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| CCN COUNTY COUNCILS NETWORK | Consultation Response Evidence Base<br><br>Self-Sufficient Local Government<br>100% Business Rates Retention<br><br>September 2016 |

**Introduction**

1. This paper provides the evidence base for CCN's submission to the business rates consultation. The paper is structured around the key policy areas of economic growth and effective and efficient services, and explores how a new business rates system can help achieve these. The profile of business rates in county areas and how this can inform full retention is also explored and evidenced by new analysis undertaken by Pixel Financial Management, on behalf of CCN.

2. The full report by Pixel Financial Management completed in August 2016 analysing the profile of business rates in counties can be found **here**.

3. An understanding of growing social care pressures will also be central to designing a sustainable business rates and local government funding system. CCN commissioned LG Futures to undertake an independent review of social care funding and pressures in county areas, the full report which was published in January 2016 can be found **here**.

4. DCLG have undertaken useful initial modelling of different reset scenarios which begin to give us an understanding of a system design which could support economic growth and sustainable services. However, there is consensus that more detailed modelling and a fuller understanding of the national context is needed before any decisions are taken. We must take care to design the system with rigour and in a holistic way, to avoid further need for reform later down the line.

5. CCN will continue to work with the LGA, DCLG, District Councils' Network and others through the autumn to undertake further modelling of different scenarios and to understand the details of a system which can succeed in supporting our shared goals.

**Economic Growth and Economic Inclusion**

6. CCN welcome the Government's renewed focus on economic growth, the Prime Minister's commitment to ensure that all communities can experience the opportunities of growth, and indications that the devolution agenda will continue to expand to empower county areas. Strong counties alongside city regions will be vital to the growth and stability of the national economy in uncertain times.

7. While in recent times there has been a focus on unlocking the growth potential of big cities, there are important reasons for ensuring county areas are equally enfranchised. We must take opportunities within this Parliament, and in the design of the business rates funding system, to ensure all areas can fulfil their growth potential, all communities can access economic opportunities and no artificial limitations are put on growth.

Macro-Economic Landscape

8. While considering the design of the new local government funding and business rates systems we think it is vital to take a broader view of the medium and long-term macro-economic landscape. There are two issues in particular which may have wide ranging impacts on business rates and therefore the sustainability of local government and services:

    - Economic uncertainty following the EU referendum – Impacts could range through decreased or negative growth of business rates, increased need for business relief support, a decreased supply of principal workers and greater reliance on local government services.

    - The long term relevance of business rates as a tax – As to be expected the most recent ONS data shows a steady reduction in the use of physical business premises and growth in the proportion of business that have no physical business space.[1]

9. These issues are not addressed in detail in this consultation response, however CCN would welcome open discussion between central and local government, business and experts to determine a future proofed plan for local government funding. CCN suggest that the extension of an ambitious devolution programme, equipping areas with powers, budgets and fiscal freedoms will help achieve a rounded, resilient set of growth incentives and income streams.

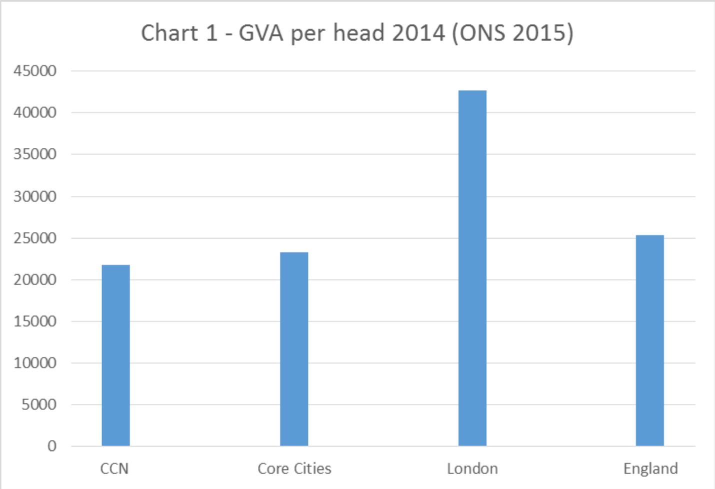
Economic Growth in Counties

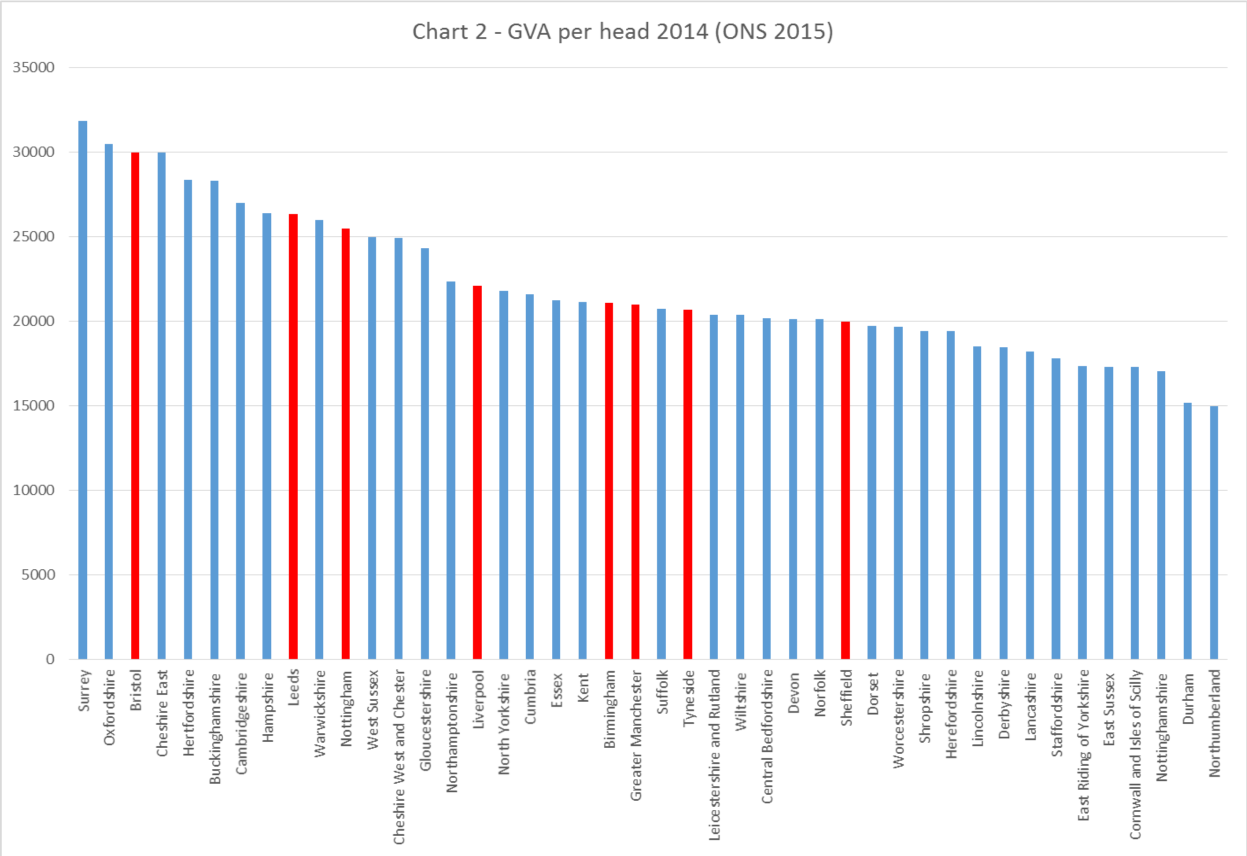
10. County economies are the cornerstone of the national economy, with high levels of skills and employment and high value industries. CCN member areas represent the largest proportion of the country's GVA at 41%.[2] Despite this headline performance counties face long-term economic challenges – productivity is lowest in CCN member areas, substantial skills mismatches reflect those across the country and national underinvestment in infrastructure is limiting growth potential.

