

# HAMPSHIRE COUNTY COUNCIL

## Decision Report

<b>Decision Maker:</b>	Cabinet
<b>Date of Decision:</b>	24 September 2012
<b>Decision Title:</b>	Business Rates Retention – Consultation Response
<b>Decision Reference:</b>	4201
<b>Report From:</b>	Director of Corporate Resources

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### 1. Executive Summary

- 1.1. The Government has carried out various consultations over the last year in respect of the Local Government Resource Review (LGRR) and the retention of business rates by local authorities as a way of incentivising local economic growth.
- 1.2. The Government has now issued further detailed technical consultation that deals with how all of the various changes will impact on the levels, calculation and distribution methodology of Government grants for the last two years of the current Comprehensive Spending Review period.
- 1.3. The purpose of this report is to approve the County Council's response to this latest consultation which is due to be submitted by the 24 September.

### 2. Contextual information

- 2.1. In previous reports to Cabinet it has been explained that the Government is exploring the possibility of allowing local authorities to retain a proportion of their Business Rate income at a local level as a means of financing local services in the future. This aim of this is provide a local incentive to grow the Business Rate income base to the financial benefit of the local authority.
- 2.2. However, given that the current distribution of Business Rates is based on a relative needs formula (Hampshire authorities currently contribute far more than they get back), there must continue to be a large degree of national redistribution in the new system.
- 2.3. The detailed proposals that have been consulted on previously have been heavily weighted towards building protection into the new system and the Government's more recent decision to top slice 50% of business rates

nationally (in order to control the total amount of money going back into the Local Government sector) has meant that the financial incentive and impact has been greatly reduced.

- 2.4. This latest consultation deals less directly with the new business rate system and covers a much wider range of issues associated with local government finance and grant allocation methodologies and as such, the questions and answers are somewhat technical and complex in nature.

### **3. Response to the Consultation**

- 3.1. The County Council's formal response to the consultation is attached in Appendix 1. In broad terms, the response seeks to protect the County Council's financial position whilst at the same time presenting a balanced and pragmatic view on the overall system that is being introduced.
- 3.2. Given the number and technical nature of the questions, it is not really practical to provide a summary in the body of the report.

### **4. Financial Implications**

- 4.1. Although initial indications were that the whole of local government could at some point be funded by business rate income and flexibilities and freedoms within this would increase over time, the latest consultation shows that only a very small proportion of our total income will be subject to any economic growth incentives.
- 4.2. Out of a total expected income from business rates and Government grant of around £280m in 2013/14, only £45.7m is expected to come from retained business rates (on which we can benefit from local growth). By far the biggest proportion continues to be Revenue Support Grant from the Government.
- 4.3. Whilst the principles behind the business rates retention model are quite simple, the various protection measures and the changes to the overall grant system mean that it is now almost impossible to forecast with any great certainty the likely financial impact on the County Council in the last two years of the current Comprehensive Spending Review (CSR) period, let alone trying to predict what further reductions and changes may arise as part of the next CSR scheduled during 2014.
- 4.4. Based on the modelling that has been undertaken to date, it is anticipated that our previous projections are within the likely ranges of what we will eventually receive (which will not be notified until December of this year).
- 4.5. Given the County Council's success in broadly delivering 4 years worth of savings in 2 years and the planned 2% Annual Efficiency savings for the next two years, it is anticipated that the medium term financial goal of having a balanced budget by the end of 2014/15 will still be achieved.
- 4.6. An update on the Medium Term Financial Strategy will be provided in December on the assumption that grant figures for the next two years are released at that time.

## **5. Recommendations**

### **Cabinet is recommended to :-**

- 5.1. Approve the formal consultation response as set out in Appendix 1
- 5.2. Delegate authority to the Director of Corporate Resources in consultation with the Leader to approve the County Council's response to any further technical papers that might be issued.

**Hampshire County Council  
Response to the Technical Consultation on Business Rates Retention**

**Section 2: Establishing the start-up funding allocation and baseline funding levels**

**Chapter 3: Local Government Spending Control Total**

**Question 1: Do you agree with the methodology set out above for calculating the local government spending control total?**

The proposed methodology regarding the New Homes Bonus, capitalisation and safety net top slices is extremely concerning.

We agree that the revised proposal to reduce the New Homes Bonus top slice is superior to the £2bn top slice originally proposed. However, the new proposed deductions of £500m in 2013/14 and £800m in 2014/15 are still somewhat higher than what will be required. A much more precise figure should be calculated as any under or over deduction could be dealt with by making an adjustment to revenue support grant in the following year.

This refinement would be preferable as, although the statement that the surplus New Homes Bonus top slice will be returned at the start of the financial year is welcome, no commitment is made as to when authorities will receive notification of the amount to be returned. Authorities need to know these amounts well before April if they are to include this funding in their budgets. The Government should be able to provide provisional figures with the provisional local government finance settlement (assuming this will be in late November or early December) and we urge it to do so.

