

From: Paul Carter, Leader of the Council
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To: Cabinet 26th September 2016

Subject: **Business Rate Retention Consultation**

Classification: **Unrestricted**

Summary:

The government launched a consultation paper “Self-sufficient local government: 100% Business Rates Retention” on 5th July. This consultation deals with the legal aspects of the proposed devolution of all the proceeds from local business rates to local authorities, as announced in the Autumn Budget 2015 and Queen’s Speech 2016. It is anticipated that a bill will go before parliament in this session.

At the same time the government also launched a separate call for evidence paper on Needs and Redistribution to help reset the existing distribution of funding through baselines and tariffs/top-ups. This redistribution aspect is vitally important but does not require primary legislation.

This reports sets out the main issues in both the consultation paper and the call for evidence together with KCC’s initial assessment. Final responses are included appendices for endorsement by Cabinet. The deadline for responses to both documents is the same day as Cabinet i.e. 26th September.

Recommendation(s):

Cabinet is asked to ENDORSE the formal consultation and call for evidence responses.

1. Introduction

- 1.1 The current arrangements for local government finance were introduced in 2013. These allow for 50% of business rates to be retained locally (subject to tariffs and top-ups which perpetuate the national pattern of redistribution under previous grant regimes). The remaining 50% is pooled nationally and allocated via revenue support grant (RSG) and other grants to fund local authority services (details of which grants are funded from the central share have not been made available).
- 1.2 The current arrangements are incredibly complex and have been comprehensively explained in KCC’s Medium Term Financial Plan (MTFP) documents. Significant changes to local authority funding arrangements were previously made in 2006 and 2011. This illustrates that local authority funding reviews are commonplace and can be fast moving.
- 1.3 The biggest challenges under the current arrangements are the significant reductions in RSG which have been made since 2013 (and are planned up to 2019-20), and the level of financial risk that councils face due to business rate

appeals and avoidance. In two tier areas the upper tier authority is largely immune from volatility in business rates as they receive a small share of the local yield (18%/20%) and receive a large top-up based on historic baseline grants.

- 1.4 The distribution of RSG was altered in 2016-17 with reductions made pro rata to a combination of historic grant and council tax income (previously reductions had been pro rata to individual elements within RSG). This change was announced in December 2015 with no prior consultation or notification and had a significant detrimental impact on KCC's grant settlement (and those for other shire areas). We have consistently challenged the RSG distribution on the basis it inadequately reflects needs in shire areas and we opposed the late changes introduced for 2016-17 as a further retrograde step.
- 1.5 The government's intention to allow local authorities to keep 100% of the local business rates and to scrap core grants was first announced at the Conservative Party conference in 2015. It was subsequently confirmed in the Autumn Budget Statement in November 2015 and included in Queen's Speech in March 2016. Formal consultation on the aspect requiring primary legislation was launched on 5th July. A separate call for evidence on the fair funding needs led redistribution of resources was launched on the same day. KCC's final responses to these are attached as appendices 1 & 2.

2. Essential Features of New Proposals

- 2.1 The use of property based taxes to fund local services dates back to medieval times. In Kent we have one of the best documented examples where landowners on Romney Marsh paid a local tax to fund the maintenance of sea defences and land drainage. This local tax was in force from 1252 to 1932. Business rates were used more widely as the basis of Elizabethan Poor Laws and provided revenue for municipal corporations established in the 19th century.
- 2.2 The concept of redistributing business rate income via a block grant mechanism is more recent, having been introduced in 1929. This was the start of the trend throughout the 20th century of increasing centralisation of business rates. This culminated with the introduction of National Non Domestic Rates in 1991 which put in place national arrangements for the first time with all yields pooled and redistributed via block grant. Only recently has this trend started to reverse through the un-ring-fencing of grants and local retention. The latest retention proposals should continue and extend this de-centralisation.
- 2.3 Under the proposed new arrangements individual authorities would retain all the proceeds from local business rates. It is estimated this will amount to an extra £12.5bn by 2020. It is clear that the government intends this will come with matching new responsibilities i.e. existing spending, and thus will not compensate for planned RSG reductions up to 2019-20. The consultation makes no reference to how the other local authority grants (unspecified) currently funded from the 50% central share of business rates will be treated following 100% local retention.

- 2.4 It is clear that under the new arrangements individual authorities will not necessarily keep all the business rates raised in their local area and a system of redistribution based on tariffs and top-ups will continue. Effectively this means that 100% retention means local authorities retain 100% of any growth in the tax base (or suffer from any decline), rather than retaining 100% of the yield. The baseline for these tariffs and top-ups will need to be agreed as part of the new arrangements. The existing baseline for the current 50% retention will also be reviewed as part of the new arrangements (but this does not require primary legislation and hence is covered in a separate call for evidence and later consultation). The baseline for the newly devolved responsibilities will need to be established once the areas for further devolution have been agreed. The baseline (and therefore tariffs/top-ups) would be set for a fixed period, after which it could be fully or partially reset including some or all of the retained growth (or decline). The various options around resets are considered in the consultation.
- 2.5 The devolution aspects of the new arrangements are likely to be the most contentious, and are considered in the subsequent section. The consultation also deals with local flexibility over business rates, rewarding growth and sharing risk, and accountability and accounting issues.
- 2.6 Some changes to business rates were announced in the March 2016 Budget:
- taking the smallest businesses (those with a rateable value of less than £12,000 such as small shops, vehicle repair workshops, etc.) out of business rates altogether through permanent relief from April 2017
 - allowing more businesses (those with rateable value under £51,000) to be charged the lower business rate multiplier from April 2017
 - the NNDR multiplier or all businesses to be uprated by Consumer Price Index (CPI) from April 2020
- These changes will reduce the business rate yield. At the time of the announcement it was confirmed that local authorities would be compensated by a separate grant. There are no further details about this grant in the consultation.

3. Devolution Proposals

- 3.1 By far the most significant aspect of the new proposals is the devolution of additional responsibilities. The consultation states that this devolution should be fiscally neutral i.e. at least equivalent to the additional local share to be retained, and allows for top-up funds if the further devolution exceeds the additional business rate income.
- 3.2 The consultation proposes that the devolution should be founded on four core principles:
- Build on the strengths of local government i.e. represent opportunities for greater integration across local services, remove barriers, reflect appetite for local delivery and local capacity
 - Support the drive for economic growth e.g. links to local employment, skills and infrastructure
 - Support improved outcomes for service users and local residents

- Take account of medium-term financial impact on local government e.g. costs should be predictable, relative to changes in business rate tax base, demand is stable or can be managed

These principles appear to be sound; however, some of proposed responsibilities in the paper do not appear to fit well with them.

- 3.3 The consultation paper suggests 10 possible areas for further devolution. The majority of these represent existing grants already paid to local authorities e.g. remaining RSG, Rural Services Delivery, Public Health, Early Years, Youth Justice, Council Tax Support and Pensioner Housing Benefit Administration Subsidies, and GLA Transport. The possible transfer of grants also includes the Improved Better Care Fund planned to be introduced from 2017-18.
- 3.4 It is questionable whether transferring existing grants to be funded out of local business rate yield constitutes further devolution. It achieves the aspiration of fiscal neutrality and where it includes the un-ring-fencing of grants allows some additional local flexibility. However, it also means that income to support these activities is likely to be more volatile as a result of changes in the business rate tax base (in many cases these grants are currently allocated according to either activity or relative need). Hence, devolution presents additional risks for local government.
- 3.5 The Early Years element of Dedicated Schools Grant (DSG) is an example of an existing grant which is proposed to be devolved. The grant is currently worth around £2.7bn nationally to local authorities in 2016-17 and is allocated according to the actual number of 2, 3 and 4 year olds taking up the Early Years offer. If the grant is fully devolved then changes in participation rates would not necessarily be funded and it is unclear from the consultation whether authorities would have the ability to tailor local schemes. It is also unclear whether the extension of entitlement from 15 hours a week to 30 hours will be fully funded within the business rate devolution. If not, this could present a significant financial risk for local authorities.
- 3.6 A number of the existing grants are already funded out of the 50% central share of business rates under the current arrangements. Therefore devolution does not present such a challenge for these grants other than they will in future be funded out of a combination of local retained business rates and tariffs/top-up derived from the baseline. This would mean that existing formula would only be reflected in the baseline and would be fixed until the next reset. This could leave authorities with funding shortfalls between resets.
- 3.7 The most significant proposed further devolution would transfer responsibility for Attendance Allowance payments to local authorities from the Department for Work and Pensions. Attendance Allowance is paid to approx. 1.5m UK residents aged over 65 who have care needs (need help with daily activities). It is non-means tested and applies to claimants with disabilities or illness. It does not cover those with mobility needs. It is paid as a weekly amount (£55.10 or £82.30 depending on severity of need) directly into recipients bank accounts. It does not have to be spent on care support. It is estimated that total spending on Attendance Allowance payments will be £6bn by 2019-20.

