APPENDIX A

Self-sufficient local government:
100% Business Rates Retention

The County Council welcomes the opportunity to respond to the above consultation.

In a number of areas it is not possible to give a considered answer to the consultation questions, mainly because until devolution decisions are taken and there is a firmer indication of what the new fair funding formula will look like it is not possible to assess the risk in the system nor say how other elements of the business rates retention model should be constructed.

The request is to make comments on the mechanics of a scheme before the contents of the scheme itself have been determined. It is suggested that DCLG get the responsibilities set and then start to look at the mechanics in more detail afterwards.

1. **Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?**

The County Council feels that for the transfer of responsibilities to be successful it is essential that a true freedom to manage the expenditure is allowed. Whilst this could entail transition arrangements this should not be of the form of complete protection for existing recipients. Nor should it be simply an administration of a nationally set scheme, which more often than not entails trying to manage/control expenditure at a local level that could not be managed nationally.

A key criterion to assess which responsibilities are suitable for transfer will be matching the expenditure with the funding raised by business rates, at a total scheme level. The expenditure to funding match needs to be considered for future years, for example to assess if demographic or other pressures will outstrip business rate growth. This is equally applicable for a structural economic change that could cause a decline in the ability to generate business rates. The approach to monitoring and resolving the expenditure to funding match and the solution needs to be set at the scheme launch to create faith in the system, rather than create a system that is simply allowed to break. The solution could be additional funding generated at a national level or freedom to raise a tax at a local level.

The successful transfer of responsibilities will required the full administrative costs to be transferred alongside the grants. For changes of this magnitude this should be the full cost and not just the direct costs.

For the identified grants the County Council's response is as follows:

Revenue Support Grant – Suitable for transfer, due to the inherent problems with the current distribution this will only be successful if on a new basis.
Rural Services Delivery Grant – Expected to be suitable for transfer as part of a new needs formula.
Greater London Authority Transport Grant – an equivalent grant would be required for all other areas otherwise the inherent bias in the current system is simply being reinforced.
Public Health Grant – Local government already hold responsibility for the function, hence removing the ring-fence is positive. Providing that no more cuts are applied to the grant and it is recognised that the current distribution does not reflect the scheme that was originally consulted upon.
Improved Better Care Fund – Including money in the BCF to be redistributed to the local authority is an administrative exercise and creates no benefit. Additional social care funding should be directly received by the local authority.
Independent Living Fund – recipient can be judged against the local authorities eligibility criteria, hence this grant is suitable for transfer providing that not more reductions are applied.

Early Years – This is a national scheme with minimal flexibility at a local level, hence is it not suitable for inclusion
Youth Justice – funds local youth offending teams and can be transferred
Local Council Tax Support Administration Subsidy and Housing Benefit Pensioner Administration Subsidy – The County Council is not a recipient of this grant so does not have a comment.
Attendance Allowance – due to the size and nature of this responsibility government needs to develop proposals significantly before a reasoned comment can be made on what is a very risky transfer. The County Council is open-minded to this potential transfer, but only if the new responsibilities are matched by the transfer of equivalent spending power.

2. Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

The County Council would prefer to gain responsibility and control of services in areas such as skills, economic growth and infrastructure. Currently only London's infrastructure grant is listed. The four grants listed in paragraph 3.15 of the consultation document meet this criteria, providing appropriate freedom is given in utilising the grant.

In addition to the grants listed in the consultation the County Council believes that the troubled families and community voices grants would be suitable for inclusion. Further benefits, such as the carers allowance could be considered for inclusion if sufficient freedom is given and demographic pressures are accounted for.

3. Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

This will be a matter for the Combined Authority once established in the Autumn. However, in time it could make sense to pool resources currently allocated to economic growth, transport and strategic planning.

There are a number of "points of principle" that the County Council would like to make, the main one being that services devolved through devolution deals should not impact on the quantum available to the rest of local government. In other words; the appetite of combined authorities or those areas with an elected mayor should not result directly in less services being devolved in other areas. The opportunity to improve the services offered to your residents should not be determined by an authority's governance arrangements.

4. Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

The County Council would like to see the maximum number of new services devolved to areas that want to take them on and if that totals more than the £12.5bn figure then the difference should be funded through grant. The quantum must not be the constraining figure.

5. Do you agree that we should continue with the new burdens doctrine post- 2020?

Yes; the new burdens doctrine ensures that, at least in principle, newly transferred responsibilities are fully funded as well as offering increased transparency between central and local government.

Depending on the decision made about the length of time between resets, the Council would like to see the new burdens doctrine not only assessing the costs in the year of transfer but also projecting costs until the next reset. Many services provided by local authorities are likely to follow a demand pattern which is different to the pattern of economic growth. As such, when a new transfer takes place, funding must be in place in future years to ensure continued service viability.

New burdens should also take into account material changes in government policy that could not be accommodated by ordinary growth in Council Tax or Business Rates, for example the National Living Wage.

6. Do you agree that we should fix reset periods for the system?

Yes. A ten year reset would mean that there is a real incentive to grow the local economy. However, the local government finance system should include resources based on projected future need, i.e. there should be a forward indicator of demand within the formula used to assess needs and there should be a safety net for those authorities that can demonstrate unforeseen increases in needs.

7. What is the right balance in the system between rewarding growth and redistributing to meet changing need?

See answer to question 6.

8. Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

If the resources were distributed fairly in the first place there would be less need for a partial reset. The County Council would argue for a national safety net for those authorities impacted by unforeseen demographic pressures.

9. Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

The system of tariffs and top-ups works well in general but the impact of 80:20 split between districts and counties in two tier areas ought to be reviewed and probably amended, although it is too early to consider the exact mechanics until there is more clarity over the new responsibilities and the funding formulae. The 80:20 split has provided a measure of protection for social care providing County Councils' but it has come at the expense of a very limited incentive for County Councils to pursue economic growth.

10. Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

Since the introduction of the current rates retention scheme, local government has still not had a revaluation, nor has there been a detailed explanation of what will happen at a revaluation. It is not yet clear how growth attributable to the actions of a local authority will be protected at a revaluation. The explanation in the consultation paper implies that it is possible to adjust the system at a given date in time to cancel out the effect of future revaluations.

In principle it makes sense to adjust tariffs and top-ups following a revaluation but until there is further clarity, the Council cannot provide a comprehensive answer to this question.

11. Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

The County Council believes that these powers and incentives should be available in <u>all</u> areas, with or without a directly elected mayor.

12. What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

The County Council agrees that the issue of tier splits will need to be considered once the services to be devolved are decided upon, and also agrees that there should be consideration of the balance between risk and reward.

Regarding the current 80:20 split between district councils and county councils, the County Council continues to argue that a reversal to a 20:80 split would be a more appropriate representation of the relative scope of both classes to drive economic growth and development.

13. Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

The County Council considers that fire funding should be removed from the business rates retention scheme. However, the necessary grant funding should be fairly distributed and sufficient to reflect the needs of the service.

14. What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

Please see responses to earlier questions. The County Council needs greater clarity on the *default* 100% business rates retention model before commenting on whether additional incentives are needed.

Shire areas tend to have a much greater share of their gross rates lost through mandatory reliefs. The SCT would like to sharpen the link between the income and the needs of the residents and allow local authorities more control over the eligibility criteria for mandatory reliefs.

15. Would it be helpful to move some of the 'riskier' hereditaments off local lists? If so, what type of hereditaments should be moved?

The County Council is not able to provide a comprehensive answer to this question until it has more information about the operation and protection of the safety net as well as greater clarity about the criteria for a hereditament to appear on the central list.

16. Would you support the idea of introducing area level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

The County Council considers that this proposal will be too complicated.

