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5 August 2016

100% Retention of Business Rates and the Fair Funding Review

Dear Stuart, Sarah and Chris,

This is a joint letter from the Society of County Treasurers (SCT) and the Society of District Council Treasurers (SDCT). Together, these authorities represent 46% of the population of England and provide services across 87% of its land area.

Both the societies will be responding individually to the consultation on 100% business rates retention but given the commonality of our geography and demography we felt there might be some benefit from an early letter outlining what we see as the broad issues. The two societies already have good links with both the LGA and DCLG and we hope this letter might help shape further discussions over the consultation period. We recognise the huge shift in funding that the move to 100% rates retention represents and want to ensure that shire areas are well placed to take full advantage of the potential benefits.

Both societies are represented on the Steering Group as well as at the working groups. The links between the groups is evident to see; hence many of our answers will be predicated on decisions elsewhere. For example, considerations about what appropriate protection could be provided by the safety net will be affected by the levels of risk in the system – either in terms of sufficiency of funding, demographic growth, revaluations, reset periods or the national economy.

Given the interplay between the work streams, the SCT and SDCT members have agreed a set of principles that we feel should govern the way this work is approached:

- Unfunded pressures must be the first call on the quantum; this is particularly important given the pressure on social care budgets and the impact on the NHS. Similarly new burdens must also be properly funded.
- Local government must facilitate healthy local economies and drive business growth in order to reap the benefits of business rates retention
- The new funding system must be focussed on the needs of our residents; starting with a relevant per capita basis and taking all funding streams into account
- The local government sector must fully engage with the consultation and review process in order to create a system which can be tailored to local needs and opportunities.
- There must be transitional arrangements in place to enable a smooth shift to the new system and to assist planning.

Irrespective of the final distribution of Business Rates there is clearly a link between the ability of an area to generate future business rate growth and the existing strategic infrastructure and capital investment streams. Shire areas have frequently been disadvantaged in this area; with Government investment historically favouring large cities.

Both the districts and the counties in shire areas invest for economic growth. This needs to be accompanied by further investment in our infrastructure from Government for areas to achieve their full potential.

Complexity

The current 50% scheme is complex, and is made more so by concessions made to businesses since its introduction (capped multipliers, temporary and then permanent doubling of small business rate relief). On top of these complexities and their accompanying compensation grants, there are other features such as Enterprise Zones, renewable energy projects and safety nets which have made the system unwieldy in a very short period.

In addition to this complexity at a national level; the current system of tariffs and top-ups creates an environment where there is a huge spectrum of risks & rewards between individual authorities. Those authorities with large top-ups will see little benefit of economic growth in their budgets whilst conversely not seeing the impact of a declining tax base. At the other end of the spectrum, made even starker by the removal of levies, 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.

At the time that the current system was being initiated ministers took the decision to protect social care-providing authorities. Hence, all upper-tier and some single tier social care providing authorities are insulated from decline in their area; but not <u>all</u> social care authorities receive the same degree of protection. The same is true for planning authorities who are said to control the “levers of growth” – the incentives (and consequential risks) vary between authorities.

It is against this background that the new system is being introduced, and already it is clear that it will be even more complex; we are witnessing a number of devolution deals being agreed with what we refer to as “asymmetrical devolution” – meaning different services being devolved in different areas. In addition, the Department is agreeing a number of pilots of the new 100% retention system. The SCT and SDCT consider it vital to increase the transparency of these pilots, including any impact on the quantum. The two societies believe it is important that we capture learning from these pilots, but also seek assurance that these pilots will not impact on the total quantum to be distributed alongside additional responsibilities. It would be inequitable for funds to be allocated to areas that are given pilot status, with the result that there is a reduced amount of remaining funds for all other authorities.

Alongside these two consultations the department is also considering whether to introduce more frequent revaluations. Given that local authorities, under the current business rates system, have never yet experienced a revaluation it is difficult to quantify the turbulence and shifts that might

occur at such a time. If the result of this consultation is that revaluations do become more frequent this is likely to become an even greater issue.

Whilst the aims of the system appear relatively simple; to fund local services whilst creating an incentive for local economic growth, all of these issues mean that the mechanics of the future system will certainly be complex. The SCT and SDCT ask that civil servants and ministers recognise this but also aim not to add to this complexity.

The Quantum

Current forecasts of the "quantum", the additional amount available for redistribution, range from an additional £11-15bn. The current economic environment is very uncertain and this, together with increasing levels of risk in service delivery is in danger of being "locked" into the business rates retention scheme.

With all the current uncertainty surrounding the recent decision to leave the EU, as well as the change of leadership at number 10 and the rest of cabinet, it would seem prudent for these forecasts to be revised, reflecting the consensus that we are entering into a period of reduced growth compared to that forecast prior to the 23 June. This revision will also need to take into account the current push to convert more maintained schools into academies, which as charities are exempt from 80% of their rates bill, as well as the threat of legal action from NHS trusts who consider they are eligible for reliefs from business rates.

The consultation paper in question quotes £12.5bn additional quantum, please can the basis for this forecast be shared with local authorities. To aid the work going forward, it is important that there is transparency regarding the calculation of the quantum, including a clear statement of the assumptions regarding growth and inflation.

The Societies note that the quantum has already been top-sliced for Transport for London (TfL); this is a national income stream and top-slicing in this way will see residents in one part of the country immediately at an advantage over their fellow citizens. Funding for TfL should have been secured from elsewhere.

New Responsibilities

The Needs and Responsibilities workstream is looking at what services or grants could be transferred to local government to be netted off against the quantum.

Each society will respond more fully to the consultation questions regarding new responsibilities in our respective responses but both wish to highlight now that many of the suggested "new responsibilities" are, in fact, not new responsibilities at all. They merely represent a change of funding stream from specific grant to business rates.

The recent House of Commons CLG Committee Interim Report on this issue set out some principles on which decisions on new responsibilities should be based including giving local government genuine discretion over how services are provided. The report also suggested that responsibilities should be linked to economic growth such as skills and transport.

The SCT and SDCT agree with this approach and want to see powers devolved to them that really are new and that fit appropriately with funding coming from business rates. For example; growth funds, skills and higher education, infrastructure funding and transport investment. Local government want to be able to control their budgets properly in a way that can make a difference locally; not simply administer a benefit or continue providing a service that used to be funded via a specific grant.

Local Resources

Currently a proportion of a local authority's budget is financed by council tax. This proportion ranges between individual authorities and there can be many reasons for this difference. Over the last decade and a half the Government have continually carried out what is referred to as "resource

equalisation", the result of which has always been to penalise those authorities with large tax bases. The resulting inequalities across the country are stark.

Despite many shire residents working in cities and metropolitan areas, according to the Annual Survey of Hours and Earnings (ASHE), wages for residents in shire areas are generally 11% lower than the national average. Yet the average adult living in a shire area will pay over 5.6% more towards the costs of services through their council tax.

When compared to London, residents living in shire areas earn, on average, 20% less. However, residents in London pay 4% less in council tax than those in the less affluent shires.

Despite wages in shire areas being, on average, 11% higher than metropolitan authorities, the shire residents pay almost 30% more in council tax.