- 3.8 The proposed devolution of Attendance Allowance is likely to cause most comment in consultation responses. At this stage it is unclear whether the proposed devolution would leave local authorities with the responsibility to administer the current scheme or whether authorities would be able to vary the criteria and/or amount (it is clear that support for existing claimants would be protected). There is a strong risk that responsibility for a growing demand for Attendance Allowance ends up being devolved due to an ageing population.
- 3.9 There are also concerns that Attendance Allowance is non-means tested (while other aspects of local authority social care remain means tested), and devolution could lead to earlier contact with potential social care clients (with the attendant risk of rising demand for local authority social care) and income from charging could reduce (if the authority had the option to reduce Attendance Allowance amounts). There are also concerns that devolution risks undermining the vital role played by Attendance Allowance in keeping people out of the formal care system, of supporting carers (and their access to Carers Allowance), as well as a number of other potentially significant issues if devolution means authorities have to consider reducing Attendance Allowance for new clients. The proposed devolution of Attendance Allowance does not include Personal Independence Payments for those aged under 65.
- 3.10 Many local authorities are likely to respond that first priority from 100% business rate retention should be to address unfunded pressures. At a time when funding from central government has been reducing for a number of years (and the power to raise council tax has been limited by referendum requirements) most local authorities have had to deal with rising demand for/cost of services. Many of these additional spending pressures are either a direct result of central government policy e.g. National Living Wage, removal of National Insurance rebate; or arise from demographic or economic trends. This has meant that most local authorities have had to make far greater savings than those required to offset the central government funding reductions. The main problem with using retained business rates for unfunded pressures is that it would not meet the fiscal neutrality condition.
- 3.11 The consultation considers separately whether the funds from 100% business rate retention could be used to support devolution deals. This carries the risk of making an already very complex system even more complex as authorities in different areas could end up having different responsibilities funded from the same source. This is unfortunate, particularly as some of the spending covered by devolution deals (especially that relating to adult education, transport infrastructure and local growth fund) is the spending that we have identified should be a priority to be devolved to “historic county” level. This spending more closely fits the 4 core principles than some of the spending proposed to be devolved to all authorities (see above). Consideration of whether Mayoral Combined Authorities should be given additional powers under business rate retention is a consistent theme throughout the consultation.

4. Other Consultation Issues

- 4.1 The consultation deals with how authorities should be rewarded from business rate growth and how risks can be shared. In particular it considers

how often the funding system should be reset and whether the resets should take account of the business rate growth which authorities have retained in the intervening periods. The government is keen that the new arrangements give local authorities the right incentives to promote economic growth. The consultation confirms that the new arrangements will not include a levy on any growth. Balancing this improved incentive to promote growth with the need for a sufficiently nuanced system that ensures authorities have sufficient funding to meet statutory obligations is likely to be difficult and finely balanced.

- 4.2 The section on rewarding growth and sharing risks considers the interaction between local authority funding and the periodic revaluation of business rates. Currently business rates are revalued every 5 years (although the review for 2015 has been deferred until 2017). The government is considering whether reviews should be undertaken more frequently and reform to the appeal system to make the impact less unpredictable. The national multiplier is reset at each revaluation to maintain a consistent overall yield. The revaluation in individual areas is linked to market rental and is an indicator of overall economic conditions. The business rate income for local authorities would rise and fall in line with revaluations and the consultation considers whether this should be reflected through changes in the funding system or whether authorities should retain a share of the impact of revaluations as well tax base changes through new/changed businesses.
- 4.3 The consultation provides an opportunity to comment on the current 80:20 split in two tier areas and whether this split should be changed under the proposed 100% retention. The advantage of the low share for upper tier authorities is that they are largely cushioned from the impact of tax base changes (since the majority of funding comes through the top-up). This provides a degree of assurance for demand led services like social care. The downside is that upper tier authorities may not receive adequate incentive for promoting growth. The corollary is that lower tier authorities could be over incentivised/bear too much risk from business rate decline. The consultation also considers whether Fire Authority funding should be removed from business rate retention arrangements.
- 4.4 The consultation recognises that some authorities have already identified their exposure to financial risk under the current arrangements and this may be even greater under 100% retention. These risks can either arise from revaluations/appeals or changes to the business use of premises (including closure from business failure). In particular the consultation considers whether this exposure could be managed by transferring high risk national infrastructure to the central list (business rates paid directly to CLG) e.g. power stations, national airports, etc. The consultation also considers whether risks can be managed by establishing new wider "area based" lists which by their nature would mitigate risks. The consultation also considers how a safety net could insulate authorities from shocks (significant reductions in business rate yields).
- 4.5 The section on business rate flexibility considers a number of options to allow local authorities greater control over the amount of business rate levied. The government has already announced its intention to allow authorities to reduce the multiplier in their area (the consultation considers how this should work in two tier areas) and to allow Mayors to raise the multiplier (the consultation

considers how this sits with existing supplementary business rate powers). We have challenged the additional powers for Mayoral authorities and have urged the same powers to be available to all authorities whether they have chosen to have a mayor or not. The consultation also considers the impact of decisions to vary the multiplier in neighbouring authorities and impact of consequential business rate migration.

- 4.6 The accountability and accounting section deals with the balance between central and local accountability, collection fund accounting and how 100% retentions sits with the requirement on local authorities to set a balanced budget.

5. Needs and Redistribution

- 5.1 The resetting of the existing baseline is covered in a separate Call for Evidence. This aspect of the new arrangements does not require primary legislation and thus can be resolved over a longer period. It is nonetheless an important consideration as it deals with resetting the existing top-up and tariffs, as well as the distribution of some of the grants proposed to be devolved via 100% retention (principally the remaining RSG and Improved Better Care Fund).
- 5.2 The call for evidence focusses on the formula to be used to assess local authority needs. In particular it considers the extent to which this should be simple/transparent compared to a more complex approach (which should in theory be more nuanced towards individual needs). We remain convinced that a simple formula should be possible and should be satisfactory for the vast majority of authorities if it focuses on getting a more accurate allocation for the material aspects of local authority spending. For most authorities the vast majority of the budget (excluding schools) is spent on adult social care, children's services, capital financing, waste collection/disposal, public transport, highway maintenance/management, and planning/building control. However, we also recognise that adequately reflecting spending needs through redistribution should be the prime objective and should not be sacrificed for the sake of simplicity. This means the final redistribution methodology may have to be sufficiently complex to achieve this.
- 5.3 We have consistently contended that the funding allocated by previous block grant and specific grant mechanisms does not adequately take account of spending needs in county areas. This can be evidenced by the lower per capita grant allocations, lower core spending power (which includes both grants and council tax, and despite our reservations is the government's preferred approach to assessing local authority spending) and higher levels of council tax in county areas, particularly in comparison to Inner London Boroughs.
- 5.4 We will also be contending that since the baseline will be used to determine tariffs and top-ups for a number of years until the next reset, the formula should include forward looking indicators. These should be based on forecast trends e.g. population growth, and not rely on backward looking indicators such as previous census or regression against current spend. This latter aspect is particularly relevant as we contend that spending is influenced by

the previous funding arrangements (which we believe are flawed and thus regression risks crystallising this previous pattern of redistribution).

- 5.5 The Call for Evidence also considers how a local authority's ability to raise income through council tax and business rates should be reflected in the needs based formula. We are largely supportive that income should be included in the calculation and that it should include all major sources of income e.g. car parking charges, but should not include discretionary decisions of individual councils to levy additional income (this was one of our chief criticisms of the changes introduced to RSG in 2016-17 in that authorities were penalised for historical discretionary decisions over council tax levels).
- 5.6 The Call for Evidence also considers transitional arrangements, the geographical area to which needs assessments should be applied and future resets. We are supportive of transitional arrangements as long as they ensure a manageable transition from the historical pattern to the new needs led distribution (a criticism of previous transitional arrangements is that they have effectively crystallised the previous distribution and prevented change). We can also see some merit in assessing needs at combined authority level as this should result in a simpler formula (although this will need much more evaluation particularly in two tier areas).

6. Conclusions

- 6.1 The consultation poses 36 specific questions (with a further 14 questions considered in the Call for Evidence). By its nature this is a very complex topic and some of the issues are technical while others have a significant policy implication. We have explored the main policy implications in this paper (particularly in relation to further devolution, rewarding business rate growth and managing business rate flexibility).
- 6.2 The proposed 100% retention marks a significant change in local authority funding arrangements. We have previously reported the possible issues arising from business rate devolution to County Council in March and comments made during this debate have been fed into KCC's response. We have also had a full debate of the consultation and KCC's response at Policy and Resources Committee on 8th September. The final responses to the consultation and call for evidence are attached as appendices to this report and need to be submitted on the same day following the Cabinet meeting on 26th September.

7. Recommendation(s)

Recommendation(s):

Cabinet is asked to ENDORSE the formal consultation and call for evidence responses.

7. Background Documents

8.1 DCLG Consultation and Call for Evidence

<https://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention>

8.2 KCC Medium Term Financial Plans

<http://www.kent.gov.uk/about-the-council/strategies-and-policies/corporate-policies/medium-term-financial-plan>

9. Contact details

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KCC Response to the Formal Consultation

This response to the consultation on the proposed 100% business rate retention is on behalf of Kent County Council (KCC). Kent is the largest shire area in the country with a population of around 1.5 million and over 640,000 households. This makes KCC the largest council responsible for services to more people than any other council in the country.

KCC welcomes the opportunity to comment on the 100% business rate proposals. We recognise that this consultation is to inform the primary legislation and much of the detail will emerge at a later date. We hope we will be given an opportunity to comment on the detailed arrangements as often these can have a more significant impact than the general principles. Accordingly this response focuses on the key issues of devolution, rewarding growth/sharing risk, local flexibility and accountability/accounting. We will be providing a separate response to the Call for Evidence on Needs and Redistribution.

KCC supports the principle of business rate retention. It is a long established principle that the proceeds from business rates should be used to fund local services. Local authority funding became increasingly centralised and complex throughout the 20th century and into 21st century. As a consequence far too much of a local authority's budget was reliant on central government core and specific grants. It is only recently that we have seen this trend start to reverse and 100% retention is a welcome further step in its direction.

