

SURREY COUNTY COUNCIL

CABINET

DATE: 24 SEPTEMBER 2013

REPORT OF: MR DAVID HODGE, LEADER OF THE COUNCIL

LEAD OFFICER: SHEILA LITTLE, CHIEF FINANCE OFFICER AND DEPUTY DIRECTOR FOR BUSINESS SERVICES

SUBJECT: TECHNICAL CONSULTATIONS ON 2014/15 AND 2015/16 LOCAL GOVERNMENT FINANCE SETTLEMENT AND REVISED POOLING PROSPECTUS



SUMMARY OF ISSUE:

On 25 July 2013 the Department for Communities and Local Government (DCLG) published technical consultations on:

- Local Government Finance Settlement 2014/15 and 2015/16;
- New Homes Bonus and the Local Growth Fund; and
- Proposals for the use of capital receipts from asset sales to invest in reforming services.

DCLG also published a revised prospectus for authorities wanting to pool their business rates to apply from 1 April 2014.

The consultations are detailed and technical. However, they have important funding implications for Surrey County Council, its Medium Term Financial Plan (MTFP) and local government overall.

RECOMMENDATIONS:

It is recommended that Cabinet endorses the final responses to DCLG's technical consultations.

REASON FOR RECOMMENDATIONS:

DCLG's consultations are detailed and technical. However, they have important funding implications for Surrey County Council and local government overall. As such, it is important Cabinet appreciates what DCLG's proposals mean for the council.

DETAILS:

Introduction

1. On 25 July 2013 the Department for Communities and Local Government (DCLG) published technical consultations, with varying response deadlines on:
 - Local Government Finance Settlement 2014/15 and 2015/16 (response deadline 2 October 2013);
 - New Homes Bonus (NHB) and the Local Growth Fund (LGF) (response deadline 19 September 2013); and
 - Proposals for the use of capital receipts from asset sales to invest in reforming services (response deadline 24 September 2013).
2. DCLG also published a revised prospectus for authorities wanting to pool their business rates to apply from 1 April 2014.
3. The consultations are detailed and technical. However, they have important funding implications for Surrey County Council, its MTFP and local government overall.
4. While the council has concerns about the transparency of the figures DCLG has produced in the consultations, the examples included indicate DCLG will reduce the council's funding by another £2.4m in 2014/15 from the provisional settlement announced in February 2013 and a further £21.2m in 2015/16. In addition, the proposals for new homes bonus (NHB) funding mean the council could lose a budgeted grant of £6.7m in 2015/16, rising to £10.7m in 2017/18.
5. This report covers each of DCLG's papers in turn, summarising the proposals, the timetable and responses to DCLG's consultation questions.

Local Government Finance Settlement 2014/15 and 2015/16

6. Spending Round 2013 (SR 2013) stated the Government would consult "in the normal way" on the 2015/16 settlement. The council took this to mean at the time of the provisional Local Government Settlement. However, the council welcomes this additional opportunity to comment on the Government's intentions.
7. DCLG's technical consultation on Local Government Finance Settlement 2014/15 and 2015/16 shares the Government's approach to how it proposes to implement adjustments to the Local Government Departmental Expenditure Limit (LG DEL). The Government's approaches include proposals for:
 - implementing the 1% reduction to LG DEL outlined in the Chancellor of the Exchequer's 2013 Budget;
 - reducing the funding available for capitalisation for 2014/15 by £50m and using this partly to fund the safety net;
 - holding back funding for NHB and safety net support, and for returning any surplus to authorities;

