COUNTY COUNCILS NETWORK	Consultation Response Self-sufficient Local Government 100% Business Rates Retention September 2016

The County Councils Network (CCN)

1. The County Councils Network (CCN) represents 37 English local government authorities that serve counties. CCN membership includes both upper tier and unitary councils who together represent over 25 million people across 86% of England. CCN develops policy, shares best practice and makes representations to government on behalf of this significant proportion of the country. CCN is a member-led organisation which works on an all-party basis.

2. In developing a response to this consultation CCN have had representation on the LGA, DCLG business rates steering group and working groups. CCN have engaged closely with the District Councils' Network and Rural Services Network through a formal working group, and have commissioned Pixel Financial Management to undertake expert analysis of the business rates profile, challenges and opportunities in county areas. CCN would also direct the Department to consultation responses from the Association of County Chief Executives and the Society of County Treasurers.

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

4. This consultation response is accompanied by a corresponding Evidence Base, which provides an analysis of the profile of business rates in counties, and the potential challenges and opportunities for county growth, services and sustainability in moving to full retention.

Introduction

5. **CCN welcome the significant opportunities presented by the move to full business rate retention. Designed with rigour a successful business rate system should help deliver economic growth, economic inclusion and sustainable, efficient services.**

6. Design of the business rates system must not be conducted in isolation, but as part of a broader consideration of local government funding and sustainability, fairness for tax payers and the national economic and policy landscape. CCN have some concern that the consultation document takes a narrow view of business rates mechanisms, for this reason we have provided context of the broader policy issues in this response and corresponding evidence base.

7. Government have made clear that the new business rates retention system should incentivise and enable growth across the country. Research by CCN has highlighted that business rate value, growth and income does not always reflect broader economic growth in an area. Equally it has shown that county areas in particular struggle to convert business rate growth into income, due to the constitution of county economies and high levels of reliefs.

8. While much attention has been paid to city regions in recent times, counties also face challenges. Low productivity levels, skills mismatches and infrastructure gaps all pose long-term threats. To ensure that the new system is set up to incentivise and enable growth, and to

strengthen the link between business rate growth and income, CCN suggest there are a number of key opportunities which should be taken.

9. **Government should commit to full funding of mandatory reliefs, directly linked to local areas, for as long as a mandatory policy is in place.**

10. **Beyond meeting unfunded pressures, any additional responsibilities under business rates must be linked to strategic growth activity and all areas must have the ability to raise a strategic infrastructure levy in consultation with their businesses.**

11. **Government should also take fast action now to broaden and deepen the devolution agenda, making a suite of growth, reform and fiscal powers and budgets available to all areas. Equally national infrastructure investment strategy should be refocussed beyond the big cities to unlocking growth and housing in all parts of the country.** These measures will help ensure that all parts of the country can play their part in achieving sustainable national economic growth.

12. Councils face mounting pressures due to increasing demand and decreasing resources. This is particularly acute for CCN members, who represent the largest and fastest growing older populations and greatest social care pressures. Setting this Parliament aside, the LGA estimate that the gap in local government funding will be £5.8bn in 2019/20, leading directly into full business rates retention.[1] Without adequate funding this gap will continue to increase as demographic change continues.

13. Short-term measures by government to address underfunding, such as the social care precept, have given some relief, but do not solve the problem. For example, the precept has only met two thirds of the cost of the new National Living Wage, and has had no impact in recalibrating funding to meet underlying pressures.[2]

14. Such underfunding will mean councils will increasingly struggle to fulfil their statutory duties and protect the most vulnerable. This will place further pressures on the NHS and transfers of care, and diminish capacity to invest in strategic growth and infrastructure activity. Opportunities to address this central issue are presented by the move to the new business rates system.

15. **CCN suggest that the first call on the 'quantum' must be unfunded and underfunded statutory, demand-led pressures before additional responsibilities are agreed.**

16. The needs-based review of funding will also be vital in achieving our shared goals. We commend government for making the commitment to such a review, as called for by CCN. Regression methods used in the Relative Needs Formula, compounded by old data and ad hoc amendments over time mean that the link between funding and need has been eroded, and the formula has failed to keep up with changing demographics and unmet need.

