

## Communities and Local Government Select Committee

### *Monday 12 September 2011*

### *(Afternoon)*

### **[Mr Clive Betts *in the Chair*]**

## Local Government Resource Review

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This was a one-off oral evidence session to consider the results of the Local Government Resource Review, which is the proposals for business rates retention by local authorities published by the Government in July, and the prospects for Phase 2 of the Review – which will focus on community budgets.

#### **Attendees**

Rt Hon Eric Pickles MP, Secretary of State,

Robert Neill MP, Parliamentary Under-Secretary of State,

Simon Ridley, Director, Local Government Finance, Department for Communities and Local Government.

#### **4:20pm**

The Chair opening the session by outlining the scope of the afternoon's hearing; the government's consultation on local government resource review seeks industry and key stakeholders views on the proposals to change the way local government is funded by introducing retention of business rates. This follows the commitment in the Coalition's Programme for Government to "provide incentives for local authorities to deliver sustainable development, including for new homes and businesses".

The Secretary of State stated that enabling local authorities to retain a significant proportion of the business rates generated in their own area will provide "a strong financial incentive for them to promote local economic growth". Ways in which councils could have an influence on growth was through the planning system, which as the Committee understood was currently going through the House of Lords.

Under the current system, local government has three main sources of income: grants from central government; council tax; and other locally generated income (such as fees and charges for services). The proposed changes are designed to ensure that local authorities will have a greater incentive to grant planning permissions for sustainable developments. This is especially true of new renewable energy projects that start paying business rates from year one, the Secretary of State noted, as councils would keep all of the business rates paid by such projects. Local authorities would also be able to choose to borrow against future growth in business rates, through Tax Increment Financing schemes, to help fund the provision of infrastructure.

The New Homes Bonus, local enterprise partnerships and planning reform were designed to change the way councils plan for growth. Robert Neill MP argued that stronger financial incentives are

needed to ensure that local authorities respond to planning concerns and actively promote the conditions that would lead to greater economic growth through the planning system.

Both Ministers were keen to stress that the changes to the local government finance system on which the government is currently consulting on should not be considered in isolation. Steps have “already being taken to radically shift the approach local authorities – and their partners - take to growth in their areas”. Robert Neill MP highlighted various factors, including:

- Providing a new General Power of Competence for local authorities in the Localism Bill. This will allow local authorities to do anything which is not specifically prohibited by law, and is aimed to provide them with more freedom to work to drive down costs and meet local needs.
- Streamlining the planning system will ensure that all planning applications and appeals will be processed in 12 months and major infrastructure projects will be fast-tracked. The Localism Bill will require local authorities to allocate a proportion of Community Infrastructure Levy revenues back to the neighbourhood from which it was raised, ensuring that those most directly affected by development are the ones to benefit from it.
- Introducing a new right for communities to draw up a ‘neighbourhood development plan’ and have a say about where new houses, businesses and shops are sited and what they should look like, making it easier and quicker for development to go ahead.
- Introducing a New Homes Bonus to provide a strong financial incentive for local authorities to deliver housing. The Bonus is designed to ensure that the economic benefits of housing development are returned to the areas where it takes place, “helping to engender a more positive attitude to growth and create an environment in which new housing is more readily accepted”.