Sajid Javid MP
Secretary of State for Communities and Local Government
Department for Communities and Local Government
Fry Building, 2 Marsham Street
London
SW1P 4DP

17 August 2017

Dear Sajid,

I am writing to you as I understand you will shortly be considering the issue of local government business rates retention. We both know we're at a critical point regarding the sustainability of local government finance.

Prior to the General Election, the LGA and councils had been working well with your officials to move towards greater business rates retention, as a step towards giving local government greater control over local taxes. We had made significant progress on how the future scheme would work including proposals to reduce the risk to local authorities against business rate appeals. The Local Government Finance Bill would have been instrumental in providing the necessary enabling legislation for further business rates retention. We were extremely disappointed it was not included in the Queen's Speech in June.

The immediate concern for local government is the funding gap we face. This gap amounts to £5.8 billion by 2019/20 plus £1.3 billion needed immediately to stabilise the adult social care market. Following discussions in the LGA's Leadership Board and with the local authority members of the joint DCLG/LGA Steering Group on Business Rates Retention, I wanted to take the opportunity to set out our proposals on how the business rates retention scheme could work.

As you know, the Office for Budget Responsibility's forecast of business rate income from the local list in 2019/20 is in the region of £26 billion, although this will change as we approach implementation and is also subject to forecasting errors. Any variation will need to be taken into account during the business rates retention process. On the basis of this estimate, the central share to be kept by local government under 100 per cent business rate retention is therefore estimated to be approximately £13 billion. To ensure the future sustainability of local government services for our communities, we recommend that business rates retention should be used as follows:

- £5.8 billion is needed to plug the funding gap facing local government by 2019/20. I can provide more information on how this breaks down between services, if useful;
- £1.3 billion needed immediately to stabilise the current adult social care market;
- A sum to ensure that no authority will be worse off due to a new fair funding formula at the point of implementation or during the transition;
- In the longer term, a sum to take into account future service demand and resulting budget pressures. Increases in business rate income will not keep track with need, particularly on social care services. Reform of funding for long term care remains critical alongside business rates retention;

Layden House, 76-86 Turnmill Street, EC1M 5LG **T** 020 7664 3000 **F** 020 7664 3030 **E** info@local.gov.uk www.local.gov.uk
Chief Executive: Mark Lloyd

- Funding of some current grants through further business rates retention (revenue support grant, public health grant, rural services delivery grant and Transport for London capital grant estimated to be worth around £6 billion.)

Taking all of this into account precludes the possibility of transferring any new or additional responsibilities to local government as part of the move to greater business rates retention. It may also mean that we need to consider the continuation of some existing grants given the demands on the newly retained business rates. We do want further service devolution but this would have to come with newly devolved resources

It is positive to see that you are still committed to the Fair Funding Review. We will continue to work jointly on this with you to ensure that the sector has an opportunity to shape the proposals and hope to see a consultation on the Fair Funding Review shortly.

The only way to achieve a shift to a new distribution mechanism, which will inevitably have winners and losers, is to make the change at a point when the quantum of resources is being increased so as to ensure no community is worse off due to the new formula at the point of implementation or during the transition. Using some of the £13 billion of business rates to fund this transition would make this possible. The Government has previously done this with the new National Funding Formula for schools in England, with the recent announcement that funding to schools with be increased by £1.3 billion, ensuring no school loses money as a result of the formula changes.

Separately, the impact of appeals under 50 per cent business rates retention has had a huge impact on the sector. This seriously undermines the system and it is important that this is resolved as soon as possible. The Local Government Finance Bill would have dealt with this issue, as it ensured councils would be compensated by central government for losses due to appeals. We would like to work with you to implement this power, which should be funded from business rate income from properties on the central list. It is also critical that the huge remaining backlog of appeals from the 2010 revaluation is dealt with without delay.

Finally, when we met earlier this year we raised concerns about avoidance of business rates and you agreed to work with us on tackling this issue. Inevitably there has been a pause in work following the announcement of the General Election. We would welcome the opportunity to work with you to stamp out business rates avoidance.

I would be delighted to meet with you to discuss greater business rates retention and the issues I have raised. I have a scheduled meeting with the Chief Secretary to the Treasury in September. It would be enormously helpful to talk about these matters with you before any conversations with HM Treasury. My office (Sebastian Hribar - sebastian.hribar@local.gov.uk or 020 7664 3273) would be happy to work with your officials to find a suitable date for a discussion.

Porter of Spalding

**Lord Porter of Spalding CBE**
**Chairman**