17. Analysis by LG Futures, undertaken for CCN, has shown that counties receive approximately 44% less government funding for adult social care than the national average, a comparison of c£280 per head for CCN members to c£720 per head in London boroughs, and c£590 in

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[1] LGA, DCLG 100% Business Rates Retention Consultation Response
[2] ADASS, Budget Survey, 2016

metropolitan boroughs.[3] Counties have also seen a higher reduction in funding than the national average in recent years - 20% higher than other areas from 2013/14-2015/16[4]

18. The opportunity presented by the needs-based review and business rates design must be used to rebalance this inequity – the level of funding for services, and the expectations of taxpayers for the same level of service should be broadly comparable in every part of country. While further work and modelling is needed to develop a fair and sustainable funding formula, CCN advocate as simple and transparent approach as possible, which has the capacity to keep up with fast changing demographics.

19. **CCN suggest that demand relevant population figures and geographical factors could form the basis of a formula, with any other significant demand or cost variables layered over this.**

20. An understanding of how we will define needs and baseline funding will be fundamental to the design of the business rates system. **CCN strongly urge government to ensure that while retaining rigour, the needs review should be accelerated to keep pace with and informs the business rates retention work.**

21. Alongside funding allocations council tax bills have become skewed across the country. 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]

22. The design of the business rates system presents a real opportunity for government to put taxation back on a fair footing. **CCN suggest that the needs-review and re-baselining of funding must seek to achieve comparable funding per head allocations and council tax burdens in all areas.**

23. In terms of designing the business rates system mechanics there are still many unknowns which will need to be resolved before final decisions are made. Further rigorous modelling will also need to happen through the autumn and beyond to ensure the system is sustainable and will not need further reform in the short or medium term.

24. **CCN agree with the emerging consensus across local government that regular, fixed, partial resets, with the option for longer-term full resets, could strike the right balance between growth incentives and needs funding.**

25. **Resets should build in a regular review of needs and redistribute to account for this. There should also be a proportionate level of protection in the system for authorities in relation to their life-critical, statutory, demand-led duties.**

26. In considering the new system design and in working with the District Councils' Network, it has become apparent that joined-up working in two-tier county areas, or between small county unitaries will be essential to resilience, risk minimisation and extending the benefits of growth. For example, we suggest that an aligned approach should be taken to setting levies, reliefs and

[3] LG Futures, Social Care and Health : Funding and Cost Pressure Analysis, January 2016 - data 2013/14
[4] LG Futures, Social Care and Health : Funding and Cost Pressure Analysis, January 2016 - data 2013/14 – 2015/16
[5] Society of County Treasurers, DCLG Call for Evidence on Needs and Distribution Consultation Response

multipliers, across a county or multi-county area. This could help ensure an attractive and uncomplicated offer to business and the strategic targeting of interventions.

27. Equally we believe that a combined approach to safety-net pooling and shared lists within county areas would provide assurance for those involved, and allow greater confidence in growth or regeneration investment.

28. CCN note that in responding to this initial business rates consultation there are a number of unknown factors, which mean accurately modelling scenarios, assessing risk, and making detailed decisions about the design of the system are not possible at this stage. Following the EU referendum we must have time to take account of announcements in the Autumn Statement and any changes to the economic outlook, we must also develop a better understanding of the 'quantum' and needs formula before making final design decisions.

29. At this stage CCN have undertaken initial analysis of the business rates profile in counties, and the potential challenges and opportunities for county areas in moving to the new system. We will be working with experts, the LGA, DCLG, the District Councils' Network and others through the autumn to further analyse and model the best design of the new system.

Additional Responsibilities
(Questions 1 and 2)

The Quantum

- There is a lack of clarity on the figure representing the additional funding that 100% retention will make available to local government. Calculations range from £11 billion to £15 billion. There are now also important questions about the accuracy of the calculation given potential changes to the economic outlook.