11. The UK as a whole struggles with low levels of productivity, something which will become more urgent as we move through economically uncertain times. **Empowering counties to invest in infrastructure, re-gear skills and increase their productivity will be fundamental to the sustainable economic growth of the country.**

[1] Shopping in Shops that have no 'Shops', ONS, July 2016

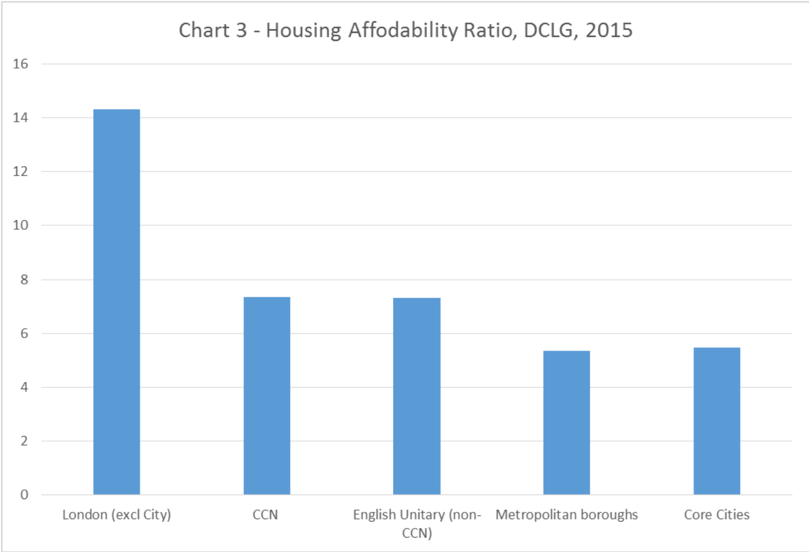
[2] GVA 2014 (ONS 2015)




<u>Economic Inclusion in Counties</u>

12. The challenge of low productivity is also important in the context of living standards and ensuring everyone can see the benefits of growth. Lower productivity in counties means lower wages for many workers in these areas – addressing this will be fundamental to realising the Prime Minister's vision of opportunity for all.




13. While the highest concentration of multiple deprivation is found in the outskirts of big cities there are also important deprivation issues in county areas – in particular deep pockets of deprivation. CCN research has shown that young people who are eligible for free school meals have on average lower educational attainment in counties than in other areas.[3] Equally these groups are less likely to progress to higher education in counties than elsewhere.[4]

14. Building the quantity and quality of housing needed for a growing population and ensuring people can stay close to their communities is a challenge across the whole country. **County residents face particular pressures, housing is least affordable compared to wages in CCN member areas, outside of London.**

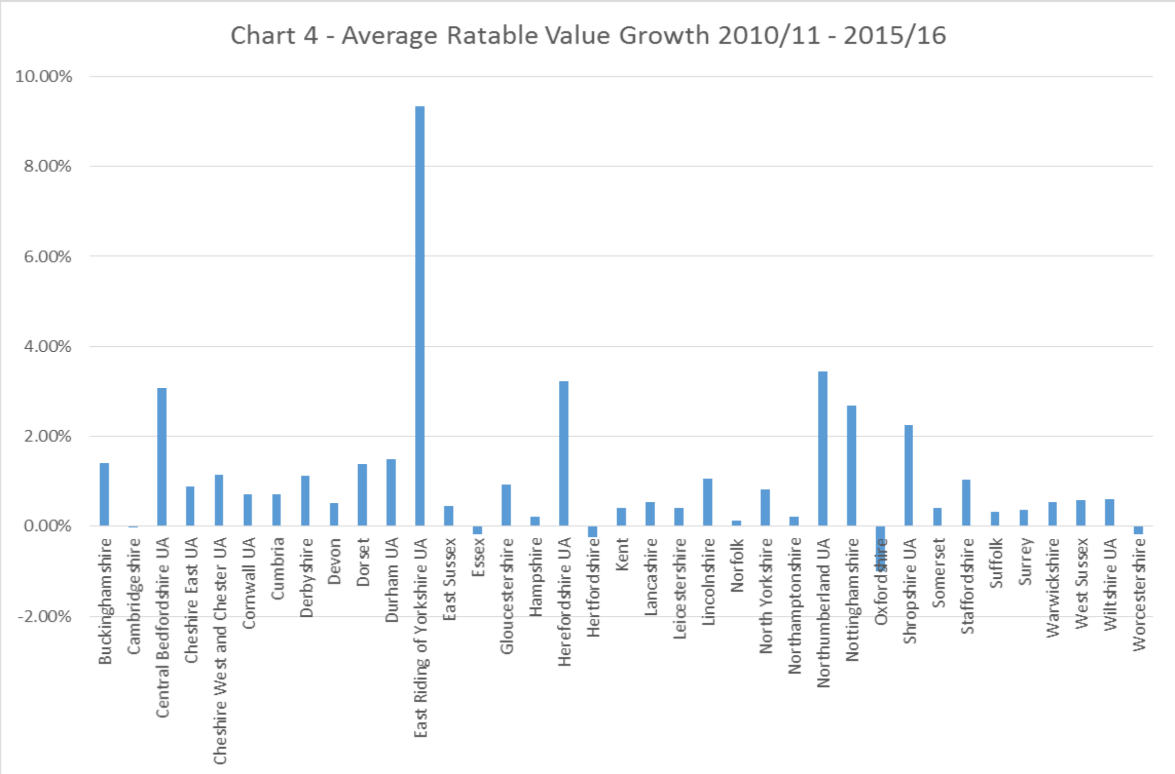
15. Compounding these pressures on county residents, CCN member areas face an increasingly disproportionate council tax burden. Assumptions by government that county areas should raise a larger proportion of their funding from council tax to meet greater care pressures has meant higher bills for the same level of service. On average county residents now pay £455 per head – this is 8% higher than the average for London, 9% higher than the national average and 35% higher than those residents in metropolitan districts.[5]

