



LEAD MEMBER FOR STRATEGIC MANAGEMENT AND ECONOMIC DEVELOPMENT

DECISIONS to be made by the Lead Member for Strategic Management and Economic Development, Councillor Keith Glazier

WEDNESDAY, 20 FEBRUARY 2019 AT 10.00 AM

COMMITTEE ROOM - COUNTY HALL, LEWES

AGENDA

- 1 Decisions made by the Lead Cabinet Member on 22 January 2019 (*Pages 3 - 4*)
- 2 Disclosure of Interests
Disclosure by all Members present of personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.
- 3 Urgent items
Notification of any items which the Lead Member considers urgent and proposes to take at the appropriate part of the agenda.
- 4 Response to Relative Needs and Resources and Business Rates Retention Reform consultations (*Pages 5 - 16*)
Report by the Chief Operating Officer
- 5 Any urgent items previously notified under agenda item 3

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12 February 2019

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LEAD MEMBER FOR STRATEGIC MANAGEMENT AND ECONOMIC DEVELOPMENT

DECISIONS made by the Lead Member for Strategic Management and Economic Development, Councillor Keith Glazier, on 22 January 2019 at Committee Room - County Hall, Lewes

8 DECISIONS MADE BY THE LEAD CABINET MEMBER ON 20 AUGUST 2018

8.1 The Lead Member confirmed as a correct record the minutes of the meeting held on 20 August 2018.

9 REPORTS

9.1 Reports referred to in the minutes below are contained in the minute book.

10 SELEP SECTOR SUPPORT FUND (SSF)

10.1 The Lead Member considered a report by the Director of Communities, Economy and Transport.

DECISIONS

10.2 The Lead Member RESOLVED to: (1) Approve the County Council acting as the Local Accountable Body for successful South East Local Enterprise Partnership (SELEP) Sector Support Fund projects and to enter into a legal grant agreement to transfer the Sector Support Fund grant monies as approved by SELEP; (2) Delegate authority to the Director of Communities, Economy and Transport to agree the terms of, and enter into, any relevant agreements with Essex County Council as the SELEP's Lead Accountable Body, necessary to secure the funding and enter into subsequent legal grant agreements with lead project sponsors; and (3) Delegate authority to the Director of Communities, Economy and Transport to approve the terms of any such agreements and to take all other necessary actions in respect of recommendations 1 and 2 above.

Reasons

10.3 The Sector Support Fund (SSF) supports one-off, discrete pieces of work of a pan-LEP nature with a sector focus that bring demonstrable benefits and have support across the LEP. It will facilitate outcomes that align with SELEPs overarching strategic objectives to create the conditions for increased jobs and homes, safeguarding existing jobs and raising skill levels. Being pan-LEP it will result in benefits to the East Sussex economy, regardless of the location of the project lead/promoter.

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Report to: **Lead Member for Strategic Management and Economic Development**

Date: **20 February 2019**

By: **Chief Operating Officer**

Title of report: **Responses to Relative Needs and Resources and Business Rates Retention Reform Consultations**

Purpose of report: **To seek approval for the proposed responses to the Relative Needs and Resources and Business Rates Retention Reform Consultations**

RECOMMENDATIONS

Lead Member is recommended to approve the consultation responses

1. Background

1.1 On Thursday 13 December 2018 as part of the Provisional Local Government Finance Settlement, the Ministry of Housing, Communities and Local Government (MHCLG) released its latest consultations '**A review of local authorities' relative needs and resources**' and the '**Business Rates Retention Reform**'. The deadline for response to both of these consultations is the 21st February 2019. The consultation documents can be found at [review-of-local-authorities-relative-needs-and-resources](#) and [business-rates-retention-reform](#).

1.2 'A review of local authorities' relative needs and resources' is hoped to address concerns that the current formula is unfair, out of date, overly complex and thereby is aimed at updating the approach to distributing funding across all councils. The review will reconsider drivers of local authorities' costs, the resources available to them, with a more transparent link between local circumstances and resource allocations. This consultation is the next step in developing a new distribution methodology and introduces potential approaches. The Government's aim is to implement this in 2020/21. The County Council's response is found at Annex 1.

1.3 The consultation on Business Rate Retention Reform seeks views on the balance between risk and reward within the proposed reformed system. The Government's ambition for Business Rate Retention is to continue to give local government more control over the money they raise, to spend on public services and to support local economic growth. The Government's aim is to reform the business rates retention system from 2020/21. The County Council's response is found at Annex 2.

