CCN
COUNTY COUNCILS NETWORK

A NEW DEAL FOR COUNTIES:
County Councils Network

Consultation Response

Local Government Finance Settlement: Technical Consultation

Executive Summary

- The County Councils Network (CCN) welcomes some of the measures announced or re-affirmed in this technical consultation, such as proposals for negative Revenue Support Grant (RSG) and the nature of the multi-year settlement, which has helped county authorities to plan their budgets more effectively.

- The introduction of negative RSG formed part of an original settlement which hit CCN member councils hardest. The removal of negative RSG from the settlement is a recognition that the changes to the funding formula in 2016 were wrong. **We accept the preferred option that the Government is outlining in this consultation paper, however we stress that all CCN member councils are facing funding pressures**.

- Our main concern, however, has been that **the funding allocations within the four-year offer have been insufficient.** In accepting the four-year settlement, our members did so to ensure a minimum level of resources for their areas. However, recent research by CCN has found that counties face funding pressures of £1.46bn in 2019-20, which amounts to £3.2bn over 2018-2020. This, coupled with the largest reductions to Settlement Funding Assessment (SFA), mean all our member councils require an immediate injection of new resources next year.

- With no clarity on the Adult Social Care funding contained within the Better Care Fund for 19-20, alongside no measures to address the additional costs of the National Living Wage, or inflationary pressures, it is essential that the Government set out a way forward as a priority. Without this clarity, local authorities will be left in a position whereby they may have to serve notice on contracts, many of which have six-month termination clauses, to the detriment of service users and residents.

- The Adult Social Care Grant and additional funding for rural services delivery grant (RSDG) last year was recognition of the pressures within the care sector and provided much needed additional resources. However, the amount of funding provided was insufficient to meet growing demand for services, did not recognise the growing pressures in children's social care and learning disabilities, and many of our members do not benefit from RSDG. **It is essential that this settlement contains new additional Grant Funding for 2019-20, which is substantially in excess of the £166m provided last year to meet growing demand-led pressures. CCN will seek to engage Government over a fair distribution of resources for any new additional funding.** We urge the Government to provide clarity on additional funding ahead of the provisional settlement to ensure councils are able to set budgets in a timely manner and communicate the levels of funding with Parliamentarians.

- CCN has long argued for greater flexibility around introducing a small fee for accessing or administrating some services. For instance, introducing a small fee for accessing waste recycling centres or introducing a small administration fee for processing the free concessionary bus passes. We believe further measures could be taken as part of the settlement, and looking ahead, the Spending Review.

- CCN welcomes the Government's commitment to review New Homes Bonus (NHB) as part of the Spending Review. CCN has consistently argued that the policy has unbalanced the two-tier funding system, proved unfair to county councils and failed to genuinely support housing and infrastructure delivery. Ahead of a well overdue fundamental review of the policy, we continue to believe changes to tier shares could be implemented next year to ensure the most efficient use of local government resources.

- Many member councils welcome the opportunity to reapply for a business rates pilot. However, the proposal to downgrade pilots to 75% for counties while potentially maintaining 100% rates in devolution areas and London is wholly inequitable for county residents, both within and outside of the two-tier pilot areas. We are also concerned that the 'no detriment' clause has been removed for 2019/20 pilots open to our member councils.

- CCN strongly believes that council tax setting is a matter for individual local authorities, who are democratically elected and offer local accountability. We therefore oppose a referendum trigger of 3%. The inability of 13 CCN member councils to levy the social care precept next year will have a significant impact on CCN budgets next year, with additional council tax revenue expected to fall by 39%. In line with our opposition to the referendum threshold, we would ask the Government to consider further council tax flexibilities for local government in 19-20.

Introduction

1. The County Councils Network (CCN) represents 36 English local authorities that serve counties. CCN's membership includes both upper tier and unitary authorities who together have over 2,500 councillors and serve over 26m people (47% of the population) across 86% of England. CCN develops policy, shares best practice and makes representations to Government on behalf of this significant proportion of the country outside of the big conurbations.

2. CCN is a member-led organisation which works on an inclusive and all party basis and seeks to make representations to Government which can be supported by all member authorities. This submission has been developed in close consultation with member councils.

3. CCN welcomes the opportunity to submit evidence to the Ministry of Housing, Communities and Local Government's technical consultation on the Provisional Local Government Finance Settlement 2019/20. CCN has worked closely with the Society of County Treasurers (SCT) in developing this response, which has also been informed by analysis provided by Pixel Financial Management for CCN.