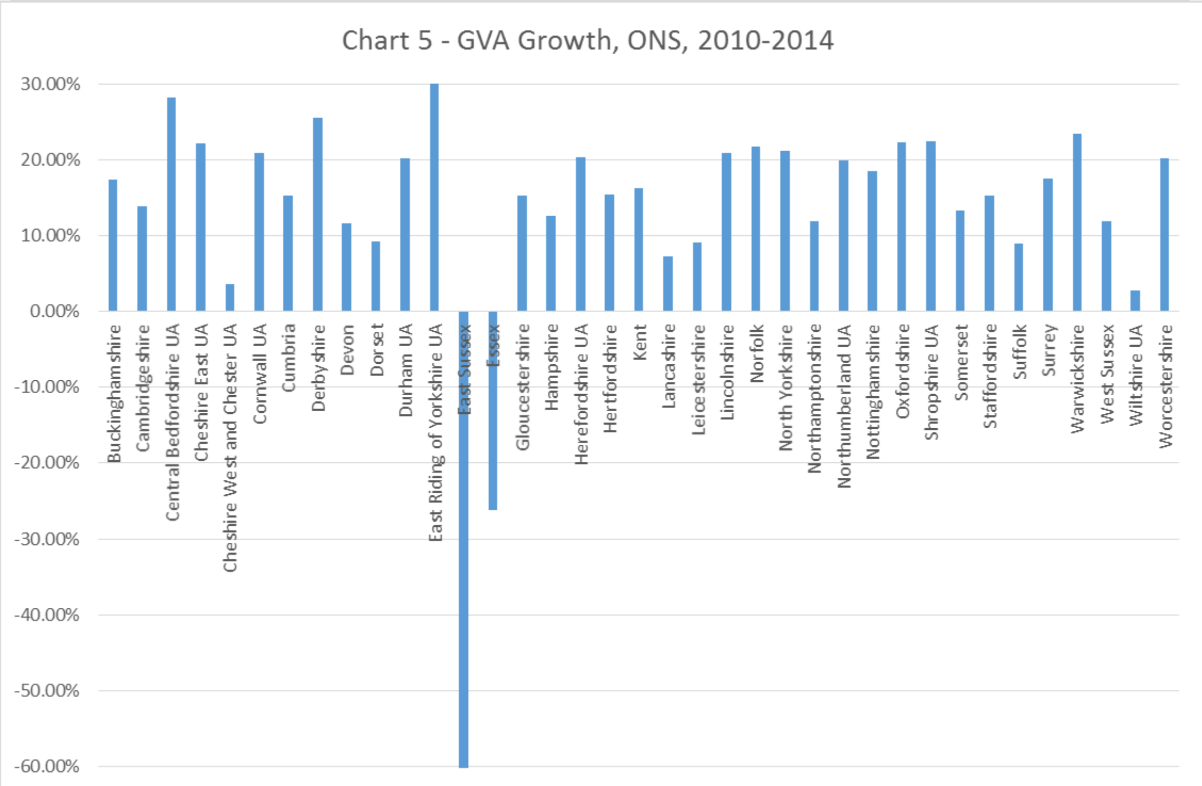
16. The needs-based review should take account of distinct inequality and deprivation issues in counties, and should seek to re-balance council tax across the country. Equally powers should be made available to allow counties to invest in regeneration, infrastructure and skills.

## Business Rate Profile in Counties

17. Research undertaken on behalf of CCN by Pixel Financial Management has shown that there is **not necessarily a strong correlation between business rate growth and broader economic growth**. The research has also shown that business rate value, growth and income varies widely across the country and between councils – with some seeing a decline in the overall value of their business rates over time.

[3] Department for Education, 2014/15
[4] Department for Education, Widening Participation in Higher Education, 2016
[5] Society of County Treasurers, DCLG Call for Evidence on Needs and Distribution Consultation Response




*For scaling reasons graph excludes East Riding of Yorkshire which has seen almost 480% GVA growth over the period

18. CCN members represent the largest proportion of GVA in the country and have seen steady growth in GVA over time, but this growth and value has not necessarily been reflected in the growth of business rate value – as can be seen from Charts 4 and 5 above.

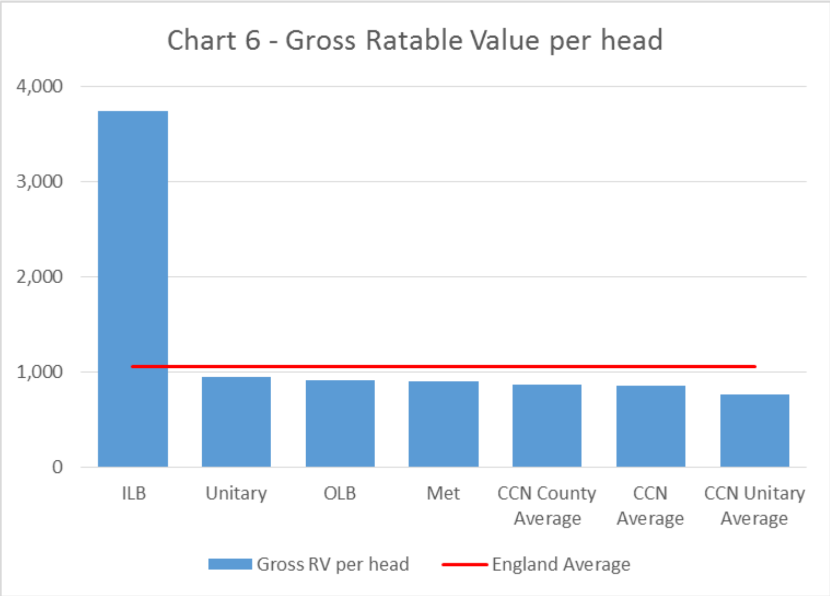
19. These findings pose a challenge to the assumption that retention of a proportion of business rate growth would automatically create a compelling growth incentive. Additionally, it is not

clear that a focus on the expansion of business rate premises is the best way to increase productivity and high value internationally competitive industry.