- adjusting the 2015/16 settlement for the loss of tax revenue due to the Exchequer from the local authorities who are too small to participate in the Carbon Reduction Commitment Energy Efficiency Scheme.
8. It is helpful the Government has shared its approach to how it is implementing adjustments to LG DEL. However, the council is disappointed by the level of transparency in the figures and calculations DCLG uses.
 9. It would have been helpful if DCLG had published a full breakdown of the adjustments, identifying how the Government has arrived at the new Settlement Funding Assessment (SFA) figures would have allowed local authorities a complete and accurate understanding of their overall funding and how the Government proposes to change it. It would be very helpful to see all the changes the Government has or will take into account to reconcile the control total from the final local government settlement in February 2013, to the control total published in SR 2013 and to the control total published in this consultation. For DCLG to publish a simple statement showing the breakdown of these figures would save local authorities and their stakeholders time, duplicated effort and guesswork.
 10. The council continues to be concerned that baseline funding and Revenue Support Grant will no longer show Council Tax Support Grant as an identifiable funding element. DCLG has not made its reasoning for this clear. Council Tax Support Grant relates to a significant amount of funding and its treatment is in contrast to other grants the Government has rolled in. Transparency in these matters is important in enabling councils to maintain their accountability to the public for such a demand-led front line service that have implications for all council tax payers.
 11. Annex 1 sets out the council's draft response to DCLG's technical consultation on Local Government Finance Settlement 2014/15 and 2015/16 as at 12 September 2013. Further updates will be available at the meeting on 24 September 2013.

New Homes Bonus and the Local Growth Fund

12. DCLG introduced New Homes Bonus (NHB) in 2011 to incentivise local authorities to create and welcome economic and housing growth. NHB rewards communities by providing additional, non-ringfenced funding to councils to help meet increased demands arising from that growth.
13. Spending Round 2013 announced £2bn funding for the Local Growth Fund. £400m of this funding would come from NHB for pooling in Local Enterprise Partnerships (LEPs). DCLG is consulting on two methods for councils to pool their NHB allocations in LEPs.
 - A. Require all local authorities to pool the same proportion of their NHB sufficient to provide the £400m total (35% based on current projections).
 - B. In two tier areas, require county councils to pool 100% of their NHB and district and borough councils to pool a much lower proportion (19% based on current projections) to combine to pool 35% from two tier areas. This option would continue to require single tier councils to pool their NHB allocations at the composite rate (35%).

14. The Council's response opposes the Government's plans to require local authorities to pool £400m NHB, which could mean the council losing all of this grant, budgeted at £6.7m in 2015/16, rising to £10.7m in 2017/18. The council sees the proposals as:
- fundamentally undermining the incentive and reward from this new initiative designed to enable councils to support and promote economic growth and housing supply;
 - potentially creating tensions between local partners and reversing positive changes in behaviour towards new developments;
 - removing yet more funding from local authorities that are already seeing unprecedented funding reductions; and
 - lacking transparency and openness, as DCLG will pass the NHB funding to councils (which is a component of their spending power), but compel them to pass it on to LEPs.
15. The Leader signed a joint response from Surrey Leaders' Group also opposing the Government's plans to require local authorities to pool £400m NHB funding.
16. The Council's response rejects the Government's plans to require county councils to pool 100% of their NHB for reasons that include the following.
- The current 80:20 split of NHB in favour of shire district and borough councils inadequately reflects the relative responsibilities and costs involved in providing infrastructure to support, nurture and enable growth.
 - If local authorities must bear this burden, then an equal share of it on all authorities is not only fairer, but places the incentive to support successful growth evenly, incentivising all authorities.
 - Removing all NHB funding from county councils would intensify pressure on reducing resources even further, which would inevitably curb growth in shire areas as potential investors reflect on the poorer support for essential infrastructure. This would also mean every new home built in England would reduce each and every county council's RSG.
 - County councils like Surrey already spend a high proportion of their NHB money on the infrastructure needed to support economic growth. The Government's own consultation paper admits that district and borough councils spend a high proportion of their NHB allocations on their general responsibilities. Consequently requiring counties to pool all their NHB funding will add little new money to support economic growth, whether through LEPs or councils. Requiring districts and boroughs to pool a reduced amount means those authorities that spend least of their NHB allocations supporting economic growth will continue to do so, again adding little new money to this important national priority. Requiring county councils to pool all their NHB funding is the least effective way for the Government to achieve its stated objective of increasing economic growth.
 - Furthermore, diverting county funding to LEPs also reduces democratic control over the prioritisation of locally important investment decisions. This

lessening of accountability for prioritising expenditure appears to contradict an important part of the Government response to Lord Heseltine's recommendations on economic growth.

