**The Future of the Devolution of Responsibilities Working Group**

1. **Purpose of this paper**
   1. On 3 October 2017 the BRR Steering Group met for the first time since the General Election. The Group discussed the next steps on further business rates retention and how this interacted with the Steering and Working Groups. Following this discussion, it was suggested that at this stage, the Devolution of Responsibilities working group had taken its work as far forward as possible and therefore should be closed in its current format. The Steering Group indicated that they would like to be able to call upon the working group on an ad-hoc basis as new areas of work arise from their meetings.

* 1. The proposal is for this paper to form the basis of a paper which will be sent to the Steering Group for their next meeting and aims to summarise the Responsibilities Working Group’s activities and achievements. Key questions for discussion:
* Does the group agree with the Steering Group’s proposal to close the working group, and is the group content to be called upon on an ad-hoc basis?
* Is the group content that it has explored all realistic options for suitable grants/ responsibilities which could be devolved and funded through retained business rates? If so, what does it consider to be the most appropriate future approach to increasing business rates retention?

1. **Background**
   1. The Working Group was established in April 2016 with a remit to provide advice on a package or packages of responsibilities that could be devolved to local government in implementing business rates retention. It took a structured approach to the issue:

**Establishment of criteria for devolved responsibilities**

* 1. Before seeking to identify or debate particular candidates for devolution, the group established a set of guiding criteria to help inform decisions on the suitability of responsibilities to devolved to local government and funded through retained business rates. The criteria established that devolved responsibilities should:
* Build on the strengths of local government;
* Support economic growth;
* Support improved outcomes for local people; and
* Have consideration for the medium-long term financial impact on local government.
  1. It was not assumed that responsibilities proposed for devolution should meet all criteria, but instead the criteria should be used as guiding principles for devolution.

**Guiding decisions on those responsibilities confirmed for devolution**

* 1. The established criteria then formed the basis of a suitability assessment for those responsibilities which were consulted upon in the Government’s July 2016 ‘Self Sufficient Local Government: 100% Business Rate Retention’ consultation.
  2. The Government’s response to the July 2016 consultation confirmed that the following responsibilities would be funded through retained business rates when the new system is introduced: Revenue Support Grant, Rural Services Delivery Grant, Public Health Grant and the GLA Transport Grant. The response also confirmed that Attendance Allowance would no longer be considered for devolution as part of the reforms to business rates; something which the Working Group had been clear on from the outset. The table below illustrates how those responsibilities confirmed for devolution meet the criteria established by the Working Group.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Expected value in 19/20 | Build on strengths of local government | Supports economic growth | Support improved outcomes for local people | Consideration of future financial impact |
| **RSG** | £2.3bn | ✔ |  | **✔** | **✔** |
| **RSDG** | £65m | ✔ |  | **✔** | **✔** |
| **GLA Transport Grant** | £1bn | **✔** | ✔ | **✔** | **✔** |
| **Public Health Grant** | £3.1bn | **✔** |  | **✔** | **✔** |
| **Expected total value in 19/20** | £6.5bn |

* 1. The expected value in 19/20 of those responsibilities to be devolved is £6.5bn, which when added to local government’s current 50% retention figure equates to approximately 75% retention.

**Implementation of those responsibilities confirmed for devolution**

* 1. For each of the devolution candidates included in the Government’s July 2016 consultation, the group began to consider the practical steps that would need to be taken to devolve, or ‘roll-in’ the funding or responsibility at the introduction of the new business rates system. For those responsibilities confirmed to devolution the group identified the following:
* **RSG and RSDG**
* The group noted the link to the Fair Funding Review in setting future distribution of RSG; some consideration will be required as to when the new formula will be decided and announced as this could impact upon decisions local government make in relation medium-term financial plans.
* Similar to RSG, the group noted that new distribution formula for RSDG will form part of the Fair Funding Review. The definition of sparsity and how local authorities are ranked in relation to this will form an important part RSDG element of the Fair Funding Review.

* **Public Health Grant**
* The group identified a key issue to consider in relation to the Public Health Grant will be the distribution mechanism. The allocation formula for this was consulted and revised in November 2015, although concerns have been raised over the suitability of the formula to local government.
* A further issue concerns the proposed removal of the ringfence on the Public Health Grant. There are some concerns from the public health community as to how the new arrangements may work when this financial transfer takes place.
* It is important to recognise that whilst the removal of the ringfence will provide local government with greater flexibility in the delivery of their public health functions, mandation will still be required to ensure that local authorities meet their statutory duties in relation to public health, with DH highlighting that this element of accountability is crucial. Consultation would be required before any additional public health functions could become mandatory.
* **GLA Transport Grant**
* The group identified the key issue in relation to the GLA Transport Grant as being whether the grant will be treated as revenue or capital funding. The grant is classified as capital funding, which raises the question as to whether the grant will be devolved with a ringfence attached to it to ensure it is spent for capital purposes.
* However the grant is currently devolved as part of the BRR pilots, where DCLG, HMT and the GLA have worked together to ensure appropriate accountability arrangements are in place.
* Transport grants are also devolved as part of the Cornwall, Manchester and West of England pilots. There is a question as to how such grants should be treated when the new system is implemented.

1. **Next steps**
   1. As set out in paragraph [2.6] above, the additional grants identified to be rolled in, combined with the existing 50%, equates to approximately 75% retention, rather than 100%. The Government’s position is that further increase of local government’s retention of business rates will be achieved in a way which is fiscally neutral. The LGA have indicated that their preferred position is for existing local government funding pressures to be taken account first before any new or existing responsibilities be transferred and funded through retained business rates, beyond those which have already been confirmed for devolution.
   2. Taking such positions into account, what does the group consider:
2. The appropriate level of business rates retention to be reached through devolving responsibilities? I.e. is the current approximate 75% retention figure the maximum or should further responsibilities be devolved to go beyond this?
3. If further responsibilities should be devolved, does the group have suggestions as to what they should be?