20. This does not mean that a system of full business rates retention will not work, but that we must give careful consideration in designing a system which truly incentivises growth and enables sustainable growth investment in all areas of the country. CCN strongly suggest that beyond meeting unfunded pressures the additional quantum should be used to devolve strategic growth functions to all areas, equally the growth levy should be available to all.

21. Government should also take urgent action to broaden and deepen the devolution agenda, making a suite of growth, reform and fiscal powers and budgets available to all areas. The national infrastructure investment strategy should also be refocussed beyond the big cities to unlocking growth and housing in all parts of the country.

22. Our analysis has also shown that county areas have the lowest business rates value per head in the country. This is only a small proportion below most other areas, but there is a stark comparison with inner London – **the average rateable value per head in CCN areas is £852 compared to £3,742 per head in inner London boroughs.**




23. This substantially higher value base for inner London will mean that percentage increases in growth and corresponding local retention of growth under the new system will represent much more income per capita in these boroughs than for other areas.

24. The analysis also shows that while London has the biggest losses from appeals they still see the highest conversion from business rate value to income for the local authorities. Pixel state that **'this suggests that the bulk of the underlying growth [of business rates in the country] has taken place in London'.**

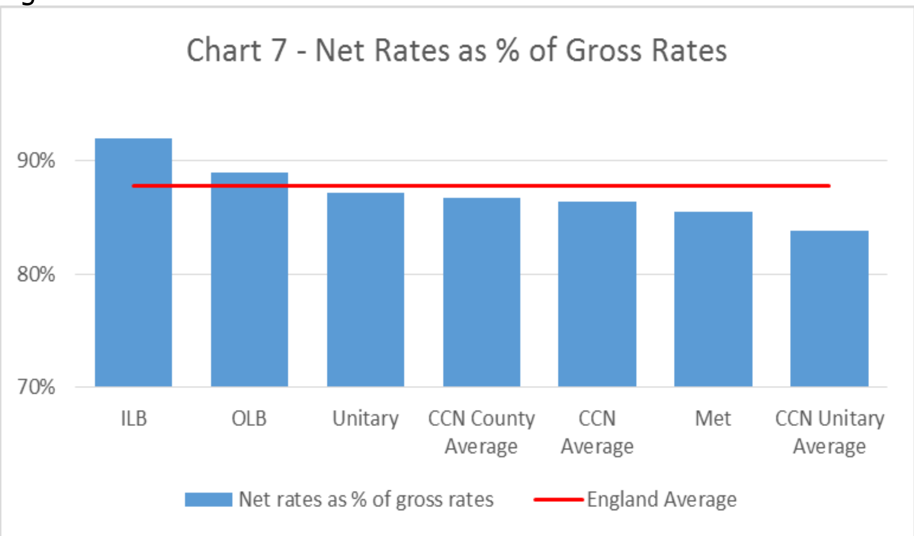
25. The converse is true of counties, while growth rates appear highest in CCN member areas, this is not indicative of high underlying growth. Pixel state that:

*On average, CCN authorities have much lower appeals and also greater reduction in net rates payable: this suggests that compared to inner London and much of the rest of the country* *underlying growth … is lower in CCN authorities. On average, CCN unitaries have higher growth, but this is driven largely by outliers such as East Riding of Yorkshire.*

26. The very high value of business rates and underlying growth in inner London compared to the rest of the country, and counties in particular, will need to be carefully managed to create a system which rewards growth, can meet needs everywhere and is sustainable over time. Removal of the levy on above average growth is likely to see places such as London benefit substantially between resets.

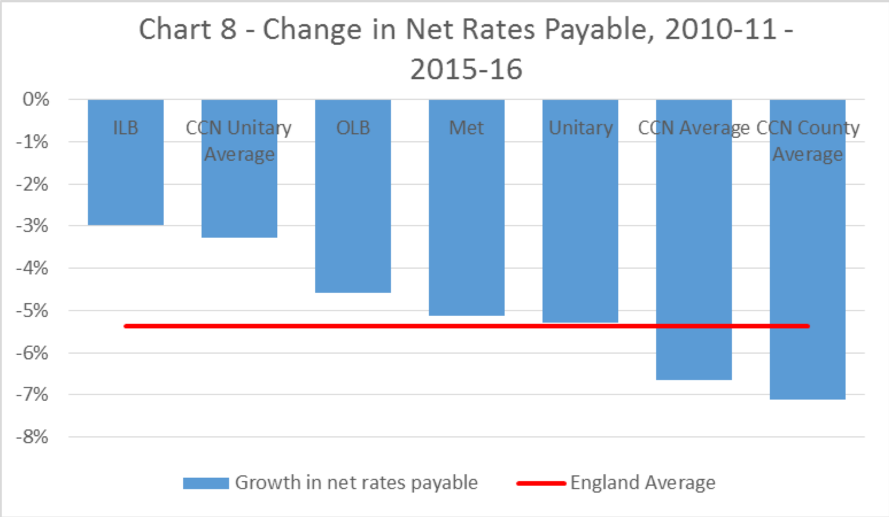
27. The emerging consensus of a fixed, regular, partial reset linked to needs reappraisals would help ensure the system is sustainable for all, while allowing areas such as London to retain relatively large business rate increases. The role of top-up and tariff, and the needs-based review and re-baselining will also play a crucial role in striking the right balance.

28. Given the disparities in value, growth and needs patterns it is also imperative that the forthcoming business rates pilots do not set up an unfair bias towards those who are involved – the whole country must be considered when designing and running these pilots. We welcome government's commitment to ensuring the pilots will not negatively impact those who are not involved, and will be engaging in the Settlement consultation regarding pilot design to help ensure the right balance is found.




29. Compounding low value per head **county areas struggle to convert business rates into income for their councils.** The percentage of conversion from net rates payable to gross rates payable is 86% on average in CCN member areas, compared to 92% in inner London and 89% in outer London boroughs.

