1. Introduction

Leeds City Council welcomes the opportunity to take part in this Housing, Communities and Local Government Committee inquiry and trust our comments and suggestions are given serious consideration.

Our primary focus in this input to the inquiry is local government finance, specifically how best to encourage greater sustainability, flexibility and self-financing through wide-ranging reform of local government finances. However, also we intend to make a wider response to the Comprehensive Spending Review which will aim to promote the opportunities for Government to:

- Recognise the strategic and leadership role of local government in convening and delivering partnership approaches to inclusive growth and public service reform for local and national benefit.
- Protect and invest in good value, modern public services aligned with local need, to tackle poverty and boost productivity and contribute to a rebalancing of the national economy.
- Support cities to deliver critical environmental interventions, to support the development of sustainable, healthy communities.

Our city ambitions will be set out in our wider response to the Comprehensive Spending Review, but the key principles are summarised in Section 8: Wider Policy Context below. Our intention is to develop these themes further including practical examples and proposals.

This response highlights the lessons learnt from past changes to local government funding, the current financial situation of councils and impact on service provision. The response then sets out a series of positive proposals which seek to ensure more sustainable local government funding.

However, as we make clear in our response below, we would emphasise that the priority should be that the quantum of funding available is sufficient to provide services, not just on the split of funding available. Fiscal decentralisation will not solve local government funding needs if the original funding level is not appropriate. This will come with increased fiscal devolution, whereby authorities have increased power to manage their own financial arrangements, be it spending funds appropriately for the local area or to raise local taxes to meet local pressures.

2. Lessons learnt from past changes to local government funding

Whilst the 2015 four year Spending Review gave local authorities greater certainty over their financial position, we are now in the final year of the settlement and there is very little clarity about local government funding beyond 2019/20: the quantum available, the impact of any changes to distribution and any transitional arrangements which may apply. In addition to this, although the multi-year settlement provided a baseline level of certainty, late announcements of new funding, changes to council tax referendum limits and the potential impact of the annual provisional local government finance settlement have all
impacted on authorities’ confidence in their funding forecasts. Whilst some authorities have held back resources and not committed until they are sure, the Leeds approach has been more positive. We have remained optimistic around government providing the funding required for our services, whilst acknowledging the risk within this approach.

Further to this, the timetable for local authority budget setting appears to be ignored during the period of Autumn Budget to Final Settlement. Local authority timetables for the following year’s budget can begin as early as the summer, with initial proposals being developed in detail in the autumn and presented to Members in December in Leeds’ case. The presentation of the provisional Finance Settlement in December can lead to short term reactions which have less well considered impact than well planned funding decisions.

Successive governments have added new funding “modules” to the existing funding system: the four-block model was laid over the existing Standard Spending Assessments, on top of which was added the Business Rate Retention System (BRRS), each time leading to an ever more complex system. Whilst we hope that the Fair Funding Review (FFR) will ease this complexity, we continue to make the point that this simplicity should not be at the expense of fairness. Expressing how funding allocations are calculated is important for authorities to appreciate how everything fits together and authorities need to be able to replicate these calculations to aid the allocation of funding within their organisations.

Going forward, it is imperative that the new system for financing local government is both workable and fair, and that incentives for growth are properly balanced against the needs of communities, particularly our most deprived.

Any future funding system should clearly demonstrate how the component parts fit together. This should include the funding (Settlement Funding Assessment, SFA) and the BRRS. We would also hope for transparency about the assumptions within the system, again, to demonstrate the fairness of decisions made.

The introduction of the BRRS in 2013/14 also shows that the Government must give due thought to the accounting rules applicable to local authorities when a new system is introduced. In 2013/14 it became clear that authorities would have to make large provisions for losses due to appeals only after many of the main decisions about the BRRS had been taken. This led, we believe, to rushed, partial and complex solutions being found in the weeks immediately before the scheme was introduced and the funding system has remained very complex ever since. It is vital that the Government consult closely with bodies such as the Chartered Institute of Public Finance and Accountancy (CIPFA) prior to the introduction of any new scheme.