Although less easily quantifiable, it is generally accepted that residents in shire, and often rural, areas will tend to receive less services (either through removal of service or reduced hours) as well as travel further to reach them.

When council tax was introduced it was intended to be related to wealth. It was therefore based on property values because, at the time, it was felt this was a suitable proxy for wealth. However, almost 30 years since the last revaluation, it is indisputable that residents in shire areas are paying more than any other class of authority for their services. This is not because shire areas are less efficient, but because the proportion of central funding is less, and therefore a larger element of funding has to be met locally. This is inequitable in terms of affordability for the 46% of the population who live in shire areas and contribute to the economy.

In the interests of fairness and transparency, we firmly believe that this issue needs to be discussed openly and addressed as part of the BRR work. Council tax makes up a considerable element of local authority budgets and ignoring the current inequality risks undermining the whole process. In our view, the 100% retention of Business Rates cannot be viewed in isolation from funding through council tax and it is not tenable for the Department to state that these will not be considered.

Funding the Current Pressures

Both Societies feel very strongly that before new areas of responsibility are devolved, there must be some accommodation to meet unfunded current pressures which are considerable. These have arisen and will continue to arise from the reductions in central government funding, and the increase in demographic growth. Evidence was provided after the provisional settlement of the impact of these pressures going forward.

There are complex interdependencies between the NHS and local authority services and finances – where one service is underfunded there is the potential for devastating consequences in the NHS; some of which are becoming more visible recently.

At the 2016-17 Settlement the DCLG introduced a new measure called Core Spending Power; this includes:

- The Settlement Funding Assessment,
- Council tax requirement including the Adult Social Care precept and £5 flexibility,
- New Homes Bonus
- Rural Services Delivery grant, and
- Transitional grant (introduced between provisional and final settlement for 2 years)

From 2017-18 the Core Spending Power (CSP) will also include the Improved Better Care fund.

Whilst neither society supports the use of the CSP figure as a transparent way of communicating the pressures to residents we accept that it has become the Government's preferred way of

summarising grant settlements. It is for this reason that we have used it to illustrate the funding discrepancies.

In 2016-17 residents of all ages in shire areas received £741.70 per head of CSP funding; this is 6% less than the national average; 5% less than metropolitan districts and 24% less than residents in London. Ministers are also keen on showing figures by dwellings; in which case shire areas receive 7% less than the national average; 6% less than metropolitan districts and 31% less than London.

As explained above this CSP figure includes the council tax which we have already shown to be unfair for shire residents. If you strip out the element of the CSP for council tax the differences become starker. Individual residents in shire areas receive, on average, 20% less than the national average; 33% less than metropolitan residents and over 46% less than residents in London. When number of dwellings replaces the resident population shire areas receive less than half that of London.

The members of the need and redistribution working groups have agreed on the importance of getting the ASC funding right. For SCT members this makes up the biggest proportion of budgets after education. The proportion of the population aged over 85 in shire areas is forecast to double in the next 20 years – this is the fastest growth in ageing of all authorities. Those aged over 65 is set to grow from 20% of the population in 2016 to well over a quarter of all residents by 2036. Only London is forecast to see a greater rate of growth of over 65s by 2036, however they remain a low proportion of the resident population at just over 15%.

For Shire Districts, the highest proportion of funding goes on Waste collection and recycling, Planning and Building Control and Leisure and Open Spaces. These are services which touch on the lives of every resident. Not only can Planning services contribute to the growth agenda, ensuring both housing and business growth occurs in a sustainable way but these are all services which contribute to the wider health preventative measures and which residents see as essential. Leisure and open spaces whilst a totally discretionary service, plays a significant role in both the physical and mental well-being of the population and reduces pressure on NHS services.

Before any further services are devolved there must be assurance that these pressures will be adequately recognised by the new Fair Funding formula but also fully funded past the baseline year. In many cases there is little or no correlation between demand for services and economic prosperity.

If the issue of unfunded pressures is not addressed soon, the impact on the NHS will grow. Already we are seeing an increase in delayed discharges. The recent NAO report on this issue highlighted that there has been a 31% increase in bed days taken up due to delayed transfers. The amount of people waiting for a package of homecare over the last two years has increased by 100% and the amount waiting for a nursing home placement has increased by 63%. There are still 2 more years of very significant reductions to RSG before the new BRR system is introduced. Without some additional injection of cash to the social care system, the impact on the NHS will worsen considerably and it would seem opportune to allocate some of the quantum against this heading to allow care to be provided in the care sector which is considerably cheaper than that provided by the NHS

Flexibility

Currently local government are able to vary the council tax precept they set locally. This is done openly through each Council by elected members who are subject to re-election every 4 years. The introduction of freeze grants and referendum limits have diluted this in recent years but the link still remains that locally raised taxes can be increased to fund services or decreased to reflect local decision making.

The SCT and SDCT believe that this level of flexibility and accountability with regard to business rates should be introduced; not just in areas with an elected mayor. The current proposal to allow

local authorities to reduce the multiplier sees no further devolution of powers than those already laid out in the Localism Act. Even in areas with an elected mayor will only be allowed to increase rates if they have agreement from business and the additional funding is to be spent on infrastructure.

If Business Rates really are replacing Revenue Support Grant (RSG) as one of the primary means of funding local services then local authorities need the power to spend their additional income without restrictions. RSG was used for the totality of the budgets; so business rates, even additional rates as a result of an increased multiplier, should come with the same freedoms.

As the proposals currently stand there will be an inequitable impact on councils without directly elected mayors and on the associated service provision for the residents in these areas. Given this, we believe freedom to increase business rates should apply to all. We request to see the Equalities Impact Statement accompanying this decision to limit flexibility.

Our members also request that the Government removes the mandatory discounts applied to both the council tax (i.e. single person discount) and business rates. Given the pressures that local services are under, current burdens will need to be the first call on the new quantum but it will also be necessary for local authorities to be able to exercise genuine flexibility on their income streams.

In some services the rigid legislation means that local authorities are not able to tailor the services provided to meet the needs of their populations. Being able to vary the eligibility or statutory requirement for services would increase control over budgets too.

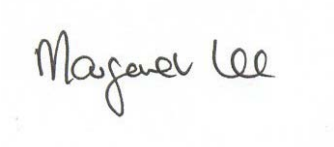
Funding Assessment

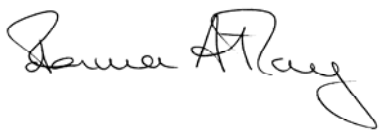
We support these two consultations being published in conjunction with each other as the issues of need and resourcing are so closely linked. It is critical that both systems are fit for purpose but they must also work alongside each other. In theory it is possible to match need and resources in the baseline year but the result will be varying levels of risks/rewards. As time goes on and we begin to see revaluations and partial resets and then possible further alterations to the system of mandatory reliefs not to mention demographic growth, need and resources are very likely to diverge. The two societies are very keen to ensure that this doesn't happen – that services are always fully funded and turbulence in the system can be minimised.

The current funding baseline is based on a discredited system of thresholds, scaling and ministerial discretion. The underlying need formula only serves to lock in the past patterns of over/underfunding by regressing to past spend and/or activity. The SCT and SDCT want to see all local authorities start from an equal position where need is funded through agreed cost drivers and not past funding.