- Having a reasonable understanding of the quantum will be central to the design of the business rates system, and the broader local government finance system. We wish to see the quantum re-evaluated in line with updated economic forecasts in the autumn. Equally the methodology and assumptions in calculating the quantum should be made available to local government in the interests of co-designing a sustainable system.

Unfunded and Underfunded Pressures

- Before any additional responsibilities are agreed we must first ensure that unfunded and underfunded pressures are fully understood and fully accounted for through the business rates, and wider local government funding system – the LGA has calculated that the funding gap for local government will be approximately £5.8bn by 2019/20.

- Given that business rates will be the primary source of local government funding the first call on the quantum should be unfunded, statutory pressures. This will be central to ensuring councils can continue to set balanced budgets, deliver vital services, protect the most vulnerable in society, support the NHS and deliver strategic growth and infrastructure investment.

Additional Responsibilities

- CCN welcome the collaborative approach between DCLG and LGA to define a meaningful set of criteria for appraising suggestions for additional responsibilities.

- It is important to note that most of the suggestions put forward in the consultation document as potential new responsibilities are in fact existing local government responsibilities. What these represent are not a transfer of responsibilities, but a move from funding from specific grants to local taxation.

- CCN would urge that the opportunity presented by the move to full business rate retention must be used to genuinely empower local areas, and enable councils to drive further growth and reform. Simply switching funding sources of current responsibilities, or passing over administrative duties will not achieve this.

- Given the risks to the sustainability of services and local government the devolution of additional responsibilities linked to growing demand-led pressures should be avoided – in particular Attendance Allowance. This could represent a substantial transfer of risk with no benefits to local residents or businesses.

- CCN support the strong emerging consensus across the local government sector that additional responsibilities should be focussed on strategic growth related functions. This could help achieve a well balanced portfolio of functions for local government and strengthen growth incentives within the new system. Such functions could include those related to highways, passenger transport, skills and adult education, employment support and potentially capital funding.

- Any additional functions transferred under full business rates retention must be subject to the needs-based review and receive full funding and devolved powers and flexibilities to spend budgets according to local needs and priorities.

New Burdens
(Question 5)

- CCN absolutely agree that the new burdens doctrine should be continued as a part of the new system. This will be fundamental to ensuring transparency for residents and businesses, and maintaining sustainable local government.

- Current unfunded or underfunded pressures such as social care, the national living wage, deprivation of liberty applications and concessionary fares should also be properly accounted for through the system on an ongoing basis.

Mayors and Combined Authorities
(Questions 3 and 11)

- CCN note that the consultation suggests a number of options and benefits for combined authorities and mayors, but does not provide similar detail for a system which empowers the remainder of the country.

- We strongly suggest that government must now take a pragmatic approach to delivering business rates and growth across the country, and that arbitrary governance prerequisites should not be applied. Mayoral or combined authority governance should not be a determinant of the service and growth opportunities available to residents and businesses.

- While there has been much focus on unlocking the potential of big cities, counties face their own long-term challenges, including the lowest levels of productivity, skills mismatches and infrastructure gaps. All parts of the country should be enabled to contribute to national economic growth through the new business rates system.

Devolution Deals and Business Rate Retention Pilots
(Question 4)

- We would strongly encourage the new government to continue the momentum of devolution, and take the opportunity to broaden and deepen the agenda. Full business rate retention should be taken as an opportunity to devolve strategic growth powers to all, fully releasing central control over these functions.

- Equally the focus on devolution deals should be renewed, with swift action to agree deals with more areas outside of city regions now, with an ever more ambitious range of powers and functions negotiated.

- Given the limitations of business rate income as a growth incentive a broad suite of fiscal and growth powers will complement full business rate retention, and could be used to build a more rounded set of economic growth incentives and levers for local government.

- CCN do not think it would be right for a substantial part of the quantum to be allocated to fund devolution deals, to the exclusion of other areas – primarily English counties. As a rule we suggest that strategic growth functions which are paid for through business rates are devolved to all, and the truly bespoke elements of devolution deals are funded separately from central government departments. This way all areas can benefit, and no artificial boundaries are put on growth, ambition or devolution.