This complexity has been compounded in the ensuing years by the Government introducing a series of new policies that have directly and indirectly impacted councils’ funding from business rates. Those that have directly affected local authority budgets have generally been compensated for through measures such as the multiplier cap compensation and a series of other discretionary grants for losses due to changes to reliefs. However this has only added to the complexity of the BRRS and other changes, such as the continuing encouragement of the academisation of schools, have not been compensated for (see below). Further, in some cases authorities receive these compensatory grants in a different accounting year from the year in which they experience the reductions in income, again complicating the system.
3. Current Financial Situation of Councils

Between 2010/11 and 2019/20 Leeds City Council’s core funding from Government will have reduced by around £266m, or 59.2%. Its spending power over the same period according to Government figures will have reduced by 22% against the all England average reduction of 18%.

The Council has responded successfully to this challenge since 2010 and been able to balance the budget each year, protecting front line services and avoiding large scale compulsory redundancies. This has been achieved by stimulating good economic growth, creatively managing demand for services, increasing trading and commercial income, growing council tax from new properties and a significant range of organisational efficiencies including reducing staffing levels by over 3,300 posts. Within the Council we have also placed a great deal of emphasis on strong proactive leadership, clear organisational values and ambitions, and realising a culture change which sees council staff embracing a ‘can do’ approach.

However, the financial position for Leeds is looking evermore uncertain. In 2019/20 Council Tax will make up over 61% of the Net Revenue Budget. Local taxation powers are central to addressing two of the most fundamental issues facing local government today. Faced with long term reductions in government funding and increasing demand for many services, councils can be ‘more efficient, effective and creative in their use of public money’ if they have real freedom to make local decisions about council tax levels and spending for their areas within their existing democratic mandate.¹

Nationally, Council Tax makes up 60% of national Core Spending Power in 2019/20, whilst SFA makes up 31%. For comparison, in 2015/16 Council Tax made up only 49% of Core Spending Power and SFA made up 48%. We believe that this increasing reliance on Council Tax takes no account of variations between authorities in their capacity to raise it. Authorities with low council tax bases and those who find it difficult to attract new housing lose out. We also identify that the Council Tax band of any new housing that an authority attracts can impact this funding. If an authority has a high number of band A-C housing, they are also more likely to have a higher reliance on council services. In contrast, residents dwelling in band H properties are probably less likely to have a high reliance on council services. The type of property that a local authority area attracts will impact on the need for services.

In the longer term local government will need to deal with the increased volatility inherent in higher business rates retention, whilst Revenue Support Grant is to end. Genuine freedom to set council tax levels is a vital tool in managing this increased volatility.

According to Government figures at the provisional Finance Settlement in December 2018, revised assumptions about business rates and council tax income have increased Core Spending Power by £1.27bn for 2019/20 from 2018/19. This is in addition to the £800m increase generated by similar revised assumptions in 2017/18 and 2018/19. This results in a cumulative change over the four year settlement period of +3.8%, compared with -0.5% based on 16/17 assumptions. However, in our view this misrepresents the levels of funding available to local government - and we particularly question the key assumptions driving council tax income growth: that average national annual growth will continue until 2019-20

and that local authorities will increase core council tax in line with the maximum use of new referendum limits.

As we have continued to point out in consultation responses, the main reason for inequitable allocation of funding to the most deprived authorities is that, although the calculation of SFA allocations takes account of council taxes in arriving at flat rate percentage reductions to apply to the various tiers, it does so at a national level. As a result the calculation takes no account of variations in the capacity to raise council tax and authorities with low council tax bases and those who find it difficult to attract new housing lose out. This is exacerbated by the additional Adult Social Care precept flexibilities and the changes to New Homes Bonus introduced in 2017-18 which, due largely to the introduction of the national baseline, further penalise these same authorities.

This inequity is compounded by the elimination of Negative Revenue Support Grant and the payment of transition grant in the first two years of the current 4 year settlement, both of which act to the detriment of authorities with the highest needs and lowest resources and effectively enhance the damping mechanisms already present in the formula. Negative RSG occurs as a result of Government’s change of methodology for allocating Revenue Support Grant, introduced in 2016-17, which rightly sought to ensure that authorities delivering the same set of services received the same percentage change in funding by taking account of the main resources available to them, rather than focusing only on revenue support grant. Negative RSG therefore affects only those authorities whose council tax and business rates bases are strong enough to reduce their relative needs share to less than zero according to that methodology.