1.4 These consultations provide an opportunity for the Council to provide input into the Government's plans to provide a funding allocation mechanism that is fit for the future and is reflective of the demographics of the population and therefore is reflective of need. At the same time the opportunity should be taken to assert the Council's lobbying position on wider local government funding issues, as wider reform is considered by the Council as

being essential for a sustainable future. It is the Council's consideration that the government needs to take positive steps in closing the public sector funding gap.

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Local Member(s): All

Background Documents – Consultation Documents:
[review-of-local-authorities-relative-needs-and-resources](#)
[business-rates-retention-reform](#).

Annex 1 - Consultation Paper - A Review of Local Authorities' Relative Needs and Resources

The government has asked that this response is completed on survey monkey. Any additional information or evidence may be sent via email.

East Sussex County Council, along with local authorities across the country, urgently requires sufficient funding to match our local need for services. A formula that provides appropriate funding for authorities' relative demand and cost of delivering services is long overdue and we welcome the Ministry's work to establish a modern, simple, sustainable and transparent funding formula.

The Council's message remains consistent with previous submissions and letters to Government, and once again we must draw the Ministry's attention the continued and significant demographic and inflationary pressures on the major services we provide. Demand for Adult and Children's social care continues to increase year on year, while we face additional cost pressures from general inflation, increases in contract prices, wages rises, the national minimum wage and further potential financial pressures as a result of Brexit. At the same time, the cost of providing services in the South East is higher than in other parts of the country for which the Council (unlike elsewhere) receives little, if any, Area Cost Adjustment recompense.

Our views on how the proposed changes in the formula set out so far respond to the pressures we face are captured below. However the consultation contains insufficient detail on a number of areas for meaningful comment: adult social care and children's services in particular. We would welcome more detail and further engagement about these service blocks.

In addition to growing pressures, the Council's funding has plateaued as our Revenue Support Grant reduces. Council Tax has not been able to fill the gap and keep pace with rising demand and costs. We have used robust and innovative management, and in later years, significant reductions in some of our most valued and important services, to save £129m since 2010. We face a further budget gap of £26m to 2021/22 that we hope will be significantly reduced by a fair funding formula that appropriately funds the pressures and costs we face.

For this to be the case though, the total quantum of funding available to the sector must increase, and we would urge the Ministry to support the prioritisation of resources for Local Government in the Comprehensive Spending Review. With low council tax and business rate growth in East Sussex the only sustainable solution for areas like ourselves can be to address the quantum to reduce deficits. We hope that this will be addressed within the Comprehensive Spending Review 2019. ESCC remains committed to supporting this work and would ask the Ministry to contact us if we can provide any further information to help with this endeavour.

Simultaneously, Government must set a clear national policy direction for social care, including a sustainable funding mechanism. The response to the growing demand on older people's services has been to provide a series of short-term measures, including one-off funding and power to raise an additional ASC Council Tax Levy. These temporary measures have helped us delay some savings proposals in recent years, but have not provided certainty or security to plan over the longer-term. They also failed to negate the need for £10m savings in our social care provision in 2018/19. Clear Central Government policy for social care, aligned to the NHS 10 Year plan, is urgently needed to make older people's care sustainable and ensure the additional £20bn provided for the NHS last year is deployed effectively and efficiently.

Finally, given the impact of the proposals made in this consultation on authorities' future access to sustainable resources, we feel the response time is short, particularly given that the consultation falls across the period of local government budget setting.

The Council's answers to the specific questions raised are set out below:

Question 1): Do you have views at this stage, or evidence not previously shared with us, relating to the proposed structure of the relative needs assessment set out in this section?

The Council is supportive of the simplicity a simple foundation funding formula offers and is supportive of population being a cost driver of universal services, alongside the several service-specific cost drivers.

The Council is concerned regarding the approach to the ASC formula. Concerns include the use of 'old' data that is not reflective of the current population and therefore demand for ASC services. The ONS population estimates would be a more up-to-date data set to use. The Council welcomes the recognition of the over 85+ population as a cost driver for ASC. As for Older People, most services are now received by those aged over 80, rather than the (much larger) over 65 population which determines the current main formula and should be appropriately reflected.

