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Dear Sir,

BUSINESS RATES REVIEW CONSULTATION -RESPONSE OF ISLE OF WIGHT UNITARY COUNCIL

Introduction

1. The business rates review consultation document was issued on 16 March 2015. In it a number of questions are asked about the potential changes to the current business rates system. The government also welcomes submissions on other issues which stakeholders believe to be pertinent to this review and in the terms of reference highlight that, in considering possible alternatives, they will bear in mind the suitability of a tax base as a local tax used to fund local public services.
2. The Isle of Wight Council in responding to the review is particularly focusing on the business rates system as an important element of local funding for council services and, in the context of the economic factors facing the Isle of Wight, the current system's failure to meet increasing local need.
3. The current system is based on incentivisation whereby councils will develop and implement policies and strategies that promote local economic growth leading to an increased business rate base and greater income for local services. This simply does not work on the Isle of Wight as whatever policies and strategies the Council pursues its ability to stimulate and grow the local economy is severely limited.

Ability to stimulate and grow the local economy

4. As an Island, with much of it being areas of outstanding natural beauty, predominated by rural agriculture and tourism the ability to attract businesses of scale is severely limited. This is compounded by the dependence on and cost of ferry travel, lack of developable land and lack of an appropriately skilled workforce. In particular :-
 - The Island's labour market is very unlike that of the rest of the South East – 59.77% of its resident population is of working age (16-64 years) the third smallest of any unitary or county area in England and Wales against this measure. The level of economic activity is extremely low; in 2011 its GDP per capita was 63% of that for Hampshire and 70% of that for Southampton and 67% of that for Portsmouth its mainland neighbouring unitary authorities. Gross weekly pay is approximately 88% of the Great Britain and 81% of the

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South East average figure. Unemployment rates are higher than the south east and there is a steady increase in International Labour Organisation (ILO) unemployment the seasonality of work tends to mask some of the underlying employment problems.

- Although the Island includes some very successful high technology businesses in the areas of marine, aerospace and composites, the visitor economy remains its primary source of employment underpinning approximately 30% of local jobs. The Island is therefore a predominantly low skilled employment area and less than 30% of the Island's working age population are qualified to NVQ level 4 or above, compared to 38% in the South East.
- The Island's core domestic economy has low levels of business dynamism, reflected in the low numbers of business start-and the quality and choice of commercial premises is held to be poor. The Island has therefore struggled to rebalance its economy away from a high dependency on public sector employment, which accounted for 33% of Island jobs in 2013. The Island has 26 hectares of employment floor space with the potential to create up to 7000 sustainable jobs if the development of the space can be encouraged.
- The Council is matching the Government's financial support for the roll out of rural high speed broadband in the BDUK project but recognises that it will take some time for the full economic benefit of this investment to be realised. It has also invested in the development of renewable energy technologies and seen a significant growth in this industry which is now slowing because of the limited capacity of the Island's electricity grid connection to the mainland.
- A general unwillingness to invest on the Island from service industries because the core population is insufficient to sustain many businesses and is not helped by the fact that people have to make a conscious effort to visit here – it's not like getting in a car and crossing boundaries. The seasonal increase in visitors is not sufficient to sustain these businesses.
- Manufacturing business are not keen to invest because they see the crossing the Solent as an additional cost to doing business here and are also afraid of being 'held to ransom' by the ferry companies.
- 95% of businesses are SMEs about half are in the retail and hospitality sectors, traditionally low value low turnover.
- We still have 30% of jobs in the public sector (council, prisons, school, and health) and the ability of raising additional NNDR from these sectors is therefore limited. We have seen a growth of charities in empty businesses which further depress the amount recoverable from NNDR.
- Because of the severity of grant cuts we have to focus on statutory services which mean reducing services and making little investment in discretionary services which underpin the Island's key visitor economy. This will ultimately discourage businesses and impact on the business rate base.

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- The designation of a number of Island wards as Assisted Areas is welcomed and will enable local businesses capable of so doing to take advantage of the opportunities for additional financial support that this status will bring.