We therefore wish to use this opportunity to repeat our opposition to the Government’s preferred approach on Negative RSG in 2019/20. The continuation of this inequitable trend in the current proposal to eliminate Negative RSG raises deep concerns for the Fair Funding Review, potentially undermining its integrity entirely. If a fairer formula were to be introduced what assurance would the sector have that it would not be permanently damped as the Department has opted to do for the 2016/17 allocation methodology, to the benefit of some of the best resourced authorities in the country? It seems to us that the case made to support the option of eliminating Negative RSG is not technically credible. The dual aims of fairness and affordability are not being met by this preferred option. Whilst it is undoubtedly more affordable it is also manifestly less fair than injecting additional funds into Core Funding based on relative needs to lift all authorities in proportion to their needs to a point where all negative allocations would be eliminated.

It is not difficult to appreciate that the change in emphasis on how funding has been allocated has been of more benefit (or less detriment) to authorities with a large and growing Council Tax base and a thriving business estate than to authorities with a low council tax base and struggling to grow their business rate base.

The Special Interest Group of Municipal Authorities (SIGOMA) have analysed data that shows the most deprived authorities (South Tyneside, Blackburn with Darwen, Manchester, and Knowsley) have been greater impacted than the most affluent authorities (Surrey, Wokingham, Buckinghamshire, and Rutland). The following graph shows, by deprivation decile, the composition, in £-per-head of cuts over the 4 year offer period. The lighter sections illustrate what the cuts would have been without top-up grants from Government:
We can therefore identify that almost all of this top up funding, supposedly for those facing the worst impact of cuts, has been allocated to the most affluent half of local authorities. The most affluent 10%, which should have seen funding cuts of £66 per head during the four year offer period actually saw a net reduction of less than half that (£31 per head) due to this additional funding. Meanwhile, the most deprived 40% of authorities received no reduction in their cut per head.

4. Ability to Deliver Services

Since 2010 the Council has focused on protecting the most vulnerable by supporting pressures in social care and other budgets, alongside protecting funding for preventative services which deliver better outcomes and lower long term expenditure.

Given the extent to which we have already made savings, largely through efficiencies, and have generated additional income, the potential to generate significant further savings is becoming increasingly limited. Additionally, the pressure on care budgets continue to grow. In 2019/20 Adult Social Care and Children & Families budgets make up almost 63% of the Council’s budget.

Our estimates are that for our authority alone Adult Social Care faces annual pressures of £11m just to “stand still”. With a rising ageing population and the impacts of pay pressures including national living wage in the sector these costs will inevitably rise. This by itself is equivalent to an almost 4% increase in Council Tax.

Our Children and Families budget rose by nearly 5.4% in 2018/19 (£6.9m), acknowledging the demand and cost pressures facing Children’s Services, in particular safeguarding and protection. There is a lack of funding nationally in Children’s Services and we believe that more work needs to be done by Government to understand the cost drivers and differentials between different authorities. The Leeds Children Looked after rate, per 10,000 children aged under 18, indicates that, in 2017/18, the Leeds position of 76 is
significantly above the national average of 64. A further cost driver in Children’s Services is the increased occurrence of deprivation and special educational need and the impact on home to school transport. The transport assistance extended to low income families and those on Universal Credit demonstrate that deprivation is a key cost driver. Similarly, costs are seen to increase where special educational need is high. Although not specific to Local Government funding, we have also seen a growth in Special Educational Need across the city. Therefore, we are of the view that these areas should be considered in any review of Children’s Services funding.

Should the Council choose to continue to protect these care budgets, then the impact of further reductions will inevitably fall upon other front line services. Given limited scope to reduce further in many services, this creates a significant risks to our preventative approach which, if reduced, would undermine the sensible long-term financial management approach which has been so successful in the city to date.

5. **Efficiency, fitness for purpose and sustainability of the current system for funding local government**

An increasing share of funding is distributed based on incentive rather than need. This has worked well for many authorities and increased their focus on growing their tax receipts. However, the approach has an opportunity cost. The additional risk encourages a more tentative, even pessimistic, approach to committing resources. It also means that funding is not necessarily directed at authorities on the basis of need.

Any new system of taxation should be seen in this context (e.g. tourist tax, a slice of locally generated VAT, a local income tax). Whilst this would increase the quantum of funding for the sector, it is likely to do so in an uneven way, with different authorities having varying capacity to generate additional income. A solution would be to share out this additional growth, either through placing a levy on the growth, or through a periodic equalisation of income. However, care would need to be taken that this does not disincentivise local decision making.