The proposals for the capitalisation and safety net top slice are of even greater concern. Councils will not know until January 2014 roughly how much funding will be returned from these, with final figures not known until very near the end of the financial year. If councils can not be sure of this money when budgets are set in February 2013 they can not include it, forcing them to make deeper cuts to services than necessary. We understand that the level of the capitalisation and safety net top slice is based on the DCLG's worst case scenario. A significant amount is thus likely to be returned but as it can not be budgeted for this will lead to a significant amount of cuts to services which could have otherwise been avoided.

To prevent this from occurring, the Government needs to be willing to share the risks of the local government funding system it has designed, rather than passing them all on to local authorities. The amount taken out as a contingency for the safety net should be reduced and funding for capitalisation should not be taken from the local government control total.

We strongly disagree with the Government's decision to reduce local government funding due to its decision in the Autumn Statement that central government set

pay awards will be at 1% for two years. Local authority salaries are not set by central government so there is no reason for this decision to impact on local government funding. Local authorities were already finding it financially challenging to offer a 1% pay award before this government policy was announced.

**Question 2: Do you agree with the methodology set out above for calculating Revenue Support Grant?**

The proposed approach is logical but its fairness is highly dependent on how accurate the estimated business rates figure turns out to be.

Previous business rates forecasts by the Government have often been very adrift of the actual figures. It is thus extremely important, given the current national economic uncertainty, that this estimate is not overoptimistic. The higher the forecast business rates, the lower revenue support grant will be. An over optimistic forecast of business rates that failed to materialise would leave local authorities with a funding shortfall right from the very start of the system.

**Chapter 4: Concessionary Travel**

**Question 3: Do you agree with the proposed approach of updating the Concessionary Travel Relative Needs Formula to use modelled boardings data?**

We agree with this proposal. Modelled boardings uses data much more associated with concessionary travel demand than the variables used in the current formula. The proposed changes to the formula will thus distribute funding for concessionary travel more fairly.

**Question 4: Or, do you think it would be preferable to keep using the existing formula?**

We do not think that the existing formula should be retained. Although modelled boardings will not be as perfect as actual boardings, this will still use data much more related to concessionary travel than that used in the existing formula. The new formula uses readily available data and has been fully developed so it would be a retrograde step not to adopt it.

**Chapter 5: Rural Services**

**Question 5: Do you agree that we should increase the population sparsity weighting of super-sparse to sparse areas from 2:1 to 3:1 for non-police services?**

There is a significant amount of research which indicates that public services for rural areas are underfunded, such as not enough funding to compensate for the extra distances care staff have to travel, for example. We therefore agree with the recommendation as its implementation will help to address this imbalance.

**Question 6: Do you agree that we should double the existing Older People's Personal Social Services sparsity adjustment from 0.43% to 0.86%?**

We agree that this will need to be done in order for the policy of providing a fair level of support to rural areas to work as intended. Otherwise, money would simply be moved around rural areas and the objective of reducing the underfunding of rural services would not be met.

**Question 7: Do you agree that the proportion of the Relative Needs Formula accounted for by the population sparsity indicator under the District Level Environmental, Protective and Cultural Services block should be increased from 3.7% to 5.5%?**

As with question six above, we agree that this needs to be done in order for the policy of providing a fair level of support to rural areas to work as intended.

**Question 8: Should the County level Environmental, Protective and Cultural Services indicator be reinstated at 1.25%?**

We agree with this recommendation as it will help to reduce the current underfunding of the rural services covered by this part of the formula.

**Question 9: Do you agree that we should introduce a Fire & Rescue sparsity adjustment at 1%?**

We agree with the principle of providing additional funding for currently underfunded rural services, although the leakage of funding from non-fire authorities for this particular change shows a weakness of the formula grant system.

**Chapter 6: Taking account of Relative Needs and Relative Resources**

**Question 10: Do you agree that we should restore the level of the Relative Resource Amount in 2013-14 to that for 2010-11?**

Hampshire County Council strongly opposes this proposal.

Local authorities which the Government has judged to be less dependent on formula grant have already been penalised for this in multiple ways. In the last settlement, this included reducing the central allocation, increasing the relative needs amount and the use of banding to give them the highest percentage cuts to their formula grant. This funding has been transferred to provide multiple layers of cushioning for authorities which are more dependent on formula grant.

Many authorities with lower relative resources will have already been compensated by these changes, particularly with the increase to the relative needs amount. The proposed alteration to the relative resource amount would be yet another redistribution of resources based on an arbitrary decision.

Authorities judged to have higher levels of resources are finding the current financial conditions just as challenging as other authorities, so there is no sound basis for removing resources from them to make conditions easier for other authorities.