With regard to specific drives the Council would comment as follows (noting that further information would be required for a comprehensive response to the question):-

- With regard concessionary transport, in particular, HTST, and Local Bus Support the Council would support a population based formula. We would also welcome consideration being given to means testing concessionary transport in the longer term.
- The Council agrees there is no need to include a specific UASC formula given the unpredictable pattern and nature of demand. We would reiterate, however, that while the Home Office provides separate funding contributions for LAs to support UASC, these contributions are not sufficient and leave LAs with a funding shortfall of approximately £19k per UASC per year on average. This is similar for 18+ UASC leaving care (who came to us on or after 1st July 2016) and for 18+ Former UASC (who came before 1st July 2016, for which there is no funding), which leave LAs with a funding shortfall of approximately £21k per year on average for the former and approximately £31k per year for the latter.
- It is the Council's opinion that classification of roads is not necessarily the best measure of highways maintenance cost drivers as these tend to be static and therefore don't reflect issues (e.g. proximity to schools or hospitals) that cause, say, a C class road to have similar levels of traffic to an A or B class road. A better measure would take into account, although not restricted to, measures such as traffic levels, routes to hospitals and access to industrial areas including port access. Additionally, the Council considers road condition and percentage of unclassified compared to classified network (East Sussex as a rural county has a high percentage of unclassified roads) as key cost drivers that could be taken in to account in the needs assessment.

However without understanding the weightings being applied to service formulas and the area cost adjustments it is impossible to comment further on the appropriateness of the proposed structure of the relative needs assessment. The Council will therefore respond further when more detail is published. Including specific responses to the proposed technical paper regarding the adult social care formula and the planned technical paper providing detail of the development and review of the public health cost drivers (if it falls within the scope of the review) within the formula.

Question 2): What are your views on the best approach to a Fire and Rescue Services funding formula and why?

Question 3): What are your views on the best approach to Home to School Transport and Concessionary Travel?

See question 1

Question 4): What are your views on the proposed approach to the Area Cost Adjustment?

As noted in the response to question 1, there is not currently enough information regarding the weightings, or some of the measures, of the proposed Area Cost Adjustment to make meaningful comments. The Council welcomes the recognition that areas with low or dispersed demand have a smaller number of potential service providers which reduces competition and increases the cost of goods in terms of remoteness.

The proposal to use the average weekly pay for all workers in each area within the labour cost adjustment, or the rates cost adjustment, will be biased towards London and the Mets and those able to grow their local labour market. This is in essence a double count of a reward for growth in the business rate retention system. Therefore these both seem unequitable. However, without understanding how this would be weighted it is difficult to understand potential effects.

Question 5): Do you agree that the Government should continue to take account of non-discretionary council tax discounts and exemptions (e.g. single person discount and student exemptions) and the income forgone due to the pensioner-age element of local council tax support, in the measure of the council tax base? If so, how should we do this?

The Council supports all non-discretionary discounts and the income foregone due to the pension-age element of local tax support being taken into account in the measure of council tax base.

The principles set out on the consultation paper states, 'we do not intend to reward or penalise authorities for exercising local discretion'. It should follow that authorities are not rewarded or penalised for discounts, exemptions and premiums which are set centrally. Without a change in central decision making, it is the Council's view that it would not be equitable for authorities to be penalised or rewarded due to their demography.

Question 6): Do you agree that an assumptions-based approach to measuring the impact of discretionary discounts and exemptions should be made when measuring the council tax base? If so, how should we do this?

Yes, the Council agrees that an assumption based approach to measuring the impact of discretionary discounts and exemptions should be made when measuring the council tax base. It is a fair approach and is in line with the consultation principle to not reward or penalise authorities for exercising local discretion. Not applying an assumptions based approach could potentially influence local decision making in an attempt to receive a higher funding allocation.

Question 7): Do you agree that the Government should take account of the income forgone due to local council tax support for working age people? What are your views on how this should be determined?

If income foregone is to be taken into account in the non-discretionary pensioner element, it should be accounted for in the same way as other non-discretionary discounts and exemptions. As this is not a direct activity of the Council we will comment further when options are presented.

Question 8): Do you agree that the Government should take a notional approach to council tax levels in the resources adjustment? What are your views on how this should be determined?

The Council agree with a notional approach to council tax levels on the basis that it addresses the issue within the current system that authorities are rewarded or penalised for historic local decisions making.