Having welcomed this move we are concerned that the proposed retention has not been put into the context of the significant role that local authorities have played since 2010 in reducing the budget deficit. Over this period we have seen substantial reductions in central government grants at the same time as councils have faced rising spending demands/costs and have been encouraged to freeze council tax/keep increases low. This has meant that authorities have had to make unprecedented year on year savings of around 10% per annum for several years. KCC has to date already delivered over £0.5bn of savings over this period.

Due to the nature of the financial challenge i.e. rising spending demands which are unfunded, this magnitude of savings is not immediately obvious from the council's published budget. KCC, along with many other authorities, would like to see the highest priority given to using 100% business rate retention to fund such spending demands/costs which arise in the future in the lead up to and post 100% business rate retention. We appreciate that this isn't strictly in line with the fiscal neutrality aim of retention but it would mean council budgets better reflect the rising spending demands/costs. The retention proposals as they currently stand seem to be more about further deficit reductions (by switching other grants to be funded from retained business rates) than genuine devolution and localism. We will return to this point in answers to the specific questions on devolution.

We are also concerned that post 100% rate retention that the additional funding available to local authorities through business rate growth will not be sufficient to meet continued rising demands and costs. These rising demands and costs arise from a number of reasons, largely unavoidable, including the impact of inflation and National Living Wage on the price of contracts and rising demands from an increasing and ageing population. These pressures are particularly severe in

adults and children's social care. If authorities are to be self-sufficient and there are no central grants to top-up funding this means authorities will continue to have to find further savings to balance their budgets. Eventually the scope for savings will run out and authorities would be forced to cut statutory services. We strongly urge ministers to leave scope in the primary legislation to be able to top-up the funding for local government through central grant in response to rising spending demands and costs.

We would also like to urge ministers that it is essential that the funding system is simplified. The current system is so complex, and has so many historical quirks hardwired into it, that it becomes virtually impossible to explain or understand the wide variations in funding that ensue. Intuitively this feels wrong and leads to a general sense of injustice. We firmly believe that a simpler system can also be more generally accepted as fairer. Having said this we recognise that adequately reflected spending needs in the funding system should be the prime objective. As a consequence we would support the formula being sufficiently complex to achieve this, especially where the complexity adds value and results in a funding system which better matches the needs. This will be particularly where such complexity is in the interests of all local authorities i.e. we do not support complexity that reflects local choices or adds perverse incentives.

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

As already mentioned in the introduction to this response we are concerned that many of the proposed items identified to be funded out of 100% rates retention are existing grants already paid to local government e.g. public health, early years, etc. Effectively this is simply passing additional risk to local government, particularly for grants like early years where funding is allocated according to actual participation and take-up of early years offer. It is unclear whether this funding will be un-ring-fenced and whether local authorities will have any control over demand for and/or cost of services. If not local authorities could find themselves in the same situation we currently face with concessionary bus fares where funding has been devolved but the statutory entitlement remains and authorities can do nothing to manage demand or cost. This would severely compromise core principle 4. This is not devolution as it merely passes the administration of prescribed national schemes down to local government. We urge the government to clarify whether if these grants are to be funded out of retained business rates that funding will be un-ring-fenced and authorities will have more freedom to determine their own local arrangements according to local circumstances and potential business rate income.

We would like to comment on each of the proposed areas for devolution in detail:

Attendance Allowance (AA)

This proposed devolution is by far our biggest concern. It seems to be implied that devolution is consistent with local authority social care functions. In fact in many cases local authority social care deals with a very different client base to AA, not least because local authority social care is means tested and AA isn't. Furthermore, local authority social care is all spent on the assessment and provision of care services (including those clients opting to receive a cash payment who still have to spend this money to meet agreed outcomes and needs). AA payments do not need to be spent on care. Unless this changes under the proposals this would be very confusing for social care clients and AA recipients.

It is still not clear from the paper whether it is merely the administration of AA is being proposed or whether authorities will also be able to determine their own policy towards AA eligibility and payments. The paper suggests that payments for existing claimants will be protected but makes no mention of new claimants. This needs urgent clarification, and in particular the extent to which AA payments for individuals can be protected when funded from a volatile income source such as business rates. Some of the reasons for this are set out below.

Currently the reach of AA is far greater than adult social care. This is despite the fact that the criteria are broadly the same as local authority (Care Act) eligibility criteria. The receipt of AA (which bolsters the income for people with disabilities/chronic illness), with the knock on impact on other benefits, plays a key role in keeping people out of the formal local authority care system. There is a risk that if AA is not protected many more people would come into contact with the local authority and be assessed for formal social care. This could undermine the "Promoting Wellbeing" strand of social care as well increasing local authority assessment workload. Either way, this leaves local authorities with a dilemma and the need to meet spending demands (which are likely to increase due to an ageing population) from a volatile funding stream. This could place authorities in an extremely difficult financial position.

AA enables recipients to higher levels of pension credit and other means-tested benefits and exemptions. If AA is not protected it would not only result in a direct loss of income for recipients but also the loss of these other benefits. This would not only exacerbate the risks outlined above but would also mean those entering formal local authority care would have lower income and thus contribute less towards the cost of their care.

AA helps self-funders pay for the cost of their care. If it is not protected this could have a significant impact on care providers, and in turn put a pressure on prices for local authority clients.

There will also be a potential knock-on effect on carers. Many carers rely on Carers Allowance and related benefits if they have had to give up work or reduce hours. Receipt of Attendance Allowance is one of the main gateway benefits needed to qualify for Carers Allowance. Any reduction in the numbers of people able to claim Carers Allowance will affect their ability to provide care and may lead many more carers/the people they care for to seek help from local authorities.

Ultimately we feel that AA proposals fail to meet three of the four core principles (1, 2 & 4), and as a result is not appropriate to be funded from retained business rates. The demand is likely to increase due to an ageing population and the need to protect AA (and the knock on consequences to local authority social care if it is not) would put undue strain on local authority budgets. The current arrangements provide an appropriate balance of risk between local authorities and central government, the proposals would shift all this risk to local authorities.

Early Years (EY)

As we have already identified we are concerned that transferring the funding for existing local authority grants is not devolution unless these are un-ring-fenced and allow local authorities greater flexibility. Devolution of this grant could be fruitful if it enables us to tailor early year's services to better meet local needs and maintain and enhance outcomes-focussed commissioning.

The funding for EY is currently included within the Dedicated Schools Grant (DSG) and any risk/opportunity from over or under spending remains in DSG. The EY sub block within DSG is based on a termly count of actual participation by 3 and 4 year olds. In common with schools DSG, the EY amount per pupil has remained the same for the last 6 years. This has put financial pressure on early years' providers who have had to increase top-up fees for additional hours over and above the 15 hour statutory entitlement. This situation cannot endure forever and eventually the pupil rates would have to increase (not least because providers will experience additional cost pressures through the introduction of the National Living Wage). Transferring funding to business rates will inevitably transfer this pressure to increase the hourly rate onto local authorities.

The government has recently launched a consultation to make changes to the DSG to introduce a national formula. A separate EY consultation has also been launched. There are already concerns that the increase in statutory entitlement from 15 hours to 30 hours has not been adequately funded and that the proposed national formula will do little to address this. Ensuring that there is sufficient capacity of high quality places in the childcare market based on current funding prediction is extremely challenging. There is a risk that transferring EY funding to business rates transfers this risk of underfunding. This is totally inconsistent with the four core principles.

If funding for early years is to be transferred to business rates it is essential that these underfunding risks are identified and adequately taken into account within the overall quantum. It would not be appropriate to transfer these risks to individual authorities. Furthermore, if funding for EY is to be transferred to business rates there will need to be an adequate mechanism to adjust funding for changes in pupil numbers and participation rates. This could not be resolved through whatever reset mechanisms are finally agreed as these would be far too infrequent. Failure to adequately adjust could leave local authorities too exposed to demographic factors with insufficient business rate income to meet demand.

Public Health

In principle funding public health from retained business rates has some appeal. Furthermore, public health does seem to better fit the four core principles than some of the other options presented e.g. a general improvement in health should support drive for economic growth. Ever since the responsibility for public health transferred to local authorities we have campaigned to have the ring-fencing of funding to be removed. If the transfer to business rates includes the un-ring-fencing this would be welcome. We believe there are many opportunities for improved integration between public health and other public services which the ring-fencing precludes from achieving.

Having said that funding from retained business rates has some appeal we are concerned that public health inequalities still remain. We would need to see more detail how these inequalities would be reflected in the baseline and how there would not be a perverse incentive not to tackle these inequalities in order to secure a larger baseline in future.

We are also concerned that changes in business rates may not reflect changing public health needs and the risk of declining business rate income in some areas could coincide with rising public health needs.

Improved Better Care Fund (iBCF)

Our response is based on the presumption that this funding is already part of the local government finance settlement and as such is un-ring-fenced and local

authorities are not accountable to the department for health over its use. If so, effectively this is already funded from the 50% central share of rates, and therefore funding from 100% retention could be viewed as little change. Consequently we do not have any significant concerns with this proposal, although we do have two issues which need to be addressed prior to any transfer.

Firstly we only have indicative allocations for iBCF for 2017-18 to 2019-20. These are based on the social care relative needs formula within the old Formula Grant. We have consistently challenged that the relative needs formula did not adequately reflect needs in shire areas (particularly for social care) and this has to be addressed before funding is transferred. It is essential that the baseline transferred via the iBCF is based on an accepted methodology.

Secondly we are concerned that having developed an acceptable methodology that this baseline is updated periodically. All the evidence is that needs are growing in social care due to a combination of demographic and market factors. We are particularly concerned that business rate growth is unlikely to keep pace with these changes and that the biggest increase in social care needs could be in areas with the lowest business rate growth. Consequently we would like to see more frequent resets for social care elements of funding.