Financial pressures on local government can only be alleviated by increasing the control total for local government funding, not by arbitrarily moving money between authorities.

**Question 11: Do you agree that we should compensate for restoring the level of the Relative Resource Amount in 2013-14 to that for 2010-11 by increasing the level of the Central Allocation only?**

We believe that the proportion of funding currently distributed through the central allocation is too low, so have no objection to it being increased. However, there is no justifiable reason for increasing the relative resource amount. Therefore, an increase to the central allocation should be achieved by reducing the level of the relative needs amount, which was arbitrarily increased in the last finance settlement, rather than by increasing the relative resource amount.

#### **Chapter 7: Grants Rolled In Using Tailored Distributions**

**Question 12: Do you agree that we should continue to distribute funding for the Grants Rolled In Using Tailored Distributions according to the methodology used in 2012-13?**

It would be fair to continue using the methodology used in 2012/13.

#### **Chapter 8: Transfers and Adjustments**

**Question 13: Do you agree that the October 2012 pupil census should be used in the final settlement for removing these services?**

The October pupil census would be the most up to date data available so we can see the merit of this, although the issue that the October census does not cover all education providers would need to be addressed.

**Question 14: If not, what methodology would you prefer to use?**

We are satisfied with the proposed approach.

**Question 15: Do you agree with the proposed methodology for removing funding for the education services currently in the Local Authority Central Spend Equivalent Grant?**

We are greatly concerned about key aspects of the proposed methodology.

The whole principle behind the proposals, that the assumed LACSEG expenditure of each local authority can be worked out from a generic national formula, is deeply questionable. Financially efficient authorities will be penalised by it, as the national formula will assume they spend more on central education services than they actually do.

If the Government's proposed approach is adopted, it is right that the same formula should be used to top slice funding as that used to allocate the funding back. This means that all the funding top sliced from a local authority is redistributed within that authority's area. The funding system already contains mechanisms to redistribute funds between areas so it would be most unfair if this happened twice.

We have severe concerns about the amount which it is proposed to top slice from formula grant.

There are known problems with the quality of data obtained from section 251 forms, due to the forms having never been designed with the purpose of determining LACSEG. At a national level, it is thought that this overstates local authority expenditure on central education services by £100-200m.

The forecast decreases in LACSEG expenditure are also much too low. Between 2011/12 and 2013/14 the forecast reduction is only 2.21%, just over 1.1% each year. The forecast reduction between 2013/14 and 2014/15 of 2.08% is not much more realistic.

These figures bear no relation to the cuts which have been made to local government funding. Hampshire County Council received a 10.4% cut to its formula grant in 2012/13 and the formula grant control total for local government is likely to be cut by 5% in 2013/14 and 9% in 2014/15. Some authorities will of course receive much greater percentage cuts than these.

The Government's calculations appear to presume that local authorities will make deeper cuts to other services to protect central education services. This is completely unrealistic. All budgets are stretched and other council services, such as adult social care, are just as critical to provide. Top slicing an excessive amount for LACSEG will be at the expense of these vital services. We urge the Government to revisit its calculations and use much more realistic LACSEG figures. Please see our response to question 16 below for how we think this should be done.

**Question 16: If not, what methodology would you prefer to use?**

The 2011/12 LACSEG figures have always overstated LACSEG expenditure and are becoming increasingly historic. We believe that the starting point for LACSEG calculations should therefore be the figure reported on 2012/13 section 251 forms. These will give the most up to date starting figure possible and will reflect the effect of 2012/13's cuts to local government funding.

The reductions to LACSEG expenditure figures for 2013/14 and 2014/15 should be the same as the percentage cuts to the formula grant control total: likely to be around 5% in 2013/14 and 9% in 2014/15. Otherwise, the LACSEG calculations will wrongly assume that councils are making deeper cuts to other services to protect central education services, which is simply not possible.

**Question 17: Do you agree that funding for Local Authority Central Spend Equivalent Grant should be removed after floor damping?**

We agree with this proposal as it enables the amount deducted from an authority for LACSEG to all be returned to the schools in that authority's area.

**Question 18: Do you agree with the proposed methodology for rolling in the 2011-12 Council Tax Freeze Grant?**

We support this methodology. It ensures all councils will continue to receive the correct amount of funding they are entitled to for having frozen council tax.

**Question 19: Do you agree with the proposed methodology for rolling in the Council Tax Support Grant?**

We agree that the council tax support grant should be rolled in after floor damping. This is a new grant so all authorities should receive the amount of funding they are entitled to from the calculations for it, without further adjustments made to it.