We hope you have found this letter helpful. We believe it is right that we set out at this stage some of the high level principles that we believe should be adopted going forward. We do appreciate the openness and collaborative nature that the Department and the LGA have adopted in working with all colleagues, and look forward to continuing that way of working going forward.

Yours sincerely





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26 September 2016

100% Retention of Business Rates

Dear Matthew,

The Society of County Treasurers (SCT) is comprised of all Chief Financial Officers from the twenty-seven shire counties in English local government. Following the reorganisation of local government in 1997 and 2009, the SCT also includes eleven shire unitary authorities that have similar interests in local government issues. Together, these authorities represent 46% of the population of England and provide services across 87% of its land area.

Thank you for this opportunity to respond to the above consultation. The Society has already submitted a joint response with the Society of District Council Treasurers which outlined our key priorities and issues. This is a fuller response addressing the specifics of the consultation questions.

In a number of areas we found it impossible to give a considered answer to the consultation question, mainly because until devolution decisions are made and there is a firmer indication of what the new fair funding formula will look like we cannot yet assess the risk in the system nor say how other elements of the business rates retention model should be constructed. We hope that the discussions started in the consultation can be furthered at the steering and working groups and decisions made once other elements are decided upon.

1. Which of these identified grants / responsibilities do you think are the best candidates to be funded from retained business rates?

The SCT are keen to ensure that our members are well placed to take full advantage of the potential benefits of the shift to 100% business rate retention. As suggested by the House of Commons CLG Committee in their interim report on business rates we feel it is important that there is a link between the new responsibilities and economic growth, such as skills and transport. This, together with genuine discretion over how services are provided, will help us shape the services we offer in our areas.

In other words, the SCT do not want to see a simple transfer of services funded from specific grant to being funded via business rates. We want a true transfer of responsibilities with the discretion to shape the services to suit our residents. This includes not wanting to simply become the new administrators of grants withoutthe ability to alter the eligibility criteria, for example the Independent Living Fund and the Attendance Allowance.

The list on pages 18 and 19 of the consultation are all grants that already go (or will go) to local authorities. Transferring these grants will result in local authorities having no more or less control over services; instead the stability and predictability of the funding will be dependent on the health of the local economy. As outlined above, SCT members want new responsibilities that are better linked to the economy.

2. Are there other grants / responsibilities that you consider should be devolved instead of or alongside those identified above?

The Society's members would like to gain responsibility and control of services in areas such as skills, economic growth and infrastructure. The current list's only infrastructure grant is one which only affects London. As we highlighted in the joint letter we submitted earlier, shire areas frequently miss out on investment in transport and infrastructure.

Local authorities are already investing but we need to see this commitment matched by government if areas are to reach their full potential.

The SCT feel that the services that are being offered to areas piloting devolution deals include many of the services that can help to improve areas. We would strongly support the offer to devolve a wider set of services to areas that don't have an elected mayor. The consultation paper hints that in some areas governance may be a barrier to further devolution. The SCT would like to work with the department to find ways in which this can be overcome.

3. Do you have any views on the range of associated budgets that could be pooled at the Combined Authority level?

Individual areas will have their own ideas about the selection of services that can make a difference to their residents and the Society would refer the department to individual responses. Without wishing to labour the issue, our members feel very strongly that these new responsibilities must be truly new, and not simply funding stream transfers.

However, there are a number of "points of principle" that we would like to make. The main one being that services devolved through devolution deals should not impact on the quantum available to the rest of local government. In other words; the appetite of combined authorities or those areas with an elected mayor should not result directly in less services being devolved in other areas. The opportunity to improve the services offered to your residents should not be determined by an authority's governance arrangements.

4. Do you have views on whether some or all of the commitments in existing and future deals could be funded through retained business rates?

The SCT feel that to examine this issue from the quantum side of the argument would be wrong. We would like to see the maximum number of new services devolved to areas that want to take them on and if that totals more than the £12.5bn figure then the difference should be funded through grant. The quantum must not be the constraining figure.

5. Do you agree that we should continue with the new burdens doctrine post- 2020?

Yes; the new burdens doctrine ensures that newly transferred responsibilities are fully funded as well as offering increased transparency between central and local government. The SCT fully expect the move to 100% business rates retention to also include some element of grant funding. Our members would not want to see the devolution of new services delayed until a reset nor the risk them becoming unsustainable through insufficient funding.

Depending on the decision made about the length of time between resets, the Society would like to see the new burdens doctrine not only assessing the costs in the year of transfer but also projecting costs until the next reset. It is undeniable that many services provided by local authorities are likely to follow a demand pattern which is different to the pattern of economic growth. As such, when a new transfer takes place, funding must be in place in future years to ensure service viability.

6. Do you agree that we should fix reset periods for the system?

The current 50% retention scheme was introduced in April 2013. At that time local authorities believed that there would be a revaluation in 2015 and a full reset in 2020, and then every ten years. Since then we have seen revaluation delayed, the possibility that future revaluations may be more frequent, the suggestion that appeals may be treated differently as well as the notion of self-assessment with regard to business rates. There is also uncertainty about when the new needs assessment could be implemented; resulting in the 2020 assurance also being changed.

Whilst SCT members are keen to take on new responsibilities and work to improve our services and areas; we are also keenly aware that many of our statutory services impact enormously on the quality of life for many of our most vulnerable residents. The move to 100% business rates does bring with it the potential for less stability in our funding streams. We strongly urge the department to only offer the certainty of fixed reset periods if they feel it is realistic. The value of offering certainty is strongly diminished if either side feels the offer is unrealistic.

The SCT feel that the only viable alternative to fixed reset periods is some sort of trigger where funding and service demand reach a critical disparity. The Society feels this option should be fully examined before being eliminated as an option.

The critical consideration here is risk – what is the risk that future funding will not properly fund services and will the proceeds of growth be lost or retained? If the proceeds will be lost then in order to use these additional funds in long-term investment plans then a longer reset is important, but keeping a proportion of previously obtained growth would mean that shorter reset periods become more palatable.

Inevitably the answer to this question will depend not just on the type of reset but also the type of devolved services, confidence in the need assessment, the expectation of demand and the protection provided by the safety net.

7. What is the right balance in the system between rewarding growth and redistributing to meet changing need?

As highlighted in our response to question 6, our response to the question of resets will depend on many factors – none of which are known currently. Local government will need to know

- what a reset looks like and how much, if any, previous growth can be retained
- what new services will be devolved
- what the needs assessment and new burdens' assessment will look like as well as assurances about how funding and needs will be aligned in years 2 and onwards
- whether the services that local authorities already provide and which are under increasing pressure will be adequately funded in the future – in other words there is confidence that the demand projections are manageable
- what protection will be offered by the safety net
- how frequent revaluations will be after 2017; and
- whether appeals will continue to be a local issue of whether a national solution can be found.

Once local authorities know all this then it will be easier to come to a considered opinion on the frequency of resets and hence the balance between rewarding growth and funding demand.

8. Having regard to the balance between rewarding growth and protecting authorities with declining resources, how would you like to see a partial reset work?

The SCT agree that if an area works to secure growth then they should be able to keep some of it.