Again, we reiterate that, as a matter of principle, Council Tax referendum limits should be significantly relaxed or removed altogether. The combined effect of the referendum limits and freeze grants in prior years has seriously eroded the buoyancy of council tax and its capacity to provide the right balance of local funding. Nor does the existing referendum limits mechanism assist to align funding with the areas with the greatest need. We see the lifting of Council Tax referendum limits as part of wider Council Tax reform and integral to the future of local government finance.

The existing Business Rates Retention System is overly complex and in the recent consultation on BRR Reform, we recognised the benefits of reforming the system. It is our understanding that the proposed changes to be made to the calculation of the top up or tariff would ensure that authorities received their Baseline Funding Level plus or minus any growth or decline in net rates payable, without including any losses caused by appeals provisions. Therefore the net retained business rates income available to a council’s budget will be greatly simplified. The reformed system would also reduce and simplify the number of funding streams that would be paid through section 31 grants.
In addition to this other issues on business rates should be reviewed:

Whilst we agree with the Government’s expressed intention of allowing local government to keep more of the income it raises locally through the business rates retention scheme it has to be recognised that the sector has very few tools with which to combat the inherent volatility of the system. Business rates receipts are sensitive to a number of factors that we would argue are entirely out of the control of local authorities such as the national economic environment, ratepayers’ appeals against the Rateable Value of their property, decisions about the nature and extent of reliefs and the level at which the multiplier used to calculate business rates receipts is set. This lack of control over local taxation makes local councils and the services they provide vulnerable to sudden funding reductions that councils do not have the financial tools to react to. Examples of this include:

- Between April 2013 and March 2018 Leeds City Council has returned £135.7m to local ratepayers either as a result of an appeal by a ratepayer or because an appeal elsewhere has implications for properties in Leeds. The Council has borne almost half of this cost (£66.5m). However perhaps more damaging has been the incidence of these costs as, under accounting rules, the Council has to make a judgement when they become aware of an appeal as to whether that appeal is likely to be successful and then put aside money for any estimated costs. This is funding that would otherwise be made available to local services. The Government itself has recognised that making accurate provisions is ‘impossible’ and the profile of when appeals have been lodged against a ratings list has been highly volatile and often in response to central Government decisions outside the control of local government. Table 1 below shows the incidence and volatility of the cost of making provisions in Leeds between 2013/14 and 2017/18.

- Mandatory charity relief is currently not available to state schools run by local authorities, however if those schools convert into academies, although they remain state schools they are deemed legally to be sufficiently at arms-length from Government and eligible to receive 80% mandatory charity relief. In 2018/19 Leeds City Council granted a total of £4.34m in mandatory charity relief to academies and the cost to the Authority’s general fund continues to grow.

- Following on from the status that academies have been able to claim in relation to mandatory charity relief, a number of foundation trusts in the National Health Service have also made a claim that they have a similar status. In a city like Leeds with large world class teaching hospitals, this would have a significant effect on the Council’s funding. It would also represent a significant switch of funding from one area of the public sector to another without any democratic accountability.

- In March 2019 the Court of Appeal ruled that Special Purpose Vehicle companies that took over leases with no other assets or revenue streams and then immediately went into administration were not acting contrary to law when they claimed permanent empty rate relief. Empty rate relief is usually only available for between 3 and 6 months, but companies in administration receive relief on empty buildings until that building is disposed of. We are already seeing an increase in the incidence of this avoidance mechanism.

Leeds City Council would argue that local government needs to have greater powers to react to changes such as these. Local authorities should be able to have more flexibility over the
rules governing mandatory reliefs against business rates liabilities and, further, have a greater flexibility over the multiplier in their areas to react to these volatile elements of the business rates system. We welcome the Government’s recent moves to address the appeals issue described above with the recent consultation on an alternative administrative system for the business rates retention scheme. However we simply do not believe the current rigidity of the business rates system allows local government to design local taxation in a way that balances the needs of local communities to receive the services they require with all councils’ desire to grow their local economies.

Also, we continue to urge the Government to be more transparent on how revenue received from the central list is spent on ‘local government’ as the law requires.