Overview

4. There were a number of measures announced or re-affirmed in this technical consultation, such as proposals for Negative Revenue Support Grant (RSG) and the multi-year settlement, which CCN welcome. As outlined below in detail, we also welcome the proposal for a long-term review of New Homes Bonus (NHB).

5. However, our main concern is that that **the funding allocations within the four-year offer have been insufficient** and will continue to remain so for the coming year.

6. There is now compelling evidence that supports the case for an immediate injection of additional resources for the coming year, alongside further changes to the proposed settlement that could help county authorities address the severe financial pressures we face ahead of the conclusions of the Spending & Fair Funding Reviews.

7. The recent report produced by the National Audit Office[1] outlined that 1 in 10 local authorities with social care responsibilities could be unable to balance their budgets over the coming period. The LGA recently revised their budget forecast, estimating that councils in England face a funding gap of £7.8bn by 2025, with 90% of this relating to county-level responsibilities across adult social care, children's services and public health.[2]

8. In considering the specific financial challenges facing counties, CCN and the Society of County Treasurers (SCT) recently released the findings of the SCT yearly budget analysis of 36 county and county unitary authorities.[3]

9. The results showed that over the two-year period (18-19 to 19-20) counties face a **combined funding pressure of £3.2bn**. In total, 58% of the funding pressure is caused by demand-led pressures. Over the two years, the research showed that our members estimate they will deliver £1.39bn of savings, with a conservative estimate of **£466m of earmarked savings likely to make further visible reductions to frontline services**, such as adult social care, children's services, libraries, children's centres, and road repairs, or lead to raising or introducing new charges for residents.

[1] https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/
[2] https://www.local.gov.uk/moving-the-conversation-on/funding
[3] Each year, the SCT undertake an Excel spreadsheet based survey of its 38 member councils. The survey asks Finance Officers to provide detailed information on their net revenue budget, estimated budget gap and how the budget gap will be meet. This year, the budget survey was issued on 22 December 2017 and received based a response rate of 95%.

10. In 2018-19, CCN member councils had a total gross budget pressure of £1.7bn. Respondents to the survey indicated that this gap would be met through savings of £703m which made up 41% of the budget gap, increased council tax revenue of £615m meeting 36% of the budget gap, and lastly through the use of capital receipts, business rate revenue and £183m of reserves.

11. Looking at financial year (2019-20), which this technical consultation covers, the funding pressure is expected to total £1.461bn; **however, this is likely to be higher by the time of the settlement.** This is made up of the following;

    - **Cost Pressures**; which contribute £449.4m for 2019-20.
    - **Grant Loss**; this totals £388.2m.
    - **Inflation**; inflationary pressures are expected to rise to £350.6m.
    - **Reserves**; it is expected that the total added to reserves in 2019/20 will increase to £112.6m to aid financial resilience. It is important to note here that additions are distorted by one council's planned one-off addition to reserves.
    - **Other**: The 'Other' category increased £22m to £160.2m.

12. Respondents to the survey set out £1.2bn of measures to mitigate and meet the aforementioned funding pressures. Alongside the level of 'unknown savings' outlined in the savings projections below, there are a further £233m of savings, reserve usage, or other revenue raising measures that will be needed to balance budgets next year. For this financial year, the measures being taken are as follows;

    - **Savings;** respondents are budgeting savings of £685.1m in 2019-20. The extent of savings that are expected to meet the 'service reduction' threshold increases 44% on the previous year. The amount of 'known savings' falls by 13.4%.
    - **Council Tax**: although increased council tax revenue remains the second most significant factor in balancing 2019-20 budgets, the increased income drops dramatically by 39% to £375.9m. This is mainly due to 13 CCN member councils being unable to levy the Adult Social Care precept as they took advantage of the flexibility to 'frontload' a precept of 3% over the previous two years. Expected total council tax precepts by councils falls from an average of 5.34% to 3.11%, with the ASC precept falling from an average of 2.5% to 0.94%.
    - **Capital Receipts**: flexible use of Capital Receipts meets just £7.8m of 2019-20 budgets, falling by £40m.
    - **Reserves:** members anticipated using £125m of reserve funding in 2019-20. As stated above, the true number of members who will use reserves in 2019-20

is not yet certain as this is dependent upon whether savings are made as expected.

