

The Rt Hon Sajid Javid MP

Secretary of State for Communities and Local Government
2 Marsham Street
London
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Dear Secretary of State

100% Retention of Business Rates and the Fair Funding Review

The way in which the issues raised by the Fair Funding review are addressed and full business rate retention is implemented are absolutely central to the future of this area both in terms of the delivery of public services and in supporting the investment in infrastructure that is fundamental to its future economic success.

Accordingly, we felt that it was important that we gave you a joint response from the 26 local authorities in Surrey, East and West Sussex that together with our three Local Enterprise Partnerships; one Combined Fire Authority and the South Downs National Park Authority, that are supporting the proposal for a 3SC Devolution Agreement.

Sussex and Surrey's economy is worth over £67 billion a year and the counties currently generate over £1 billion in business rates per annum. The area is a home for international business and exhibits many of the characteristics of the kind of knowledge driven, high skills growth that will be increasingly important for the future health of the economy.

As you will be aware, developing the right funding arrangements for the 3SC is important not just for the success of this area but for the economic success of the UK and for the continuation of the significant fiscal dividend that accrues to Government.

The combination of the Fair Funding review and the approach to business rate retention could provide a huge opportunity for the area given the strength of the business base or present it with significant risks. So whilst the approach to individual proposals is important it is how those proposals line up taken as a piece that will be critical for whether the outcome is an opportunity that allows us to move forward with confidence or inserts additional uncertainty and risk into an already difficult financial situation.

To give maximum confidence that there is a big opportunity for areas like the 3SC we will be looking at some of the critical characteristics of the new system and in particular that:

- It recognises and addresses current underfunding of services
- It genuinely addresses some of the additional costs of providing services in areas of the kind that we represent
- that additional responsibilities placed on local authorities are ones that help to support additional growth

- that the arrangements for pooling provide authorities with both the freedom and confidence to operate a system which genuinely meets the needs of the area
- that the approach to resetting the system to address the legitimate need for equalisation gives authorities confidence that they can make effective use of the proceeds of additional growth.

These are the tests which we will be using to gauge the proposals and whether they can give us the basis to move forward in the way that we would wish and which can benefit our residents and support both the development of our economy and that of the UK more generally.

We will also be taking the opportunity as individual councils to provide more technical responses that will highlight the diverse, local issues arising from changes to business rates that are unique to some of us, but we also felt that it was important for you to be aware of our collective view on some of the key issues.

Fairer Funding

Funding the current pressures

The current mechanism fails to take proper account of the significant regional differences in the costs of meeting needs. The South East is a high cost area and suffers disproportionately from the cost to serve imbalance. Proper recognition of the cost to serve must become a key criterion in determining the new Need Assessments; also before new areas of responsibility are devolved there must be some accommodation to meet unfunded current pressures which are considerable. Reductions in central government funding, and the increase in demographic growth, are placing significant pressures on social care and serious knock-on impacts on the NHS which is now becoming more and more visible. By 2030 the proportion of our population aged over 65 will have increased by 18.3% and by 42.4% for those aged over 85.

Given the proximity of our area to London and the significant proportion of our resident population who commute to London to help maintain its economic output, we ask that the level of overall government support should be reviewed in any rebasing of business rate redistribution. For example in 2016-17 residents in our area received £802.35 per head of Core Spending Power (CSP) funding this is 14.6% less than residents in London

Before any further services are devolved, we want assurance that these pressures are recognised by the new Fair Funding formula but also fully funded past the baseline year. In many cases there is little or no correlation between demand for services and economic prosperity.

Local Resources

A significant proportion of a local authority's budget is financed by council tax. Over the last decade and a half the Government have continually carried out what is referred to as "resource equalisation", the result of which has always been to penalise those authorities with large tax bases, especially the south east.

According to the Annual Survey of Hours and Earnings (ASHE), produced by the ONS, wages for residents in our area is significantly lower when compared to London, yet the average adult living in a shire area will pay more towards the costs of services through their council tax.

In 2016/17 the average Band D property in the 3SC area is paying £1,632, this is 20% higher than London and higher than any other class of authority across the country. This is not because the 3SC area is less efficient, but because the proportion of central funding is less, and therefore a larger element of funding has to be met locally. This unfairly penalises the 46% of the population who live in shire areas and contribute to the economy.

Although less easily quantifiable, residents in shire, and often rural, areas will tend to receive less services (either through removal of service or reduced hours) as well as having to travel further to reach them.

In the interests of fairness and transparency, we believe that all elements of local resources need to be discussed openly and addressed as part of the business rate review. In our view the 100% retention of Business Rates cannot be viewed in isolation from funding through council tax.

The 3SC Area and Business Rate retention

The right investment has enormous potential to further increase the contribution that our area makes to the national economy. Delivery of our devolution proposals will yield the Government over £1 billion per year in additional taxation. Being provided with the opportunity to have full control over the generation of Business Rates within the area is important to us as it will enhance our relationship with our business community and through the retention of new business rates generated from future growth provide the funding necessary to pay for the additional borrowing that will be required to deliver the infrastructure. Without business rates becoming a secure and sustainable revenue stream it will be impossible for us to secure the economic and fiscal benefits that have been identified.

