

CCN Response to Independent Analysis of Business Rates Retention in Counties

In May 2016, the County Councils Network (CCN) commissioned Pixel Financial Management to undertake an analysis of business rates retention for the 37 county and county unitary authorities in our membership.

The report was intended to act as an independent research report to support CCN's stance at the national Steering Group and its own, and member council, responses to the formal consultations that were recently issued by the Department for Communities & Local Government DCLG.

Pixel Financial Management were asked to:

- Analyse each element of business rate income explore the characteristics of the CCN authorities compared to other groups of authority types.
- Undertake more granular analysis of the 37 CCN members, and explore the diversity within the CCN membership.
- Explore implications of move to 100% retention, and an assumption that there will be an increase in retention for county councils.
- Comment on type of services that could be devolved and preferences impact for CCN members.
- Link analysis of potential growth in business rates in CCN areas with current and future cost pressures.
- Comment on potential for redistribution within an area, and on the impact of combined authorities on business rates retention; and
- Review which tier of local government controls any changes in the control of multiplier or reliefs in a two-tier system, who pays for cost and who sets the overall economic development strategy.

CCN broadly welcome the findings of the analysis. This report is an important and timely contribution to the debate on business rates and the evidence-base that will be used to design the system, particularly in two-tier local authority areas.

The findings of this report should be used to inform national discussions on both the design of the business rates system and the needs-based review of funding and we urge Government and the LGA Steering Group to engage with this report.

CCN will now seek to undertake further analysis with member councils, and key partners such as the District Councils' Network & Rural Services Network ahead of our formal responses the DCLG consultations issued last month.

Below, we provide our response to the key findings from the report;

Business Rates Income

While the analysis shows that on average CCN member areas have above average growth in business rates there are a number of factors which impact on how much benefit our members may see from this.

This growth is starting from a low base, with CCN areas having 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.

The level of business rate growth also varies widely across CCN member areas. Two-tier areas show slightly above average growth, but CCN unitary areas have much higher growth. Additionally the difference between individual county areas is vast, with a number of members showing negative growth over time.

Counties on average have above average economic growth, particularly in the south-east. However there doesn't seem to be a correlation between high economic growth and business rate value or growth. Presumably this is due to the types of industry and economic growth in county areas (and the skewing effect of specific hereditaments).

One key finding from the research is that **CCN member areas struggle to convert business rate value and growth into income**, more so than any other area in the country. This is due to high levels of mandatory and voluntary reliefs, and is more pronounced the more rural the area.

Considering the findings it is not clear that business rates are naturally set up to enable and incentivise economic growth in county areas. It seems that greater levers of growth will need to be designed into the system, if we are to realise the full potential of counties. CCN will continue to explore this with partners.

Part of the solution may be a commitment from government to fully re-fund income lost through mandatory reliefs, for as long as any central policy on reliefs is applied. Devolving a broader range of fiscal tools to local areas could also allow a more rounded approach and reward from growth.

Funding & Cost Pressures

In terms of considering the future trends in business rate income in county areas Pixel conclude that all authorities could expect to see an increase in spending power. However this may still mean real-term falls in some cases, with striking variation between areas. They conclude that without mitigations built into the system some county areas would see substantial cuts in funding over time.

Utilising research conducted by LG Futures, commissioned by CCN, Pixel compare the likely business rate trends in counties with the growing social care pressures. They conclude that for the vast majority of CCN authorities **the growth in business rate income will be less than the growth in adult social care pressures**, and that there is a 'significant mismatch' between the social care pressures, business rates and other income streams.

The report concludes that CCN will need to continue to call for adequate funding for social care, and that this is likely to need additional sources beyond business rates. It is CCN's first priority to ensure that current and future pressures for statutory demand-led services are understood within the needs-based review and fairly factored into the business rates system and the broader local government finance system.

CCN will continue to work closely with SCT, LGA and DCN in putting forward the evidence and arguments for this case, and will consider what further evidence may be needed.

Additionally Pixel suggest that counties will want assurance on a sensible way of managing risk, that frequent partial resets are likely to best suit county economies and that counties are likely to want to agree a mechanism for dealing with appeals outside of metropolitan areas.

We have a shared interest with central government in designing a system that enables local government to be self-sufficient and sustainable now and in the future. We will be arguing that adequately funding social care and other vital services will be central to this.

Operation of the System in Two-Tier Areas

The report sets out some particular complexities of funding services from full business rate retention in two-tier areas. In these areas the levers of growth, including planning and infrastructure, and business and property tax strategy are split between the two tiers.

It is clear that a cohesive and strategic approach to supporting economic and population growth, and to business rates policy will be needed in two-tier areas if the system is to work.

Pixel poses the questions, who sets the multiplier, who sets discretionary reliefs, who pays the cost of these and who sets the overarching economic strategy. They warn that conflicting changes to multiplier or reliefs could hamper growth in the area, and that **an agreed economic plan which sets the parameters of business rate strategy for a county area will be of paramount importance.**

They suggest that a well-designed approach to reliefs may be more important in counties than changing the multiplier, and that broadly reduction in the multiplier is unlikely to be an attractive fiscal or economic option in counties.

CCN will continue to undertake further analysis, work with our membership and engagement with DCN to better understand these issues and the best solutions.

Governance and Distribution

Government have put forward suggestions that some elements of the business rate system could be managed at the regional or sub-regional level. The CLG Committee have highlighted that re-distribution at the regional level would create vast inequality between the regions of England.

However the business rate consultation suggests using regional / sub-regional 'blocks' between which funds are redistributed according to need. This would mean that there would need to be some form of governance structure within the region or sub-region that could agree funding distribution between its authorities and areas. This may make sense for a mayoral or combined authority area, but it is less clear how this would work in county areas, particularly two-tier areas.

Pixel suggest that there could be some funding benefits of a flatter funding system for county areas, and that risk to individual authorities could be minimised due to cross-subsidisation. However they do point out that local spending priorities would mean that funding for the same services would be likely to be different in different areas, and that there would be complexities of agreeing distribution in two-tier areas.

New Burdens & Service Responsibilities

Pixel warn that 'unless CCN authorities get the 'right' new responsibilities the result of the move to 100% retention might be greater exposure to risk without much in return'. They conclude that reasonable options for additional responsibilities may be those related to highways, transport and skills, and that these reflect the criteria set out by DCLG and LGA and the growth role of county councils and county unitaries.

CCN want to ensure that current and future unfunded pressures are properly factored into the local government funding system before additional responsibilities are decided upon. Ultimately we will want a balanced portfolio of powers and responsibilities, including means to further public service reform and key levers of growth.