- **Other**: 'met by other' was used mainly (though not exclusively) to quantify additional business rates revenue and contributes £43m of respondents' budgets – this is a 72% reduction on the year before. This can be explained partly by councils involved in business rates pilots not expecting (at this stage) that their pilots (and increased rate revenue) will continue into this final year.

13. Although evidence shows adult social care remains the biggest pressure facing local government, we cannot ignore the pressures facing children's social care. If the Government is to deliver sustainable adult social care, then it is vital that the pressures facing children's services are also tackled as a matter of urgency to prevent avoidable demand on public services. If vulnerable children and young people do not receive adequate support, then this will potentially store up problems for the future and lead to increased demand and costs for the NHS and adult social care.

14. CCN figures show the extent to which demand has risen within children's services over the past few years, driving overspends for our member authorities. The number of vulnerable children in county areas placed under a child protection plan – which means they are at significant risk of harm – was 25,259 in 2017, compared with 18,702 in 2011 – a 35% rise. The number of children taken into care in England's counties stood at 26,000 in 2017 (over half of the country's entire total), compared to 22,600 in 2011 – a 15% increase.

15. In 2017/18, county authorities overspent the most in children's services, spending £264m more than they budgeted. Overall, councils spent 10% more than they had budgeted for that year on the service. If this trend continues, the estimated funding pressures outlined in the budget analysis above will be larger than currently anticipated.

16. With no clarity on the Adult Social Care funding contained within the Better Care Fund for 19-20, alongside no measures to address the additional costs of the National Living Wage, or inflationary pressures, it is essential that the Government set out a way forward as a priority. Without this clarity, local authorities will be left in a position whereby they may have to serve notice on contracts, many of which have six-month termination clauses, to the detriment of service users and residents.

17. Faced with these severe funding pressures and uncertainty on future funding, CCN recently surveyed its member council leaders to ascertain how confident they were in delivering balanced budget in the absence of new funding. The results show a dramatic reduction in confidence over the course of the three years up to 2020/21, with only 64% confident they deliver a balanced budget next year;

- **2018-19**: 92% were either confident or very confident they would deliver a balanced budget, with 8% neutral.

- **2019**-**20**: 64% were either confident or very confident they would deliver a balanced budget, with 20% neutral and 16% not confident.

- **2020**-**21**: 33% were either confident or very confident they would deliver a balanced budget, with 25% neutral, 25% not confident and 16% not at all confident.

18. In considering specific financial challenges facing counties, it is also important to consider how the two-tier system presents further challenges to upper-tier councils in delivering saving requirements and safeguarding frontline services for the most vulnerable in society;

    - County councils deliver a smaller range of largely statutory, demand-led, services such as adult social care, children's services, and transport. County councils have less scope to deliver savings in services with high-levels of back-office and administrative spend, with 6.8% of county council expenditure spent on management and support costs compared to 11.2% in a unitary authority and 62.5% in district councils. Therefore, more savings resulting from funding reductions have been required in adult and children social care services at the same time that these services are facing the most acute demand-led pressures.

    - County councils have fewer fee paying or discretionary services to raise additional local income to offset funding reductions. In two-tier areas, districts administer discretionary income raising services such as parking, licensing, planning and building control, and for instance county councils will not benefit from recent 20% increase in planning fees.

    - Current Government policies on growth and incentive-based funding, such as Business Rate Retention, the New Homes Bonus (NHB) and Community Infrastructure Levy (CIL), do not adequately reward the contribution of county council services to promoting growth. Local funding shares, such as the 80/20 split in NHB payments, are disproportionately weighted towards district councils, whilst unitary authorities receive 100% of local payments.

19. CCN recognise that long-term funding arrangements beyond 2020/21 will be subject to the outcomes of Spending and Fair Funding Reviews. Moreover, the publication of the long-awaited Adult Social Care Green Paper has the opportunity to provide further details on long-term funding arrangements for upper-tier councils.

20. We are committed to providing ministers and officials with evidence to support the case for an injection of new resources for the period beyond 2020 and further detail the specific financial, demand and structural challenges facing county authorities. CCN have therefore commissioned PwC to undertake an independent

review of funding pressures and expenditure in counties. This study is currently underway and will present findings ahead of the Autumn Budget in the autumn.