**Question 20: Do you agree with the proposed approach to continue to apply a damping floor to Early Intervention Grant allocations after the removal of the 2 year old funding and the top slice?**

Local authority resources have already been strained by the top slicing of funding from Early Intervention Grant to fund free education for two year olds. We urge the Government to reduce this top slice of local government finances being used to fund a central government policy. With this background, we very strongly oppose the Government's proposal to top slice a further £150m from Early Intervention Grant for unspecified future projects. This would put further strain on funding for local early intervention services. In line with the Government's policy of localism, this funding should remain with councils who know where it can immediately be put to best use.

Damping has its merits but, compared to floors and ceilings for other local government funding, the floor and ceiling previously applied to Early Intervention Grant has been overly cautious. This has resulted in a too slow pace of change, with many authorities now receiving sums after damping widely diverged from what the undamped formula allocated them.

The rolling in of Early Intervention Grant to the rates retention system is likely to be the last real chance of addressing this problem. Therefore, in this funding settlement, damping should be removed from Early Intervention Grant to deal with

the problem. If the department is intent on having some damping we hope that the gap between the floor and ceiling could at least be increased so that allocations get closer to the amounts which authorities are allocated by the undamped formula.

**Question 21: Do you agree with the proposed methodology for rolling in the Early Intervention Grant excluding funding for free early education for two years olds?**

We agree that Early Intervention Grant should be rolled in after the start up funding allocation has been damped. Otherwise, when combined with the other damping proposal, this funding stream would get damped twice.

**Question 23: Do you agree with the proposed methodology for rolling in a proportion of the Greater London Authority Transport Grant?**

The effect resulting from how it is proposed to roll in the Greater London Authority Transport Grant is extremely disappointing. Accounting for all of the DCLG element of this £0.9bn grant as part of the 50% local share, means that all other local authorities will receive a local share of business rates that is less than 50%.

The 50% local share of business rates that authorities had expected was already at a level which weakened the incentive for authorities to promote growth, as so much was being taken away by the Government in its central share. Reducing the local share further will reduce the financial incentive even more for local authorities to boost growth.

At the very least, the effective local share for each authority should not fall below 50%. We therefore urge the Government to put the GLA Transport Grant in the local share in addition to a 50% local share, rather than as part of a 50% local share.

**Question 24: Do you agree with the proposed methodology for rolling in Homelessness Prevention Grant?**

This does not affect our authority so we have no opinion on this.

**Question 25: Do you agree with the proposed methodology for rolling in a proportion of the Lead Local Flood Authorities Grant?**

We disagree with what is proposed. Splitting the funding of this grant between a fixed section 31 grant and volatile business rates will create unnecessary complexity and uncertainty for flood defence budgeting. It would be better if the Lead Local Flood Authorities Grant was not included in the business rates retention system. It is a relatively small grant so this would not have an impact on the size of the local share.

**Question 26: Do you agree with the proposed methodology for rolling in the Department of Health Learning Disability and Health Reform Grant?**

We agree with the proposed methodology and welcome the provision of additional funding to help meet the increased costs which will result from Deprivation of Liberty Safeguards and Local Healthwatch.

## **Chapter 9: Population Data**

### **Question 27: Do you agree that the preferred population measure to use is the interim 2011-based sub-national population projections?**

We support this proposal. The population data used should be as up to date as possible so that funding is allocated to authorities based on their current needs rather than historic needs.

### **Question 28: Do you agree with the hierarchy of alternative datasets which would be used if there are problems with availability of any of the data?**

So that funding reflects current rather than historic needs, it is desirable that every effort possible should be made to use interim 2011-based sub-national population projections. However, in the unlikely event that this is not possible we agree that the hierarchy of alternative datasets outlined would be the most logical order of alternative data to use.

## **Chapter 10: Taxbase data**

### **Question 29: Do you agree that we should aim to use the council tax base projections as the council tax base measure in order to be consistent with our proposed approach to the population?**

We agree with this proposal. As with population data, the taxbase data used should be as up to date as possible so that authority funding allocations are based on their current needs rather than historic needs.

### **Question 30: Do you agree that we should switch to the November 2012 council tax base data should population estimates have to be used?**

We would prefer taxbase projections to be used if possible but accept that if population projections are not available then it may not be possible to use taxbase projections.

## **Chapter 11: Other Data Indicators**

### **Question 31: Do you agree that we should use data from the Inter-Departmental Business Register in the Log of Weighted Bars indicator?**

The leakage of funding from non-police authorities for this particular change shows a weakness of the formula grant system.

## **Chapter 12: Distribution of Revenue Support Grant**

**Question 32: Do you agree with the proposed methodology for distributing Revenue Support Grant in 2014-15 by scaling the 2013-14 authority-level allocations of Revenue Support Grant to the level of the 2014-15 Revenue Support Grant?**

The general approach outlined is reasonable but we have concerns about some specific details.

We agree that grants rolled in should be separately scaled by their own profile between 2013/14 and 2014/15, in order to provide continued visibility of the size of these grants.