Revenue Support Grant (RSG)

As with iBCF this is already funded from the 50% central share and therefore this is no significant change. However, we wish to repeat our opposition to the changes made to RSG distribution in 2016-17 which were introduced at very short notice with no prior consultation or notification. We believe these changes had a detrimental impact on the RSG for some authorities, particularly authorities which for a variety of reasons have set higher council tax rates. We do not think it appropriate that authorities should be penalised through the grant system for the effect of local democratic choices. We also remain concerned about the impact of the negative RSG allocations for some authorities in 2018-19 and 2019-20 arising from the changes made to the distribution of grant in 2016-17 which came with no prior consultation or notification. Reversing these negative amounts should be a priority from the additional quantum available from 100% business rate retention.

We are also concerned that all the individual elements of RSG were merged in the 2016-17 settlement with reductions based on the totality of grant and council tax revenues. This did not afford any protection for individual elements within RSG. We believe some elements of RSG should be protected from reductions as was the case prior to the 2016-17 changes.

Finally as we have already commented we continue to have concerns about the previous distribution methodology in the old Formula Grant and other grants. These methodologies have effectively been crystallised into the current arrangements without adequate redress of our concerns. We would like to see these concerns considered before a flawed methodology is hard-wired into the baselines for business rate retention by default.

Independent Living Fund (ILF)

This funding is needed for the ongoing support for protected clients following the closure of the ILF. We are unconvinced that this should be funded from retained business rates and think it should remain as a separate ring-fenced grant. Our main reason for this is that a separate grant can more accurately take account of different attrition rates in individual authorities.

We accept that the responsibility for new clients is now the responsibility of the local authority within the current business rate/RSG/council tax funding arrangements. In an ideal world we would integrate the protected ILF funding within this but we cannot see how this is possible without reflecting the different attrition rates.

Youth Justice

This is a fairly insignificant amount in comparison to the overall quantum from retained business rates. However, we feel devolution of this grant to be funded from retained business rates may be beneficial, provided the money can be used flexibly to better meet the needs of young offenders. In particular we feel that this would provide opportunities to embrace innovative ways of working and methods of service delivery.

However, the Ministry of Justice contribution to Youth Justice Boards has been reduced significantly in recent years. The remand budget was devolved to local authorities in 2013 although it was insufficient to cover the full costs of delivering the additional responsibilities. Therefore, we are wary that youth justice grant could also be devolved with insufficient resources available from business rates to meet new responsibilities. This would put additional pressure on already stretched services and may lead to difficulty in providing high quality youth justice and non-custodial provision.

We are also conscious that the Charlie Taylor Review, which is due to be published imminently, is likely to make a series of recommendations about youth justice funding arrangements e.g. potentially devolving the Youth Justice Grant to the DCLG. We would want to ensure that any arrangements agreed under the devolved business rates proposals would dovetail with these recommendations.

Greater London Authority Transport Grant

In theory using business rates to fund transport infrastructure is a much better fit to the four core principles than any of the other proposals. Indeed there is a long and rich history of using business rates to fund local infrastructure. However, we are concerned that London already has a superior transport infrastructure than anywhere else in the UK, and that this effectively would mean a greater share of the business rate yield would be retained in London. Business rate retention should be an opportunity to improve transport infrastructure across the country and not just in London.

In Kent we have tried to protect local transport infrastructure and reduce congestion through providing subsidies to bus companies to run socially necessary bus routes, and we are the only county council that offers subsidised home to school transport to all children aged 11-15 through the Young Person's Travel Pass. As our central funding reduces we will find it increasingly difficult to maintain these services. The fact that we have funded these from local sources should not be any different the GLA Transport Grant and we would like consideration to be given to include local transport schemes in business rate retention as well as GLA Transport Grant. This could be achieved by including the local funding in an authority's baseline for business rate retention which would better ensure that we can continue to provide these essential transport services.

Rural Services Delivery Grant

This does not apply to KCC but since it is part of the local government finance settlement in the same way as RSG and iBCF the same principles should apply that it's not unreasonable to transfer this to business rates.

Local Council Tax Support Administration Subsidy and Housing Benefit Pensioner Administration Subsidy

These apply to lower tier authorities and thus in a two tier areas their views should carry most weight. KCC fully supports the work and effort made by districts councils to maximise the council tax base and collect as much as possible from those in receipt of council tax support discounts under local reduction schemes. Since the majority of council tax is collected on behalf of major precepting authorities it is essential that lower tier councils in two tier areas are adequately funded for council tax support administration. We would like to see adequate safeguards if this funding were to be included in business rate retention in order to avoid any detrimental impact on the county council's share of the council tax base.

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

We fully support the four principles set out in the consultation which should guide the functions to be devolved under 100% business rate retention. As covered in our response to question 1 we are concerned that some of the grants/responsibilities proposed to be devolved are not consistent with these principles. We believe it would be much better if functions that directly contribute to business growth and development were devolved. In broad terms, infrastructure development, business support and adult skills and training fulfil these criteria, whereas the demand-led people services (social and welfare services) do not fit well.

Below, we set out examples of the sort of responsibilities that we believe could be devolved to 'historic county' level, some of these are identified in the consultation paper as functions which could be devolved to combined authorities.

- *Local Growth Fund (LGF)* – there should be a block allocation of LGF funds down to historic county level, based on the proportion of England's overall housing growth in each area. Devolution of LGF should not just be restricted to Mayoral Combined Authorities. This would simplify the management of LGF and remove the need for central Government to spend resources approving individual projects. We would envisage the Skills Capital Funding continuing to be part of the (devolved) LGF.
- *Specific Government funds to unlock development* (such as the loan products managed by the Homes & Communities Agency)
- *Highway Maintenance* – Devolving some of the budgets managed by Highways England through a Key Route Network.
- *16-19 funding from the Education Funding Agency* - This funding is currently allocated according to a formula based on student numbers, adjusted for subject and area costs. This should be devolved to county-level authorities to commission according to local economic demand, involving strong local business voices in the commissioning process.
- *Adult Skills Budget* - This is currently administered by the Skills Funding Agency and supports learning provision primarily for people aged 19-23 undertaking Level 1 and 2 English and Maths and Vocational courses. This too could be commissioned taking into account local economic demand and specific community needs, as for the 16-19 funding. The new Adult Education Budget is intended to be linked with local economic need and be focused on provision which cannot otherwise be paid for by employers and learners, and the Government has already indicated a willingness to make this available via block grant as part of devolution agreements.

- *Careers information, advice and guidance* – Funding and provision is currently piecemeal and confusing. In addition to services provided by the National Careers Service, the nationally-funded Careers Enterprise Service seeks separately to promote employer engagement with schools, while Jobcentre Plus also now has a remit to deliver careers advice services. This is overly complicated. It is obvious that the task of linking local schools with local employers to provide information about local career opportunities should be managed locally. When the contract for the Careers Enterprise Company comes to an end, the devolution of the funding associated with it should be devolved, and integrated over time with local commissioning of other nationally-funded careers services.
- *Apprenticeship Grant for Employers* - This supports businesses to recruit people aged 16-24 through the apprenticeship programme, where they would not otherwise be able to do so. This funding should be devolved directly to local authorities and funded from retained business rates. This would allow greater flexibility on eligibility requirements, enabling grants to be focused on small employers within priority sectors or working in activities where there is evidence of high skills demand. It would also provide businesses with a direct service from local authorities in return for some of the business rates they pay.

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

We recognise that some functions would better to be devolved to combined authority level. In particular the functions we have identified in response to question 2 we have already suggested would be better devolved to “historic county level” in shire areas. These are similar to the items identified in the consultation paper and therefore we generally agree with the types of functions which could be included in pooled budgets for combined authorities.

The grant funding provided through devolution deals listed in the consultation would be appropriate for pooling at the combined authority level for those areas which have devolution deals and combined authority areas. However, on a point of principle, we do not believe greater fiscal autonomy should be granted to areas that have Mayoral Combined Authorities and the presumption throughout much of the consultation that a two-tier devolution arrangement between areas with and without a Mayoral Combined Authority is both unfair and impractical. There is no reason those grants listed or indeed other grants, cannot be pooled across all areas without the need for new and artificial governance structures.

Question 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?

Given the intention is to move the local government sector to a self-financing model through full rate retention the broad policy objective of funding devolution deals from retained business rates is understandable. However, there is considerable tension between achieving this and how it can be fairly applied, how the interests of those areas without devolution deals are protected and the impact on the redistribution effect such an approach would have. Consequently we urge ministers to carefully consider the full implications of funding devolution deals from retained business rates to ensure devolution deal and non-devolution deal areas

are treated equitably. These deals are a voluntary arrangement; having a devolution deal (which is subject to ministerial discretion and not within an area's direct control) should not provide significant advantage, or perhaps better put, a significant disadvantage to those areas that do not.

Funding devolution deals from retained business rates should mean that the funding comes from the business rate income levied within the devolution deal area. It should not come from the business rate income from non-devolution deal areas. We presume devolution deal authorities would have these additional devolved responsibilities included within their assessed need, and that most areas with devolution deals are metropolitan urban areas that receive top-ups. If so, this would effectively mean that devolution commitments will not be funded from within the devolved area, but through additional redistribution from areas that do not benefit directly from the devolution deal. This would be fundamentally unfair and undermine the stated position that rate retention should minimise the need for redistribution, as it would likely increase it.

