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**SELF SUFFICIENT LOCAL GOVERNMENT: 100% BUSINESS RATES RETENTION**

Shropshire Council believes that self-sufficient local government is only possible if the opportunity is taken to ensure that the concept of fair funding is applied to the redistribution of funds raised from local business rates throughout the country. Local Government provides needs-based and other essential services alongside other services which can be considered discretionary. Shropshire in particular is a large rural authority with economic activity focused upon agriculture and small businesses. We have 12,000 businesses on our valuation list for Business Rates and the top 100 of these (0.84%) pay almost 30% of our total Business Rate income. Small businesses are growing and thriving in Shropshire, delivering the benefits of increasing economic activity and employment levels. 100% Business Rates Retention provides no financial incentive whatsoever for Shropshire in this regard. Indeed, the cost of providing physical and virtual infrastructure to support these growing businesses is far greater in a rural county like Shropshire. Therefore, the financial incentive to a rural authority is to reduce costs, rather than benefit from growth in income through a healthy local economy.

Furthermore, Shropshire has an aging population with the number of over 65s in the County approximately 30% higher than the national average. This demographic and its anticipated future growth is a direct driver for the costs of adult social care within the Council. There is no link that can be made between growth in Business Rate income and growth in costs of needs based services.

The introduction of a fair funding formula to redistribute business rates on a needs basis is the fundamental request from Shropshire Council in response to this consultation.

**Devolution of responsibilities**

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

The grants identified in the consultation document are those that already go or are planned to go to local government. Transferring these grants will not result in local authorities having any more control over services but the stability and predictability of the funding will be dependent on the health of the local economy (and in particular, the health of the business rate generating local economy). Local government would merely become a local administrator of central government rules and policy. None of the grants and responsibilities identified are linked to the health or size of the economy. Shropshire believes that it is crucially important that there is a link between any new responsibilities devolved to local government and business rate generating economic growth, so that demand pressures and risk are reflected within the Business Rates system. Specifically, we could only support the transfer of Revenue Support Grant and Rural Services Delivery Grant as these are known grants and can be easily built into local authority funding baselines. We could not support the transfer of any grants in relation to demand led services such as Adult Social Care and Children's Safeguarding.

In relation to the government's proposal to end the public health grant and have local authorities fund a wide range of health programmes, Shropshire Council would need to be able to raise at least £12m just to meet its current requirements. This funding would of course be over and above any other responsibilities placed on the council by the Government. Public Health England and the Department of Health have acknowledged that very rural areas are not adequately resourced to provide accessible services for their dispersed communities. For example the Department of Health assessed Shropshire as having community staff facing travel times between clients/patients of five times that of areas in central London. Currently most London Boroughs receive higher than the national average per capita allocations. Rural areas are unlikely to be able to generate the levels of

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Business Rates to meet the needs of their communities therefore some form of redistribution of funding will be needed. In the absence of an agreed needs assessment tool and a fair funding formula, it is essential that they are developed and the needs of rural communities are adequately addressed. This will require some form of national redistribution of Business Rates in order that rural local authorities can meet the responsibilities devolved to them from the Government.

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

Local authorities need to gain responsibility and control of services in areas such as skills, economic growth and infrastructure, in order to maximise economic opportunities and funding through Business Rates. Consequently, Shropshire would support the devolution of grants and responsibilities with clear, proven links to the health and growth of the local economy.

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

Services devolved through devolution deals should not impact on the quantum available to the rest of local government, unless those services are devolved to all through the BRR distribution formula. The opportunity to improve the services offered to residents should not be determined by specific governance arrangements. We are concerned that future funding arrangements that affect all authorities are being built to suit urban authorities, where most of the current devolution deals are based. Rural areas could be left behind and the benefits of 100% retention would be concentrated in urban areas. Bespoke arrangements for devolution areas should not be pursued unless it can be shown that there are similar opportunities for rural areas.