17. Annex 2 sets out the council's final response to DCLG's technical consultation on New Homes Bonus and the Local Growth Fund submitted to meet DCLG's response deadline of 19 September 2013.

Proposals for the use of capital receipts from asset sales to invest in reforming services

18. On 25 July 2013 DCLG published *Proposals for the use of capital receipts from asset sales to invest in reforming services*. This proposes to allow local authorities to sell assets to pay revenue costs of service transformation.

19. The aims of the proposals are to:

- incentivise assets sales and good asset management; and
- provide capital receipt flexibility to provide additional resources for the one-off costs of reforming, integrating or restructuring services.

20. DCLG is consulting to gauge:

- support for the policy proposal;
- how it could work in practice;
- the level of interest, to help inform decisions about expenditure levels.

21. The local government capital finance system restricts how local authorities can spend their capital receipts. Generally, authorities can only use capital receipts to finance capital expenditure, not revenue spending. This principal ensures authorities do not use assets and one-off receipts to support recurrent revenue spending that they cannot sustain. Therefore, using capital receipts for revenue purposes has been considered to run counter to the principals of prudent financial management.

22. These proposals aim to encourage restructuring and remodelling of service provision by providing a source of finance where authorities may not otherwise be able to access the funds needed to transform services.

23. Due to wider fiscal considerations, the Government wants to retain control over the level of revenue expenditure funded from capital receipts. So, the proposals set out a bidding system where authorities that want to spend capital receipts on one-off revenue costs would need to apply to the Government, setting out a cost benefit analysis to demonstrate value for money. The paper proposes the following criteria to evaluate applications:

- level of expenditure needed and confirmation it is a one-off revenue cost for restructuring or transformation;
- confirmation that the project could not go ahead without this flexibility;

- outline of any ongoing efficiency savings the authority expects to achieve from the restructuring or transformation;
- confirmation that the asset sale is part of a wider asset management plan and is not being sold purely to gain this flexibility;
- where applicable, that the asset being sold will be used to benefit the community; and
- any joint working arrangements, such as with other authorities, LEPs etc;

24. The proposed timetable is as follows.

Bid process commences	Winter 2013
Bid process decisions	Spring 2014
Direction letter issued	Spring 2014
Disposal of asset	August 2013 – March 2016
Revenue expenditure	April 2015 – March 2016

25. The draft response explains that the proposals are of limited interest as the council's long-term capital strategy is to invest in assets, helping increase long term financial resilience. The proposals seem to run against this objective by appearing actively to discourage investment in fixed assets.
26. Our asset management plan (AMP) already identifies opportunities to dispose of surplus assets and targets property disposals to maximise receipts. The proposals would not increase the council's incentive to dispose of assets.
27. The council agrees DCLG's headline criteria for assessing bids is fair. However, the council raises questions about how this would work in practice. The issue of selling assets to community groups at less than full market value seems to conflict with authorities' duty to receive best consideration. The council's policy is to aim to maximise capital receipts.
28. Annex 3 sets out the council's draft response to DCLG's technical consultation on Proposals for the use of capital receipts from asset sales to invest in reforming services.

Business Rates Retention - Pooling Prospectus 2014/15

29. The business rates retention scheme enables local authorities to opt to pool their business rates. Pooling treats the pooled authorities as a single entity for calculating tariffs, top-ups, levies and safety net payments. It also supports collaboration to generate additional growth and smooth the impact of rates income volatility across a wider economic area.
30. For 2013/14, the Secretary of State designated 13 pools, comprising 90 authorities. Those authorities forecast their collective business rates income will grow by about £44 million. Pools' lower levy rates mean the authorities expect to keep £17 million (39%) more of that growth than they would otherwise have done.