What will undoubtedly differ between areas is the level of effort and investment required in order to secure that growth. It also follows that if some areas are retaining their growth then there could be the risk that other areas lose out whilst the growing authority becomes “overfunded” in relation to their need assessment. The SCT consider it very important that this continuing reward does not penalise residents in other areas. The reduced quantum, as a result of greater reward for growing authorities should be reflected in the new distributable amount.

The information on partial resets that has been shared with local government through the working groups provides an illustration of a partial reset based on 2013-14 data. The modelling showed that, after 19 years and under the parameters used, 25% of authorities were estimated to be over funded by 10% or more compared to their baseline funding level.

The illustration went on to show that demand for some types of services was growing quicker in some areas than in others – something the SCT think should be addressed. We feel that a partial business rates reset should also incorporate an element of needs assessment, specifically for demand-led services such as adult and children’s social care. This would offer greater protection, as was the case in 2013-14, where the pressures and demands on a service are likely to be uncorrelated to economic growth.

9. Is the current system of tariffs and top-ups the right one for redistribution between local authorities?

Under the current system authorities providing social care in two-tier areas are protected through the tariff and top-up system. That need for protection still exists. Whilst the motivation was well meaning the end result is that some social care providing authorities are protected whilst others are not, those that are not are exposed to a level of risk which bears no relation to the magnitude of the service pressure but instead is a factor of their business rate yield and need.

Ideally the SCT would like to see authorities exposed to risk (and therefore, reward) in proportion to the demand led pressure on their budgets as well as their potential influence over business rates growth. Our members think that this is too early to consider the exact mechanics until there is more clarity over the new responsibilities and the funding formulae.

10. Should we continue to adjust retained incomes for individual local authorities to cancel out the effect of future revaluations?

Since the introduction of the current rates retention scheme, local government has still not had a revaluation nor have we had a detailed explanation of what will happen at a revaluation. It is not yet clear how growth attributable to the actions of the local authority will be protected at a revaluation. The explanation in the consultation paper implies that it is possible to adjust the system at a given date in time to cancel out the effect of future revaluations.

In principle it makes sense to adjust tariffs and top-ups following a revaluation but until we have further clarity, SCT cannot provide a comprehensive answer to this question.

11. Should Mayoral Combined Authority areas have the opportunity to be given additional powers and incentives, as set out above?

This consultation is about the mechanics of achieving 100% business rates retention. The SCT believes that these powers and incentives should be available in all areas; with or without a directly elected mayor.

12. What has your experience been of the tier splits under the current 50% rates retention scheme? What changes would you want to see under 100% rates retention system?

The SCT agrees that the issue of tier splits will need to be considered once the services to be devolved are decided upon. We also agree that there must be consideration of the balance between risk and reward.

In our response to question 9 we highlighted the need to continue to protect social care for adults and children. These services are demand led and are not correlated to economic growth. Failings in these services can have a devastating impact and therefore funding must continue to be protected.

13. Do you consider that fire funding should be removed from the business rates retention scheme and what might be the advantages and disadvantages of this approach?

With the recent initiative to improve links between “blue light services” the SCT understand the rationale for a desire to move funding for fire from DCLG to the Home Office.

Whilst those fire authorities that already exist as a stand-alone body may find this proposed transfer a simple administrative one, there are those who are currently contained within unitary or county structures that will find it less straightforward. In some cases the functions of the fire authority are completely embedded within the operation of the bigger authority. SCT members need assurance about how the fire and rescue service would be extricated from their authorities before supporting a transfer.

14. What are your views on how we could further incentivise growth under a 100% retention scheme? Are there additional incentives for growth that we should consider?

Please see responses to earlier questions. SCT members need greater clarity on the *default* 100% business rates retention model before commenting on whether additional incentives are needed.

Shire areas tend to have a much greater share of their gross rates lost through mandatory reliefs. The SCT would like to sharpen the link between the income and the needs of the residents and allow local authorities more control over the eligibility criteria for mandatory reliefs.

15. Would it be helpful to move some of the ‘riskier’ hereditaments off local lists? If so, what type of hereditaments should be moved?

In some cases the ‘riskier’ hereditaments are not only risky in terms of income but also public opinion. Whilst the SCT understands the case for moving them to the central list there is also often a need for compensation for residents which business rate retention can offer. There are also

occasions where a business' viability, location and or profitability is affected by national government policy; in which case it should not be to the detriment of local residents.

Again, the SCT are not able to provide a comprehensive answer to this question until we have more information about the operation and protection of the safety net as well as greater clarity about the criteria for a hereditament to appear on the central list.

16. Would you support the idea of introducing area level lists in Combined Authority areas? If so, what type of properties could sit on these lists, and how should income be used? Could this approach work for other authorities?

The Society believes that this should be decided by individual combined authority areas.

17. At what level should risk associated with successful business rates appeals be managed? Do you have a preference for local, area (including Combined Authority), or national level (across all local authorities) management as set out in the options above?

Under the current 50% rates retention scheme local authorities make their own provision locally for appeals. It is very likely that the combined national set aside for appeals is greater than would have been made if provision was made centrally. This means less money is available for local services than there might otherwise have been and all the risks of appeals sits with local authorities.

It is likely that there will be a regional pattern in appeals; hence somewhere between local authority level provisions and national provisions will strike the right balance.

18. What would help your local authority better manage risks associated with successful business rates appeals?

Greater information and intelligence sharing between the Valuation Office Agency (VOA) and local government would help our members assess the likelihood of successful appeals. The interaction with the safety net and the high bearing for some authorities may lead to insufficient appeals adjustments being made in some local authorities and then a reliance on the safety net. An agreed mechanism of data sharing between VOA and local government would help to standardise the appeals provisions.

19. Would pooling risk, including a pool-area safety net, be attractive to local authorities?

In the early years of the current rates retention system, many authorities who chose to pool actually lost out financially due to the way the safety net operated in a pool. This kind of pool safety net would necessitate some kind of levy or top-slice from all pool members. Those who think they are unlikely to trigger the safety net will find this unattractive.

The SCT support local discretion about whether they wish to join a pool or not.

20. What level of income protection should a system aim to provide? Should this be nationally set, or defined at area levels?

Similar to previous answers, a judgement can only be made on this once the sector understand the services they will be delivering, the funding they will be receiving and how 100% retention will look.

21. What are your views on which authority should be able to reduce the multiplier and how the costs should be met?

In billing authority areas the decision is simple as the costs fall to the decision making authority. However, in two tier areas where the decision will affect more than the billing authority this decision must be made jointly. This joint decision making is already in operation with the Council Tax Support Schemes.

22. What are your views on the interaction between the power to reduce the multiplier and the local discount powers?

Society members, none of which currently use the local discount powers are not attracted by the power to reduce the multiplier. The Localism Act already allows local authorities to offer discretionary discounts at targeted ratepayers. It is likely that offering a discount for all ratepayers will be too costly for the potential benefits.

SCT members would prefer to have the freedom to change the eligibility for other reliefs and discounts.

23. What are your views on increasing the multiplier after a reduction?

Local authorities should be free to control it themselves without capping constraints.

24. Do you have views on the above issues or on any other aspects of the power to reduce the multiplier?

As with all other freedoms and responsibilities these should be granted to all local authorities, regardless of whether they are in a combined authority or have an elected mayor.