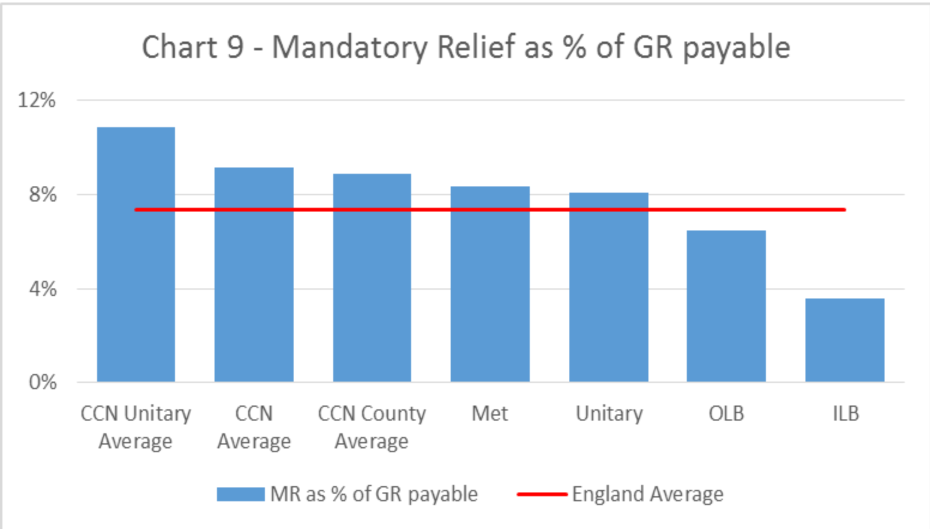
30. **This problem seems to be getting disproportionately worse for counties over time.** Since 2010/11 – 2015/16 CCN members have seen over 6.5% reduction in their net rates payable (income to the council). Other authorities have also suffered from this, but to a smaller degree, with inner London reducing by only 3%.




31. There are a number of factors which are affecting the ability of an area to turn business rates into income. The disproportionately low and decreasing conversion rate in counties is primarily due to the make-up of county economies, with CCN members seeing by far the highest levels of mandatory and discretionary reliefs – linked to small and charitable businesses.

32. CCN welcome the recognition by central government of the vital role played by county economies and the on-going relief and central support for small businesses. It will be vital the government continue to compensate local authorities for the income lost through reliefs, directly linked to the level of reliefs in that area, so long as there are mandatory policies in place.

33. Given the importance of relief strategy to the local economy and the impact on council income in counties, it will be vital to find a way forward which allows for joint or aligned relief strategy between districts and county councils across two-tier areas under the new system.




<u>Area Based Approaches to Business Rates</u>

34. The research by Pixel Financial Management has also found that business rates vary widely between district councils within counties. Neighbouring districts may have very different profiles, with some seeing high value and growth, and others seeing negative growth with high appeals or high reliefs. There are a number of reasons for this including:

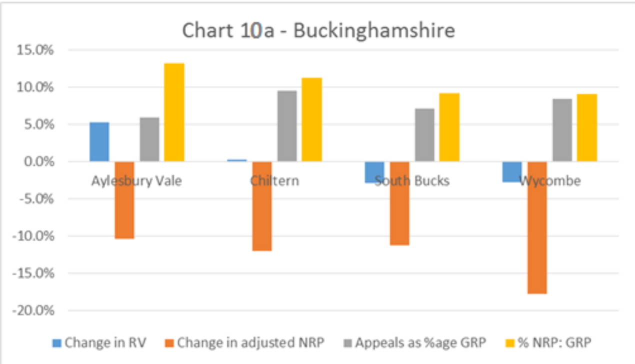
- Specific large hereditaments making certain districts very high in business rate value, income, and growth over a certain period. This also exposes such areas to high levels of risk if changes to the site occur.

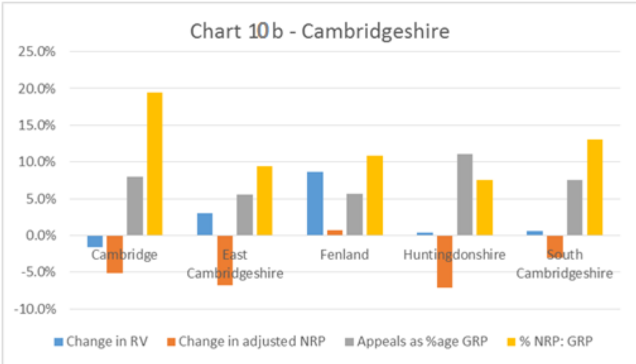
- The prominently rural or urban nature of the area. Broadly the more rural authorities have lower rateable value per head, and those who are closer to urban centres to have higher rateable value per head. Equally the most rural authorities have by far the lowest proportion of conversion from value to income, especially those who are also distant from urban centres. Business Rate growth however does not seem to follow an urban/rural pattern.

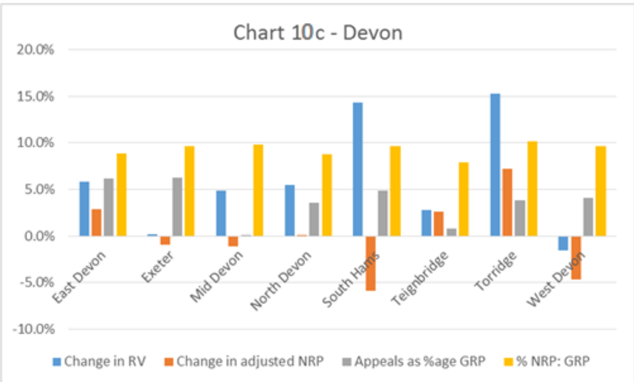
35. The Society of County Treasurers and Society of District Council Treasurers point out that with the removal of the levy and move to full retention 'there are small authorities with a huge financial incentive to grow but also a massive penalty for decline. With decisions still to be made about the level and operation of the safety net, these small authorities must be feeling very vulnerable and exposed.'[6]