31. DCLG has updated the pooling prospectus for 2014/15. New elements include:
- existing pools do not need to re-confirm their intention to pool for 2014/15;
 - DCLG published an online calculator to help authorities explore scenarios; and
 - each pool authority's Section 151 officer will need to sign off final proposals.
32. For 2013/14, the council and the 11 districts and boroughs in Surrey opted not to form a pool as it was not financially viable. However, for 2014/15 the council is exploring whether it could form a viable pool with fewer of the districts and boroughs.
33. Annex 4 sets out a summary of DCLG's Business Rates Retention - Pooling Prospectus 2014/15.

CONSULTATION:

34. Consultation on the draft and final responses has taken place with all Cabinet Members, Strategic Directors and the Assistant Director, Economy, Transport and Planning.
35. In addition, briefings to all Members led jointly by the Chief Executive and the Chief Finance Officer have covered the Council's MTFP (2013-18) and the changing financial environment for the Council. This engagement will continue.

RISK MANAGEMENT AND IMPLICATIONS:

36. Significant insight and rigour has been applied in estimating and applying the effects of the consultation papers to the Council's budget planning assumptions. The changes reflected above illustrate the changing and challenging fiscal environment as well as changing Government policy environment within which local government operates, and evidences how this looks to be set to continue for the foreseeable future.
37. It is clear that the overall level of funding is likely to decline and the mix between funding derived locally (e.g. council tax) and centrally (e.g. government grant) will alter significantly in the next few years. While the current MTFP planning assumptions reflect this as a direction of travel, it is not possible to assess whether these reflect the potential full effect. Officers will continue to monitor government policy closely to ensure any insights are assessed as soon as possible.

Financial and Value for Money Implications

38. The consultation papers have potentially significant financial implications for the council and the incentives it and its partners (including Surrey's district and borough councils and LEPs) respond to. The implications are set out in the summaries above and the responses in the annexes to this report.

Section 151 Officer Commentary

39. To develop and maintain a robust, balanced and sustainable budget the Council needs to respond to the technical consultations and monitor and explore the implications for these sources of funding.

Legal Implications – Monitoring Officer

40. There are no direct legal implications arising from this report. .

Equalities and Diversity

41. There are no direct equalities and diversity implications arising from this report.

WHAT HAPPENS NEXT:

42. Officers will complete responses to the technical consultations within DCLG's deadlines. Officers will assess the implications of the technical consultations for the Council's future funding and finances.
43. Officers will continue to work to identify options for discussion with stakeholders and members during the next phase of the budget planning process around options for preparing a balanced and sustainable budget.
44. Detailed plans for the engagement with stakeholders during the next budget planning cycle will continue to be developed.

Contact Officer:

Sheila Little,
Chief Finance Officer and Deputy Director of Business Services, 020 8541 7012

Nick Carroll,
Finance Manager, Funding and Planning, 020 8541 7918

Consulted:

Cabinet Members and Cabinet Associate Members

Chief Executive

Strategic Directors and Assistant Director, Economy, Transport and Planning

Annexes:

Annex 1 Draft response to DCLG technical consultation on Local Government Finance Settlement 2014/15 and 2015/16 (as at 19 September 2013)

Annex 2 Response to DCLG technical consultation on New Homes Bonus and the Local Growth Fund (submitted 19 September 2013)

Annex 3 Draft response to DCLG technical consultation on Proposals for the use of capital receipts from asset sales to invest in reforming services (as at 19 September 2013)

Annex 4 Summary of DCLG's Business Rates Retention - Pooling Prospectus 2014/15

Sources/background papers:

- Budget – March 2013
 - Spending Round 2013
 - Investing in Britain's Future
 - Technical consultation on New Homes Bonus (DCLG)
 - Technical consultation on local government finance settlement for 2014/15 and 2015/16 (DCLG)
 - Technical consultation on funding of transformation costs through application of capital receipts (DCLG)
 - Business Rates Retention - Pooling Prospectus 2014/15 (DCLG)
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Draft response to DCLG technical consultation on Local Government Finance Settlement 2014/15 and 2015/16

(as at 19 September 2013)

Andrew Lock
DCLG
Zone 5/D2, Eland House
Bressenden Place
London SW1E 5DU

Dear Mr Lock,

Local Government Finance Settlement 2014/15 and 2015/16 – Technical consultation

Thank you for the opportunity to comment on the technical consultation on Local Government Finance Settlement 2014/15 and 2015/16. This provides a helpful opportunity for local authorities to provide direct feedback to the Government on the implications and impacts of its funding proposals and decisions.

The Spending Round published in June 2013 had stated that the Government would consult “in the normal way” on the 2015/16 settlement, which we assumed would mean at provisional settlement time. Although it was disappointing not to have been forewarned of this consultation, as stated above, this additional opportunity to comment on the Government’s intentions is very much welcomed.

It is helpful that the Government has shared its approach to how it is implementing adjustments to the Local Government DEL, however it is a little disappointing that full transparency of these calculations has been compromised. The publication of a full breakdown of the adjustments, identifying how the Government has arrived at the newly published SFA figures would have allowed local authorities a complete and accurate understanding of their overall funding. In particular, it would be really helpful to understand all the changes that the Government has and/ or will take into account to move from the control total as it stood at the time of the final settlement (provisional settlement for 2014/15) in February 2013, to the control total published in the Spending Round and finally to the control total now published with the current consultation. Publication of a simple statement showing the breakdown of these figures would save local authorities a lot of wasted effort and guesswork.

The council continues to be concerned that Council Tax Support Grant will no longer be an identifiable funding element within baseline funding and Revenue Support Grant. The rationale for this has not been made clear by CLG.

We look forward to the Government’s published response to the consultation, in due course.

Yours sincerely

Sheila Little
Chief Finance Officer and Deputy Director of Business Services

Consultation questions

Question 1: Do you agree with the Government's proposal on how to implement the 1% reduction to the Local Government Expenditure Limit (LG DEL)?

Response

The Budget report was not as specific as is implied by the wording in the consultation document. The council acknowledges that the workings of the Business Rates Retention System mean whatever reduction the Government applies to the LG DEL, will fall wholly on Revenue Support Grant.

Question 2: Do you agree with the proposal for reducing the funding available for capitalisation for 2014-15 by £50m and using this revenue to reduce the amount required to be held back from Revenue Support Grant to fund the safety net?

Response

The transfer of some of the funding for capitalisation to the safety net is not problematic provided the residual funding still represents a realistic and achievable total that does not subject local authorities to an unreasonable level of risk in respect of their likely calls on this permission and funding. Additionally, the council would hope that where extraordinary but justified demands for capitalisation arise in year, the Government will determine a mechanism to provide for these.

The changes the Government is proposing to the use of capital receipts may offer a little more flexibility on this issue in the short to medium term.

Question 3: Do you agree with the way the Government proposes to hold back the funding that is necessary for New Homes Bonus and safety net support, and to return any surplus to authorities?

Response

As far as the New Homes Bonus (NHB) is concerned, the council does not agree. The holdback from local authority funding should comprise only the sum that will be returned to local authorities for use at their own discretion. This is consistent with the NHB being a non ring-fenced grant. The £400m to be passed on to LEPs is in effect a transfer of funding which should not be part and parcel of the local government funding total. It is misleading to show it as local government funding unless local authorities are to continue to have a say in how this funding is applied. (Please see the county council's response to the New Homes Bonus consultation)

The driver for the proposed significant increase in the safety net is primarily the extent of estimated appeals losses in billing authorities' NNDR1 national non-domestic rates returns. The extent of such losses gives rise to largely avoidable volatility in business rates income. The Government should ensure that material appeals allowances recorded in billing authorities' NNDR1 returns are subject to review on a selective basis to ensure that it is satisfied as to their reasonableness.