25. What are your views on what flexibility levying authorities should have to set a rateable value threshold for the levy?

This should be decided locally.

26. What are your views on how the infrastructure levy should interact with existing BRS powers?

Currently no SCT members use the existing business rates supplement hence our members do not have a seasoned opinion.

The business rates administration consultation hinted at a way to capture smaller, businesses who tend to trade on-line. The SCT would be interested if there were such a way that these businesses can be asked to contribute to the local area when their physical footprint often means they are exempt from paying.

27. What are your views on the process for obtaining approval for a levy from the LEP?

SCT members range from sharing boundaries with single LEPs to having 3 LEPs covering their local authority. Naturally, this can add complexity if they need to give their approval. The SCT suggests that the LEP are consultees to the authority's budgets rather than approvers.

28. What are your views on arrangements for the duration and review of levies?

The SCT agree with the Department's suggestion; that the duration of the levy should be indicated in the initial prospectus.

29. What are your views on how infrastructure should be defined for the purposes of the levy?

The SCT agree with the suggestion outlined in the consultation paper.

30. What are your views on charging multiple levies, or using a single levy to fund multiple infrastructure projects?

The SCT agree with the suggestion outlined in the consultation paper; that multiple levies could be levied as long as they didn't exceed the 2p limit.

31. Do you have views on the above issues or on any other aspects of the power to introduce an infrastructure levy?

No, although the SCT are mindful that there is only so far you can push businesses; asking them to fund services locally which historically would have been funded by local authorities and/or central government.

32. Do you have any views on how to increase certainty and strengthen local accountability for councils in setting their budgets?

The consultation is hinting at removing the legislation which requires government to make annual settlements to local authorities. The SCT are interested in obtaining increased certainty through the use of multi-year settlements but would prefer if this was discussed fully with central government as to how this would work and how many years a settlement would cover.

As we mentioned earlier, the SCT still envisage some kind of specific or section 31 grants remaining part of the funding even after 100% business rates retention is achieved. The success of multi-year settlements will be determined not just by what local government do with the additional certainty but also how well central government are at leaving the funding system untouched in the relevant years.

33. Do you have views on where the balance between national and local accountability should fall, and how best to minimise any overlaps in accountability?

The Society believes that this discussion should take place in greater detail once the devolved services are decided upon. Funding from other departments frequently comes with its own rules and reporting requirements. If Government are really keen for local spending decisions to be scrutinised locally then local authorities need to be free to spend their funding in a way that suits their residents.

34. Do you have views on whether the requirement to prepare a Collection Fund Account should remain in the new system?

The SCT think that the requirement to prepare a collection fund account should remain. The collection fund helps the transparency of assumptions around estimates and actuals as well as providing a consistent benchmarking figure.

35. Do you have views on how the calculation of a balanced budget may be altered to be better aligned with the way local authorities run their business?

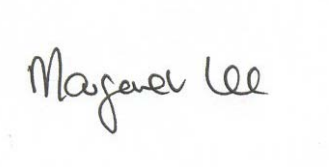
The SCT supports improvements to financial reporting that increase transparency and make reports which are better aligned to how local authorities are financed. The sum outlined in the consultation seems appropriate but the SCT would be interested to see an alternative format.

36. Do you have views on how the Business Rates data collection activities may be altered to collect and record information in a more timely and transparent manner?

The SCT would prefer to consider this question once the design of the business rates retention model is closer to completion.

The Society hopes that you find these responses helpful in providing a summary to ministers of the work to date towards 100% business rates retention. As highlighted in a number of our responses, there are still many unknowns to be decided and the SCT look forward to continuing to work with the department through the steering and working groups.

Yours sincerely



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XX August 2016

Fair Funding Review

Dear Matthew,

The Society of County Treasurers (SCT) is comprised of all Chief Financial Officers from the twenty-seven shire counties in English local government. Following the reorganisation of local government in 1997 and 2009, the SCT also includes eleven shire unitary authorities that have similar interests in local government issues. Together, these authorities represent 46% of the population of England and provide services across 87% of its land area.

Thank you for this opportunity to contribute to this call for evidence. The Society is keen to contribute to the Department for Communities and Local Government (DCLG) and Local Government Association's (LGA) work to implement 100% business rate retention. Members are represented on the main Steering Group and four technical working groups including the Needs and Redistribution Technical Working Group.

Throughout this work programme the Department has encouraged local government to engage with them not just through the working groups and formal consultation process. For this reason the Society wrote to DCLG, LGA and HMT in early August outlining their views regarding the proposals in this consultation and the '100% Retention of Business Rates' consultation to date and how these could be developed. A copy of the letter is attached to the end of this response, which addresses the specific questions posed in the Fair Funding Review consultation.

Q1: What is your view on the balance between simple and complex funding formulae?

The SCT has long argued against the complexity of the Four-Block Model which was opaque and extremely difficult to explain to elected members and taxpayers. Since the four block model's introduction it has been widely discredited – both independently and from within the sector. The Society, however, does not believe that complexity, per se, is a problem; local authorities deliver a wide range of services to a broad spectrum of people.

However, when a funding model results in unexplainable results, unfair treatment of resources and heavy-handed levers of ministerial control, then that becomes unacceptable.

Different local services will face demand driven by different demographics or geographical landscape. The current reliance on regression encourages statisticians to look for increasingly complex formula in an attempt to replicate the historic pattern of spending or activity. By basing future allocation on past spend the line between past and future funding is cemented and old funding inequalities are “locked in” to the system.

The Society therefore believes that a sensible approach would be for simplicity first with additional layers of complexity argued and evidenced for on a case by case basis. For example, start by funding services on an appropriate per capita basis (per elderly person, per km of road for example) before hearing evidence about demand and incorporating other measures into the formula.

Q2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

Excluding Education the largest service area for members in terms of expenditure is Adult Social Care. It is therefore of paramount importance that the increasing demands of this service are not just captured now but for the period until the next reset. The consultation running alongside this call for evidence suggests that the partial resets may also incorporate some measure of need reset for services which are “demand led”, such as adult and children’s social care. Given the potential impacts of failures in these services the SCT would be wholly supportive of demands and funding in these areas being reviewed more frequently.

A key element of this work will be through engagement with the Department of Health and their work since the last formula update on developing social care formulae. This includes the Advisory Committee on Resource Allocation’s (ACRA) work to review and recommend changes to the public health formula to calculate 2016-17 allocation. We also understand that in anticipation of the Care Act the Department commissioned work from LG Futures on updating the adult social care relative need formula (RNF). At the time of writing local government are also expecting the Improved Better Care Fund formulae consultation. Members believe that this developmental work will provide a strong platform for the work of the Formula Funding Review in getting the considerable adult social care element right.

However, our earlier comments still remain – that future allocations cannot be based upon past spend and/or activity. A well-funded area will be able to do more and spend more than an area which is relatively underfunded. The SCT strongly urge the department to speak to directors of adult social care to understand the demand pressures and ensure that these are funded adequately rather than relying on regression analysis to lock in past funding patterns.