A uniform rate could be established using an average of the national council tax requirement for upper tier, lower tier and fire services (excluding police) divided by the national tax base. Using 2018-19 data, this would have been:
National council tax requirement for upper tier, lower tier and fire services (excluding police) £26.9bn / national tax base 17.7m = Average council tax level £1,518.42.

Question 9): What are your views on how the Government should determine the measure of council tax collection rate in the resources adjustment?

The council supports option 2, a single uniform collection rate based on national average as it also incentivises collection.

Question 10): Do you have views on how the Government should determine the allocation of council tax between each tier and/or fire and rescue authorities in multi-tier areas?

The council are supportive of a simple approach to average share of council tax receipts in multi-tier areas.

Question 11): Do you agree that the Government should apply a single measure of council tax resource fixed over the period between resets for the purposes of a resources adjustment in multi-year settlement funding allocations?

The Council is supportive of this approach.

Question 12): Do you agree that surplus sales, fees and charges should not be taken into account when assessing local authorities' relative resources adjustment?

Yes the Council is supportive of this approach.

Question 13): If the Government was minded to do so, do you have a view on the basis on which surplus parking income should be taken into account?

In principal the Council does not support any proposal that would take any sales, fees and charges into account.

Question 14): Do you agree with the proposed transition principles, and should any others be considered by the Government in designing of transitional arrangements?

The Council would support a transparent approach and certainty over funding.

Question 15): Do you have views on how the baseline should be constructed for the purposes of transition?

While the principles for transitional arrangements appear sound. The Council is disappointed that there is not more detail in terms of the application of transitional arrangements given the timescales before implementation.

Given that the 2013/14 transitional arrangements have not 'unwound' over the course of the Spending Review the Council would like to seek clarity on the proposals for this happening so that it does not have a detrimental impact, including the current unequitable (but hopefully temporary) negative RSG arrangements. The council does not feel there is sufficient information available to comment any further ahead of further proposed engagement.

Annex 2 - Business Rates Retention Reform Consultation: Sharing risk and reward, managing volatility and setting up the reformed system

The government has asked that this response is completed on survey monkey.

The Council's answers to the specific questions raised are set out below:

Question 1): Do you prefer a partial reset, a phased reset or a combination of the two?

The council supports the full reset planned for 2020/21, that will see the "growth" within the current business rates system up to 2019/20 transferred to Baseline Need and therefore redistributed nationally.

With regard the options presented the Council considers the phased reset, with full redistribution, to be the most equitable. Given that it allows the benefit of growth for a set period before full redistribution. The council would support a rolling 3 year redistribution. This will minimise, to some extent the impact on service provision, in areas like East Sussex (given the large proportion of the area that is designated as a national park or as an area of outstanding natural beauty) that have considerable constraints to their ability to grow business rates, therefore for these areas too infrequent resets could mean that relative need grows faster than local tax resources.

The Council considers that the partial reset option is wholly unequitable; significantly favouring areas where encouraging growth is less challenging.

Question 2): Please comment on why you think a partial/phased reset is more desirable.

Please see the answer to question 1.

The council believes that the fairest method is a phased reset with full redistribution as it gets rid of any cliff edge and therefore provides certainty. While allowing growth to be retained for an agreed period after which allowing for the fair redistribution nationally.

The council feel that a partial reset as either part of the phased approach or as the approach will create perverse incentives. For example, there is more incentive for growth to come on stream in year one, when you could reap the benefits for up to three/five years, than in later years when the benefit will be partially re-distributed sooner. However the simplicity of a full reset is preferred in all scenarios.

Question 3): What is the optimal time period for your preferred reset type?

As outlined in the answer to question 1 the Council would support more frequent (triennial) and guaranteed 100% reset to allow full resource equalisation as regularly as practicable. As there is no link between business rates growth and need, this seems to be the most equitable of the options available. The Council is of the opinion that there is a need to balance stability and fairness with the opportunity for growth in business rates income. It therefore favours the phased reset approach, which allows a balance between authorities retaining their growth but not over extended periods of time.

Given the national uncertainty on businesses and the economy caused by Brexit, fixing for longer than a three year period could be extremely detrimental to the entire system.

Question 4): Do you have any comment on the proposed approach to the safety net?

The Council is supportive of their continuing to be a safety net the adequacy of which will not be

apparent however until the level is set at the end of the process.

This method sits well with a 3 year phased reset with full redistribution and will help keep safety net payments low meaning less of a top slice will be needed.

