Business Rates Retention - Devolution Deals

This paper does not represent Government Policy – Its purpose is to stimulate debate on an issue relating to 100% retained business rates proposals.

Issue

The funding of devolution deals under a 100% retained rates system and the impact that could have upon devolving responsibilities to allow for 100% retained business rates.

Aim

For the steering group to:

1. endorse the working group's proposal for considering this issue;
2. provide any steer / initial thinking on this issue.

Working Group's view

A view on whether existing or future funding streams in devolution deals could be resourced through retained business rates needs to:

1. First consider each responsibility against the criteria for assessing whether to devolve a responsibility to be funded from retained rates;
2. Second consider whether the Combined Authority geographical area was the suitable tier to deliver effectively that responsibility,

Following that consideration, there could potentially be a rationale for considering a responsibility to be devolved and resourced from retained business rates at the Combined Authority level.

Any eventual proposal for resourcing existing or future responsibilities through retained business rates agreed through deals at the Combined Authority level would need to consider:

1. The overall level of funding that could be devolved though deals;
2. The timeframe for completing deals; and
3. The consequences / trade offs for the wider system:
    a. the available revenues left for non-deal devolution;
    b. the impact of not completing deals to a specific timeframe could have on allowing 100% rates retention to start everywhere from day 1; and
    c. impact on system design of rates retention, and on Combined Authority's finances.

Background

Steering group action

Following the last Steering Group discussion – the working group were asked to consider the interaction between devolution deals and retained business rates policies and propose an option(s) for consideration by the steering group for how these two policies could interact.

<u>Government Consultation</u>

The Government consultation was launched on 5th July. The consultation set out the Government's position in regard to devolution deals, being that there is an opportunity to consider funding some or all of the commitments in existing and future deals through retained business rates.

This would give these areas, Combined Authorities, Mayors and the Greater London Authority, the advantage of fiscal autonomy for these functions. Doing so would establish different funding arrangements for such areas than in non-devolution areas, reflecting their different governance arrangements, alongside universal devolution to every local authority.

<u>Devolution Deals</u>

The Government has agreed 10 devolution deals with areas across the country. These deals include the devolution of power from central government to local areas in England and provide an opportunity to stimulate economic growth and reform public services.

These deals include the devolution of a range of functions and associated budgets, which are pooled at Combined Authority level within single investment funds. For 19/20 the aggregate estimate of the level of funding so far agreed is £750m.

Investment funds for devolution deals	All mayoral devolution deal areas have an agreed Investment Fund, which is a grant-based fund specific to each deal, which is paid in annual instalments for 30 years. However, only the first five years' funding is confirmed with the remainder subject to five-year reviews.
Adult Education Budgets	Nine devolution deal areas have agreed the devolution of the Adult Education Budget from 2018/19. The devolution of this budget is subject to the satisfaction of a number of readiness conditions set out in the deals. The Adult Education Budget provides grant funding for learning up to Level 2 (up to Level 3 for young people aged 19-23 who do not yet have the equivalent of 2 A-levels).
Transport Capital Grants	All devolution deal areas receive consolidated funding for Transport which is made up of a number of grant streams, for example highways maintenance funding and, in some areas where bus franchising is implemented, the associated commercial bus service operators grant.
Local Growth Fund	All devolution deal areas have the flexibility to incorporate the Local Growth Fund awarded to Local Enterprise Partnerships in their area into their Combined Authority single investment funds. The Local Growth Fund is awarded competitively to Local Enterprise Partnerships to spend on investment designed to drive and unlock economic growth in their local areas in line with local priorities.

<u>Consideration</u>

The following questions were used at the working group to trigger an overarching debate on how devolution deals could be treated within a 100% retained business rates system. The consideration below should be read in conjunction with the attached slide annex.

There was not a uniform position from the working group. The working group considered that this issue needs to be looked at alongside what should be funded to all authorities before any final views can be reached on a sector proposal in response to the Government consultation.

This is because consideration of how devolution deals could be funded would impact on the wider package of responsibilities that local government may wish to see devolved to be funded from retained business rates. The working group is considering the overall range of responsibilities that could be devolved in more detail over the summer.

Is it appropriate to devolve the grants / responsibilities for deals into retained business rates?

- It is arguable that the question of what functions / responsibilities could be devolved and whether any devolution agreed should be funded from retained business rates are separate questions.
- However, as part of the 100% retained business rates proposals local government does need to consider the extent to which devolution deals could be funded from retained business rates.
- It was felt that each funding stream within deals would need to be considered in its own right to see if it met the criteria for a responsibility to be devolved.
- The second issue for a responsibility, where it is a good fit with the criteria, is whether devolving at the Combined Authority area would be the suitable geography to best deliver that service or responsibility – If for example, it is considered that the responsibilities for transport and adult skills investment are best exercised at a Combined Authority economic area.
- A third issue would be the impact on the Combined Authority’s finances, would this create a risk that would impact on their sustainability, need to hold reserves etc.
- A fourth issue to consider would be whether devolving responsibilities everywhere could undermine the deals that have already been completed.

Are deals the process for devolution to local government?

- If different local authorities, including tiers of local authorities wish to see a variable range of responsibilities or functions devolved – i.e. no single package that could be agreed – it could be conceivable that different areas across England would want a bespoke package.
- The consequence could therefore be a move away from a uniform service delivery of local authorities to a system where tiers of LAs across England provide a variable range of services or functions.
- There could also theoretically be a mixed approach – with some responsibilities devolved universally – with some on a bespoke basis at different tiers of local government

Impact on rates retention system – for devolving responsibilities?

- A consequence of funding devolution deals from retained business rates would mean less resource available, by definition, for responsibilities to be devolved universally.

- A consideration for funding deals though retained business rates would be for when deals would need to be concluded.

    - Funding existing and futures deals would mean a level of resource would in effect be set aside in advance for deals. Deals could still theoretically be agreed after 2020 from retained rates, but this would mean, in order to allow for fiscal neutrality, holding back a level of funding, to be used elsewhere, until such deals are agreed.

      If deals were not completed by the commencement date this would therefore mean that you may not have 100% retained business rates on day 1 of the new system for all areas. Your effectively undershoot and have a more gradual introduction of retained rates as deals were completed.

    - Or alternatively you could only fund only those devolution deals agreed by the commencement of the 100% retained business rates system, with those agreed after 2020 funded by grant.

      This would create a mixed approach to deals, with some funded through retained rate and some through grant. Under this approach we would also need to devolve another responsibility if there was still a funding gap to ensure fiscal neutrality.

- Or instead funding all devolution deals instead through grant would then impact on the range of responsibilities that would have to be devolved universally to allow for 100% retained business rates.

<u>Conclusions</u>

- There are a number of connections between devolution deals and the proposal for 100% retained business rates.

- There is therefore an opportunity to consider funding some or all of the commitments in existing and future deals through retained business rates i.e. transferring them from grant commitments to being paid for through retained rates.

- Any view on whether those responsibilities / functions in deals should be funded from retained business rates or grant will then impact either on the range of other responsibilities that could be devolved, or the system design of 100% retained business rates.

- Any views for a final proposal will need therefore to consider these cross related issues in coming to a final view. You cannot come to a view on devolution deals outside of a view of what should be devolved generally and how the new system should function.