The volatility in business rates income is driven by errors and practice issues associated with the Valuation Office Agency (VOA). It is notable that while the VOA's performance drives these issues for local authorities (and the business rates retention system), there appears to be no incentive for the VOA to improve its

performance in this regard. It suffers no consequential financial detriment. Unless or until this situation is rectified, the business rates retention system is unlikely to see the kind of improvements that will reduce the significance of appeals in assessing safety net needs and forecasting business rates income. The council would hope the Government would devise and implement such a mechanism.

The extent of the increase in safety net top slice does call into question the future viability of the rates retention system. The system as designed by the Government envisaged that levy payments would be sufficient to cover safety net demands. While the need to pump-prime safety net funding in the early years of the new system was recognised, this was at best considered unnecessary or at least expected to be a diminishing sum in subsequent years, rather than an increasing one. It would be helpful if the Government would share with the local government community any modelling that it has undertaken that looks at the continuing viability of the business rates retention system.

Question 4: Do you agree with the proposed methodology for calculating control totals for each of the elements within the Settlement Funding Assessment?

Response

Yes.

Question 5: Do you agree with the proposed methodology for transferring in the 2013-14 Council Tax Freeze Compensation?

Response

Yes.

Question 6: Do you agree with the proposed methodology for adjusting the 2015-16 settlement to take account of the loss of tax revenue due to the Exchequer from the local authorities who are too small to participate in the Carbon Reduction Commitment Energy Efficiency Scheme?

Response

No. It is difficult to appreciate the rationale behind this proposal. The level at which the de minimis was and is set is not a decision for local government. The council assumes that raising the threshold will result in less work for the Exchequer, so finds it difficult to see this as a “new burden”, rather income foregone. If, as seems to be the case, the Government set an inappropriate de minimis level that is now being corrected and has resulted in it having to revise its assumptions about the tax income that will be generated, this is not a cost that local government should have to bear. This would not be the case for other bodies affected by such a change.

Response to DCLG technical consultation on *New Homes Bonus and the Local Growth Fund*

Mr David Hodge
Leader
Surrey County Council
County Hall, Penrhyn Road
Kingston upon Thames
Surrey KT1 2QU



FAO: Mr R Cox
Housing Strategy & Markets
Department for Communities and Local Government
Eland House
Bressenden Place
London SW1E 5DU

19 September 2013

Dear Mr Cox

New Homes Bonus and Local Growth Fund technical consultation

Thank you for the opportunity to comment on the New Homes Bonus and Local Growth Fund consultation. This provides a helpful opportunity for local authorities to provide direct feedback to the Government on the implications and impacts of its funding proposals and decisions.

The County Council has a number of concerns about these proposals that we would like to outline in addition to the comments made in response to the consultation questions, attached as an annexe to this letter.

Firstly the intention to top slice New Homes Bonus Funding is somewhat surprising as the New Homes Bonus was not suggested in Lord Heseltine's review, nor was the pooling of the bonus mentioned in the Government's response to Lord Heseltine in March. The principles guiding the Spending Round 2013 announcements were stated by George Osborne to be **Reform, Growth and Fairness**. We fail to see how the proposals in this consultation can in any way be interpreted as fair. In particular the proposal in the second option represents a reduction in county councils' revenue resources and follows a number of significant funding reductions to county councils' funding proposed in the Local Government Finance Settlement 2014-2015 and 2015-16 consultation. **We very strongly oppose this option, for reasons outlined throughout this response.**

The proposal runs counter to a number of the Government's key policy strands. It fundamentally undermines the principle purpose of New Homes Bonus Scheme as an incentive and reward to encourage local communities to accept growth. It runs contrary to localism and it imposes additional burdens on local authorities and in allocating funds to LEPs it proposes to follow a so far untested process linked to strategic economic growth plans that can only increase uncertainty and place additional delays on the delivery of infrastructure to support growth. The proposed

bidding process will be particularly burdensome for both LEPs and councils and the county council is unclear as to whether its priorities for infrastructure schemes 2015-2016 will be deliverable within the new budgetary constraints. The proposals in this consultation potentially risk creating tensions between local partners and reversing positive changes in the behaviour of communities towards new developments.