There are many other services being provided by our members which are coming under increasing pressure. For example school transport costs are increasing as the number of maintained schools converting to academies grows (who are responsible for the qualifying criteria). Historical pressure on concessionary fares budgets has meant that, in some areas, the difficult decision to offer reduced bus services is masking the true unfairness of the current funding. The SCT believe that an approach to funding local services based more on actual service demand levers will address many of these current issues.

We also urge the department not to be constrained by the current allocations. If a new formula is rigorously constructed and consulted upon but offers a different pattern of funding then, transitional arrangements aside, it should be implemented.

Q3: Should expenditure based regression continue to be used to assess councils’ funding needs?

The Society believes that a system whereby future funding allocations are calculated on the basis on past spending decisions is not one that supports future funding need. Instead it simply imbeds

past funding decision whether these were by the local authority itself or the government in determining the funding need and damping levels of local authorities.

It is of paramount importance that service needs are not just captured for services now but for the lifetime of which the formula is expected to apply. This is vital for a needs assessment that is expected to be “frozen” for a numbers of years under the business rates retention scheme during which population increases are expected to causes significant service pressures for demand led services such as Adult Social Care.

Members are excited at the possibility of designing a distribution system from a “blank sheet of paper”. At the July Needs and Redistribution Working Group the SCT highlighted research by Plymouth University which was commissioned by the Police and Crime Commissioners Treasurers’ Society (PACCTS) in relation to the Home Office’s review of the Police Funding Formula. This approach proposes bringing together representatives in each service area to agree the key cost drivers in providing each service to drive an average cost for each service. SCT also believes that this approach will provide the incentive effect that the Government are keen to incorporate.

At the meeting it was agreed that ALATS members would form a group to consider putting forward a funding proposal based on this concept whereby local need is driven by a common basket of place based indicators that give a fair reflection of local need, considering primary cost drivers for all local areas. This approach focusses on existing and emerging service need rather than historical need to spend. It therefore provides the mechanism to establish a funding formula that is not just relevant today but future proof as well.

Q4: What other measures besides councils’ spending on services should we consider as a measure of their need to spend?

See Q3. The SCT consider that councils’ spending on service is a very poor measure of need as it will be dependent on whether they were adequately funded or not in the past.

Q5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

See Q3. The SCT wish to make it clear that members do not have an issue with the regression technique, per se. However, until there is a reliable measure of need (the dependent variable) that is not based on historic spending or activity we cannot support its use.

Q6: What other considerations should we keep in mind when measuring the relative need of authorities?

See Q3. The new funding formula must be capable of reflecting future demands for services. For example, the introduction of the Care Act will change the pattern of demand for adult social care from being driven by derivation to being more associated with an aging population.

Q7: What is your view on how we should take into account the growth in local taxes since 13-14?

The SCT recognises that local capacity to raise income (including council tax) will need to be considered as part of this review.

The proportion of an authority’s budget which is funded by council tax varies hugely across the country. There can, of course be many reasons for these differences; however, past local government settlements have frequently included an element of resource equalisation – the impact of which falls heaviest in areas with large tax bases.

When council tax was introduced it was based on property values as a suitable proxy for wealth. Since then the housing market has changed drastically and the resulting comparison between wages and council tax makes for interesting reading.

Residents in shire areas are paid, on average, 11% less than the national average. However, they tend to pay nearly 6% more in council tax.

When compared to London boroughs, shire residents earn 20% less but it is the residents in London that pay 4% less than shire residents.

Residents in shire areas earn, on average, 11% more than residents of metropolitan areas but pay almost 30% more for their services.

It is clear that the assertion that using 1991 house prices as a proxy for wealth is no longer valid. In the interests of fairness and transparency the SCT firmly believes this issue needs to be discussed openly and addressed as part of the fair funding review. Leaving the current status quo in place risks undermining any work to create a fair funding formula and is unacceptable.

On the subject of locally raised taxes the SCT would also like to see a review of the current council tax support scheme – specifically the protected demographics in shire areas. In a similar way that the Society are calling for freedoms in relation to funding through business rates we would also support having the freedom to vary the eligibility criteria for current discounts and support.

Q8: Should we allow step-changes in local authorities' funding following the new needs assessment?

Members believe that service provision to the local population should be managed as effectively as possible throughout the Formula Funding Review process. Members agree that transitional arrangements are an important part in ensuring this is maintained if any new needs assessment results in a significantly different distribution pattern by allowing local authorities the time to financially plan for them.

The Society believes that there is a balance between moving to the new distribution as quickly as possible and a safe transition period that takes account of the scale of funding changes local authorities can cope with. Members believe that specifying where this balance should be set without knowing the magnitude of changes caused by any new needs assessment would be misinformation.

For the devolution of new responsibilities as part of 100% business rate retention members agree that, where possible, existing distributions should be continued for a transitional period and consistent with principles set out for future models.

Q9: If not, what are your views on how we should transition to the new distribution of funding?

See Q8

Q10: What are your views on a local government finance system that assessed need and distributed funding at a larger geographical area than the current system – for example, at the Combined Authority level?

The move to 100% business rate retention and the Fair Funding Review is expected to lead to significant changes for local government funding. The Society believes that changes to the current local authority geography system would add unnecessary further complexity to the system. Instead members believe that local authorities are best placed to consider and decide upon what is appropriate in their local area, be that combined authorities, pooling of budgets or collaboration.

Q11: How should we decide the composition of these areas if we were to introduce such a system?

See Q10. This is something that should be decided on an authority-by-authority or region-by-region basis. A truly fair funding formula where the assessment of need and distribution of funding are seen to be fair will help to facilitate this.

Q12: What other considerations would we need to keep in mind if we were to introduce such a system?

See Q10

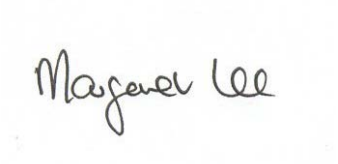
Q13: What behaviours should the reformed local government finance system incentivise?
Q14: How can we build these incentives in to the assessment of councils' funding needs?

The approach for reaching a fair funding formula that we outline above would produce a weighted per capita approach for each local authority area (or region). The SCT believe that fair funding puts local authorities on a fair footing, should reduce the "postcode lottery" of services and mean that directors of services can get on with running the best services they can knowing that their funding allocation does not put them at a disadvantage. The SCT do not believe that any further incentivisation is needed in the formula.

The SCT calls on the Government to publish a more detailed timetable of implementation – giving local authorities an implementation date to work and plan towards. It is also important that decisions are made regarding devolved services as soon as practicable, to enable discussions in other areas to continue. Recent political developments such as the EU referendum, a new Prime Minister as well as new Secretaries of State means that local authorities are operating in a time of unprecedented uncertainty.

The Society looks forward to continuing to engage in the development of the needs assessment and the implementation of 100% business rates retention and awaits the Government's response to this consultation and the 100% Retention of Business Rates' consultation.

Yours sincerely



Margaret Lee
President
Society of County Treasurers

Annex A

Letter from SCT and SDCT to DCLG, LGA and HMT regarding 100% Retention of Business Rates and the Fair Funding Review consultations

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8 August 2016

100% Retention of Business Rates and the Fair Funding Review

Dear Matthew, Sarah and Chris,

This is a joint letter from the Society of County Treasurers (SCT) and the Society of District Council Treasurers (SDCT). Together, these authorities represent 46% of the population of England and provide services across 87% of its land area.