**Table 1: The cost of provisions for appeals against Rateable Value**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cost of Provisions for appeals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>23,095,265</td>
</tr>
<tr>
<td>2014-15</td>
<td>40,966,799</td>
</tr>
<tr>
<td>2015-16</td>
<td>14,489,053</td>
</tr>
<tr>
<td>2016-17</td>
<td>14,737,620</td>
</tr>
<tr>
<td>2017-18</td>
<td>10,470,249</td>
</tr>
<tr>
<td>TOTAL</td>
<td>103,758,986</td>
</tr>
</tbody>
</table>

**Sporting Facilities and VAT partial exemption**

Local authorities should be able to widen the available sources of funding, an example identified by Leeds City Council is to make sporting facilities a non-business from a taxation perspective. For the Council to be able to recover VAT on expenditure in full, no more than 5% of the Council’s total VAT bearing spend should be attributable to exempt activities e.g. spend on amenities such as sports facilities that generate exempt income. If expenditure attributable to exempt activities exceeds the 5% limit, none of the VAT attributable to exempt activities would be recoverable which would be a cost to the Council. In Leeds this is estimated to be between £5m and £6m each year.

This limit can act as a disincentive to local authorities, impacting upon the Council’s ability to invest in amenities that are there with the primary objective of being for the public good i.e.

- Improving health
- Addressing deprivation, poverty, exclusion
- Providing key skills for safety
- Building communities.
When pursuing these objectives the Council argues that the cost of building such amenities should be treated as incurred by the local authority in its capacity as a **public body**. Where a local authority acts as public body its activities are deemed to be non-business activities. VAT expenditure attributable to non-business activities is recoverable in full and is left outside of the 5% calculation.

“Acting as a **public body**” means the circumstances whereby a local authority provides services under particular conditions that do not apply to private sector providers. The clearest way of identifying non-business services is where the services are underpinned by statutory provisions, which set out the requirements placed on the local authority, the charges that may be levied etc. However, presently there is no immediately identifiable statutory provision in England that obliges local authorities to provide sports facilities. But statutory underpinning is not the only criteria to define “acting as a public body”; acting under particular conditions that do not apply to private sector providers are key to defining “acting as a public body”.

It is recognised that lobbying for “blanket” non-business treatment for all expenditure on sports activities provided by local authorities would be difficult, as it could raise competition issues with private sector providers. This would particularly be the case where there is no immediately obvious differentiation in the amenities provided – e.g. gyms.

However, where there is a clear distinction between the basis on which amenities are created and offered to the public by the local authority, compared to private sector providers, this provides the grounds for arguing that the local authority, in investing in and maintaining such amenities, is acting as a public body. In this event the expenditure should be attributed to the local authority’s non-business activities and not form part of the 5% VAT recovery calculation.

The stance taken by HMRC on non-business is to look for a statutory basis to the actions taken by a local authority. This is despite the fact that Central Government expects local authorities to fulfil many of its objectives on improving public health, building communities etc. and uses various means to encourage local authorities to fulfil these objectives. However, these are often not specifically spelt out in legislation as a statutory obligation.

Therefore a direction from the respective Secretary of State to underpin the criteria as to when amenities/provision can be treated as non-business, the conditions to be observed etc. would provide clarity to HMRC as to when non-business treatment applies and would allow the Council to support tackling its priorities in respect of improving health; addressing deprivation, poverty, exclusion; providing key skills for safety and; building communities.

### 6. Assessing local government funding needs

In our view, the **most important concern** is not how available funds will be redistributed but whether those funds are sufficient, both now and in the future. Leeds City Council is concerned that local government is already facing a funding shortfall and is continuing to see growing demand for its services.

The Local Government Association has estimated a funding gap of £7.1 billion for Local Government by 2020. This includes an immediate £1.3 billion pressure to stabilise the adult social care provider market and a £2 billion estimated funding gap facing Children’s services.
These concerns are supported by the recent report from the National Audit Office, which found that the financial health of local authorities across England is getting worse and that, despite greater freedoms to increase council tax bills and one-off short-term funds from government, local authorities are struggling to juggle higher demands and cost pressures against significant central government funding cuts of nearly 50% since 2010-11.\(^2\)

Within the FFR consultation response, Leeds has raised concerns about the assessment of need and distribution of resources. In particular we were disappointed to see the proposal to remove deprivation as a cost driver for the foundation formula.