Since the introduction of the NHB scheme, the government has systematically undervalued the role of county councils in supporting and responding to growth. The need to address growing infrastructure needs is central to the role of upper tiers in providing, maintaining and enhancing key services and strategic infrastructure. In response to the initial consultation prior to the introduction of NHB, the county council voiced the strong opinion that the proposed 80:20 split of the reward in favour of lower tiers was unjust, unjustifiable and failed to recognise the relative burdens of infrastructure provision and maintenance required to support development. The County Council's view has not changed and we urge the government to review the favouring of district councils in their apportionment of these funds.

The consultation asserts that since NHB represents a greater proportion of lower tier authorities' spending power, they need to be protected from the larger scale changes in these funding levels. This disregards the point that the unfair bias towards funding lower tier authorities has from the outset given a greater boost to the revenue funding streams of lower tier authorities who have no significant responsibilities for providing infrastructure as compared with the upper tier authorities. So it is bound to be the case that NHB funds represent a comparatively greater proportion of spending power as it arises from a flawed decision to allocate more money to these authorities.

The proposed second mechanism to divert 100% of the county council's New Homes Bonus Funding would have a major impact on the ability of the council to support important local schemes. Even proponents of the proposal would recognise that LEPs focus on strategic interventions rather than local ones and under the second proposal counties would lose the resources available to them to support local schemes. We have demonstrated responsible management and investment of NHB funds. Investment programmes dependent on NHB include the following headline priority projects:

- The improvement of surface access to the two major airports
- A Surrey Rail strategy to identify proposals for strategic investment that the county council working with partners can plan and deliver. Surrey Rail Strategy priorities include the improvements to the North Downs line linking Reading, Guildford and Redhill/Gatwick and promotion of Crossrail 2 regional rail route.
- A congestion programme, with 23 transport schemes across the county to tackle significant congestion in town centres at key junctions and in strategic corridors.

We have been working well with the LEPs to implement many of the schemes relating to these projects: fifteen major transport schemes have been recommended by the newly formed Local Transport Bodies (LTBs) for the Coast to Capital (C2C) and the Enterprise M3 LEPs. However, the successful implementation of these schemes is dependent on preliminary work and Surrey County Council is therefore concerned about the future of NHB revenue funding earmarked for this essential

work. The schemes are critical to Surrey's economy, and expected to enable the development of 4,800 housing units and to generate in excess of 11,000 jobs, representing a contribution in excess of £460m to Surrey's economy. Key to the benefits to be derived from these schemes is a reduction in the cost of congestion in Surrey which has a significant negative impact on the local economy. Whilst the county council recognises that new growth is essential, it is important to mitigate the negative impacts, such as congestion, otherwise there will be knock on negative economic impacts.

The implications for transport investment with regard to the diversion of NHB funds from county councils can be summarised as follows:

- Additional resource would be taken up in bidding for the funds from the LEP, detracting from the essential work of preparing for the schemes.
- It would inject uncertainty in progressing the programme, thereby jeopardising our chances of securing the notional allocation of construction funds.
- Any allocation may not be proportionate to our per capita expectations, as in the recent round with the LTBs, Surrey's per capita allocation was less on average as compared with its partner councils in the two LEPs.

These examples serve to reinforce the need for clarity and certainty regarding LEP governance and decision making. There needs to be as much flexibility as possible within the LEPs' funding allocation processes to ensure that the county council's ability to provide infrastructure and services to the local communities it serves as a democratically elected body are not further eroded. The forward spending commitments of councils need to be honoured and commitments should be interpreted by the LEP in a broad manner without burdensome requirements to refer to detailed evidence that would inevitably result in uncertainty around future projects and create unnecessary administrative burdens. All this could potentially lead to local communities feeling let down and unfulfilled by the promises of the localism agenda.