- Government have now published a consultation for the 2017/18 local government finance settlement, which gives options for making business rate pilots fiscally neutral. CCN welcome the commitment to mitigate the impact on non-pilot areas, and will be engaging to ensure complexity and inequality are avoided ad far as possible.

Resets
(Questions 6, 7, 8)

- 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*'.

- 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 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.

- This is even more compelling when considering that business rates do not necessarily reflect broader economic growth, and that there are such vast differences in business rate growth and value between different parts of the country and between councils. Despite high levels of economic growth, CCN areas have lower business rates value per head than any other part of the country. The comparison with London is particularly pronounced - in inner London boroughs have a rateable value per head of over £3740, compared to c£850 per head in CCN areas.

- Equally growth between county districts varies widely, so that long periods without a reset, and without a levy, could see big differences accumulate at this level and many districts face an uncertain future.

- Removal of the business rates levy will mean that individual areas will have greater exposure to growth or decline between resets from the outset. In the interests of extending this local link to business rate growth or decline beyond reset periods, so that there is some cumulative impact, it may be that partial resets are an effective option.

- Modelling by DCLG and analysis by the LGA / DCLG working groups has shown a broad preference across local government for regular, fixed, partial resets, with options for longer-term full resets. Analysis for CCN by Pixel Financial Management has also reached this initial conclusion. There is also an emerging consensus that regular partial resets would provide stability and consistency for local government and business.

- 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.

- We agree with the emerging consensus across local government that the priority must be designing a system which broadly recalibrates itself to meet changing needs over time, so that systemic, chronic underfunding does not occur again in the future, and to make the system as sustainable and resilient as possible.

- It is clear then that further work to model resets will need to be undertaken to inform more detailed autumn consultations. It is also clear that final decisions regarding resets will need to take account of currently unknown factors, such as the quantum of additional funding, the nature of additional devolved responsibilities and re-baselining following the needs-based review.

- CCN will be working with experts, local and central government partners to undertake further detailed modelling for county areas leading into the autumn.

Tariffs and Top-ups
(Question 9)

- Under the current system authorities providing social care in two-tier areas are protected through the use of top-ups. These services still face enormous demographic pressure from an ageing population, as well as additional cost drivers such as the national living wage and the recent decision to leave the EU. In the case of social care there is no correlation between need and business growth.

- We agree that 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.

- 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.

- Higher risk and reward gearing could be linked to authorities' role in driving growth and business rates.

Revaluation
(Question 10)

- Given that local government have not experienced revaluation under the current business rates system it is difficult to predict the level of disruption, or resulting changes to the risks and the gearing of rewards for different authorities across the country.

- It does seem to make sense in principle to make some adjustment to top-ups and tariffs following revaluation and changes to the multiplier. Without this local areas could face uncertainty or a sharp drop in funding, and there may be an unfair or detrimental impact on those who have seen growth but are below the national average and those that have seen decline but still have high needs.

- CCN note that government have now published a consultation on the 2017/18 local government finance settlement, which reviews options for mitigating the impact of revaluation in 2017, and leading into the new business rates system. We will be engaging to better understand the best options for local government and businesses.

Tier Splits
(Question 12)

- Appropriate tier splits within a new business rates system will need to be decided in conjunction with the design of other elements of the system, including which additional responsibilities are devolved to local government, the functioning of top-up and tariff and the outcome of the needs-based review.

- The role of county councils and county unitaries in driving and investing in growth and infrastructure, and equally their demand-led statutory pressures should be recognised in the overall distribution.

- It is important to note that a greater share of the two-tier split means greater exposure to business rate growth or decline – this would have varying consequences for counties and districts across the country. CCN intend to continue joint working with the District Councils' Network and Rural Services Network to explore and model such issues in conjunction with other elements of the system in greater detail through the autumn.

National and Sub-regional Lists
(Question 15 and 16)

- Research undertaken for CCN shows that business rate value, growth and income varies between county areas, but they also vary much more substantially between district areas. This can be due to a number of factors including the effect of districts being predominantly rural or urban, or holding specific valuable sites.