**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?**

Only devolution deals that are available to all local authorities should be funded from BRR, those that are not available to all should be funded through a separate mechanism.

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

Yes; the new burdens doctrine ensures that newly transferred responsibilities are fully funded. As well as determining how much new duties, powers, targets and responsibilities will cost in the year of transfer, the new burdens doctrine should also project costs until the next reset of the Business Rates Retention system, so ensuring that funding is in place in future years to protect service viability, particularly as many services provided by local authorities are likely to follow a demand pattern which is different to the pattern of economic growth.

**The business rates system: Rewarding growth and sharing risk**

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

Fixed reset periods would give authorities certainty of income but must be realistic. Shropshire would support a partial reset of the system on a frequent basis as this would offer certainty of funding for authorities and, therefore, protection for services and authorities would retain a “growth incentive” for a defined period of time. Authorities would not retain disproportionate growth but there would be some ongoing incentive for growth.

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

We do not feel able to offer a considered opinion on the frequency of resets and, therefore, the balance between rewarding growth and funding demand without knowing the following:

- what a reset looks like and how much of previous growth can be retained;
- what new service will be devolved;
- what the needs assessment and new burdens' assessment will look like as well as assurances about how funding and needs will be aligned in years 2 and onwards;
- whether services that local authorities already provide and which are under increasing pressure will be adequately funded in the future, i.e. is there confidence that the demand projections are manageable;
- what protection will be offered by the safety net;
- how frequent revaluations will be after 2017;
- whether appeals will continue to be a local issue or whether a national solution can be found.

**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?**

We feel that a partial business rates reset should also incorporate a significant element of needs assessment, specifically for demand-led services such as adult and children's social care. This would offer greater protection where the pressures and demands on a service are likely to be uncorrelated to economic growth.

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

Redistribution between local authorities through a system of top ups and tariffs should be retained in the 100% Business Rates Retention Scheme. Most important is that only appropriate functions or funding linked to the economy are transferred to local authorities due to the lack of correlation between need and business growth for most local authority services.

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

Retained income for individual local authorities should be adjusted to cancel out the effect of future valuations. There is no change in the national yield from business rates as a result of revaluation and there should also be adjustments to local authority baselines to compensate for local changes in yield. No authority should gain or lose directly from revaluation.

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

No; all authorities should be encouraged to do all they can to maximise economic growth and sustainability in their local area and so any additional powers and incentives should be available in all areas not just those with 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?**

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As a unitary Council, Shropshire does not have any experience of the tier splits under the current 50% rates retention scheme. However, we believe that the principle established under the current 50% rates retention scheme should continue, i.e. the scheme should provide protection for the services that counties provide. Upper tier services still provide protection from the effects of fluctuating business rates. These services, particularly social care services, are crucial to communities and are demand-led and not correlated to economic growth.

**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?**

We do not have a view on this question although it would make sense for a funding approach to be developed based on factors that directly reflect demand and risk, and which provides the most certainty in terms of future funding levels. This may be difficult to achieve through the business rate retention scheme.

**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?**

Shropshire would support the continuation of 100% retention of business rates growth for 25 years by Enterprise Zones and other designated areas.

As a shire area Shropshire loses a much greater share of its gross rates through mandatory reliefs and would, therefore, like more control over the eligibility criteria for mandatory reliefs.

Shropshire is a large rural authority with economic activity focused upon agriculture and small businesses. We have 12,000 businesses on our valuation list for Business Rates and the top 100 of these (0.84%) pay almost 30% of our total Business Rate income. Small businesses are growing and thriving in Shropshire, delivering the benefits of increasing economic activity and employment levels. 100% Business Rates Retention provides no financial incentive whatsoever for Shropshire in this regard. Indeed, the cost of providing physical and virtual infrastructure to support these growing businesses is far greater in a rural county like Shropshire. Therefore, the financial incentive to a rural authority is to reduce costs, rather than benefit from growth in income through a healthy local economy. Reflection of all business growth, regardless of the size of the business, within the business rate retention scheme would go some way to providing a real incentive for growth.