This is being proposed for all grants rolled in apart from council tax support grant. We strongly believe that any scaling of council tax support grant should also be done separately. Merging it with the start up funding allocation will reduce the visibility of the amount of funding provided for local council tax support.

Council tax support grant should also not be scaled back in different profiles for different service tiers. All authorities are already challenged by the Government's 10% cut in funding for council tax benefit and no group of authorities can absorb any further cuts to funding for this more easily than another. There is a very strong case for there to be no scaling back of this funding in 2014/15. Due to the national economic situation, demand for council tax support is likely to be high. Any further funding reductions will lead to authorities receiving a cut to council tax support funding significantly greater than the 10% quoted by the Government.

### **Chapter 13: Floor Damping**

**Question 33: Do you agree with the proposed approach for calculating floor damping in 2013-14?**

Hampshire County Council is only part of one floor damping block so we have no strong opinions on this proposal.

**Question 34: Do you agree with the proposed approach for allocating floor damping bands in 2013-14?**

We strongly opposed the introduction of floor damping bands in 2011/12 and continue to do so. The formula grant model already contained relative needs and relative resources elements, which provided an extremely high level of additional support to those authorities which were most dependent on funding from the Government. Floor damping bands were an unnecessary and arbitrary further adjustment which failed to take in to account the existing protections provided by the formula grant model.

**Question 35: Do you agree with the proposed approach to splitting 2012-13 formula grant between the service tiers?**

Hampshire County Council is only part of one service tier so we have no strong opinions on this proposal.

**Question 36: If not, what methodology do you think we should use?**

Hampshire County Council is only part of one service tier so we have no strong opinions about this.

**Chapter 14: New Homes Bonus**

**Question 37: Do you agree that the funding for capitalisation and the safety net should be held back from the surplus New Homes Bonus funding rather than as a separate top-slice?**

As detailed in our response to question one, we disagree with the top slicing of funds for capitalisation and the safety net. However, if the Government enacts its proposals to top slice £2 billion for the New Homes Bonus each year we agree it would be best to fund capitalisation and the safety net out of this top slice. Otherwise even more funding would be taken from local government and returned far too late for it to be included in budgets.

We would prefer the New Homes Bonus to be funded by only deducting the amount actually required for it each year. This can be achieved by deducting it from Revenue Support Grant and we urge the Government to do this. Any under or over deduction could easily be dealt with by making an adjustment to Revenue Support Grant in the following year.

If this was done for the New Homes Bonus, and the Government still wanted to withhold funding for capitalisation and the safety net, then a separate top slice would have to be made.

**Question 38: Do you agree that the remaining funding should be distributed back to local authorities prorata to the start-up funding allocation?**

We would prefer for the top slices not to be made, but if they are we agree that returning the surplus from them to local authorities pro rata to their start up funding allocation is a fair and transparent method.

The statement that the surplus from the New Homes Bonus top slice will be returned in April at the start of the financial year is to be welcomed. However, no definite commitment is made as to when authorities will receive figures for the estimated and the actual amounts to be returned. Authorities need to know these amounts well before April if they are to include this funding in their budgets. We believe that the Government should be able to provide provisional figures with the provisional local government finance settlement (assuming this will be in late November or early December) and urge it to do so.

Funding continues to be removed from county councils for the New Homes Bonus in an unjust way. In two tier areas, formula grant is split roughly 80:20 between

county and district councils. Therefore, the New Homes Bonus top slice in two tier areas is funded approximately 80:20 by county and district councils. However, the New Homes Bonus is split 20:80 between county and district councils. The New Homes Bonus is thus transferring funding between tiers of authorities, hindering its ability to incentivise house building.

To remove this problem, the New Homes Bonus should be split 80:20 between county and district councils. Alternatively, the DCLG could top slice funds for the bonus in such a way that district councils contribute a fair amount to the New Homes Bonus, which would also strengthen the housebuilding incentive for them.

## **Chapter 15: Police Funding**

**Question 39: Do you agree with the proposal for setting out the method of calculation of the 2013-14 formula grant element of police funding allocations in a separate document?**

We have no particular view on this matter.

**Question 40: Do you agree with the proposed methodology for funding local policing bodies in 2014-15?**

We have no particular view on this matter.

## **Section 3: Setting up the business rates retention scheme**

### **Chapter 2: Determining the estimated business rates aggregate**

We have some concerns about the proposed method of calculating the estimated gross amount of business rates that will be collected in 2013/14. The proposal is to simply add two times the change in rateable value from 01/04/12 to 30/09/12 to the rateable value at 30/09/12. Given the current turbulence in the economy, this method may be too simplistic.

We acknowledge that forecasting future business rates is never easy but we would welcome further work being done on this to try to get it more forward looking, rather than relying on historic changes. It is most important that the estimate is not overoptimistic. If the Government overestimates business rates, local authority finances will be hampered right from the start of rates retention as they will not receive as much in business rates as the Government expected. The Government should underwrite this risk to prevent it from being an issue.