The wider financial challenges

5. In addition to the lack of ability to increase business rate income when the new business rate retention system was introduced in April 2013 it effectively removed any additional resource being attracted to meet increased need. The Island has an above average number of older people, 26.2% of its resident population are 65 years of age and older the third highest unitary or county area in England and Wales for this measure. This contributes to it also being an outlier for the use of residential and nursing care and also the number of clients with a learning disability. On the basis of current service levels, likely uplift in fee levels for packages of care and demographic trends we face an increase over the three financial years 2015/16 – 2017/18 of some £8m. In 2014/15 we overspent £1.8m on adult social care because of increased need and in the current financial year we are already facing a projected overspend of some £1m and this is expected to rise.
6. In addition the Council and Island is faced with a number of financial challenges that are made significantly worse by the current arrangements for financing local government. The underlying reasons for this are:-

Low business rate base

7. For the Island the business rate base is low, essentially static and provides little opportunity to provide additional income to fund increased local need .In 2015/16 the 50% share of business rates is £17.294m which is only 8.5 % of the Council's gross spend (excluding Schools and Housing Benefits). Even with the top up grant of £12.449 m the total of £29.743m is only 14.6%. Even if growth is possible a 5% increase in business rates would only give an extra income to the Council of £864,700. The additional costs of adult social care alone due to increased need and costs of care packages in 2015/16 are estimated at £3.8m. Taking into account the revaluation in 2010 the number of businesses has increased marginally since 2005 with most of the increase relating to holiday accommodation. In rateable value terms there has been a marginal increase of around 1 % per year but with appeals in the pipeline we are projecting no increase in the 50% business rate share above the government threshold since business rate retention was introduced. Our projections over the next 5 years show a similar picture.

Wider health economy

8. This last financial year has been challenging for the Isle of Wight across health and social care. During the year we were notified that the amount of money that will be made available for healthcare on the Island will be reduced by £31m. We believe that greater integration of services across health and social care will be the key to creating a new sustainable system for island residents, and this is what we are seeking to achieve through the "My Life a Full Life" programme.
9. The registered population of the Isle of Wight at 31 March 2015 is 141,934. This is an increase of just under 500 individuals on the previous year. Of these 26.2% are aged over 65, an increase of 1.3% since 2012. At the same time there are more than 5,180 individuals over the age of 85 resident on the island and 60 over 100. With population in the older age groups expected to

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increase, the number of people unable to manage at least one self-care activity is expected to grow, as is the number of people living with dementia.

10. There are large numbers of people with long term conditions (LTCs) living on the island: over 45,000 people (32%) are currently estimated to have one or more LTC such as coronary heart disease, stroke, diabetes, chronic obstructive pulmonary disease and dementia. The number of people with one or more LTCs is predicted to increase by 2,500 people or 5.1% by 2018.
11. We have identified that it is the number of people with three or more conditions who need targeted support and this group of people is predicted to rise by 30.2% or 11,300 people by 2018.
12. Mental health status and a sense of wellbeing is an important determinant of overall health. It is estimated that over 16,000 Island people have common mental health problems. The high rates of claimants for incapacity benefits/employment support allowance that have a mental health problem correlates to the areas of deprivation.
13. The major causes of poor health and premature death continue to be circulatory, respiratory diseases and cancer. Lifestyle is a significant contributing factor and preventable causes of poor health and health inequalities include smoking, alcohol misuse, physical inactivity and obesity.
14. We know 20% of the 0-17 year olds live in poverty and 44.1% do not experience good emotional health. There are problems of obesity, smoking, teenage pregnancy and alcohol consumption, which are detrimental to children's health. The CCG works with Public Health in these areas.

Concessionary fares

15. The impact of the national concessionary fares scheme, as a tourist destination, has a disproportionate impact on our budget with a cost of some £4.7m in 2014/15. A significant amount of this travel is considered to be undertaken by tourists and the Council is undertaking work to demonstrate this is the case. This inevitably leads to reductions in the Council's budget for some of the discretionary services it provides for local residents to fund visitor's holiday bus travel.

Childrens services

16. The Council is under a ministerial direction for its Children's Services and has entered into a Strategic Partnership with Hampshire County Council. This is proving successful in driving the improvement agenda. As a result of delivering the changes required to secure improved outcomes for Children an additional £2.5m was put into the budget for 2014/15. The level of activity on children's services is significant and this will be a continuing financial pressure. It is pleasing that an Ofsted inspection undertaken in June of last year identified that the Council's arrangements for school improvement were effective. The Council remains acutely aware however that in overall terms the results achieved by children and young people in 2014 were below national expectations with some notable exceptions in early years and some elements of primary school performance.