21. **However, in light of the existing evidence outlined above, CCN member authorities strongly believe the Government must inject new resources for the next financial year ahead both the fair funding and Spending Reviews.**

22. The CCN/SCT budget analysis demonstrates that failure to do so will lead to an acceleration in extent of frontline service reductions. Savings of at least £685.1m are planned, with the extent of savings that are expected to meet the 'service reduction' threshold increasing by 44% on the previous year. The amount of 'known savings' falls by 13.4%. Moreover, the budget analysis shows a gap of at least £233m between funding pressures and the planned measures *currently* being set out to meet this. Given recent unpredictable trends in children's social care demand, continuing overspends in this area of spend next year could further worsen the in-year financial position of county authorities.

23. Without any additional resources being made available this will *further* increase the scale of frontline service reductions or need to be funded by reserves to balance budgets. Even more concerning, only 64% of county leaders are confident they can deliver a balanced budget in the absence of additional funding next year.

24. Therefore, a combination of funding reductions, rising demand for services and unfair funding means county authorities are most at risk of following East Sussex in ending all but essential local services to avoid being unable to set a balanced budget in future years. While CCN has been clear that Northamptonshire had not managed austerity well and there was clear evidence of financial failure, other high performing authorities such as East Sussex won't be the last to set out a core offer without additional help. CCN is aware of a number of authorities exploring when a core offer will need to implemented in their areas.

25. **In the lead up to the Autumn Budget and then the provisional local government settlement we urge the Government to consider the following measures for the 2019/20 settlement to help county authorities meet existing funding pressures, prevent overspends and enable all county authorities deliver balanced budgets;**

- The Adult Social Care Grant and additional funding for rural services delivery grant (RSDG) was a recognition of the pressures within the care sector and provided much needed additional resources. However, the amount of funding provided was insufficient to meet growing demand for services, was one-off, and did not recognise the growing pressures in children's social care and learning disabilities. Moreover, due to its distribution, many of our members do not benefit from RSDG. **It is essential that this settlement contains new, additional Grant Funding for 2019-20, which is substantially in excess of the £166m provided last year to meet growing demand-led**

pressures. CCN will seek to engage Government over a fair distribution of resources for any new additional funding.

- CCN has long argued for greater flexibility around introducing a small fee for accessing or administrating some services. For instance, introducing a small fee for accessing waste recycling centres or introducing a small administration fee for processing the free concessionary bus passes. We believe further measures could be taken as part of the settlement.

- CCN have consistently argued at every settlement that the Government must make changes to tier shares in relation NHB. Despite it being the last year of the scheme we continue to believe that faced with the funding pressures outlined in this submission, Government should consider changing the tier split as part of a package of funding measures to provide additional resources to those upper-tier authorities facing the most serve demand-led pressures.

- In line with our opposition to the referendum threshold, we would ask the Government to consider further council tax flexibilities for local government in 2019-20. As outlined above, although increased council tax revenue remains the second most significant factor in balancing 2019-20 budgets, the expected increased income from council tax rises drops dramatically by 39% to £375.9m. If the Government were to consider further flexibilities for council tax, it would be important to recognise the growing pressures in children's social care and ensure that all additional council tax resources raised locally should not be directed solely to adult social care.

26. In the last three financial years, Government have needed to propose measures, such as those outlined above, on the eve of the publication of the financial settlement. We urge the Government to provide clarity on whether further resources, freedoms and flexibilities will be forthcoming in the provisional settlement well ahead of publication to ensure councils are able to communicate this with Parliamentarians. The last-minute announcement of measures also does not aid budget planning. Considering the information provided on the severity of the financial decisions being made by CCN member councils next year it is critical that early signals are given this year.

Question 1: Do you agree that the Government should confirm the final year of the 4-year offer as set out in 2016-17?

27. CCN supports the concept of a multi-year funding offer and welcomes its continuation in 2019-20. The multi-year offer has helped authorities to plan and to make the best use of scarce resources. This means that authorities have been able to focus resources effectively on key services, particularly children's and adult's social care. It is something that we would urge the Government to adopt once again post 2020-21.

28. Support for the principle of a multi-year settlement should not be taken as support for the level of funding both for local government as a whole and to county authorities in particular. Our authorities have received funding cuts well in excess of the average, and the effect of these funding cuts can be seen in both higher levels of Band D council tax levels and in the pressure on budgets.

29. The above evidence clearly points to under-funding in the four-year settlement. We would urge the Government to ensure that the four-year funding settlement for county authorities – and indeed for the sector as a whole – is sufficient for authorities to be able to set balanced and sustainable budgets. As outlined above, we suggest a number of measures that could be taken to ensure this for the coming financial year ahead of the Spending Review.