We accept (as does the wider public) the need for financial redistribution to support the delivery of public services in poorer or less economically vibrant parts of the country. However, we do take exception to the funding of additional responsibilities agreed through devolution deals which are not within any revised agreed needs-based formula, or indeed are not available to their own communities simply because they do not have a devolution deal. Therefore, 100% business rate retention and bespoke devolution deals make difficult bedfellows, and this consultation does not set out how these tensions will be managed.

The likelihood is that the Government will continue with some form of bespoke devolution deals over the course of this parliament. If so, our preference would be that devolved commitments must be funded from a ring-fenced amount within the business raised in the local area and not subject to redistribution via tariffs and top-ups. This would better incentivise areas with devolution deals to successfully grow rates to fund their deal commitments, and would be fairer across the sector. Alternatively devolution deals would have to be funded by separate grant arrangements outside business rate retention.

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

Yes, we fully support the principle of new burdens doctrine and this being funded via separate Section 31 grants prior to the transparent transfer of funds into the mainstream local authority funding arrangements (previously formula grant). Indeed, we would argue the risk of increased volatility in local authority budgets following business rate retention requires the new burdens doctrine to be more rigorously and broadly applied.

The new burdens doctrine itself and the associated guidance are fundamentally sound. However, our experience is that the application of the doctrine across departments is too sporadic. Too many new burdens assessments are undertaken with limited or cursory evidence of the true cost on local authorities. Neither is it clear departments appreciate that changes to existing duties and powers constitute a new burden and therefore should be assessed and, if necessary, funded. For example, we believe the changes made to the RSG methodology for 2016-17 are inconsistent with the doctrine. These changes were made with no prior consultation or notification. Previously new burdens funding which had been

transferred into the main grant could be protected as it was individually identifiable within RSG. The changes made in 2016-17 have combined all these individual elements into a single amount which has then been reduced pro rata to each council's overall RSG and council tax yield. There is no evidence that new burdens funding has been protected and therefore becomes a pressure on council tax. Furthermore the inclusion of council tax yields within the RSG calculation means those councils which have used local democratic authority to raise additional council tax have faced larger RSG reductions. This puts further pressure on council tax and thus is incompatible with the doctrine. We would also like to highlight that the funding to support the 2015 implementation of the Care Act was also transferred into the existing business rate retention/RSG arrangements in 2016-17 with no protection for the RSG element. This is contrary to statements made when the Care Act was being debated that the impact on local authorities would be fully funded.

We are concerned that 100% rate retention leaves open the scope to transfer further unfunded burdens onto local authorities. This too would be inconsistent with the doctrine. We contend that new burdens assessments should be independently tested for rigour and robustness before being signed off and the new burdens doctrine should be extended to cover non-departmental government bodies.

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

We agree with principle that the baseline should be set periodically rather than every year. We also agree that this period should be on a fixed cycle rather than chosen by the Government according to pre-determined indicators, we concur that this would be too uncertain. Option b with a full reset including all achieved growth every 20 years is not appropriate as it leaves too long between resets (particularly if there are still defects hard-wired into the arrangements). This option should be rejected.

This leaves options for a full or partial reset more frequently say around every 5 years (to coincide with revaluations?). Generally we think the partial reset has more appeal, it would enable to the reset to focus on the most significant/material changes in need (this is likely to be adult social care) and those areas with the greatest changes in circumstances (particularly areas with high population growth which may not have been matched by business rate growth). The ability to retain some of the business rate growth beyond the reset period also has some appeal compared to a full reset

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

We strongly believe in the principle of local authority's retaining business rate growth. We fully support the incentivisation argument. We also believe that the current arrangements place too much emphasis on redistribution to meet "need" and identifying the drivers for need had become overly complex and yet still do not adequately reflect need in all types of authority. We have already outlined in our desire for simplification. We believe that for a number of services the only redistribution which is necessary is to ensure most authorities start with the same level of funding per head of population (or other simple measures for relevant

services such as km of highway, number of households, etc.) and only where appropriate weighted by secondary cost factors such as deprivation, health, sparsity, etc. There will always be outliers where this is not the case but these should be treated as such rather than designing a complex system in order to accommodate their often unique circumstances. If authorities feel they need to spend more they should raise this through business rate growth, council tax or other income sources. Similarly authorities which face a decline in business rates will either have to spend less or raise additional income from other sources. We believe this will result in a simpler, more efficient and arguably fairer system rather than trying to replicate every authority's needs in a high level of detail.

However, business rate growth should not be over exaggerated. Growth rates in recent years have been relatively modest. Business rate growth has certainly not kept pace with rising demand for/cost of local authority services. Therefore, even under the current 50% retention arrangements, local authorities have had to make substantial savings in to counter the effect of this rising demand/cost, reductions in central government funding, business rate growth/decline and restrictions on the ability to raise council tax. We are under no illusions that 100% business rate retention with no core central funding will be a panacea for this challenge of rising demand/cost which is not matched by rising income. This is especially the case for adult social care services where demands and expectations are rising at an increasing rate.

It is also worth noting that the upward impact of new businesses is offset by the downward impact of business closures and appeals. Business rate growth is also significantly affected by mandatory reliefs. Many of these are factors outside local authority control.

Question 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?

A partial reset should take account of changes in the main cost drivers which are outside the local authority's control. Similarly it should take account of business rate/council tax changes outside the local authority control e.g. changes to mandatory reliefs. The partial reset should not take account of those things either within local authority control e.g. waste recycling rates, granting of planning permission, etc., or arising from local democratic decisions e.g. discretionary spending, council tax rates, business rate multiplier reductions etc. Having outlined these principles we would still be looking to keep the resets relatively simple without the use of complex sub formulae or collection of additional data.

We also think the partial reset should focus on those services where demand/cost is most volatile. For upper tier councils social care is by far the most significant and most volatile area of spending. Spending trends will often be inverse proportion to tax trends and resets will need to be frequent enough to take this into account.

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

We accept that under a business rate retention scheme tariffs and top-ups work reasonably well as a method of redistribution. We fully support the principle of redistribution i.e. the transfer of resources from high wealth/low need areas to low

wealth/high need areas. We remain concerned that the current way these are identified are inadequate and take far too much account of historical funding distributions and local decisions. In particular the use of regression analysis and transitional damping has had the effect of reinforcing previous funding distributions rather than a genuine redistribution according to wealth/needs. The result is that ensuing redistribution does not adequately reflect spending needs/ability to raise income, particularly for demand led services such as social care. Until the devolution responsibilities and the needs led redistribution have been agreed it is difficult to estimate what the baseline will look like and therefore what tariffs and top-ups will be required.

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

Partially at least. It could be argued that revaluations based on “market rental” value include both national economic conditions and local influence. If it is possible we think that authorities should be rewarded/incentivised beyond the reset period for the impact of local influence/decisions. However, we accept this may be difficult to ascertain on a consistent basis and that a partial adjustment may have to be set on an arbitrary/average basis rather than detailed evaluation. A partial adjustment is better than full adjustment and better fits the desired incentivisation.

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

No. We do not agree that Mayoral Combined Authority areas should have additional powers and responsibilities over retained business rates. Mayoral Combined Authorities are voluntary arrangements which are controversial in non-metropolitan areas where many local councils, including KCC, do not believe the directly-elected mayoral model is appropriate. As such, additional powers and incentives for Mayoral Combined Authorities over rate retention will create a further structural divide in local government between metropolitan and non-metropolitan areas, when the intention of full rate retention is to provide universal devolution to all local councils. Any proposal to provide additional powers to Mayoral Combined Authorities is not directly related to full rate retention, but vicariously to place further pressure on local authority areas to accept a Mayoral Combined Authority. Additional powers and incentives made available to Mayoral Combined Authorities should be made available to all areas, including two-tier county areas like Kent, where we have strong and existing partnerships arrangements that have already successfully managed the 50% retention scheme and pooling arrangements.

Question 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?

As an upper tier authority the 20% split with a significant top-up has provided a more secure funding base for demand led services. As we have already identified neither the annual uplift nor the share of business rate growth has kept pace with these demands, but this would have been the case anyway with a greater % share and lower top-up. We are concerned that 20% understates the role the upper tier authority plays in promoting economic growth.

We are concerned about the 80% share for lower tier councils. We are particularly concerned that this leaves them over exposed to the risk of business rate decline through business failure or appeals. This exposure would be less of a risk for upper tier authorities due to both the much larger budgets and that risks can be smoothed out by growth across the wider geographical area.

We believe there is a strong case for increasing the upper tier share (and reducing the lower tier share) together with a reassessment of tariffs and top-ups. The balance will depend on the outcome of which additional responsibilities are finally devolved under 100% retention to ensure risks are balanced i.e. we would not want to see upper tier councils taking on significant additional risks from devolution at the same time as a significant transfer of risk from business rate volatility due to changing the split.

Notwithstanding earlier points made about the need for additional functions and responsibilities to be closely linked to services which support business and further business rate growth, the system for full business rate retention must also reflect the distribution of responsibilities and services in two-tier areas. Simply scaling up the current arrangements for the 50% retention scheme whereby the split of 40% to Districts, 9% to Counties and 1% to Fire Authorities is scaled up so that the 100% scheme provides 80% to Districts, 18% to County Councils and 2% to Fire Authorities would be unacceptable. In two-tier areas, county councils account for approximately 80% of all local government spend, and as the social care authority for both adults and children, county councils face need and demographic pressures on their services that are not felt as sharply by District Councils. As such, the current split in rate distribution must change to more adequately and fairly reflect the demands and pressures faced on our services. We would not, however, suggest there should be a straight reversal of the split towards counties, given the disproportionate effect this would have on District Council budgets. What the right split should be must be based on a clear evidence base and, in the first instance, a matter for negotiation between counties and districts (through representative bodies such as DCN, CCN and their equivalent treasury groups).