**Income deprivation** is associated with the increased use of a range of local authority services and in areas of higher deprivation, residents accessing services are less able to contribute to the costs of those services, leaving authorities with higher costs for the provision of means tested services. In the ‘Summary of responses received and Government response’ document published in response to the December 2017 Fair Funding Review consultation, 86% of respondents were in agreement that deprivation should be included. We note the Government’s analysis in which it argues deprivation accounts for 4% and 0.4% of variation in past expenditure for upper and lower tiers respectively. We would suggest that a 4% variation is significant and so should be included as a cost driver. We also highlight the analysis that has been carried out by the University of Liverpool which finds that, based on 2009 data and before the funding cuts that have disproportionately impacted more deprived areas, the variation due to deprivation could be as high as 40% (research conducted by the University of Liverpool in response to this consultation). We continue to argue that, for Leeds and other large cities, the extent of need can be masked by average measures across an authority’s whole area potentially concealing very significant levels of deprivation and high concentrations of poverty. Leeds, for example, has a worsening absolute level of poverty and extreme concentrations of poverty – 22% of our Lower Super Output Areas (LSOAs) are in the most deprived decile in the 2015 Index of Multiple Deprivation and we have the 22nd and 37th most deprived LSOAs in the country. It would be useful to see analysis on the basis of deprivation hotspots, rather than the average level of areas. It is essential that a measure of deprivation is included that recognises the level of needs in these communities. In our experience these small, very deprived neighbourhoods place high demands on public services and are less likely to access preventative options. The additional costs associated with providing costs in an urban setting should be recognised in any future spending review.

### 7. Local Government funding in the 2019 Spending Review

Between 2010/11 and 2019/20 Leeds City Council’s core funding from Government has reduced by around £266m. We continue to face significant demand-led cost pressures, especially within the Adults and Children social care services. Whilst we have responded to this challenge since 2010 through a range of measures including stimulating good economic growth, creatively managing demand for services and a significant programme of organisational efficiencies, it has become increasingly difficult to protect the delivery of these vital services, which make up 64% of the Council’s budget for 2019/20.

\(^2\) National Audit Office March 2018, Financial sustainability of local authorities 2018
Whilst we acknowledge the additional funding provided in recent years to support adult social care through the improved Better Care Fund and two one-off Support Grants, and also the power to raise an adult social care precept, the additional funding generated across the sector has not been sufficient to meet the identified funding gap for adult services and we have no medium term certainty regarding any of these funding streams. It is vital that the new funding formula fully recognises the social care pressures faced by the local government sector and that it is closely aligned with any changes to adult social care funding arising from the Adult Social Care Green Paper. We are disappointed at the continued delay to this paper being published. We also echo the disappointment expressed by many in the sector that no such permanent additional funding has yet been identified to support children’s services.

Although we support the Government’s objective of increasing the financial independence of local authorities this cannot be at the expense of ensuring that councils are sufficiently funded to meet their statutory obligations. We would support fiscal devolution, not just fiscal decentralisation.

There should be increased control of local taxation. This includes the removal of referendum limits on council tax, where local democracy through election of members should be sufficient to control the level of local taxation on residents.

We support the proposed alternative scheme of business rates retention. It would reduce the vulnerability of local authorities to the main cause of volatility in the business rates system, appeals risk and therefore local authorities would not find it necessary to be so risk averse and hold back funding from local services to provide for future losses due to appeals against Rateable Value.

Additional business rates retention should not come with additional responsibilities - to address the funding gap that already exists a greater quantum of funding is required.

Also, councils should have more control over mandatory reliefs and the multiplier in the case of business rates income to allow local, democratically accountable politicians the flexibility to design a local business taxation system. They are best placed to meet the often conflicting aims of encouraging local economic growth and answering increasing demand for local services.

There needs to be a greater understanding that an agreed course of action in one government department can have a detrimental effect on another area. Using the example above, if an academy or NHS foundation trust is able to claim mandatory charity relief, this significantly reduces the local authority’s funding streams. Decisions which move funding between departments should be addressed appropriately at the departmental level.

Local authorities should be able to widen the available sources of funding, an example identified by Leeds City Council above is to make sporting facilities a non-business from a taxation perspective.

**Business Rates Pools**

Leeds City Council had been a member of Leeds City Region business rates pool since the Business Rates Retention Scheme was introduced in April 2013. We found that the Pool improved strategic joint working across West Yorkshire, Harrogate and York significantly,
bringing together officers and political leaders in a flexible governance structure that has allowed us to improve services and make more strategic investments that are to the benefit of the wider region. It has worked well alongside our participation in other regional bodies, such as Welcome to Yorkshire, Screen Yorkshire, and organising the Tour de Yorkshire.