30. The funding pressures that we have seen since 2016-17 show how important it is for the Government to get right the distribution of funding at the outset. Serious mistakes were made in the allocation of funding for the current four-year period, and the Government has had to find additional resources to "plug the gaps" in each of those financial years.

31. Looking ahead to the forthcoming fair funding review consultation expected in the autumn, we hope the Government's proposals for addressing these concerns continue to develop in a positive manner and a new needs-led fairer funding formula is delivered during 2019.

Question 2: Do you agree with the council tax referendum principles proposed by the Government for 2019-20?

32. CCN strongly believes that council tax setting is a matter for individual local authorities, who are democratically elected and offer local accountability. CCN disagrees with the referendum principle being applied to local government. Given its rising importance as a funding stream; CCN request that local government also be given further freedoms including powers over mandatory reliefs, such as the single person discount.

33. Upper-tier authorities can currently set a precept at 6% of Band D over 3 years (2017-18 to 2019-20), with a maximum increase of 3% in any one year. Thirteen county authorities have used the full 6% increase in the first two years, largely because it was the only way to fund growing financial pressures from adult social care, with counties home to the fastest growing elderly populations. Pressures in these services are still growing but there is no further headroom to fund them for many authorities in 2019-20.

34. In line with our opposition to the referendum threshold, we would ask the Government to consider further council tax flexibilities for local government in 2019-20. As outlined above, although increased council tax revenue remains the second most significant factor in balancing 2019-20 budgets, the expected increased income from council tax rises drops dramatically by 39% to £375.9m.

35. If the Government were to consider further flexibilities for council tax, it would be important to recognise the growing pressures in children's social care and ensure that additional council tax resources raised locally should not be directed solely to adult social care.

Question 3: Do you agree with the Government's preferred approach that Negative RSG is eliminated in full via forgone business rates receipts in 2019-20?

Question 4: If you disagree with the Government's preferred approach to Negative RSG please express your preference for an alternative option. If you believe there is an alternative mechanism for dealing with Negative RSG not explored here please provide further detail.

36. Negative RSG has been a major concern to many of our member authorities, and some authorities would lose considerable sums if the decision is not taken to reverse Negative RSG. The Government is proposing an effective methodology for addressing Negative RSG in 2019-20, and CCN accept the preferred option that is outlined in the technical consultation paper.

37. Underlying Negative RSG are the cuts in Settlement Funding Assessment: these were severe across local government, but because of the methodology implemented in 2016-17 they were particularly severe for many county authorities. Whilst we accept the preferred option for RSG, it is clear that the cuts to SFA are the cause of the problem. It would be preferable for the Government to address this problem directly, or to at least acknowledge that there were serious deficiencies in the way that the SFA was allocated in 2016-17. We recognise that it is not possible to unpick the SFA allocations now (it would be too costly, and impossible in practical terms), and as a result we are prepared to accept the preferred option.

38. The main beneficiary – as a class – is district councils: their SFA per head effectively increases by 10.7% as a result of the reversal of Negative RSG. Shire counties – as a class – will see their SFA per head increase by 2.3%. However only 13 member councils benefits from this and we stress that all CCN member councils are facing funding pressures.

39. It is important to note when considering wider funding changes proposed in this submission that due to the decision on negative RSG, SFA cuts are now 6.9% for district councils, down from 16% before the negative RSG announcement. Apart from Inner London Boroughs, districts now see the second lowest funding reduction for 2019/20.

New Homes Bonus

40. CCN welcomes the government's commitment to consider how best to incentivise housing growth and fundamentally review the NHB policy. Since its introduction, it

has proved unfair to county councils, and has failed to genuinely support housing and infrastructure delivery.

41. Many of our members receive very little from NHB as a result of the 80-20% split in favour of districts. We have consistently opposed the premise of the high share of NHB that is allocated to district councils. The provision of housing within an area relies not only on incentivising planning permission, but providing the necessary infrastructure to facilitate and support housing growth.

42. By the government's own admission, NHB has failed on its key policy objectives such as being spent on 'local community priorities' and to support the delivery of infrastructure to mitigate development. The government's consultation on the policy: 'Sharpening the Incentive', showed that only 10% is spent on infrastructure, despite increasing infrastructure gaps in county areas. The 80-20 split of money from the bonus in favour of district councils, further hampers the county's ability to invest in infrastructure to match new housing.

43. The high share for district councils, and the top-sliced nature of the funding, has also imbalanced the local government funding system in two-tier areas. The funding that has been used in this way would have been much better employed supporting the financial pressures in children's and adult's services, which in turn would allow counties to dedicate a larger proportion of their budgets to housing and growth enabling services such as transport, infrastructure and economic development; which have suffered the deepest reductions due to the financial challenges outlined above.