In the following questions, where we have stated that we agree with the proposal in the question, this does not withstand our concerns mentioned above if this will have an impact.

**Question 41: Do you agree with our proposal not to adjust the notional gross yield figure to take account of transitional arrangements?**

We agree with this proposal.

**Question 42: Do you agree with our proposal to adjust the notional gross yield figure to take account of small business rate relief?**

We agree with this proposal.

**Question 43: Do you agree with our proposal to adjust the notional gross yield figure to take account of mandatory reliefs in this way?**

We agree with this proposal.

**Question 44: Do you agree with our proposal to adjust the notional gross yield figure to take account of discretionary reliefs in this way?**

We agree with this proposal.

**Question 45: Do you agree with our proposal to adjust the notional gross yield figure to take account of Enterprise Zones, New Development Deals and renewable energy schemes in this way?**

The methodology outline seems to be the logical approach to take for this policy to be effective.

We continue to be disappointed that growth from renewable energy projects will not be shared with county councils in two tier areas. County councils have an important role to play in promoting growth in renewable energy, including developing renewable energy projects and supporting community schemes. If they receive no financial incentive to carry out this work then, in the current financial climate, this work may have be deprioritised. This would have an impact on the Government's ability to meet its carbon reduction commitments.

**Question 46: Do you agree with our proposal to adjust the notional gross yield figure to take account of costs and losses in collection in this way?**

We agree with this proposal.

**Question 47: Do you agree with our proposal not to adjust the notional gross yield figure to reflect the deferral scheme?**

We agree with this proposal.

**Question 48: Do you agree with our proposal to adjust the notional gross yield figure to take into account losses on appeal in this way?**

The proposed adjustment is not perfect as authorities will effectively have an adjustment to their business rates based on the national average for appeals, when actual changes to appeals could be much more or less. However, we

warmly welcome the inclusion of an adjustment which acknowledges how significant the effects of appeals can be on business rates income.

### **Chapter 3: Determining proportionate shares**

**Question 49: Do you agree with our proposal to determine billing authorities' average contribution to the rating pool using NNDR3 forms between 2007-08 and 2011-12 (subject to a number of adjustments)?**

We agree with this proposal. There can be significant volatility in business rates income between years, so using a five year average will help to smooth this out.

**Question 50: Do you agree with our proposal to adjust the incomes for 2007-08 to 2009-10 using a local revaluation factor calculated using the methodology set out?**

We agree that an adjustment is required to take in to account the effects of the 2010 revaluation. The proposed methodology looks logical and sensible.

**Question 51: Do you agree with our proposal not to make an adjustment to the five year average for inflation?**

Adjusting for inflation would probably have a small effect on proportionate shares. However, we do not strongly object to the proposal not to adjust for inflation, as this will have had a common impact on all authorities.

**Question 52: Do you agree with our proposal to make an adjustment to the contribution to the pool sum in respect of the transitional arrangements in this way?**

We support this proposal.

**Question 53: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for either mandatory rate relief, or for the small business rate relief scheme when calculating the proportionate shares?**

We agree with this proposal.

**Question 54: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for reductions for empty property rates when calculating the proportionate shares?**

We agree with this proposal.

**Question 55: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for discretionary rate relief when calculating the proportionate shares?**

This proposal effectively means that any future increase in discretionary relief will be funded 50% by local government and 50% by central government, rather than the 25:75 local/central split currently. This would effectively be a new burden on local government and the current difficult national economic outlook means that there is a very real likelihood of this happening. We thus suggest that the forecast national gross yield of business rates should be slightly estimated downwards. This would mean that the split of future additional discretionary relief would be shared between local and central government in closer proportions to present.

**Question 56: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for costs of collection when calculating the proportionate shares?**

We agree with this proposal.

**Question 57: Do you agree with our proposal to make an adjustment to the contribution to the pool sum in respect of losses in collection in this way?**

Local authorities make every attempt they can to collect business rates. However, the percentage each authority is unable to collect can significantly vary between years, so we agree with the proposal to not allow for losses in collection.

**Question 58: Do you agree with our proposal to make an adjustment to the contribution to the pool sum in respect of deferral in this way?**

We agree with this proposal in the interests of treating all authorities fairly. Not adjusting for the schedule of payments option would have moved money between years and affected some authorities more than others.

**Question 59: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum charges on property when calculating the proportionate shares?**

As long as this does not have any material impact on proportionate shares, we are content with this plan.

**Question 60: Do you agree with our proposal not to make a further adjustment to the contribution to the pool sum for prior year adjustments and interest on repayments when calculating the proportionate shares?**

We agree with this proposal. The impact of appeals needs to remain included. Otherwise, authorities would be judged to be receiving income which doesn't exist.