In 2019/20 Leeds City Council are a member of the North and West Yorkshire Business Rates Pool. Again, we envisage that this will further improve the strategic relationships between all 14 member authorities as we participate in a 75% retention pilot across the whole functional economic area. However, it has to be said that some of the joint projects entered into as part of a pool, are only possible because of the financial incentives offered by pooling, whether that be the retention of levy payments we would otherwise have had to pay to Government or the retention of additional growth generated in the region through our participation in the 100% and 75% retention pilots.

For example the funding both the North Yorkshire and Leeds City Region pools have been able to use to help create the Tour de Yorkshire cycle race or the investment we have been able to make in Welcome to Yorkshire, the region’s promoter of our tourist industry, has proved invaluable in continuing to grow our visitor economy. We would therefore urge the Government to continue to find ways of financially incentivising this joint working.

We have found the Business Rates pooling process a positive experience and think that the process of selecting first 100% retention pilots in 2018/19 and then 75% retention pilots in 2019/20 has provided a useful focus for groups of local authorities to put forward innovative collective proposals for the use of additional retained growth. The Leeds City Region pool in 2018/19, for example, proposed that half of the additional growth retained by the seven authorities within the pilot, some £20m, would be pooled and spent on regional projects such as improving the connectivity of the region, encouraging housing growth, setting up a business support program and others.

For the future of Local Government funding, and to maintain the strong relationships between local authorities, we would propose to Government that it launch annual competitions for Pools to apply for higher retention once 75% retention is introduced.

In addition to higher levels of retention, we also propose that Government make some of the funding streams currently available only to mayoral combined authorities be opened up to authorities that have pooled their business rates income and have shown strong governance structures making a difference across their functional economic areas; funding such as half of the Transforming Cities Fund, worth some £850m. That these funding streams are only available to mayoral combined authorities based only on a particular governance framework is, we believe, unfair. We would encourage the Government in the next Spending Round to allow wider access to similar funding streams for areas that have a proven track records of jointly managing regional funding, for example, through pooling.

8. Wider Policy Context

Post-Brexit it is more important than ever that cities like Leeds are able to boost productivity and deliver a long-term sustainable increase in our contribution to the national economy. Currently, it remains the case that the UK has the widest regional economic disparity in Western Europe and UK urban productivity is low in comparison to international standards.
Economic interventions alone will, however, have limited impact on productivity if the constraints of poverty and deprivation are not simultaneously addressed through local and national policy. Delivering high quality, integrated public services, which are aligned to local need, is an integral part of our city’s approach to reducing persistent inequalities and pursuing Inclusive Growth. In Leeds we have huge ambition to continue to lead transformational change across our city and our public services. We are already using our power, influence and convening capacity to positively drive economic growth in a way that reduces deprivation and improves the quality of life for those living in the city. However, to deliver long-lasting change we need to take this approach further.

We will be setting out the scale and breadth of our ambitions in greater detail as part of our submission to the upcoming Comprehensive Spending Review. However, what we will ask of Government in that submission, as we have here, is that it give us the tools – freedoms, flexibilities and resources – that will enable us to deliver on our ambitions for both local and national benefit. Local Government finance reforms, as set out above, are a crucial part of that package of measures.

9. Conclusion

Local authorities are working with increasingly constrained budgets and increasingly tight timetables each year. This can lead to short term decisions being made with long term impact.

We support the introduction of a simplified funding model, but reiterate that this should not be at the expense of fairness. We also feel that any future system should be well thought out before being introduced, to avoid rushed, partial solutions, leading to longer term problems for authorities.

We are supportive of the current review and reform of the Business Rates Retention system, and would encourage Government to also consider the long awaited review of Council Tax.

Whilst we agree that authorities should receive a fair share in the next spending review, the priority should be to increase the quantum of funding to a sufficient and sustainable level to provide services. Where funding is scarce, authorities should be able to make decisions to manage their own financial arrangements, be it spending funds appropriately for the local area or to raise local taxes to meet local pressures. Further to this, if Council Tax is to become an increasing source of funding for local authorities, referendum limits should be lifted and authorities given more power to raise taxes locally.

April 2019