44. CCN will set out its policy position in relation to NHB during our submission to the upcoming Spending Review. However, we are clear that over the long-term, any abolition of the NHB policy must mean that all resources go back into grant funding for upper-tier and unitary councils, while establishing new incentives for all tiers of local government to support business and housing growth. CCN believes counties must be empowered to deliver the infrastructure vital for communities to accept this new growth, and that therefore any new incentive is established with this as its primary objective.

45. Looking to 2019/20, CCN have consistently argued at every settlement that the Government must make changes to tier shares in relation to NHB. Despite it being the last year of the scheme we continue to believe that faced with the funding pressures outlined in this submission, Government should continue to consider changing the tier split as part of a package of funding measures to provide additional resources to those upper-tier authorities facing the most serve demand-led pressures.

46. For our county unitary members, there is concern that the methodology for calculating payments in 2019-20 is still uncertain: it would be helpful if the Government could fix the national baseline now rather than wait for the provisional settlement. Such uncertainty makes it more difficult for authorities to plan their budgets effectively.

Business Rate Retention Pilots

47. Last year, CCN welcomed the Government extending 100% BBR pilots to two-tier areas. However, while some member councils have benefited from the scheme, we have always raised concerns over the limited learning that can be gained from the pilots.

48. Moreover, it is also important to recognise the cost of pilots and whether, at a time of severe financial challenge for county authorities, funding for pilots is potentially diverting resources away from the main local government settlement and benefitting some areas disproportionately.

49. A study by the Institute for Fiscal Studies (IFS) recently estimated that the cost of the pilots to Government was £870.1m. Our analysis of their figures shows that during the current financial year London will receive an extra £431.2m; which is £273.7m **more** than it would receive if the funding was distributed via the relative needs formula. Further analysis shows that if Government had invested the total amount of funding for pilots into revenue support grant, CCN authorities would be £268m better off (this includes adjusting for the tier share for each pilot area).

50. Government has proposed for 2019/20 that the value of the new business rate retention pilots for the coming period will be 75%, which reflects the proposals for local government finance post 2020. It has also indicated that there will be fewer pilots open to our member councils. However, the Government intends to maintain 100% pilots for combined authority areas and London Boroughs.

51. Downgrading pilots open to county areas, while maintaining those for urban areas, is wholly inequitable for county residents both within and outside of the two-tier pilot areas. Funding inequalities, particularly those between London and county authorities, will be further entrenched.

52. If the Government downgraded two-tier pilots but maintained 100% pilots for other parts of the sector, as a matter of fairness they must consider how any additional resources distributed to the sector can account for the disproportionate benefits being gained by London and other urban authorities.

53. Alongside this, the terms being offered to county authorities in 2019-20 are inferior to those offered to urban areas. The decision not to offer "no detriment" support to county pilots in 2019-20 is perplexing. There was much discussion between the CCN and MHCLG in 2017 about "no detriment" for the current year's pilots. MHCLG rightly included "no detriment" for county pilots in 2018-19. It is unacceptable that county authorities should be offered inferior terms to those being offered to our urban counterparts, and we would urge MHCLG to include "no detriment" for county pilots in 2019-20.

54. CCN has previously written to the Secretary of State regarding tier shares and the implications of the pilots. In approaching the pilot schemes from next year,

testing sustainability, and considering the implications for the future design of the system, there is a need to ensure that key decisions, such as tier shares, are not predetermined by the proposals now agreed with local areas.

55. In putting forward proposals last year a significant degree of compromise has taken place with district councils regarding tier shares within a very limited time for negotiations.

56. CCN has previously outlined that independent evidence on 100% Business Rates Retention has shown that the share for county councils should be significantly higher than under the current system. Findings from Pixel Financial Management show the potential divergence in business rates growth and growing service needs in counties – which could leave counties facing an additional funding gap of £700m by 2029 - and the need to ensure a higher share of locally retained rates for upper-tier councils to better balance risk, rewards and sustainable funding for councils.

57. As we consider the move towards 75% BRR, it important that the pilots are used to test, not pre-determine, how tier shares and other aspects of system design may work. We recognise that alterations to the policy, such as reducing to 75% BRR, may alter the tier share approach. CCN is working to update the modelling by Pixel to reflect the change in policy and will share the outcomes with the department when completed.