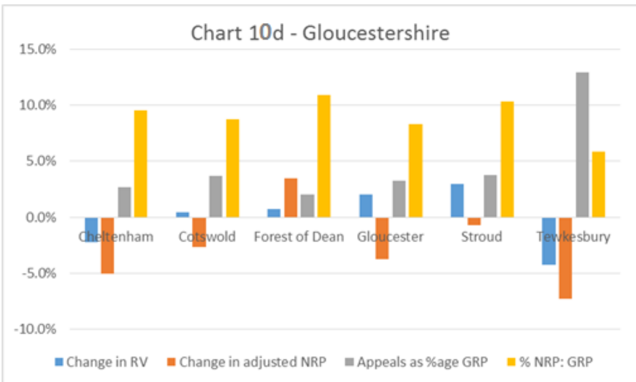
36. CCN suggest that the move to the new business rates system will require close and joined-up working in two-tier areas. Pixel caution that 'having potentially conflicting changes in reliefs and multiplier could hamper efforts at economic development or attracting new businesses. In addition, conflicting or poorly designed schemes are not good value for money for the local taxpayer.' They conclude - '**of paramount importance will be having an economic and business development plan that coordinates the efforts of counties and districts. Any new reliefs or changes in the multiplier should fit with this overarching plan.'**

**Chart 10a – 10h, Pixel Financial Management, District Council Samples 2015/16**

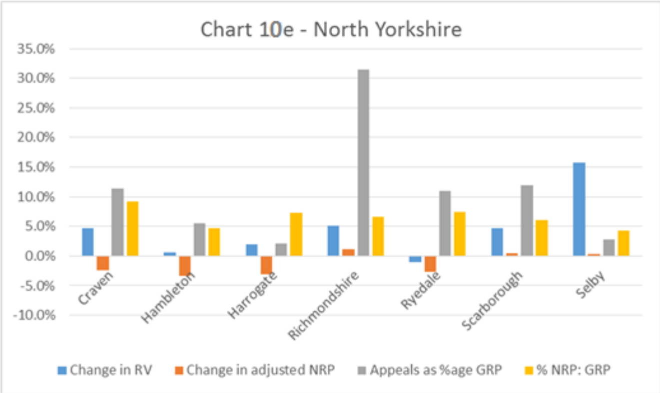


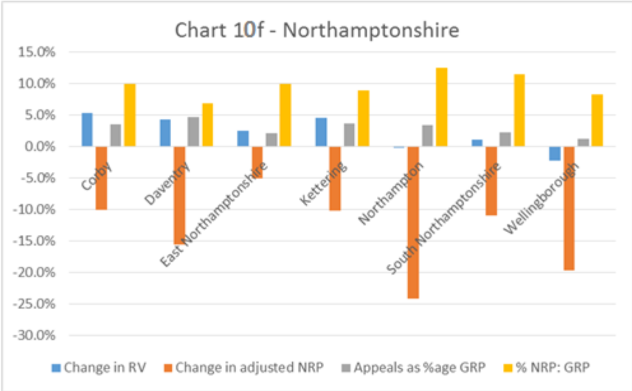



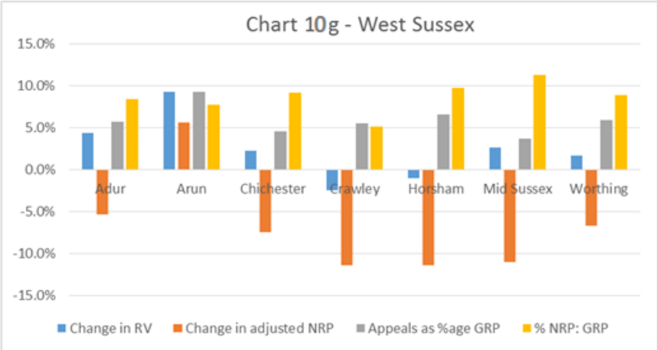



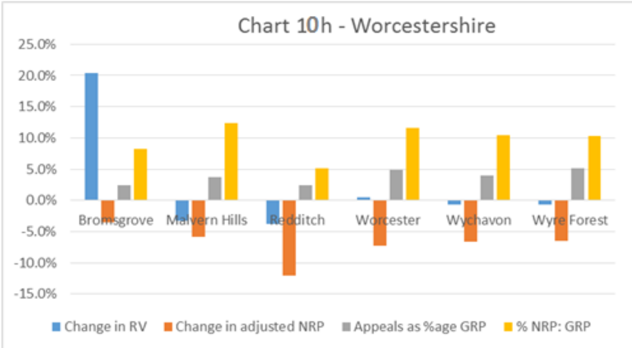




[6] SCT, SDCT, Joint Letter to HM Treasury, August 2016




37. Given the varying profile of business rates by area we suggest there are opportunities to create joint, cross-county safety-net pools and shared lists. This could create a healthy balance of high and low growth, and urban and rural areas – allowing for the maximisation of growth potential and the minimisation of unnecessary risk. This would also provide opportunities for cross-subsidisation and a balance between growth and regeneration.

38. Recent business rate pilots based on the current system highlight the varying outcomes for neighbouring areas. Central and local government should work with participants to learn lessons from these pilots, which unlike the current cohort, have included both county and city areas.

**Table 1 - Cambridgeshire Business Rates Pilot, 2016 Outcome by District Area, LGC August 2016[7]**

| Council | Extra Income |
|---|---|
| Peterborough City Council | £1,441,000 |
| South Cambridgeshire DC | £1,256,740 |
| Cambridgeshire County Council | £453,207 |
| East Cambridgeshire DC | £410,540 |
| Fenland DC | £347,633 |
| Cambridge City Council | £0 |
| Huntingdonshire DC | £0 |
| TOTAL | £3,909,120 |

7 Local government Chronicle, Results in on rates growth pilots, August 2016

39. CCN will continue to work closely with the District Councils' Network to fully understand the profile, challenges and opportunities of full business rate retention in two-tier areas.

## Effective and Efficient Public Services

40. Local government has seen an approximate reduction of 40% in Revenue Support Grant (RSG) funding since 2010. Counties have played their part in helping to manage the national deficit and have been subject to substantial budget reductions and service reform. However, the proportion of savings and the expectations of tax payers in counties is becoming increasingly imbalanced, and unsustainable, particularly given the fast growing demand-led pressures in these areas.

### Unfunded and Underfunded Pressures

41. **There is a strong consensus across local government and within CCN membership that adequate funding for adults' and children's social care must be the first priority in developing the new business rates system.** This will be fundamental to ensuring councils can fulfil their statutory duties, can help avoid further pressures on the NHS, and ensuring councils have some capacity to invest in growth. The Local Government Association state in their response to the business rates review:

*At the outset, it is important to emphasise that newly retained business rates must be used to address the projected funding gap facing local government by 2020, before any further responsibilities are considered. Our estimate of this gap amounts to at least £5.8 billion in 2019/20, including a shortfall for adult social care alone of £1.3 billion.*

42. **CCN strongly agree that the first call on the quantum provided through full business rate retention must be the funding of unfunded or underfunded statutory and life-critical duties**. The amount provided through the quantum should account for the rate at which these pressures are growing, to ensure that the system remains sustainable for at least the short and medium-term.