Both the societies will be responding individually to the consultation on 100% business rates retention but given the commonality of our geography and demography we felt there might be some benefit from an early letter outlining what we see as the broad issues. The two societies already have good links with both the LGA and DCLG and we hope this letter might help shape further discussions over the consultation period. We recognise the huge shift in funding that the move to 100% rates retention represents and want to ensure that shire areas are well placed to take full advantage of the potential benefits.

Both societies are represented on the Steering Group as well as at the working groups. The links between the groups is evident to see; hence many of our answers will be predicated on decisions elsewhere. For example, considerations about what appropriate protection could be provided by the safety net will be affected by the levels of risk in the system – either in terms of sufficiency of funding, demographic growth, revaluations, reset periods or the national economy.

Given the interplay between the work streams, the SCT and SDCT members have agreed a set of principles that we feel should govern the way this work is approached:

- Unfunded pressures must be the first call on the quantum; this is particularly important given the pressure on social care budgets and the impact on the NHS. Similarly new burdens must also be properly funded.

- Local government must facilitate healthy local economies and drive business growth in order to reap the benefits of business rates retention
- The new funding system must be focussed on the needs of our residents; starting with a relevant per capita basis and taking all funding streams into account
- The local government sector must fully engage with the consultation and review process in order to create a system which can be tailored to local needs and opportunities.
- There must be transitional arrangements in place to enable a smooth shift to the new system and to assist planning.

Irrespective of the final distribution of Business Rates there is clearly a link between the ability of an area to generate future business rate growth and the existing strategic infrastructure and capital investment streams. Shire areas have frequently been disadvantaged in this area; with Government investment historically favouring large cities.

Both the districts and the counties in shire areas invest for economic growth. This needs to be accompanied by further investment in our infrastructure from Government for areas to achieve their full potential.

Complexity
The current 50% scheme is complex, and is made more so by concessions made to businesses since its introduction (capped multipliers, temporary and then permanent doubling of small business rate relief). On top of these complexities and their accompanying compensation grants, there are other features such as Enterprise Zones, renewable energy projects and safety nets which have made the system unwieldy in a very short period.

In addition to this complexity at a national level; the current system of tariffs and top-ups creates an environment where there is a huge spectrum of risks & rewards between individual authorities. Those authorities with large top-ups will see little benefit of economic growth in their budgets whilst conversely not seeing the impact of a declining tax base. At the other end of the spectrum, made even starker by the removal of levies, 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.

At the time that the current system was being initiated ministers took the decision to protect social care-providing authorities. Hence, all upper-tier and some single tier social care providing authorities are insulated from decline in their area; but not all social care authorities receive the same degree of protection. The same is true for planning authorities who are said to control the “levers of growth” – the incentives (and consequential risks) vary between authorities.

It is against this background that the new system is being introduced, and already it is clear that it will be even more complex; we are witnessing a number of devolution deals being agreed with what we refer to as “asymmetrical devolution” – meaning different services being devolved in different areas. In addition, the Department is agreeing a number of pilots of the new 100% retention system. The SCT and SDCT consider it vital to increase the transparency of these pilots, including any impact on the quantum. The two Societies believe it is important that we capture learning from these pilots, but also seek assurance that these pilots will not impact on the total quantum to be distributed alongside additional responsibilities. It would be inequitable for funds to be allocated to areas that are given pilot status, with the result that there is a reduced amount of remaining funds for all other authorities.

Alongside these two consultations the Department is also considering whether to introduce more frequent revaluations. Given that local authorities, under the current business rates system, have never yet experienced a revaluation it is difficult to quantify the turbulence and shifts that might occur at such a time. If the result of this consultation is that revaluations do become more frequent this is likely to become an even greater issue.

Whilst the aims of the system appear relatively simple; to fund local services whilst creating an incentive for local economic growth, all of these issues mean that the mechanics of the future system will certainly be complex. The SCT and SDCT ask that civil servants and ministers recognise this but also aim not to add to this complexity.

The Quantum

Current forecasts of the "quantum", the additional amount available for redistribution, range from an additional £11-15bn. The current economic environment is very uncertain and this, together with increasing levels of risk in service delivery is in danger of being "locked" into the business rates retention scheme.

With all the current uncertainty surrounding the recent decision to leave the EU, as well as the change of leadership at number 10 and the rest of cabinet, it would seem prudent for these forecasts to be revised, reflecting the consensus that we are entering into a period of reduced growth compared to that forecast prior to the 23 June. This revision will also need to take into account the current push to convert more maintained schools into academies, which as charities are exempt from 80% of their rates bill, as well as the threat of legal action from NHS trusts who consider they are eligible for reliefs from business rates.

The consultation paper in question quotes £12.5bn additional quantum, please can the basis for this forecast be shared with local authorities. To aid the work going forward, it is important that there is transparency regarding the calculation of the quantum, including a clear statement of the assumptions regarding growth and inflation.

The Societies note that the quantum has already been top-sliced for Transport for London (TfL); this is a national income stream and top-slicing in this way will see residents in one part of the country immediately at an advantage over their fellow citizens. Funding for TfL should have been secured from elsewhere.

New Responsibilities

The Needs and Responsibilities workstream is looking at what services or grants could be transferred to local government to be netted off against the quantum.

Each Society will respond more fully to the consultation questions regarding new responsibilities in our respective responses but both wish to highlight now that many of the suggested "new responsibilities" are, in fact, not new responsibilities at all. They merely represent a change of funding stream from specific grant to business rates.

The recent House of Commons CLG Committee Interim Report on this issue set out some principles on which decisions on new responsibilities should be based including giving local government genuine discretion over how services are provided. The report also suggested that responsibilities should be linked to economic growth such as skills and transport.

The SCT and SDCT agree with this approach and want to see powers devolved to them that really are new and that fit appropriately with funding coming from business rates. For example; growth funds, skills and higher education, infrastructure funding and transport investment. Local government want to be able to control their budgets properly in a way that can make a difference locally; not simply administer a benefit or continue providing a service that used to be funded via a specific grant.

Local Resources

Currently a proportion of a local authority's budget is financed by council tax. This proportion ranges between individual authorities and there can be many reasons for this difference. Over the last decade and a half the Government have continually carried out what is referred to as "resource equalisation", the result of which has always been to penalise those authorities with large tax bases. The resulting inequalities across the country are stark.

Despite many shire residents working in cities and metropolitan areas, according to the Annual Survey of Hours and Earnings (ASHE), wages for residents in shire areas are generally 11% lower than the national average. Yet the average adult living in a shire area will pay over 5.6% more towards the costs of services through their council tax.

When compared to London, residents living in shire areas earn, on average, 20% less. However, residents in London pay 4% less in council tax than those in the less affluent shires.

Despite wages in shire areas being, on average, 11% higher than metropolitan authorities, the shire residents pay almost 30% more in council tax.

Although less easily quantifiable, it is generally accepted that residents in shire, and often rural, areas will tend to receive less services (either through removal of service or reduced hours) as well as travel further to reach them.