#### **Chapter 4: Major precepting authority shares**

**Question 61: Do you agree with our proposal to confirm the county share of the billing authority business rates baseline at 20% - less the percentage**

**share due to single purpose fire and rescue authorities where the county does not carry out that function?**

Hampshire County Council strongly disagrees with this proposal.

We welcome the acknowledgement in the consultation that “the Government recognises that county councils in two tier areas have significant levers for promoting economic growth in their area”. It is thus extremely disappointing that the share of business rates being given to them does not recognise this. The Government’s current proposals to allocate county councils without fire duties just 9% of the business rates in their area (taking account of the central share) makes them remain highly dependent on government grants. This provides little financial incentive for them to boost economic growth, which will greatly hinder the national economic recovery urgently needed.

Formula grant is currently split approximately 80:20 between county and district councils. We urge the Government to change the reverse 20:80 split of the local share of business rates currently proposed to a split much more in the direction of how formula grant is split. At the very least, the share should be altered to 50:50.

This can be done without having any impact on the incentive district councils have to promote growth. This is because the design of the levy on disproportionate gain means that above a threshold share of business rates, district councils keep no further funds from growth even if their share of rates increases. The district:county split of business rates can thus be easily altered to 50:50 without changing the Government’s desire to give district councils a strong incentive to promote growth.

Making this alteration would also significantly reduce the extreme financial risks which the 80:20 split places on district councils. Their high share of rates gives them a high tariff to pay, which increase by RPI each year. Business rates income is highly volatile so these tariff payments could lead to many district councils requiring safety net funding. Districts thus have a strong incentive not to decline but rather than stimulating growth this “incentive” is likely to lead to increased risk aversion, Entrepreneurial and innovative development proposals from businesses would be more likely to be rejected when competing against proposals viewed as “safer”, damaging growth.

The reduced levy income from lowering the district share would be more than compensated by the reduced number of district councils requiring safety net help. This would also permit the Government to reduce the top slice taken for the safety net from the local government control total. As discussed in our answer to question one, a lower top slice will give councils better certainty over their funding for the year and allow more services to be maintained.

**Question 62: Do you agree with our proposal to set the single purpose fire and rescue authority share of a billing authorities’ business rates baseline at 2%?**

We agree with this proposal. However, all county councils should at the very least receive a 20% share of business rates, so the 2% share for fire authorities should be taken from the share given to district councils.

**Question 63: Do you agree that county councils responsible for fire and rescue services should receive the full 20% county share of the billing authorities' business rates baseline?**

As stated in our response to question 61, there is a strong case for allocating county councils a significantly larger share of business rates than that currently proposed.

**Question 63A: Do you agree with the proposal that the London Boroughs should receive 60% of the billing authority business rates baseline, and that the Greater London Authority should receive the remaining 40%?**

As a non-London authority we have no strong opinion on this. However, we believe it is difficult to justify why a county council should receive only 18% of the local share of business rates when the Greater London Authority will receive 40% of the local share of London's business rates.

## **Chapter 5: Treatment of City Offset and the City Premium**

**Question 64: Do you agree with the Government's proposal to reflect the current arrangements for the City of London Offset by making an adjustment to the City of London's individual authority business rate baseline?**

We have no particular opinion on this matter.

**Question 65: Do you agree with the proposal to take account of the City of London Offset when calculating proportionate shares?**

We agree with this proposal.

**Question 66: Do you agree with the proposal to calculate the City of London's levy ratio by using its adjusted individual authority business rate baseline?**

We have no particular opinion on this matter.

**Question 67: Do you agree with the proposal to calculate the City of London's eligibility for the safety net by using its business rates income after the deduction of the City of London Offset?**

We have no particular opinion on this matter.

**Question 68: Do you agree that the City of London Premium should be disregarded in the definition of business rates income used in the business rates retention scheme?**

We have no particular opinion on this matter.

## **Section 4: The operation of the rates retention scheme**

### **Chapter 2: Information Requirements**

#### **Question 69: Do you agree with our proposals for information requirements before the start of the financial year?**

The proposed deadline of 30 January for billing authorities to confirm to major precepting authorities the final business rates forecast is very late in the budget setting process. Forecast business rates will play a large part in determining the budget to be set. We would thus prefer the date for providing the final forecast to be made somewhat earlier. The deadline could easily be changed to around 15 January without reducing the accuracy of the forecast.

#### **Question 70: Do you agree with our proposals for information requirements at the end of the financial year?**

The deadline for completing the NNDR3 form needs to be brought forward. The proposed deadline of the end of June is very late and may make it difficult for authorities to get their draft accounts ready in time.