Pooling and flexibilities

We have a strong track record of operating business rate 'Pools' and would notionally welcome the opportunity to work with Government on considering the establishment of an area based arrangement to cover all the authorities within the 3SC area. We can see that an area arrangement may provide the number of collective benefits, but there are also a lot of technical issues and risks that would need to be also considered. We see the following as some of the collective benefits:

- Enable the area to determine its own distribution arrangement for the additional resources arising from moving to the 100% retention, linked to both local 'Needs' and economic development.
- Use the economy of scale that the area will bring to better manage the valuation and appeal risks.
- Provide a single voice to work more effectively with the Valuation Office to standardise and consolidate valuation activity across the area, thus potentially leading to a reduction in the risks and issues currently seen through the Appeals process.
- Provide a stronger platform that will enhance the engagement with the business community over investment issues. We already have strong working relationships

with our Local Enterprise Partnerships and whom we recognise as being the voice of the business community in such issues as the establishment of Supplement levies, Business Improvement Areas and Enterprise zones.

We would welcome the establishment of a new area based approach to the Valuation Lists. This would enable us to establish a platform within which we could collectively take on some of the associated risks identified in the consultation in respect of the valuation and appeals processes.

We want to engage in further discussion with you to explore establishing an area based approach.

We would also like to discuss securing additional freedoms and flexibilities to help further facilitate growth and to address the current downward pressures on the tax base arising from the rise in micro technology based business that do not require business premises and organisation such as Academies and NHS Trusts seeking charitable status.

These freedoms include:

- Control over setting the rate multiplier.
- Freedoms to set local levels of discounts for both mandatory and discretionary reliefs to improve their alignment with the actual needs of local business.
- Direct involvement in the timing and process for rate revaluations and resets.

Devolution of Responsibilities

We accept the need to take on additional responsibilities that come with additional funding, but we ask that serious consideration be given to powers that will support economic growth and that the business community would see as benefits. For example; growth funds, skills and higher education, infrastructure funding, digital development and transport investment, and not the 'social' based activities highlighted in the consultation paper. We also want, in line with the recent House of Commons CLG Committee Interim Report, powers to come with optimal flexibility and minimal restriction to give us genuine discretion to determine how services will be provided.

We also want assurance that the devolution of responsibilities will only relate to current services and that the New Burden Doctrine will still be honoured for any new requirements that materialise in the future.

Needs Equalisation and Resets

As a high performing economic area, we recognise our role in ensuring that resources are fairly distributed across the country to ensure that all residents of the UK receive good quality public services, but this needs to be done through a balanced view of ensuring that areas that will be generating future growth in the economy are not restricted from doing so through an increase in the level of contributions required from them for distribution post 2020.

To ensure that economic growth is delivered, any new arrangement should be structured to incentivise growth and provide a platform for the stabilisation of long term service provision. This will only be achievable if the “reset” period is sufficient enough to allow the investment in growth to work through the planning and delivery processes, whilst providing sufficient protection to areas in greatest needs of support.

We thank you for taking the time to consider our letter, and welcome further opportunities to discuss the issues raised with yourself and your officials.

Yours collectively

Councillor Victor Broad Leader, Reigate & Banstead Borough Council	Councillor Gillian Brown Leader, Arun District Council
Councillor Peter Chowney Leader, Hastings Borough Council	Councillor Neil Dallen Leader, Epsom & Ewell Borough Council
Councillor Ray Dawe Leader, Horsham District Council	Councillor Tony Dignum Leader, Chichester District Council
Councillor Martin Fisher Leader, Tandridge District Council	Councillor Moira Gibson Leader, Surrey Heath Borough Council
Councillor Keith Glazier Leader, East Sussex County Council	Councillor Louise Goldsmith Leader, West Sussex County Council
Councillor Ian Harvey Leader, Spelthorne Borough Council	Councillor David Hodge Leader, Surrey County Council
Councillor Daniel Humphreys Leader, Worthing Borough Council	Councillor John Kingsbury Leader, Woking Borough Council
Councillor Peter Lamb Leader, Crawley Borough Council	Councillor Carl Maynard Leader, Rother District Council
Councillor Vivienne Michael	Councillor Neil Parkin

Leader, Mole Valley District Council	Leader, Adur District Council
Councillor Julia Potts Leader, Waverley Borough Council	Councillor Stuart Selleck Leader, Elmbridge Borough Council
Councillor Andy Smith Leader, Lewes District Council	Councillor Paul Spooner Leader, Guildford Borough Council
Councillor Robert Standley Leader, Wealden District Council	Councillor David Tutt Leader, Eastbourne Borough Council
Councillor Peter Waddell Leader, Runnymede Borough Council	Councillor Garry Wall Leader, Mid Sussex District Council

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