When council tax was introduced it was intended to be related to wealth. It was therefore based on property values because, at the time, it was felt this was a suitable proxy for wealth. However, almost 30 years since the last revaluation, it is indisputable that residents in shire areas are paying more than any other class of authority for their services. This is not because shire areas are less efficient, but because the proportion of central funding is less, and therefore a larger element of funding has to be met locally. This is inequitable in terms of affordability for the 46% of the population who live in shire areas and contribute to the economy.

In the interests of fairness and transparency, we firmly believe that this issue needs to be discussed openly and addressed as part of the BRR work. Council tax makes up a considerable element of local authority budgets and ignoring the current inequality risks undermining the whole process. In our view, the 100% retention of Business Rates cannot be viewed in isolation from funding through council tax and it is not tenable for the Department to state that these will not be considered.

Funding the Current Pressures

Both Societies feel very strongly that before new areas of responsibility are devolved, there must be some accommodation to meet unfunded current pressures which are considerable. These have arisen and will continue to arise from the reductions in central government funding, and the increase in demographic growth. Evidence was provided after the provisional settlement of the impact of these pressures going forward.

There are complex interdependencies between the NHS and local authority services and finances – where one service is underfunded there is the potential for devastating consequences in the NHS; some of which are becoming more visible recently.

At the 2016-17 Settlement the DCLG introduced a new measure called Core Spending Power; this includes:

- The Settlement Funding Assessment,
- Council tax requirement including the Adult Social Care precept and £5 flexibility,
- New Homes Bonus
- Rural Services Delivery grant, and
- Transitional grant (introduced between provisional and final settlement for 2 years)

From 2017-18 the Core Spending Power (CSP) will also include the Improved Better Care Fund.

Whilst neither Society supports the use of the CSP figure as a transparent way of communicating the pressures to residents we accept that it has become the Government's preferred way of summarising grant settlements. It is for this reason that we have used it to illustrate the funding discrepancies.

In 2016-17 residents of all ages in shire areas received £741.70 per head of CSP funding; this is 6% less than the national average; 5% less than metropolitan districts and 24% less than residents in London. Ministers are also keen on showing figures by dwellings; in which case shire areas receive 7% less than the national average; 6% less than metropolitan districts and 31% less than London.

As explained above this CSP figure includes the council tax which we have already shown to be unfair for shire residents. If you strip out the element of the CSP for council tax the differences become starker. Individual residents in shire areas receive, on average, 20% less than the national average; 33% less than metropolitan residents and over 46% less than residents in London. When number of dwellings replaces the resident population shire areas receive less than half that of London.

The members of the need and redistribution working groups have agreed on the importance of getting the ASC funding right. For SCT members this makes up the biggest proportion of budgets after education. The proportion of the population aged over 85 in shire areas is forecast to double in the next 20 years – this is the fastest growth in ageing of all authorities. Those aged over 65 are set to grow from 20% of the population in 2016 to well over a quarter of all residents by 2036. Only London is forecast to see a greater rate of growth of over 65s by 2036, however they remain a low proportion of the resident population at just over 15%.

For Shire Districts, the highest proportion of funding goes on Waste collection and recycling, Planning and Building Control and Leisure and Open Spaces. These are services which touch on the lives of every resident. Not only can Planning services contribute to the growth agenda, ensuring both housing and business growth occurs in a sustainable way but these are all services which contribute to the wider health preventative measures and which residents see as essential. Leisure and open spaces whilst a totally discretionary service, plays a significant role in both the physical and mental well-being of the population and reduces pressure on NHS services.

Before any further services are devolved there must be assurance that these pressures will be adequately recognised by the new Fair Funding formula but also fully funded past the baseline year. In many cases there is little or no correlation between demand for services and economic prosperity.

If the issue of unfunded pressures is not addressed soon, the impact on the NHS will grow. Already we are seeing an increase in delayed discharges. The recent NAO report on this issue highlighted that there has been a 31% increase in bed days taken up due to delayed transfers. The amount of people waiting for a package of homecare over the last two years has increased by 100% and the amount waiting for a nursing home placement has increased by 63%. There are still 2 more years of very significant reductions to RSG before the new BRR system is introduced. Without some additional injection of cash to the social care system, the impact on the NHS will worsen considerably and it would seem opportune to allocate some of the quantum against this heading to allow care to be provided in the care sector which is considerably cheaper than that provided by the NHS.

Flexibility

Currently local government are able to vary the council tax precept they set locally. This is done openly through each Council by elected members who are subject to re-election every 4 years. The introduction of freeze grants and referendum limits have diluted this in recent years but the link still remains that locally raised taxes can be increased to fund services or decreased to reflect local decision making.

The SCT and SDCT believe that this level of flexibility and accountability with regard to business rates should be introduced; not just in areas with an elected mayor. The current proposal to allow local authorities to reduce the multiplier sees no further devolution of powers than those already laid out in the Localism Act. Even areas with an elected mayor will only be allowed to increase

rates if they have agreement from business and the additional funding is to be spent on infrastructure.

If business rates really are replacing Revenue Support Grant (RSG) as one of the primary means of funding local services then local authorities need the power to spend their additional income without restrictions. RSG was used for the totality of the budget; so business rates, even additional rates as a result of an increased multiplier, should come with the same freedoms.

As the proposals currently stand there will be an inequitable impact on councils without directly elected mayors and on the associated service provision for the residents in these areas. Given this, we believe freedom to increase business rates should apply to all. We request to see the Equalities Impact Statement accompanying this decision to limit flexibility.

Our members also request that the Government removes the mandatory discounts applied to both the council tax (i.e. single person discount) and business rates. Given the pressures that local services are under, current burdens will need to be the first call on the new quantum but it will also be necessary for local authorities to be able to exercise genuine flexibility on their income streams.

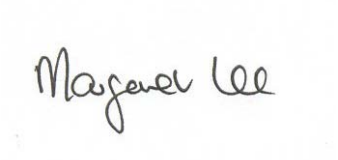
In some services, rigid legislation means that local authorities are not able to tailor the services provided to meet the needs of their populations. Being able to vary the eligibility or statutory requirement for services would help address this.

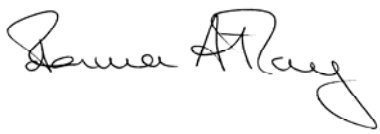
Funding Assessment
The Societies support these two consultations being published in conjunction with each other as the issues of need and resourcing are so closely linked. It is critical that both systems are fit for purpose but they must also work alongside each other. In theory it is possible to match need and resources in the baseline year but the result will be varying levels of risks/rewards. As time goes on and we begin to see revaluations and partial resets and then possible further alterations to the system of mandatory reliefs not to mention demographic growth, need and resources are very likely to diverge. The two Societies are very keen to ensure that this doesn't happen – that services are always fully funded and turbulence in the system is minimised.

The current funding baseline is based on a discredited system of thresholds, scaling and ministerial discretion. The underlying need formula only serves to lock in the past patterns of over/underfunding by regressing to past spend and/or activity. The SCT and SDCT want to see all local authorities start from an equal position where need is funded through agreed cost drivers and not past funding.

We hope you have found this letter helpful. We believe it is right that we set out at this stage some of the high level principles that we believe should be adopted going forward. We do appreciate the openness and collaborative nature that the Department and the LGA have adopted in working with all colleagues, and look forward to continuing that way of working going forward.

Yours sincerely





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