43. Beyond the local government sector there is growing opinion that full funding for social care must be made available, and that vulnerable people, the NHS and local government sustainability will suffer without action to implement this. 2015 polling by YouGov found that one in three people either receive or are in touch with social care, and that adult social care was the area in which the public would most like to see additional government investment, apart from the NHS.[8] Similarly the Chief Executive of NHS England, Simon Stevens, recently said:

*I think there is a strong argument that were extra funding to be available, frankly we should be arguing that it should be going to social care. That is one of the arguments that I have been making publicly, and I think social care has a very strong case for that.*[9]

44. The 2016 ADASS Budget Survey finds that 'at least 39% of this year's [2016/17] savings [in Adult Social Care] will come from cutting services, reducing the personal budgets of people who receive care and support, or other service reductions'. A high profile report by the King's Fund and Nuffield trust published this month concludes:

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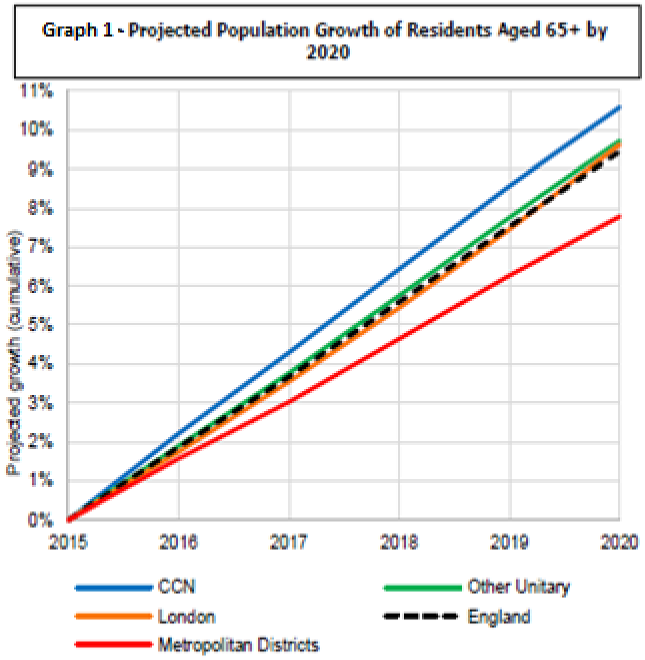
[8] ADASS, Distinctive, Valued, Personal: Why Social Care Matters, 2015
[9] Simon Stevens, Speech to NHS Confederation Conference, June 2016

*The social care system in its current form is struggling to meet the needs of older people. Six consecutive years of cuts to local authority budgets have seen 26 per cent fewer people get help … The potential for most local authorities to achieve more within existing resources is very limited and they will struggle to meet basic statutory duties.*[10]

45. Research commissioned by CCN, undertaken by LG Futures in early 2016 found that structural underfunding is particularly prominent in county areas. CCN member councils will see their 65+ population grow by 2% per year until 2020, faster than any other local authority type. This demographic growth will lead to significant upward funding pressure in the coming years, leading into full business rates retention.




46. Excluding education, CCN members now see social care accounting for 43% of their budget on average,[11] and face a higher council tax burden than other parts of the country. Short term measures to alleviate pressures within the Parliament, such as the social care precept, have provided some relief but do not address the underlying growth in the funding gap. ADASS estimate that the precept will raise less than two thirds of the cost of the new National Living Wage in 2016/17, and additional unfunded pressures are created by the expanded Deprivation of Liberty Safeguards.

47. The effects of systemic underfunding of social care are increasingly impacted on the viability of the social care market. CCN have researched and modelled the effect on county areas extensively through work with Laing Buisson – the full report published in 2015 can be found here. Looking at real market data Laing Buisson found that underfunding of social care and local government more broadly meant that councils must reduce spend on care places. This subsequently makes those providers who focus on government funded places steadily more unviable, and places a bigger burden on 'self-funders' who are effectively cross-subsidising local authority places.

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[10] King's Fund and Nuffield Trust, Social Care for Older People - Home Truths, September 2016
[11] DCLG, Revenue Account Budget 2016/17

48. The ADASS 2016 budget survey found that 80% of Directors of Adults Social Care report that providers in their area are facing financial difficulties now. On this subject the recent King's Fund and Nuffield report concluded 'the possibility of large-scale provider failures is no longer of question of 'if ' but 'when' and such a failure would jeopardise continuity of the care on which older people depend.'

49. Children's social care pressures are also growing across the country. These are highly volatile budgets as demand can react to outside events, and cannot always be predicated or controlled by councils. Protecting and caring for vulnerable children and young people is a top priority for central and local government, and needs must be fully recognised and accounted for through the needs-based review and business rates system.

50. Councils also face substantial challenges within the changing education policy and funding landscape. This includes the proposed abolition of the education services grant, changes to the national schools funding formula and the fragmentation of place planning, home to school transport and education provision. CCN will continue to engage with the education policy and funding debates, during this Parliament and leading into the new business rates system to ensure coherent and adequate funding.

51. There are many other services being provided by our members which are coming under increasing strain. For example, there is an estimated £200m unfunded pressure within the mandatory Concessionary Fares scheme, believed to fall disproportionately on county authorities. This is compounded by higher public sector costs of concessionary bus service in counties.

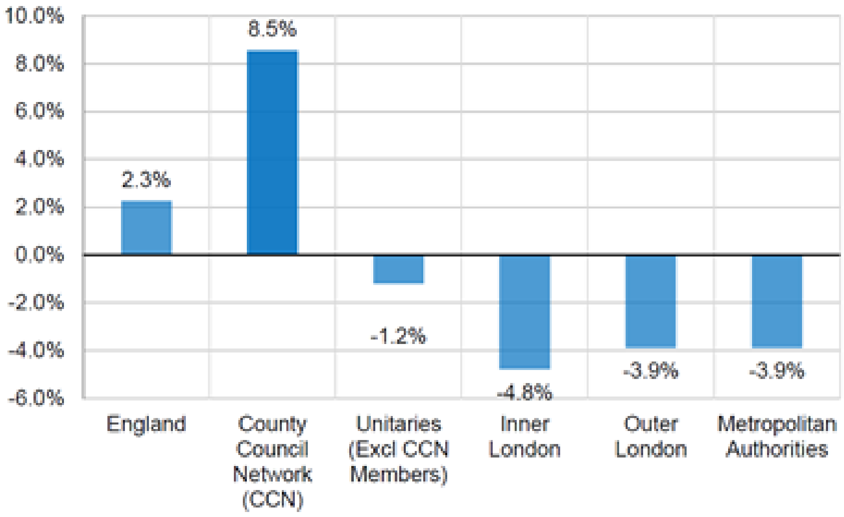
<u>Fair Funding and Redistribution</u>

52. CCN commend government for the recognition that the current regression methods used in the Relative Needs Formula (RNF) to quantify need are no longer viable, and that **a review of the needs formula is fundamental to ensure that funding is fair, transparent and sustainable going forward**. Utilisation and past spend do not account for the fast changing demographic pressures which we now face as a nation, and do not account for unmet need. The postponement of the review of the RNF in 2013/14 and subsequent changes to the way Revenue Support Grant is distributed has deepened this problem.