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Small unitary – small controllable budget

17. The Council's gross revenue budget for 2015/16 is £334m. After taking out Schools and Housing Benefit, over which the Council has no control, the gross budget is £203m. From this figure committed statutory functions total some £167m leaving just £36m on discretionary services as follows:-

	£m	£m
Gross revenue budget excluding schools and housing benefits		<u>203</u>
Statutory Committed Services		
Adult Social Care	69	
Children's Services	28	
Public Health	7.4	
Concessionary fares	4.7	
Fire and Rescue Service	6.7	
Waste	8.8	
Capital financing	19	
Highways PFI	19	
Coroners	0.4	
Central and democratic costs directly flowing from statutory and committed functions	4	
		<u>167</u>
Discretionary services		<u>36</u>

18. Of the £36m relating to discretionary services some £18m is attracted in direct income leaving a net budget of £18m. This compares to a savings requirement of £23m for 2015/16-2016/17 alone. The business rates 50% share of £17.294m only meets 5% of the Council's gross spend and 8.5 % of its gross spend excluding schools and housing benefits. The number of businesses and the rateable value base has remained fairly constant with a minimal increase over the last 10 years (excluding the impact of the revaluation).

What the Council has done

19. In responding to this position the Council has already undertaken a significant programme of organisational change and has already made on-going revenue budget savings of some £50m since 2011/12, resulting in a significantly different organisation. As a small unitary authority, with a stretch of water between neighbouring authorities, the ability to reduce further without seriously compromising capacity to deliver statutory services is a real threat, as is the potential for heightening the risk of error and failure in meeting our duties. In securing year on year budget reductions, the following provides a number of examples of activities that have already been undertaken to reduce costs and which as a result now limits the scope upon which there is potential for any further reductions:

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20. **Senior Management:** Year on year reductions in senior management has been secured since the introduction of the local government finance reform. In overall terms this means a reduction of eight chief officer posts over the period. In affordability terms, a limit has been set for no senior officer to earn more than £100,000 and there is a 7:1 ratio between the highest and lowest paid officer which is well below the marker set by central government as being no more than 20:1. However, this in itself will have a longer term impact for recruitment and retention within the open job market and the ability to source high calibre candidates when positions become vacant. The ability to share senior positions with neighbouring authorities is regularly considered and the Council currently shares Director of Childrens' Services with Hampshire County Council and Chief Fire Officer with the Hampshire Fire Authority.
21. **Staffing:** A review of staff terms and conditions implemented on 1 April 2013 has seen a dramatic reduction in traditional local government terms of engagement, including rationalisation of premium payments to near minimum, payment only of statutory minimum redundancy payments, mileage rates to the HMRC level and major reduction in the payment of essential car user allowances to name but a few of the changes instigated. Whilst a necessary course of action to reduce costs, in comparison with neighbouring authorities who are yet to secure such dramatic change, it is inevitably having an impact on recruitment and retention, particularly in already hard to recruit occupations. On a like for like basis the current number of full time equivalent staff directly employed by the Council has been reduced by 23% over the past three years.
22. **Partnerships:** The Council has worked actively to develop partnerships across all sectors for the continued delivery of services. Its strategic partnership with Hampshire County Council for the delivery of its children's services is starting to show the intended improvements in the Island's education results and the agreed improvement programme is intended to lead to an eventual reduction in service costs in the future. The Council has also recently entered into a long term strategic partnership with Hampshire Fire & Rescue Service that facilitates on Island service provision to continue but which is made sustainable through a reduction in management costs and the building of resilience through access to a wider service infrastructure. Within health and social care, integration of commissioning and service provision is a major feature of our transformation programme and as a result of progress that has been secured to date, we have been successful in being awarded Vanguard status. This will support rapid progression towards a radical system reconfiguration in order to reduce costs through self-help, prevention and co-ordinated/targeted support that seek to avoid entry into acute care services. Partnerships with the voluntary sector and community groups continue to develop. The Council has already transferred some theatres and swimming pools to community use and a significant proportion of the council's library resource is now run by either community groups or with significant support from volunteers. The Council is working with local town and parish councils who are now taking responsibility for the maintenance of the Council's land holdings and entering into community asset transfers for property that is of local importance. Partnership with neighbouring authorities continue to be explored and although there are many benefits to be offered by strategic partnerships, they do not always provide the most cost effective solution and in some instances increases the costs associated with their delivery quite dramatically given the Island's relative isolation from the mainland nevertheless the Council is engaged with neighbouring Councils in discussing the possibility of creating a combined authority with devolved powers.

