100% Business Rate Retention – CCN, RSN and DCN Shared Principles

Joint Statement

The County Councils Network (CCN), District Councils' Network (DCN) and Rural Services Network (RSN) have jointly welcomed the Government's intention to move to 100% retention of business rates by 2020. Clearly this is ambitious, complex, and challenging, but our networks can support this if it enables further devolution, ensures key services are sustainable over time, and allows localism to flourish.

We support this ambition on the basis that it will enable further local autonomy and self-reliance, as well as encouraging and rewarding future growth.

Clearly, the new system will be highly complex to design, but it must be made as simple and as fair as possible, and needs led from day one to ensure that local authorities are incentivised and rewarded for achieving growth.

Any new system of funding must be sustainable for local authorities in the short, medium and long-term. Equally the impact of Government policies on major infrastructure and commercial decisions, e.g. power stations, to dramatically affect an area's business rates prospects must be recognised and taken into account.

It will be crucial that all areas can invest in long-term growth, in consultation with businesses, including the ability to use an infrastructure levy if there is agreement locally.

Depending on whether the economy grows or declines, there will be both risks and opportunities for local government. Both district and county areas will have a significant national role to play in supporting, encouraging and promoting growth. However, this must be adequately supported by Government through a system of appropriate incentives and rewards. And Government funding and strategies for capital infrastructure investment must be demand-led and not purely focused on cities.

Equally, atypical pressures on demand-led services in county and district areas - which continue to rise – must be fully recognised through the fair funding review and business rates system. This will play a key role in adjusting funding for adult social care, public health and prevention, supporting the NHS and funding the everyday services people value most.

Our networks have, therefore, collectively identified core principles that are integral to ensuring an effective and fair funding system. Alongside these principles we have identified key issues which must be addressed in relation to the needs review, the new business rates system and wider funding and investment.

We remain committed to working with the Local Government Association (LGA), professional organisations such as Cipfa, ministers and relevant Whitehall departments, to support the re-localisation of business rates. While our networks will reply individually to these consultations, our responses will also reflect the shared principles that we have identified in this document.

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Cllr Cecilia Motley, Chairman, Rural Services Network

Cecilia Motley

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Core Principles

The local government funding system in its totality should:

- **be fair, transparent and evidence based and avoid unnecessarily complexity**
- **enable real and lasting self-sufficiency for local government**
- **be needs-led, account for changing pressures over time and adequately fund statutory demand-led services now and in the future**
- **address regional funding inequalities from a national level**
- **meaningfully incentivise and enable the delivery of economic growth, infrastructure, skills and housing**
- **properly account for the demographic make-up of resident populations and additional costs of deprivation, sparsity and rurality**
- **take a whole public service approach, enable financial and service reform and recognising council services can reduce costs in other areas**
- **allow flexibility for local priorities and innovation**

CCN, RSN and DCN are committed to working together to ensure that the needs and opportunities of county / district areas are properly recognised and funded.

Needs Review

1. **Regression methods** based on past spend and utilisation to determine current and future need **are not appropriate**. These methods can entrench underfunding and disengagement and do not recognise unmet and changing need or sustainability.

2. Funding should be linked to the current and ongoing **levels of activity**, **size of populations, levels of need and any additional costs of rurality which are relevant to services.**

3. The needs-based review currently runs on a longer timescale to the business rates system design – however we must establish an **appropriate understanding of current needs and changing needs over time** in able to design **appropriate funding systems and sources.**

Business Rates

4. All elements of the business rates system should be considered together to establish their cumulative impact when designing the overall system. Decisions about different elements of the system must not be taken in isolation.

5. The new business rate system must apply a fair level of **equalisation between authorities,** to account for the **costs of need and growing demand-led pressures** – alongside the vast differences in business rate growth between areas.

6. **Current and future funding gaps for statutory demand-led services** and unfunded burdens, pressures and levies should be fully understood and **accounted for through the funding system before** additional responsibilities are decided upon.

7. If core statutory demand-led service pressures, such as social care, are set to **outstrip resources over time,** central government should work with local government to agree **additional funding sources.**

8. The system should properly support and incentivise **economic growth, skills, infrastructure and housing development, enable a cohesive approach to population and economic growth in district / county areas** and allow all areas to develop a virtuous circle of growth and investment.

9. In recognition of the specific needs and contribution of county / district economies and the vital role of reliefs in supporting these economies central government should commit to **fully compensating mandatory reliefs** over time. Local flexibility should also be considered for the setting of reliefs, exemptions and supplements.

10. In taking a whole public sector approach government should recognise that **local government are best-placed to provide social care**, and that funding social care and preventative services reduces pressures on other parts of the public sector such as the NHS and DWP.

11. Additional responsibilities should be those which can **enable better outcomes** when delivered at the local level, and where responsibilities are devolved **corresponding powers and funding must also be devolved**. Additional responsibilities must be cost-neutral and **affordable** for the authority over the short, medium and long-term, and strike the right balance between enabling growth and service funding.

12. The true quantum at the point of the transfer to the full retention of business rates must be fully understood and additional responsibilities should be aligned appropriately.

13. Business rate funding should be **proportionate to an authority's responsibilities**, including any additional responsibilities whilst recognising existing responsibilities. This system must have protections in place to effectively deal with significant reductions in business rates income due to material business closure (e.g. Tata Steel).

14. Local and central government should consider and agree a way of **managing additional risks** to local authorities of full retention and find a way of **compensating against sharp changes in income or need.**

15. Local and central government should consider and agree an approach to properly managing **appeals**, which ensures **stability and sustainability for services and does not systemically benefit some areas over others.**

16. All areas should have **control to both lower and raise the multiplier**, enabling all to contribute to the country's economic growth, particularly important given the current economic climate.

17. The form and frequency of resets must strike the right balance between on-going growth incentives and properly funding changing needs and pressures.

18. 100% business rate retention **pilots** should not set a precedent which sees the cities involved **retain an unfair share of national resource** before the national system is designed. Government must draw learning from county and district areas in designing the system.

19. Local and central government should come to an agreement on what aspects of devolution deals are bespoke and so are paid for outside of the business rates system and which are universal and so should be devolved to all areas through the business rates system.

20. There will need to be transitional arrangements in place to ensure individual local authorities can manage the inevitable outcomes of the changes to the funding model in a planned approach.

<u>Other Funding and Investment</u>

21. To avoid unnecessary administration, payments through the business rates systems between local authorities and other separate public sector bodies, such as NHS trusts should be minimised or eradicated, with local government fully compensated for this.

22. The baseline which underpins the needs-led redistribution must not assume or rely on higher levels of council tax in county and district areas to maintain equitable levels of service in these areas.

23. The design of the local government finance system should continue to recognise and compensate for the variance in council tax base between different areas.

24. Local authorities should have access to a **broader range of devolved fiscal tools** to give a more rounded approach to growth incentives and service funding beyond business rates.

25. Central government infrastructure investment funding and strategies cannot continue to focus solely on cities – county / district areas need **infrastructure investment** to **support economic and population growth. It is inequitable for areas to be denied access to infrastructure funding – this not only impacts on the area itself, but also the wider economic health of the whole country.**