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

It would be helpful to remove some of the riskier hereditaments off local lists. The type of hereditaments that should be removed are power stations, NHS trusts and medical practices and Ministry of Defence bases.

**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?**

We believe this should be decided by individual Combined Authority areas.

**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?**

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We would support continuation of the current system where local authorities are responsible for the risks on their local appeals. Authorities are now more experienced at estimating the future risks on appeals, and in ensuring sufficient provision is available.

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

We would like there to be realistic and accurate original valuation assessments and a speedier appeals determination process. Additionally, removing riskier hereditaments from local lists and improved data sharing between the VOA and local authorities would make provision for appeals more manageable and smoother.

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

Shropshire supports local discretion about whether local authorities wish to join a pool or not.

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

Shropshire supports the continuation of the safety net to protect authorities from large reductions in business rates. It is impossible to quantify the level of income protection that the system should provide and whether this should be set nationally or defined at area levels until authorities understand what services they will be delivering, the funding they will be receiving and how 100% retention will look.

**Local tax flexibilities**

**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 and Combined Authority areas the decision to reduce the multiplier must be unanimous across all authorities and the costs should then be shared by all the authorities.

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

Any decisions to reduce the multiplier or local discount powers should be made jointly by all authorities and any costs borne proportionally.

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

Local authorities should be free to control the multiplier themselves without capping restraints and so increase their multiplier back to the national multiplier in any one year, as long as businesses have been given a reasonable amount of notice.

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

All freedoms and responsibilities in relation to the multiplier should be available to all local authorities regardless of the governance arrangements in place.

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**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 at a local level. The flexibility to levy a supplement should be available to all authorities; as rural as well as urban authorities have significant infrastructure needs.

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

There should be a consistent approval process across all local authorities for both the infrastructure levy and the application of existing BRS powers.

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

We would support consultation with all the relevant LEPs affected, however, approval for a levy should remain with local authorities as the LEP business members may not be representative of business interests locally and are nominated rather than elected.

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

We agree with the Department's suggestion; the duration of the levy should be outlined in the initial prospectus and subject to regular review. The duration of the levy should not be prescribed by statute.

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

For the purposes of the levy infrastructure should be defined as widely as possible so as to incorporate as wide a range of capital expenditure as possible.

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

We agree that multiple levies should be allowed 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?**

We agree with extending the power to raise an infrastructure levy beyond Combined Authority Mayors, extending the business consultation requirements more widely and amending the definition of infrastructure but do not agree with including a discount power for Business Improvement Districts (BIDs).

**Accountability and accounting**

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

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Late announcement of both the provisional and final Local Government Finance Settlements in recent years has undermined authorities' abilities to adequately plan budgets and manage the process of local consultation in setting these budgets. Earlier notification, ideally provisional consultation in the summer and final settlement, including specific grants, in September / October, would increase certainty and strengthen local accountability for councils in setting their budgets.

We strongly support the use of multi-year settlements and early notification and confirmation of all funding streams.

**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?**

Accountability for duties and responsibilities devolved to local authorities and funded through 100% business rates retention should lie with authorities with regard to how business rate income is actually spent. Accountability for maintaining the system should remain with national government.

Current accountability mechanisms for local government are more than adequate and should remain in place; democratically elected councillors, annual accounts and audit process and regular reporting of budgeting and spending to DCLG.

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

The requirement to prepare a collection fund account should remain.

**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?**

We do not perceive any benefit to removing the requirement to prepare a balanced budget.

**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?**

Business Rates data collection activities currently take place too late in the year. In particular, the publication and submission of the NNDR3 Return should be aligned to the timescales for producing the accounts closedown data.

The returns will need to be redesigned when 100% business rates retention is introduced.