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23. **Efficiencies:** The Council undertook a much deeper and wholesale review of all its services and key areas of spend as a key part of the development of our approved budget strategy for 2015/16. With elected members, every service area was subject to challenge on spending, potential alternative service delivery models and areas for reductions in spend. This also entailed reviewing in some detail our statutory duties and discretionary spend to determine where reductions could be made. With the assistance of the Local Government Association and its productivity plus programme of support, a number of initiatives have been instigated to increase the potential to commercialise some of its activities and the income earned from its property portfolio. As a consequence it will be creating new joint venture companies with two different private sector parties to secure investment and realise these opportunities. We instigated the creation of an internal shared service centre in 2011 which saw the transfer of all transactional services to establish generic working practices and secured significant reductions in staffing numbers and spend as well as increasing efficiency in business process operations. This model is being further developed to encompass other aspects of council business, in particular administrative functions and lower level professional service activities as a means to further reduce costs in back office functions whilst increasing resilience and will be of a commercial business model.
24. **“50 ways to save”:** The Council has given due consideration to the government’s 2012 publication and had already instigated many of the suggestions as part of its previous budget strategies and discussed in this document although it continues to review its organisational model in this context.
25. **Reserves and balances:** The Council currently has useable reserves of £9.8m, this includes a general fund balance of £5.5m; this is after withdrawing £4.4m to underpin the 2015/16 budget and deliver further transformational change in year. The minimum level that we assess as necessary for a local authority of our size is £5m; therefore there is no scope to further reduce this amount without putting the financial health of the council at significant risk. The result of this is such that this provides the council with very limited opportunities to invest for its future or indeed has no substantial buffer to enable significant transformational change to take place or to provide for emerging budget pressures.

What the Island and Council needs

26. The combination of a low economic base and increasing need means that, unless there is fundamental change then the future viability of the Council and the sustainability of the Island are in serious question. The Council’s revenue support grant in 2015/16 is £26.103m. Even if the Council receives a 100% of business rate income it would still require a grant of £21.258m to be neutral. Its ability to increase its economic base would be no better and its risk would be that there is a drop and suffer a 100% of the income loss. If in overall terms any changes are cost neutral, as the government have indicated a move to 100% retention will benefit those areas with growing economies who will receive a bigger share and consequently those areas like the Isle of Wight will receive less resource. A move to 100% share of business rates matched by grant reductions will not improve our position and in respect of this affording a greater share of increased growth this in effect will be 100% of nothing rather than 50% of nothing.

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27. We are now in the position that in the near future the Council is in danger of not being able to meet its statutory duties and may fail financially. To avert this there needs to be a change in the way the Council is funded either through a different tax base, some form of Island Deal and/or a change in the business rates system that reflects local circumstances and constraints.
28. We recognise the government's focus on promoting cities and city regions as key drivers of economic prosperity and cities with a high business base will be in a good position to capitalise on these potential opportunities. The government however needs to develop a complementary strategy for rural and resort areas such as the Isle of Wight which have low business base, low opportunities for growth and tends to attract and be a net importer (perhaps to the benefit of the cities) of some of individuals who are the most intensive (hence expensive) users of public services.
29. We also recognise the importance of Local Enterprise Partnerships (LEPs) to the government in seeking to rebalance the economy and promote economic growth in their geographical area this also provides a dilemma in the context of a review of business rates where LEPs may seek to support and encourage development in one local authority area to the detriment of another will deliver benefits in income from rates in the area being supported by the LEP and all other authorities in the LEP's area would be effectively in competition with the LEP to attract new businesses. The Council is an active member of its LEP, the Solent Local Enterprise Partnership (SLEP); but given the Island's isolation from the mainland can understand that the SLEP has a focus on areas comprising the mainland authorities in order to achieve maximum impact from its investments. The Isle of Wight loses out twofold in this approach; new job opportunities are relatively inaccessible to its residents and the Council cannot secure any benefits in rates income from business growth.
30. As an alternative, to provide a more responsive base to fund local services, it is proposed that the following alternatives be considered:-
- a) That any business rate retention scheme incorporates an element through a top up grant that not only compensates for a low business rate yield but also relates to demographic need in the area.
 - b) The retention and use of NNDR should be looked at on a wider basis than simply by local authority area allowing all local authorities in a single geographical area to benefit from business growth across the whole area and to reduce competition amongst local authorities. Local Enterprise Partnerships were developed in 'functional economic areas' and therefore could provide one model for balancing NNDR collected across a whole area promoting closer working between authorities and collective responsibility for the economic success or failure of the area. LEP's may actually be too small an area for this to work effectively and government may need to combine LEPs to make this approach effective.
 - c) Rural areas such as the Isle of Wight have to provide services not only for local residents but also for the visitors to the area. The costs of visitor services increases as the number of visitors increase which is of benefit to and the goal of businesses in the visitor economy but the Council has no way of sharing in the success of more visitors whilst meeting the additional costs. We would therefore like government to consider the potential to allow

