CCN's Submission to the DCLG Business Rates Retention Consultation

POST-GENERAL ELECTION COVERING LETTER

1. In May 2017, the County Councils Network (CCN) responded to the second stage consultation on the implementation of 100% business rates retention.

2. To inform our response to the spring consultation, CCN commissioned Pixel Financial Management to model the 100% business rates retention system. This research followed in-depth analysis of the profile of business rates in county areas undertaken by Pixel for CCN during 2016.[1] The latest research considered different scenarios in designing the new system, and how these might affect different types of authority and parts of the country over time.

3. This modelling and analysis, and CCN's corresponding response to the business rates consultation were developed at a time when 100% business rates retention was the official policy position of central government, and legislation was progressing to support this.

4. Shortly after this point in the summer of 2017 the General Election was called, this meant that the supporting legislation could not complete the process through parliament. Following the election the bill was not reinstated in the Queen's speech. Government have however recommitted to 'continue to give local government greater control over the money they raise'. Most recently, a prospectus for a second round of 100% business rates retention pilots for the years 2018 to 2019.

5. In light of these developments, CCN has not published its full response to the consultation nor the second phase of research undertaken by Pixel. CCN has now published the full response and report to inform on-going dialogue in the sector, outline CCN's position moving forward and help inform local discussions regarding the development pilot submissions.

6. CCN, alongside the wider sector, have been supportive of the move towards 100% business rates retention. As a stakeholder on the DCLG/LGA steering group, counties have played an active part in national discussions to-date, working closely with the Society of County Treasurers (SCT).

7. However, given research findings during the past 12 months CCN has consistently highlighted the challenges of implementing a system that provides sustainable long-term funding for all parts of local government, alongside incentives to drive growth locally. Similar concerns have been raised by metropolitan authorities through SIGOMA.[2] In addition, we have committed to working with the District Councils Network (DCN) and Rural Service Network (RSN) to jointly explore the implementation of BRR in two-tier local authority areas, including considerations of tier shares.[3]

8. Recent discussions at the DCLG/LGA steering group have highlighted that both central and local government have considered this a useful time to reflect on the objectives and design of business rate retention, and the wider sustainability of local government

[1] http://www.countycouncilsnetwork.org.uk/download/157/
[2] http://www.sigoma.gov.uk/__documents/consultation-responses/SIGOMA-response-to-100-per-cent-rate-retention-CLG-enquirey.pdf
[3] http://www.countycouncilsnetwork.org.uk/download/173/

funding. The pilot announcement demonstrates Government intentions to continue to explore the possibility of full BBR but also to explore alternative arrangements, stating in the guidance that it "*does not prejudge the discussion the Department will be continuing to have with Local Government on the future of the business rates retention system as a whole*".

9. Many aspects of greater local business rate retention are still possible without primary legislation and there is appetite within central and local government for increased local retention business rates; albeit exploring a broader range of options which may or not result in 100% retention. From our most recent members survey, there continues to be majority support for the implementation of full BRR. Some 55% of Leaders agreed with the continuation of full BRR post-election, with 27% 'neutral' and 18% disagreeing.

10. The lack of universal support is reflective of the findings of Pixel's independent research showing that 100% retention will present a number of challenges to ensuring long-term financial sustainability for all councils and the right incentives to drive growth. For this reason the key findings from CCN's modelling will still be important context for discussions about future local government funding systems and aid discussions locally on pilots and the decisions by DCLG in judging proposals.

11. In particular, the research showed a severe growing divergence between service needs and business rate income over time for county authorities. The results of our members survey mirror the findings of the independent analysis undertaken by Pixel. Counties are not convinced that full BRR alone will provide a solution to meet the growing funding gap facing counties. Only 40% of our Leaders believed that 100% BRR was either effective or very effective at migrating against continuing reductions in core government funding.

12. CCN recognise that the modelling is projecting the potential impact over a long-term period. However, this finding coupled with their analysis of the divergence of business rates retention within county areas and potential pooling geographies, should be considered during the pilot process. In particular, whether it is equitable that pilots for 2018/19 be treated differently to the first round where a 'no detriment' clause applied.

13. System design in two-tier areas will also be key, such as tier shares and the levy on growth. Pixel's independent findings show that a higher retention share for county councils could be important in balancing a full locally retained system across local authority types and regions, and ensure a fairer distributed of resources between district and county councils. Moreover, Pixel found that retaining a reformed levy to simply ensure no council was able to build up disproportionate retained rates above their needs base could bring greater fairness and balance in a 100% retention system.

14. We remain committed to our joint working group with the DCN and RSN to explore system design, including tier shares, with a view to arriving at evidence-based proposals. In approaching local discussions regarding pilots, it is important that this evidence is used by all councils to inform discussions regarding pooling, appropriate geographies and tiers shares and CCN will support member councils and the wider sector with our modelling.

15. Given the findings of the independent research, full funding for unfunded and underfunded pressures and a fair funding formula responsive to changing demographic need remain top priorities for CCN. Some 77% of Leaders in our survey strongly agreed that a new local government funding formula will be central to making full business rate retention work.

16. CCN therefore fully endorse the recent comment by the Chair of the LGA Resources Board that business rate retention, including any pilots*, "cannot be considered in isolation from the fair funding review and the Government's commitment in the Queen's*

Speech to a consultation on options for putting adult social care on a more secure financial footing".[4]

17. Government have recommitted to the Fair Funding Review to 'address concerns about the fairness of current funding distributions'. Joint local and central government working groups have reconvened to continue work to progress this. Again it is likely that timelines for this work will need to be pushed back, with implementation in 2020/21.

18. CCN support the consensus emerging across local government, through the cross-sector treasurers' society (ALATS), for a simple cost-drivers approach to needs funding. Our recent publication *A New Deal for Counties: A Plan for Government* set out that we will continue to advocate for this and would strongly oppose attempts to move back towards a regression techniques approach.

19. CCN intend to undertake further analysis work to understand options for the new local government funding system, including higher retention of business rates, some form of continued grant funding, a fairer funding formula and the potential for including other fiscal devolution options. We will model different scenarios to help inform a system which is responsive to need, is sustainable over time and for all parts of the country, and allows local areas to drive growth and economic inclusion.

20. There is broad consensus that any new local government funding system, including greater business rate retention, could not now be reasonably delivered until 2020/21. Aside from designing a new, effective and sustainable local government funding system we must also ensure adequate funding for the interim period. This is particularly important now that the implementation of 100% business rates retention can no longer mitigate against the phasing out of Revenue Support Grant over the coming years. CCN's Autumn Budget submission provides Government with evidence on the specific pressures facing county authorities and practical proposals for close the growing funding gap by 2020/21.

[4] https://www.themj.co.uk/Pilots-fail-to-soothe-rates-uncertainty/208719