An alternative approach to the top-slice, could be for central government to apply the top-slice adjustment a year in arrears when the actual requirement is known. This would result better planning (the adjustment would be known and built into the settlement) and, the maximum funding allocation being available to spend on local services. This approach would rely on central government funding the safety net initially due to the timing lag. This could be done through their 25% share of business rates growth.

Question 5): Do you agree with this approach to the reform of the levy?

The council is supportive of the proposal for no levy, and it being replaced by a growth threshold. That said, we are not convinced a levy of 100% would be the right approach as it may result in authorities looking for ways to avoid triggering the threshold. A levy set around 75% or slightly above could address this.

The council considers this approach to fit well with a phased reset with full redistribution. Once up to the full 3 years, levy payments should remain much more consistent as 3 years growth is always being retained. This is less complex and gives greater certainty.

Question 6): If so, what do you consider to be an appropriate level at which to classify growth as 'extraordinary'?

The council agrees with extraordinary growth being dealt with in this way and would consider 150% to be a reasonable level only affecting the few. However, this might need to be flexed in order to generate sufficient resources.

Question 7): What should the fall-back position be for the national tier split between counties and districts, should these authorities be unable to reach an agreement?

Any new system needs to be reflective of the services provided and meet the needs of the residents via the tier of authority that provides the service. It should also recognise the gearing effect tier splits produce in between resets. (i.e. Where a council (at present, typically a district council) receives a tier split that gives them a much higher amount in business rates than they "need", a small percentage growth or reduction in business rates produces a disproportionately high effect on their final income, meaning they enjoy large benefits but suffer higher risk). If this risk were to be shared more equally a 50:50 fall back position might be preferable.

Question 8): Should a two-tier area be able to set their tier splits locally?

The council believes that allowing local authorities to negotiate puts the emphasis on local powers to negotiate, local personalities and other factors that detract from the equity in the system. This is emphasised by the various splits negotiated for the pilot.

Devolving the tier split negotiation adds complications into the system that other authority types do not need to manage. Given there is likely to be limited time to negotiate, the districts might hold more of the power (collectively), particularly in a system with a reduced levy, resulting in less incentive to 'give-away' growth

Question 9): What fiscally neutral measures could be used to incentivise pooling within the reformed system?

The council considers that an increase above the 75% retention level would be good incentive to those areas that continue pooling arrangements. It would also help promote planning across a functional economic area; in particular, facilitating joint decision making on the strategic spending of business rates growth and facilitates opportunities for collaboration.

Question 10): On applying the criteria outlined in Annex A, are there any hereditaments which you believe should be listed in the central list? Please identify these hereditaments by name and location.

The council has no specific views however given the impact on resources of the movement of hereditaments between lists it agrees that the most suitable time for hereditaments to move between lists is at a reset.

Question 11): On applying the criteria outlined in Annex A, are there any listed in the central list which you believe should be listed in a local list? Please identify these hereditaments by name and location.

See answer to Q10.

Question 12): Do you agree that the use of a proxy provides an appropriate mechanism to calculate the compensation due to local authorities to losses resulting from valuation change?

Although any proxy cannot be 100% accurate, and becomes irrelevant if the 'alternative system' at Q13 is implemented. In the absence of better information, the council believes that this proxy represents the best way to ensure that authorities are fairly compensated for valuation change outside of their control.

Question 13): Do you believe that the Government should implement the proposed reform to the administration of the business rates retention system?

The council supports the proposal as the result will be that each local authority will have certainty each year of their income. Accordingly, provisions will no longer adversely impact on an authority's income and any perverse incentive to underestimate provisions in order to protect income levels in the short-term will be removed. This is on the provision that an unreasonable administrative burden is not created.

The council believe measuring growth in business rates income on a measure of 'gross rates payable' produces the fairest measure.

Question 14): What are your views on the approach to resetting Business Rates Baselines?

If the alternative model is not implemented then the council believes that whatever the option it should be locally assessed rather than the government making its own estimate, therefore allowing local considerations to be taken into account.

Question 15): Do you have any comments at this stage on the potential impact of the proposals outlined in this consultation document on persons who share a protected characteristic? Please provide evidence to support your comments.

There are no apparent impacts on persons who share a protected characteristic. However, austerity measures and the reduction in overall local government funding have clearly affected protected groups.

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