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the introduction of some form of visitor tax for areas such as ours. This could be collected through a new service charge at the point of sale but in the case of the Isle of Wight we would prefer a landing tax (we are in a unique position to do it) to enable the Council to benefit from the success of our investment in the visitor economy and offset our costs from so doing. This is especially relevant because many of the Council's discretionary services (parks, beaches, street cleaning) are at the greatest risk of cessation but are fundamental to the success of the visitor economy. At 2.2 million visitors a year a charge £5 a head would be necessary to address next year's budget pressures. Whilst this is a solution that could only be applied to the Isle of Wight it reflects and takes account of the Island's relative isolation from the mainland.

- d) The same reasons that underpin the argument for a 'visitor tax' also underpin the argument that the national concessionary fares scheme should apply only to local residents or that local authorities should fund their residents use of the scheme when they are travelling out of area. In addition the Council should be allowed to implement a local scheme which is more affordable given the local circumstances and intensity of its use and/or enables a discretionary payment to be made by users.
- e) Businesses which take on the full cost and responsibility of delivering Council services could be exempted from the payment of NNDR – funded through government grant and additional top up to the local authority.
- f) The ability to increase the business rate locally would be welcomed but in fragile economic areas this cannot be seen as the solution to resolving the funding of local authority services. In fragile economic areas such as the Isle of Wight an increase in business rates may actually cause an overall reduction in the total amount collected given the added financial pressure it would bring to many businesses unable to grow their market other than by taking market share from other Island businesses.

31. In respect of business rates system itself the Isle of Wight is in a fairly unique position and many of the questions are not relevant but in response to those specific questions that are our response is as follows:-

6 How can government use business rates to improve the incentive for local authorities to drive local growth?

As set out in the body of this response the economic realities on the Isle of Wight to attract new businesses and to stimulate growth are limited. The Council could make more interventions through giving incentives e.g. business rate reliefs but because of its financial position has no ability to do this as the increased growth would be in the medium-term and its financial crisis is now. The government could give additional powers to local authorities to set its own business rate within certain thresholds so that it could direct more resource to promoting growth. However, whatever the incentives the ability to grow the economy locally is always going to be restricted because of the economic components it faces. Generally the business rate system is not the best way of incentivising local authorities to drive growth. We have it as a top priority but what we need is hard cash and mechanisms not some arbitrary share of an income that has limited local direct control.

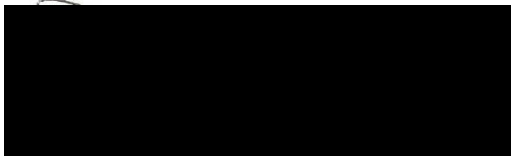
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As also discussed earlier local authorities are concurrently in competition with and working alongside Local Economic Partnerships to stimulate growth in a wider functional economic area. LEPs, do not have democratic accountability but are possibly in a stronger position (given their backing from government) than many local authorities to stimulate or depress business and economic growth in an area

7 What impact would increase local retention of business rate revenue have on business growth? What would the impacts be on local authorities?

On the Isle of Wight it is likely to be detrimental. Increased local retention in itself has no impact it just gives a bigger share top those areas that have growing economies and have the infrastructure and economic triggers that attract growth.

Yours sincerely



DAVE BURBAGE
Managing Director