Question 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?

No. Central to the Policing and Crime Bill is that Police and Crime Commissioners (PCCs) can take on responsibility for fire and rescue authorities where a local case is made and there is local agreement. This approach reflects that in many local areas, including Kent, the fire and rescue service and police force already collaborate on a range of operational areas, and the benefit from integration with PCCs is more limited than perhaps anticipated. Like the points made earlier regarding devolution to Mayoral Combined Authorities, this proposal is less about making full retention work, than using the scheme as a mechanism to promote alternative policy objectives. Removing fire from the business rate retention altogether would signal that there is an expectation that PCCs should take responsibility for fire, when the stated government position is this is a matter for local determination in the first instance. Such mixed messages need to be avoided.

Furthermore, we are concerned that in order to meet the fiscal neutrality requirement taking the funding for fire authorities out of business rate retention would increase the quantum which would need to be devolved to local government. This could prove problematic to find sufficient functions to devolve bearing in mind our reservations about some of the significant elements proposed to be devolved to

meet the existing estimated quantum. We would not want to see inappropriate functions devolved to local authorities just to enable the transfer of fire out of business rate retention.

Question 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?

We have already commented on the aspects of business rate growth which are outside of a local authority's control e.g. mandatory discounts/reliefs, appeals, etc. We believe these are things which authorities should have greater control over in order to incentivise growth. The overall tax base is only part of the equation which results in the final business rate tax yield.

We also believe that local authorities should have more flexibility to increase the multiplier, or at least have other mechanisms to protect/increase income to offset reductions. The current business rate retention proposals are based on retention of growth in the tax base although as we have already responded historically growth has not been that great and can be mitigated by factors outside the local authority control.

Question 15: Would it be helpful to move some of the 'riskier' hereditaments off local lists? If so, what type of hereditaments should be moved?

We are concerned that local lists include some properties which are part of national infrastructure and decisions about future expansion or closure are taken at a national level. This would include major power stations, ports, airports, etc. By far the largest single hereditament in Kent is the Channel Tunnel with a rateable value of £15.4m. There is an argument that such premises should be on the central list although any changes in rates for these are likely to have a very long lead time and thus can be planned. Often the most risky properties are industrial premises which can close at much shorter notice and finding alternative use can prove difficult.

We are also concerned about the impact on local lists of national policy decisions. For example should all the remaining schools in Kent be transferred to academies this would reduce the business rates yield by £5.2m due to the application of mandatory charitable relief. Similarly should the policy in relation to hospital trusts change this could result in a substantial loss of business rate income. With 100% retention we would like to see the national quantum and individual tariffs and top-ups adjusted for any national policy impact on the business rate yield so that other local authority services do not suffer the consequences. The only mitigation for the impact of academies under the current 50% retention is if it pushes an authority into the safety net. We do not think this is sufficient safeguard.

Question 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?

We can see the appeal of area based lists for combined authorities but we are concerned how this would work in practice e.g. would the combined authority be responsible for collection from the area list, how would it be determined which properties are transferred to the list, etc. Assessing the riskier properties is not straightforward as referred to above

Question 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?

The impact of appeals is a significant issue. We appreciate the efforts the government is considering to make the appeals system work better. Currently there is very little risk to the appellant and all the risk is borne by local and central government. This leads to a very volatile tax yield. It is disappointing that no consideration has been given of managing some of the risk through the multiplier. The multiplier is reset as part of the revaluation every 5 years but is not reset in between following appeals against the revaluation. This is a fundamental flaw and should be addressed before 100% retention is set (and effectively all the risk passed to local authorities).

We have formed a pool with 10 district authorities and the fire authority. One of the aims of the pool is to better manage the risk from appeals/business closures over a wider geographical area. Consequently, we certainly would support a wider pooling arrangement within 100% business rate retention (albeit we still contend some of the risk should be borne by business rate tax payers through the multiplier as outlined above). This pool could operate at a combined authority level or a national level. We are concerned that a national pool may be overly complicated and thus a wider area combined authority pool may be easier to manage and be more flexible.

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

Better information and intelligence sharing between local authorities and the Valuation Office Agency (VOA) would certainly help in as much as we could make better local provision to reflect both tax base growth and/or decline. This would not negate the impact but would make it more predictable. We still believe that not resetting the multiplier following appeals is a fundamental flaw, which if addressed would help all authorities.

We are also concerned that once an authority gets close to or drops into the safety net there is a disincentive to manage any further risks as the safety net picks up all the consequences.

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

We have been operating a business rate pool for two years. Having previously commented that we support pooling there is a danger that without the incentive of being better able to benefit from growth pools will become unattractive. To include a pool safety net (which presumably would be funded by pool members) could make membership even less attractive, especially to those authorities at low risk of requiring the safety. Without the right mix of authorities pools become pointless.

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

This is difficult to answer until we know what additional functions are to be delegated and therefore the risks from a volatile funding stream. We do believe the current safety net threshold is too low, particularly if a greater proportion of the business rate yield is to be transferred to upper tier authorities. The impact of falling just short of the threshold can be catastrophic. Furthermore there is a perverse incentive once in the safety net not to grow back out. This needs to be tackled as well as reviewing the threshold once we know which additional functions are to be devolved.

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

We would certainly not want a situation in two tier areas where the decision of individual councils can have a significant impact on the income for other tiers. We already have this with council tax reduction schemes where it is the lower tier authority which decides on local schemes, but the majority of the impact is on the tax yield of the upper tier authorities. In Kent we are fortunate that we work closely across the tiers but this remains a risk that the lower tier authority chooses a generous reduction scheme.

We are not sure that splitting the power will work very well. This would require authorities to identify the impact of individual council decisions on business rates bills in a similar way we show council tax decisions on council tax bills. In general we think the decision should be left to the most local level (districts in two tier areas and boroughs in London). The upper tier authorities (counties/fire and GLA) should have the power to veto proposals and/or propose alternatives (which in turn the lower tier authority would have the power to veto). This would ensure there is a clear accountability for decisions but any decision would have to be supported across the tiers. Inevitably the costs of reducing the multiplier would have to be borne according to the proportionate split.

We remain concerned that varying the multiplier is a rather blunt instrument. We would rather this was combined with greater flexibility to vary discounts and reliefs so that business rate reductions can be better targeted.

Question 22: What are your views on how decisions are taken to reduce the multiplier and the local discount?

As we have already responded above we believe the power to reduce the multiplier is too blunt as a tool and we are not convinced that existing discretions over discounts provide sufficient means to target business rate reductions most effectively. We believe reductions could be better targeted if local authorities were also given the ability to vary mandatory discounts and reliefs.

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

This should be left to local discretion without any centrally imposed limits (other than obviously authorities could not exceed the national multiplier). If there are concerns that the resulting increases would be unmanageable for businesses then legislation could place a requirement on local authorities to consider the affordability of increasing the multiplier after it has been reduced (and guidance issued on the economic and other factors which authorities should take into account in their considerations).

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

As we have already stated we are not convinced that having the power to reduce the multiplier is very effective. It is too blunt to be able to target reductions to particular localities, types of business or businesses facing particular difficulties. Whilst there are some local discretionary powers, these tend to only be used in very exceptional circumstances. We remain disappointed that there is very little, if any, ability to increase business rates for some to pay for reductions for others. This was a feature of the devolution of council tax support which worked well.

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

Individual authorities should have the power to set their own thresholds for raising a levy. Local authorities are best placed with the knowledge of their local economies and which businesses are best placed to help pay for and benefit from the sort of infrastructure which a levy would support. One of the criticisms of the current supplementary power, and we would argue a contributory factor why this power isn't used, are the imposed thresholds restricting the levy to larger premises.

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

We do not agree with there being different powers for an infrastructure levy. As we have already responded in question 11 we cannot see the case for Mayoral Combined Authorities having any additional powers under the business rates arrangement compared to other authorities. The business rate retention arrangements should not be used as a mechanism to progress other policy objectives.

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

We do not think it appropriate that the LEP should take on executive powers to approve a levy. The LEP should be statutory consultees but should not be approvers. The existing infrastructure levy powers set out the consultation and ballot requirements for individual proposals and we consider these arrangements should be followed by all authorities irrespective of whether they have chosen to have an elected Mayor.

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

We agree that the duration of any levy should be set out in the initial prospectus. As with the response to question 27 above we do not think there should be any different arrangements for Mayoral Combined Authorities than any other authority.

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

We agree that the purposes of the levy should be clearly defined and limited to infrastructure development. We think the purposes for the existing Business Rates Supplements are sufficient and there is no need for different infrastructure levy arrangements for Mayoral Combined Authorities.

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

As with previous responses we do not think there should be any different powers for Mayoral Combined Authorities. We think it would be simpler to raise multiple levies covering different projects but agree that the combined effect of these levies should be capped to 2p in £ i.e. the same as the current Business Rate Supplementary powers.

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

As we have already stated we cannot see the case for different infrastructure levy arrangements in Mayoral Combined Authorities and other authorities. If there is to be a separate arrangement it should mirror the existing Business Rates Supplementary power and be clear that any authority (or group of authorities) can only use one of the powers and the over effect of any levies will be no more than 2p in the £

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

We have fully supported multi-year settlements in the past as a way of increasing certainty for local authorities. We are concerned that 100% business rate retention could result in funding being less certain as authorities become more self-sufficient and reliant on the funds raised locally. In particular we are concerned that demand for both existing and new responsibilities could move in the opposite direction to

local tax yields. Even with a safety net this could leave authorities having to hold more in reserves to manage variations.

