cuts on town halls the length and breadth of the country. He is offering councils devolution while holding a gun to their head.

Today we find out what the Government really plan to devolve to local councils: the most devastating cuts in funding for a generation and the blame for difficult decisions. What is worse, the Secretary of State does this with barely disguised relish and to the cheers of his Back Benchers. Time and again, he has spoken of the virtues of local government. He promises to free local councils from the shackles of Whitehall and pledges to

**13 Dec 2010 : Column 682**

give them extra freedoms and powers, but if he really believes in local government why has he imposed cuts on town halls up and down the country bigger than those for almost every Whitehall Department? Does he really believe that the regional growth fund, which has been sliced enormously, can make up for the losses that local government is facing? Why has he still front loaded the cuts so that the heaviest reductions will fall in the first two years and why has he refused to give councils the help and flexibility they need to meet the cost of redundancy payments? I think that he meant to refer to £200 million to help with costs rather than £2 million, which is what he said. Even so, the Local Government Association is asking for £2 billion-worth of flexibility to handle the redundancy payments that will have to be faced across England.

What further assurances can the Secretary of State give that the poorest councils will not bear the heaviest burden? Like others, I was intrigued when he talked about the spending power of local authorities. Will he explain in more detail how he has worked out each council's total spending power to enable him to claim that no authority will face more than an 8.9% reduction in spending power from 2011 to 2013? Why does he not talk about the revenue support grant and the cuts to that rather than mixing in council tax revenues and spending provided by the NHS? For someone with so much to say about town hall communications, bin collections and Christmas celebrations, and given that barely a speech passes without being spiced up by a reference to curries, the Secretary of State has so little say about the impact of these cuts. Local councils, the people whom they employ and the communities they serve deserve better than that, as do their partners in the big society. Today's settlement means that far from community groups and the voluntary sector being liberated to do more, as the Government promise, they might be so hampered that they end up doing much less.

Be in no doubt: these cuts will hit front-line services and cause massive job losses in the public and private sectors. For all Ministers' traipsing around the TV studios pretending that savings of this magnitude can be made by efficiency drives and sharing back-room functions alone, the reality is very different-and everybody knows it. Even Baroness Eaton, a Conservative peer and the chair of the Local Government Association has admitted:

"These cuts will hurt. We know this means there will be fewer libraries, more potholes going unrepaired, parks shutting earlier and youth clubs closing."

This is not about whether or not local government funding should be reduced. Across the House, we all accept that the deficit needs reducing-[Hon. Members: "Ah!"] Yes, and that would have meant cuts to local government funding whoever won the election-I made that clear in last week's debate and I say it again today-but the Government have made their choice. They have chosen to impose cuts on local government harder and faster than in almost any Whitehall Department. There is nothing localist about that. We on the Labour Benches are in favour of empowering local councils and giving people a greater say in the

way they run their local communities and in how services are provided, but if the Secretary of State thinks that he can get away with using localism as a smokescreen for unprecedented **13 Dec 2010 : Column 683** cuts to local government which still, even after today's statement, fall heaviest in the first two years, he had better think again.

The Secretary of State announced today the dawn of a new constitutional settlement. I therefore look forward to his confirmation that, in line with convention, the Localism Bill will be considered in Committee on the Floor of the House.

In last week's Opposition day debate I set the Secretary of State three challenges: to spread the cuts more evenly over four years; to protect jobs and front-line services by ensuring that councils have sufficient capitalisation funds to meet the cost of redundancy payments; and to ensure that the burden of cuts is spread fairly around the country and between our communities. Despite today's assurances, he has not convinced us that his localism is any more than a cover for cuts. People up and down the country will pay the price for his failure.

**Mr Pickles:** Well, so much for gratitude. I do not want to start up the hunting debate again, but we have shot the right hon. Lady's fox and she has been less than gracious. The first thing we did was to change relative needs level from 73% to 83%. Then we introduced banded floors, and then we introduced a special damping for authorities more dependent on grant than others. This settlement—this formula—is more progressive, protecting vulnerable communities, than anything that the Labour party has produced.

As for the right hon. Lady saying, "What are these figures?", it is not so long ago that the hon. Member for Derby North (Chris Williamson) was demanding this way of measurement—that we should not just take basic grant and that we should include the question of council tax and money coming from other grants and from the national health service which PCTs are spending. It is good to see along the Front Bench my right hon. Friend the Health Secretary, who has done so much to ensure that local government is getting additional powers in this area.

We have delivered everything that the Opposition identified. We have protected the most vulnerable. The right hon. Lady seemed to start saying that we had not done too bad a job, but found that she had notes prepared earlier condemning us.

**Henry Smith (Crawley) (Con):** I very much welcome this truly progressive statement. I congratulate my local authorities in Crawley and West Sussex on the significant efficiency savings that they have already made. Can the Secretary of State confirm that, as we develop the funding formula, it will become more transparent?

**Mr Pickles:** I can confirm to my hon. Friend that that will be the case. The present formula is very difficult to operate. In developing it I had worries with regard to balancing need against sparsity. It is always difficult to do that. We had to move extra money across from my Department in order to protect certain vulnerable districts that are not benefiting from the increase in spending in respect of adult social care and the extra help being offered in conjunction with PCTs.