53. CCN strongly recommend that we return to a principle of **similar needs funding per head for relevant populations and geographical factors, matched by similar council tax burdens across the country, for a similar level of public service.**

54. Work undertaken by LG Futures to analyse the profile of social care funding and pressures in counties has demonstrated that there are clear, and mounting, inequalities in the system. Despite having the largest and fastest growing older populations and the largest increase in contacts to social care, **CCN members receive the lowest levels of government funding per head for social care**. **Additionally CCN members have seen the steepest levels of reduction in government funding over recent years**.

**Table 2** – Percentage Change in Contacts 2009/10 to 2013/14

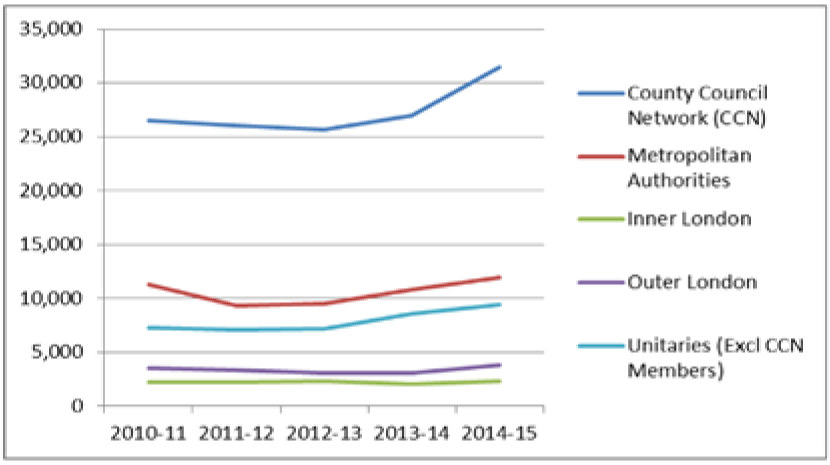



55. It can be seen that in 2013/14 CCN members received approximately £279 central government funding per head for social care, while London received £717 per head and metropolitan boroughs received £590 per head. Equally CCN members have seen the highest reduction in funding from 2013/14 – 2015/16, at approximately 20.1% higher than the national average.

**Table 3 - Estimated value of funding for Older Adult Social Care 2013/14 and Funding per Head +65**

| Comparator Groups | Total Cash Funding | Total Resource Funding | Total Notional Funding | Notional funding (£/head) | Resource amount (£/head) | Cash funding (£/head) |
|---|---|---|---|---|---|---|
| CCN | 1,401.915 | 2,026.192 | 3,460.220 | 679.29 | 393.48 | 278.79 |
| London | 599.141 | 472.115 | 1,041.847 | 1,182.17 | 508.49 | 717.45 |
| Metropolitan Boroughs | 1,113.347 | 611.622 | 1,730.896 | 918.96 | 326.75 | 589.80 |
| Other Unitaries | 620.850 | 489.370 | 1,119.089 | 812.13 | 357.71 | 449.03 |
| **England** | 3,735.253 | 3,599.298 | 7,352.052 | 883.94 | **391.27** | 498.08 |

**Graph 2** – Patients whose transfer of care has been delayed (all) – 2010/11-2014/15 (Oct-Sept)



56. Research for CCN has shown that the impact of underfunding of social care in counties is seeing a knock on effect on the NHS, with substantially higher and increasing levels of delayed transfer of care. Full funding for social care will be central to reducing pressures on the NHS and successfully integrating services.

57. Analysis by Pixel Financial Management has highlighted that there is a mismatch between growing social care pressures the opportunity for growth in business rates and council tax in county areas. Pixel find that:

> *For all but three CCN authorities (based on past performance), the growth in business rates income will be less than the growth in adult social care pressures … clearly there is a significant mismatch between the growth in a demand-led service such as social care and the growth in business rates and other sources of income available to local authorities.*

58. CCN agree with government's appraisal in 2011 that 'long periods between resets will be of concern to authorities with changing needs who may worry that a long period between resets will leave them with a baseline funding position which does not accurately reflect their funding need'.

59. Given the rate at which needs are growing in counties, the pressures which this represents and the lack of correlation between business rates and service demand **we suggest that regular, fixed, partial resets are likely to be a fair option. We suggest that the reset of the business rates baseline and review and recalibration of needs funding happen at the same time.**

60. DCLG modelling showing 50% partial growth retention and 50% needs redistribution at reset, and 25% retention to 75% redistribution, has shown that changing needs are not fully accounted for using these ratios. It is clear then that further work to model resets, and a clearer understanding of national economic and policy context will be needed to inform more detailed autumn consultations. CCN will be working with experts, local and central government partners to undertake further detailed modelling for county areas leading into the autumn.

61. The top-up and tariff mechanism will play a crucial part in ensuring the new system is fair and that needs and demand-led services are properly funded in all areas between resets. The current formulation will need to be reformed in line with the design of other parts of the system, including needs baselining, resets, revaluation and the two-tier split.

62. We strongly suggest that the mechanisms for top-up and tariff, in conjunction with the formulation of resets and the two-tier split give an adequate level of protection proportionate to an authorities' demand-led and life-critical responsibilities.

63. The CLG Committee suggested in their recent review of business rates that a continued element of central grant funding is likely to be needed alongside the business rate system, given the divergence in growth and needs. We suggest that this option is fully considered in designing the new system.

If you would like to discuss this submission or require further information, please contact Elizabeth Hunter-Gray, Senior Policy Officer- Devolution, Economic Growth & Public Sector Reform:
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