We are also concerned that local authorities do not have full control over business rates and variations can arise outside their control e.g. mandatory reliefs, impact of appeals, etc. This can add to the uncertainty and should be recognised through appropriate share of risk. Consequently we can still see a role for continuation of some grants including multi-year settlements for these.

In terms of accountability there should be a greater onus on local authorities to explain to local tax payers (both business rates and council tax) what their money is spent on and the extent to which it arises from local decisions as opposed to meeting statutory obligations.

Question 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?

This question depends upon what additional responsibilities end up being devolved. As we have previously identified if the devolution merely means handing down the administration of national schemes, with very little scope to make local changes, it is very difficult to be accountable. True accountability would allow local authorities greater flexibility to increase local taxation to support local spending priorities where this is agreed. Currently this flexibility does not exist, nor is it proposed through business rate retention.

We do not believe that mayoral combined authorities should be the only model of devolved powers to local government or demonstrate improved accountability. Local members are accountable to the electorate as is the governing administration of each local authority. Local areas should have the ability to choose the most appropriate format of local governance without in-built incentives/disincentives in the funding arrangements for any particular choice.

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

We think collection fund accounting arrangements should continue. The declaration of estimated and actual tax yields is a transparent mechanism. We are concerned about the rise in council tax collection fund surpluses since the transfer of council tax support to local schemes. This has made forecasting the tax yield less certain. We have already commented on the volatility of business rates and in particular the impact of factors outside of local authority controls e.g. mandatory discounts/reliefs, appeals, etc. These will impact on collection fund balances and we can see some merit in identifying the impact of factors within and outside local authority control separately.

Question 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?

We support the principle of setting a balanced budget and KCC takes this very seriously. We have set and delivered a balanced budget in each of the last 16

years. We are concerned that the current concept of a net budget requirement leading ultimately to a council tax requirement is flawed. In particular at the time the budget is set some funding is still uncertain and thus the council tax requirement does not in itself represent certainty of a balanced budget. Furthermore, the ability for an authority to raise council tax is effectively capped through the referendum requirements. We have consistently challenged both previous capping regimes and the current referendum arrangements as significant obstacles to setting a balanced budget. We believe that authorities should assess the certainty of estimates as part of the balanced budget requirement.

Question 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?

We agree that some form of reporting will still be required but the current forms should be reviewed if they require data which is no longer required or relevant. In terms of the transparency and timeliness of this data collection we believe the views of lower tier authorities should influence the response in two tier areas as these are the councils who will have to compile and submit the returns.

We hope that you find our responses helpful. KCC is keen to continue to help the government to develop the arrangements as we believe we are close to be a “typical” shire area with many issues and challenges in common with shire areas elsewhere across the country. We have found it difficult to give a full response to all the issues due to the uncertainty around some of the proposals. We hope we will be given further opportunity to comment on the detailed arrangements as these uncertainties are resolved.

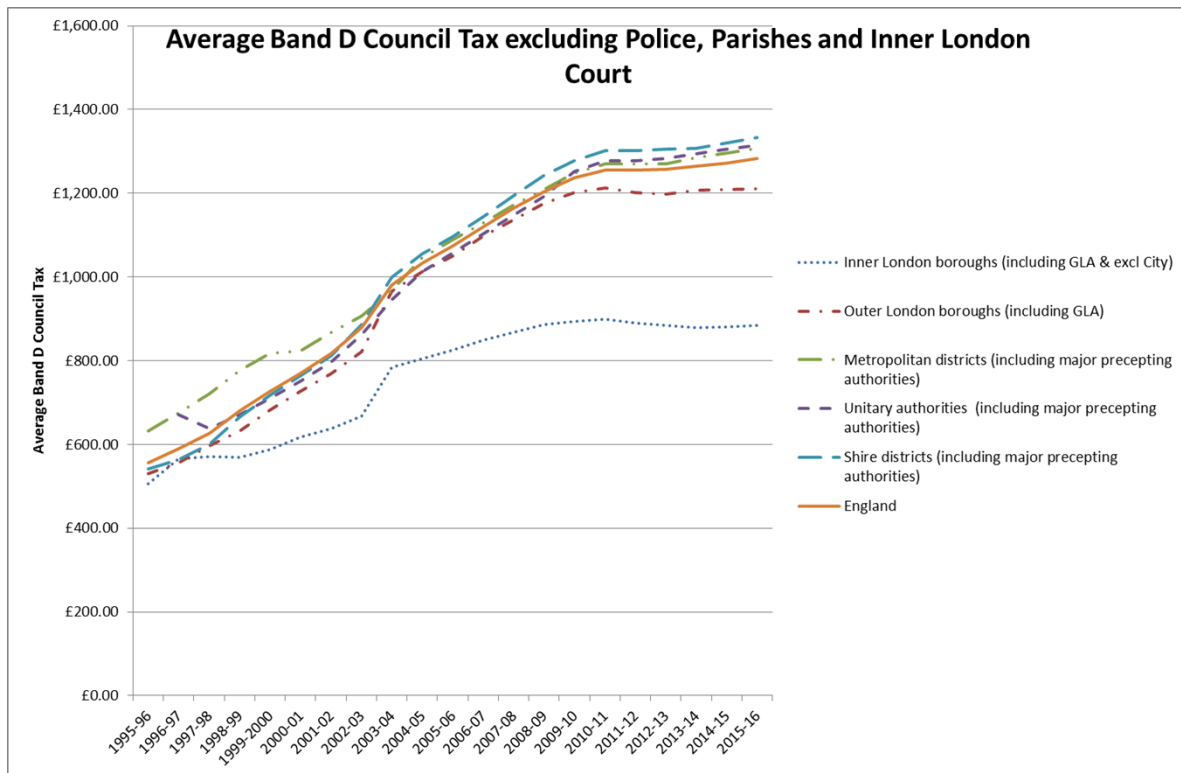
KCC Response to the Call for Evidence

This response to the call for evidence on needs and redistribution is on behalf of Kent County Council (KCC) and complements our response to the proposed 100% business rate retention. Kent is the largest shire area in the country with a population of around 1.5 million and over 640,000 households. This makes KCC the largest council responsible for services to more people than any other council in the country.

KCC welcomes the opportunity to comment on this review, which is long overdue. We have contributed to previous reviews and consistently made the case that county areas are less favourably treated than London and Metropolitan boroughs. Without repeating in full our previous arguments these can be summarised that we believe the indicators used for grant allocations (Formula Grant and many of the specific grants which have now been added into Formula Grant/Revenue Support Grant/business rate baseline) had an urban bias. This was compounded by the use of regression analysis to compare distribution with previous spend patterns and transitional damping, both of which served to perpetuate the historical allocations and negated a proper needs driven system.

We also contend that the current system has become overly complex. It has evolved from a variety of previous arrangements, the rationale for which have become lost. Furthermore, commitments made under previous arrangements have been cast aside leaving individual authorities to suffer the consequences. We believe that it should be possible to produce a simpler, more efficient and more equitable system. This system should focus on the key cost drivers for the main areas of local authority spend and be based on forward predictors of spending needs. Any system which cannot be readily explained to local councillors, residents, businesses and other stakeholders, or can justify the outcomes it produces, should be rejected. However, we also recognise that adequately reflecting spending needs through redistribution should be the prime objective and should not be sacrificed for the sake of simplicity. This means the final redistribution methodology may have to be sufficiently complex to achieve this.

We believe the most compelling evidence that the current system is flawed is large disparity in council tax charges in different authorities. How can it be justified that council tax payers in county like Kent have to pay more than twice as much as the same banded property in some London boroughs? This cannot simply be explained away as efficiency or local choices over service levels; the original concept of council tax was that the funding redistribution would enable authorities to provide a similar range/level of services for the same tax charge. This concept has become increasingly eroded over time (see the graph below showing comparable band D tax rates in different classes of authority) and this review should seek to redress this imbalance over a reasonable period of time to allow tax rates in London to rise and to restore equilibrium.



We would like assurances that the needs led review will not only reconsider the baseline for the existing 50% retention but also the distribution of grants being considered to be devolved from the additional business rate retention (especially the remaining RSG and improved Better Care Fund). We recognise that this may require transitional damping but this must be on the basis of a managed transfer to new needs-led redistribution and acceptable impact on council tax.

Question 1: What is your view on the balance between simple and complex funding formulae?

We are very much in favour of simple formulae in principle. To try take account of every nuance for particular authorities is virtually impossible, and we would argue inappropriate. If the aim is for local authorities to be more self-sufficient and rely on the income raised through local taxes, then a complex formula which redistributes funding for a wide range of individual needs and nuances is counter-intuitive. Of course to be genuinely self-sufficient authorities should have more flexibility over how the taxes are raised in the local area e.g. we have consistently argued that authorities should be given greater powers to vary mandatory discounts/reliefs.

We believe that a formula based on simple measures such as population, number of households, etc., would suffice for the vast majority of authorities. Of course there will always be outliers where this is not the case. However, we do not believe that the formula used for all authorities should be determined by the needs of outliers. Furthermore we would urge that the formulae be measured according to the overall distribution it delivers rather than the individual elements within it. This would better take account of the inevitable “swings and roundabouts” which will occur from a simple approach.

It is our experience from complex formulae that within a few years there becomes a strong desire for simplification (mainly because the original reasons for the

complications no longer exist or aren't clear) but this is difficult as it creates winners and losers. Therefore, it is easier to go simple from the outset.