- Given the profile of business rates in counties, and the divergence between districts, we believe that shared sub-national lists may be attractive to many county and district stakeholders to manage risk and extend the benefits of growth. This would be cogent with broader approach to managing business rates and growth strategy across a county / multi-county area.

- We believe that there should be an effective mechanism which allows local authorities or areas to manage the risk particularly substantial hereditaments. However, we also believe that local areas should see the benefits of approving and hosting such strategic sites – removal to a national list could undermine this.

Appeals
(Questions 17 and 18)

- Research undertaken for CCN shows that while all authorities lose income due to appeals, metropolitan areas, specifically London, face the most appeals. However, despite facing the highest level of appeals London still sees by far the highest conversion of business rates into income for their local authorities. This pattern is reversed in county areas which see the lowest conversion of business rates into income, largely due to the makeup of county economies and high levels of reliefs.

- Under the current system local authorities make their own provision for appeals, this represents high risk to authorities and does not represent the most efficient use of public resources. We consider that there should therefore be a national provision for business rates appeals, funded using income from the central list, so that authorities do not have to make provisions individually.

- CCN strongly believe that whichever mechanism is agreed central government must take action to ensure appeals can be dealt with as quickly as possible. The uncertainty in dealing with a protracted process has a substantial, detrimental impact on councils.

Reliefs

- County economies have a strong foundation of small businesses and those with charity status. Research undertaken by Pixel Financial Management on behalf of CCN has shown that county areas have by far the highest levels of discretionary and mandatory reliefs.

- Primarily due to this reason county areas struggle to convert business rate growth and value in their areas into income for the council, CCN members had an 86% conversation from gross rates payable to net rates payable in 2015/16, whereas inner London boroughs had 92% conversion. What is more, this trend is getting worse, CCN members saw their conversion from rates into income drop by 6.6% from 2009/10 – 2015/16.[6]

- CCN welcome government's support for county economies and small businesses in relief compensation. Within the new business rates system we wish to see a commitment from government to full funding for business rate reliefs, directly linked to reliefs given in an area, so long as there is any mandatory policy in place. Any dilution of this will remove growth incentives and potentially disenfranchise county areas.

Safety Nets
(Question 19)

- We believe that some form of safety-net system is vital, but design will be dependent on other elements of the business rates system. We suggest that sub-regional pooling across county or multi-county areas could provide assurance for those involved. This would be coherent with a strategy of joined up local working, which could multiply the benefits of growth while reducing unnecessarily risk.

Multiplier / Levy Powers
(Questions 23, 25-31)

Managing the multiplier in a two-tier area

- CCN believe that a strategic and joined-up approach to setting the multiplier, reliefs and levies must be taken across two-tier areas. This would help set a clear and attractive offer to business, and allow targeted measures for growth or regeneration over the broader area.

Raising the multiplier after a reduction

- Local authorities should be free to increase the multiplier after any reduction. Capping this could disincentivise decisions to reduce the multiplier and potentially undermine the stability of council funding.

Extending the levy to all areas

- A central aim of the new business rates retention system is to enhance local government's role as powerful drivers of growth, and to incentivise sustainable, long-term growth across the

[6] Pixel Financial Management, Independent Analysis of Full Business Rate Retention in County Areas, August 2016

country. It makes sense then to allow all areas to work with their businesses to decide upon their priorities for growth investment, and to provide all areas with the powers to do this.

- Counties face some structural economic issues, including low productivity, skills and infrastructure gaps, equally increases in business rates premises size or value does not necessarily represent high value, productive growth. Long-term growth levers, such as major infrastructure investment, will be needed to secure sustainable growth now and in the future.

- It is untenable and inequitable to provide only mayors and big cities with the levers of growth. This risks undermining local and national economies and disenfranchising residents and businesses in county areas.

Process for agreeing a levy

- Local areas should be able to agree what constitutes infrastructure investment in their area, artificially limiting this could stifle innovation, competition and growth.

- CCN would welcome the role of LEPs as consultees with regards to infrastructure levies, we do not however think it would be appropriate for un-elected bodies to be approvers of public budgets. Given that there are many overlaps of LEP boundaries within CCN areas this would also introduce unnecessary bureaucracy into the 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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