### **Chapter 3: Schedules of Payment**

#### **Question 71: Do you agree with our proposals for the way in which a schedule of payment will operate for billing authorities and what is your view of the number of instalments by which payments to/from local authorities should be made?**

We agree with the proposals. Retaining 24 fortnightly instalments would be acceptable.

#### **Question 72: Do you agree with our proposals for the way in which a schedule of payment will operate for major precepting authorities and what is your view of the number of instalments on which payments to/from precepting authorities should be made?**

We agree with the proposals. The 24 fortnightly instalments arrangements could be used here.

#### **Question 73: Do you agree with our proposals for the way in which a schedule of payment will operate between billing and relevant major precepting authorities?**

We agree with what is proposed.

### **Chapter 5: Collection and general funds**

**Question 74: Do you agree with our proposals for the operation of the collection fund?**

We agree with the proposals.

**Question 75: And do you agree that the reconciliation payment due in respect of transitional protection payments, should be built in to the calculation of collection fund surpluses & deficits only once, when outturn figures are available?**

We agree with this.

**Question 76: Do you agree with our description of the way in which the general fund will operate?**

We agree with the description.

#### **Chapter 6: The safety net and the levy**

**Question 77: Bearing in mind the need to balance protection, incentive and affordability, and the associated impact on the amount of contingency that will need to be held back in the early years where, within the range 7.5% - 10%, should the safety net threshold be set?**

We would prefer the safety net threshold to be nearer 10% than 7.5%. Although we disagree with such a low local share of 50%, if implemented this means that all authorities will still receive a large amount of Revenue Support Grant. This will provide more financial cushioning, allowing a higher threshold to be set before authorities become eligible for safety net assistance for their business rates funding.

**Question 78: Bearing in mind the need to balance protection, incentive and affordability, and the associated impact on the amount of contingency that will need to be held back, do you agree with the Government's proposal to set the levy ratio at 1:1?**

The proposed 1:1 ratio seems affordable. It should generate roughly the amount of funding required to provide a 7.5-10% safety net threshold.

The same levy rate should apply to all authorities, otherwise authorities will have varied incentives to promote growth. It would also be fair as authorities which could pay relatively the most to the levy are often those most at risk of requiring safety net assistance, depending on how business rates performed.

**Question 79: Do you agree with the approach set out in paragraphs 16 to 19 for defining a billing authority's net retained rates income for the purposes of the levy and safety net calculations?**

We agree with the proposed approach.

**Question 80: Do you agree with the approach set out in paragraphs 20 to 22 for defining a major precepting authority's retained rates income for the purposes of the levy and safety net calculations?**

We agree with this approach.

**Question 81: Do you agree with the approach set out in paragraphs 23 to 28 for safety net calculations and payments?**

We agree with this approach.

**Question 82: Do you agree with the approach set out in paragraphs 29 to 32 for levy calculations and payments?**

We agree with this approach.

#### **Section 5: Reconciliation payments in respect of financial year 2012/13**

**Question 83: Do you agree with our proposals for closing the 2012-13 national non domestic rating account?**

We agree with the proposal.

**Question 84: Would you prefer that (a) only sufficient funding to finance the New Homes Bonus in each year is removed, as well as funding for capitalisation and the safety net held back, rather than (b) the full £2 billion required for the entire period is removed, and the money heldback for capitalisation and the safety net is funded through the surplus, with the remainder of the surplus being paid back through section 31 grant in proportion to the start-up funding allocation?**

We strongly prefer option A. Option B would have top sliced an extremely excessive amount of funds from local government and returned the surplus too late for them to include it in their budgets. A reduction to the top slice is thus to be welcomed.

However, option A is certainly not perfect as an excessive amount of funds will still be top sliced. Under current plans, local authorities may be informed of how much will be returned from the New Homes Bonus top slice at too late a stage to include it in their budgets. It would be better to calculate and topslice a much more precise figure as any under or over deduction could be dealt with by making an adjustment to revenue support grant in the following year.

As already outlined in our response, we disagree with the top slicing of funds for capitalisation and the safety net. The Government needs to be willing to share the risks of the local government funding system it has designed, rather than passing them all on to local authorities.

**CORPORATE OR LEGAL INFORMATION:**

**Links to the Corporate Strategy**

<b>Hampshire safer and more secure for all:</b>	No
Corporate Business plan link number (if appropriate):	
<b>Maximising well-being:</b>	No
Corporate Business plan link number (if appropriate):	
<b>Enhancing our quality of place:</b>	No
Corporate Business plan link number (if appropriate):	


<b>Section 100 D - Local Government Act 1972 - background documents</b>	
<p><b>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</b></p>	
<u>Document</u>	<u>Location</u>
None	

**IMPACT ASSESSMENTS:**

**1. Equalities Impact Assessment:**

- 1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

**2. Impact on Crime and Disorder:**

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

**3. Climate Change:**

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

Not applicable.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

Not applicable.