17. At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management as set out in the options above?

Under the current 50% rates retention scheme local authorities make their own provision locally for appeals. It is very likely that the combined national set aside for appeals is greater than would have been made if provision was made centrally. This means less money is available for local services than there might otherwise have been and all the risks of appeals sits with local authorities.

It is likely that there will be a regional pattern in appeals; hence somewhere between local authority level provisions and national provisions will strike the right balance.

18. What would help your local authority better manage risks associated with successful business rates appeals?

The County Council is not directly involved and is reliant on the district councils to make appropriate provision for successful appeals. Greater information and intelligence sharing between the Valuation Office Agency (VOA) and local government would help local authorities to assess the likelihood of successful appeals. An agreed mechanism of data sharing between VOA and local government would help to standardise the appeals provisions.

19. Would pooling risk, including a pool-area safety net, be attractive to local authorities?

This could be a useful potential option for authorities to consider, depending on the circumstances and risks facing the pool area.

20. What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

A judgement can only be made on an appropriate level of income protection when there is more clarity on the services local authorities will be delivering, the funding they will be receiving and how 100% retention will look in overall terms. As with the current retention system, it will be necessary to have a form of safety net.

21. What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

In two tier areas where the decision will affect more than the billing authority this decision must be made jointly. (This is in contrast to Council Tax Support Schemes, where the County Council is the main beneficiary, but districts make the decision.)

22. What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

The Localism Act already allows local authorities to offer discretionary discounts at targeted ratepayers. It is likely that offering a discount for all ratepayers will be too costly for the potential benefits.

The County Council would prefer to have the freedom to change the eligibility for other reliefs and discounts.

23. What are your views on increasing the multiplier after a reduction?

Local authorities should be free to control it themselves without capping constraints.

24. Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

As with all other freedoms and responsibilities these should be granted to all local authorities, regardless of whether they are in a combined authority or have an elected mayor.

25. What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

This should be decided locally.

26. What are your views on how the infrastructure levy should interact with existing BRS powers?

This is too complicated and should be simplified.

27. What are your views on the process for obtaining approval for a levy from the LEP?

The County Council suggests that the LEP are consultees to the authority's budgets rather than approvers.

28. What are your views on arrangements for the duration and review of levies?

The County Council agrees with the Department's suggestion that the duration of the levy should be indicated in the initial prospectus.

29. What are your views on how infrastructure should be defined for the purposes of the levy?

The County Council agrees with the suggestion outlined in the consultation paper.

30. What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

The County Council agrees with the suggestion outlined in the consultation paper, that multiple levies could be levied as long as they do not exceed the 2p limit.

31. Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

No, although the County Council is mindful that there is only so far you can push businesses, asking them to fund services locally which historically would have been funded by local authorities and/or central government.

32. Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

The consultation is hinting at removing the legislation which requires government to make annual settlements to local authorities. The County Council is interested in obtaining increased certainty through the use of multi-year settlements but would prefer if this was discussed fully with central government as to how this would work and how many years a settlement would cover.

As mentioned earlier, the County Council still envisages some kind of specific or section 31 grants remaining part of the funding even after 100% business rates retention is achieved. The success of multi-year settlements will be determined not just by what local government do with the additional certainty but also how well central government are at leaving the funding system untouched in the relevant years.

33. Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

The County Council believes that this discussion should take place in greater detail once the devolved services are decided upon. Funding from other departments frequently comes with its own rules and reporting requirements. If Government are really keen for local spending decisions to be scrutinised locally then local authorities need to be free to spend their funding in a way that suits their residents.

34. Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

The County Council feels that the requirement to prepare a collection fund account should remain, as should the current budgetary treatment of estimated surplus and deficit amounts. The existing process provides certainty around current year income budgets.

35. Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

The County Council supports improvements to financial reporting which increase transparency and produces reports which are better aligned to how local authorities are financed. The summary outlined in the consultation seems appropriate but the County Council would be interested to see any alternative budget summaries that may be proposed.

36. Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

The County Council would prefer to consider this question once the design of the business rates retention model is closer to completion.

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