However, having stated this aim for simplicity we accept that any system which redistributes resources according to needs must adequately reflect need and this should be the prime objective. Consequently we accept that the formula will need to be sufficiently complex to achieve this, especially where such complexity adds value and results in a funding system which better matches the needs. This should particularly apply where such complexity is in the interests of the wider local authority family i.e. we would not support complexity in order to reflect local choices or which adds perverse incentives.

Question 2: Are there particular services for which a more detailed formula approach is needed, and – if so – what are these services?

We believe attention should be focussed on the most significant services. For most upper tier authorities these are (in order of significance); adult social care, children's social care, capital financing, waste collection (lower tier in two tier areas) and disposal, public transport, and highway maintenance/management. If we do not get the distribution of funding right for these areas of significant spending then it's largely irrelevant whether we get the allocations right for some of the lesser areas of spending under the old Environment Protection & Community Services (EPCS) sub block.

In particular we have challenged the previous distribution of funding for adult social care. This applies to both older persons and more pertinently adults (especially those with learning disabilities and mental health issues). We believe the previous formulae have relied too much on measures of deprivation and not enough on health indicators. In particular for adults with learning disability we believe deprivation is not a factor as these disabilities are as likely to occur in more affluent families as deprived ones. It comes as a surprise to many that we spend a greater proportion of the adult social care budget on adults with learning disabilities than we do on older people (and these clients stay in the social care system much longer than older people). It is therefore imperative that we get the distribution of funding right for this significant (and often overlooked) client group. We are also concerned that support for adults with mental health issues is often overlooked and inadequately resourced.

Similarly, the funding and support for children with special educational needs is another area which should be given special attention. The presumption that SEN is linked to deprivation is overly simplistic with many special needs unrelated to deprivation. Providing SEN transport has been one of the rising spending demands which have not been funded under the current arrangements.

We have previously expressed our significant reservations that the funding to finance capital schemes under the old supporting borrowing regime has not been adequately protected since 50% retention was introduced (or from the reductions in RSG since 2010). These capital investments were made on the understanding that the borrowing would be fully funded for the lifetime of the debt. We now find ourselves having to finance long term debt (both interest and repayment of the principal) from a diminishing funding base. This puts added pressure on those authorities which took up supported borrowing. We would particularly like to see this addressed as part of the needs and redistribution review.

Question 3: Should expenditure based regression continue to be used to assess councils' funding needs?

We do not support expenditure based regression and this approach should not be used as the basis on needs assessment or redistribution. Expenditure based regression effectively preserves the historic funding distribution and therefore, maintains existing deficiencies in the funding arrangements. We have already expressed our opinion that the previous funding arrangements favoured metropolitan authorities, particularly Inner London. This is reflected in the lower per capita funding allocations for shire authorities. This in turn has led to shire authorities increasing council tax but even after taking this into account these authorities still have a lower core spending power than London and metropolitan authorities. It has also led to the very large divergence in council tax charges which we have already exemplified, and which we believe is totally unjustifiable.

Question 4: What other measures besides councils' spending on services should we consider as a measure of their need to spend?

We strongly support the concept of identifying key cost drivers. The main key cost driver should be population (split into appropriate age segments). For many services e.g. adults with learning disabilities, waste collection and disposal (although in the case of waste number of households may be more appropriate than population), this should be sufficient. Other services may need to be weighted by other factors e.g. deprivation for older persons and children's social care, health indicators for older persons and public health, bus patronage for public transport, etc.

Since the baseline will be set and fixed for a number of years we think it essential that the indicators used to reflect key cost drivers should be forward looking i.e. reflecting likely need over the entire period of the reset, and not set based on a previous census or some other count. We accept this introduces some degree of estimating error but believe this is preferable to using indicators which could be woefully out of date towards the end of the reset period.

We recommend that the CLG/LGA needs and redistribution working group be charged with identifying the key cost drivers for the most significant services and model the impact. We do not support the use of expenditure or non-expenditure based regression to evaluate the impact for the reasons we have already explained i.e. these perpetuate previous patterns which are influenced by a wide variety of factors, chiefly previous funding distribution and local discretionary choices, neither of which should be reflected in needs assessment or funding redistribution. If necessary an independent body which represents the views of all local authorities should make the judgement on which factors and weights should finally be used. There is plenty of time to do the necessary modelling and reach a conclusion which can be accepted by all authorities.

Question 5: What other statistical techniques besides those mentioned above should be considered for arriving at the formulae for distributing funding?

Ultimately we are not convinced that any statistical technique will help to evaluate the right formulae. The main problem being that whatever the outcomes are

evaluated against can be criticised. Therefore, we think it more important to secure consensus on the key factors which should (and those that should not) be taken into account in determining needs and redistribution. We believe the key factors which should be taken into account are:

- Focus on the most significant service areas which councils have to provide
- Identify key cost drivers (one of which should always be population) for those service areas
- Seek to re-establish the principle that redistribution should seek to equalise resources so that authorities can provide a similar level of services for the same rate of council tax/business rates
- If authorities want to vary the rate of tax this should be matched by varying spend/other income sources

Key factors which should not be taken into account include:

- Historic funding levels
- Local discretionary choices
- Delivery of other political objectives

As we have already indicated we believe the only way to reach an acceptable decision on the formulae is through an independent body representing the views of all local authorities.

Question 6: What other considerations should we keep in mind when measuring the relative need of authorities?

As we have already indicated the arrangements should focus on the significant areas of statutory responsibilities and not be driven by the need of (a few) significant outliers.

Question 7: What is your view on how we should take into account the growth in local taxes since 2013-14?

We think all authorities should be able to keep a proportion of growth in perpetuity. This is consistent with the concept of incentivisation. Growth (and indeed decline) can occur for all sorts of reasons, some within the gift of local authorities and some outside their control. We think it will be virtually impossible to measure the amount of growth with a local authority's control, and thus it may have to be an arbitrary amount which is retained in perpetuity. Furthermore, some of the growth reflect growing population and provides funding for the services consumed by the additional people.

We are concerned that resource equalisation did not take into account local authorities' ability to raise other income as well as taxes. Where such income streams are significant, the authorities concerned have scope to deliver higher services levels and/or tax reductions. We believe these significant income sources e.g. car parking charges, social care client contributions, etc., should also be factored into resource equalisation equation.

Question 8: Should we allow step-changes in local authorities' funding following the new needs assessment?

We recognise the need for transitional damping but not to the extent that it significantly impairs or negates the effect of needs based redistribution. One of the main criticisms of previous damping regimes is that they returned funding allocations to their previous relative position and that the reform which prompted the damping was never fully implemented. Therefore, we would support damping which is set for a fixed period during which it would be fully phased out.

Question 9: If not, what are your views on how we should transition to the new distribution of funding?

As above, we fully support a fixed period for damping which is then fully phased out.

Question 10: 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?

We cannot see how this arrangement would work without extensive and difficult negotiations between the individual authorities. Furthermore we cannot see how a formula which has been devised to determine baseline need at a combined authority level could be disaggregated down to individual authority level without producing unintended consequences. Therefore although this suggestion would promote better collaboration between authorities we think it should be rejected as being unworkable. . .

Question 11: How should we decide the composition of these areas if we were to introduce such a system?

. We cannot see how combined areas would work and therefore this question is not appropriate

Question 12: What other considerations would we need to keep in mind if we were to introduce such a system?

Once again this is not appropriate as we think the notion of combined areas is unworkable.

Question 13: What behaviours should the reformed local government finance system incentivise?

We support the principles of self-sufficiency and incentivisation. We have already commented in this response and in our response to the full consultation that local authorities should be given more flexibility over local taxes. This would include greater freedoms over mandatory discounts and reliefs, and greater flexibility to increase as well as reduce local tax rates. We believe this would enhance local democracy and accountability.

We also believe that the finance system should encourage councils to integrate and collaborate more, especially where this can deliver better services which are

easier/quicker for residents and businesses to access, and can be provided at lower overall cost.

We would like to see a finance system which encourages and supports authorities to make infrastructure investments with greater certainty that the funding will be secure to finance the investment. The current system which has not secured the funding under the supported borrowing regime, leaves authorities with a large spending obligation through the Minimum Revenue Provision, and inappropriate/unworkable Community Infrastructure Levy arrangements, does not do this. Most infrastructure investment is now funded from central government grants. This is not consistent with the concept of self-sufficiency and needs to be addressed (although we have not seen much evidence of this to date)

We believe the finance system should reward enterprise and innovation. In particular we would like to see a system which encourages authorities to take more risks and does not vilify them for holding reserves as a way of managing these risks. Authorities can and should do more to identify the reasons for holding reserves and general reserves for unforeseen eventualities should be confined to reasonable levels. However, in our experience most reserves are not held for such unforeseen circumstances but are held either to manage risk should particular eventualities arise or to smooth expenditure to avoid large variations in tax levels needed over short periods of time.

We believe the finance system should discourage over reliance on central funding or provide safeguard/protection for authorities which make inappropriate choices. Safeguards should exist for unavoidable/uncontrollable occurrences.

Question 14: How can we build these incentives in to the assessment of councils' funding needs?

We believe a simpler system, which focuses on the significant areas of statutory activity and starts from the premise that the vast majority of authorities have similar needs per head of relevant population will go a long way towards reinforcing these incentives. We certainly believe the current wide range in council tax rates which the current system has created needs to be addressed. We accept this will take time but these differences cannot be justified and need to be tackled.

We hope that you find our responses helpful. KCC is keen to continue to help the government to develop the arrangements as we believe we are close to be a "typical" shire area with many issues and challenges in common with shire areas elsewhere across the country.