The council assumes the Government has made a thorough assessment of the impact of its proposals on the residents of the authorities affected by them.

For further information, please contact:

Daphne Fraser (telephone 020 8541 9206 email daphne.fraser@surreycc.gov.uk), or
Katharine Harrison (telephone 020 8541 9453 email kath.harrison@surreycc.gov.uk)

We understand that lower tier councils will be likely to support the second mechanism. These authorities outnumber county councils, but represent and serve the same populations, while managing considerably smaller financial demands and responsibilities. In assessing the responses to this consultation, we trust your criteria ensure all contributions are considered fairly.

Yours sincerely

Signed and sent by email

David Hodge
Leader, Surrey County Council

Surrey County Council Response to the Questions on the New Homes Bonus

Question 1: We would welcome views on the underlying principles of pooling the New Homes Bonus in this way, with specific regard to ensuring that pooled funding remains in the Local Enterprise Area where it originates and that the method of calculating the Bonus remains unchanged?

Response

We do not support the principle of pooling NHB. The proposal to divert NHB from local authorities to the LEPs fundamentally undermines the aim of the scheme to incentivise and reward growth.

Pooling funds within either of the two LEPS covering Surrey would not guarantee that NHB funds will be spent locally in the areas that have generated the housing growth and consequent need for infrastructure because the LEP boundaries extend beyond the democratic electoral boundaries. Surrey County Council has a clear mandate to meet the infrastructure needs of the people living within Surrey and the proposals to pool funds to areas outside Surrey could lead to investment of locally derived NHB funds in large scale LEP projects that are completely unrelated to the needs of the people living in the areas that have generated the funding.

The county council is mindful that NHB funding is a part of the Local Government DEL, so is properly to be considered as councils' funding. It is understood that the Government has determined that authorities are compelled to transfer £400 million to LEPs from their allocations, but it should be for authorities to decide the priorities for this funding, i.e. the funding is rooted to the donating authority rather than to the LEP.

Question 2: The first mechanism is that an equal percentage of all New Homes Bonus allocations will be pooled to the lead authority of their Local Enterprise Partnership, the precise percentage to be determined, but will be that necessary to make £400m nationally. Do respondents consider this to be an appropriate method?

Response

This question disregards two important issues. The first is that many counties are covered by more than one LEP and vice versa. So the pooling will be a complex process of apportionment from several local authorities to more than one LEP which raises issues that will need to be resolved before it can be determined whether the proposal is at all viable given the likely administrative costs to local authorities and particularly the lead authorities of LEPs.

Notwithstanding the above comments, this flat rate mechanism seems to be marginally preferable in fairness to the second, but it needs to be recognised that under the current mechanism, lower tier authorities currently unfairly receive 80% of the NHB allocations.

The planning decision making process, whilst important, has fairly insignificant cost implications for borough and district councils compared to county councils which have to fund additional infrastructure and services such as education, transport provision, social care etc. If these services are hard pressed and inadequate it will not incentivise local communities readily to accept new growth in their area.

Question 3: The second mechanism would act as described above for all areas with a single tier of local government (unitary authorities, metropolitan boroughs, etc). Where areas have two tiers of local government (lower tier district councils and upper tier counties) the alternative distribution mechanism would operate whereby upper tier authorities would surrender all of their New Homes Bonus, with the balance coming from the lower tier. Do respondents consider this to be a preferable method of pooling for two tier areas?

Response

The county council is strongly opposed to this option which fundamentally changes the reward structure for NHB and wholly disregards upper tier authorities' statutory responsibilities for infrastructure provision.

The consultation asserts that since NHB represents a larger proportion of lower tier authorities' spending power, they need to be protected from large changes in these funding levels. This fails to recognise that this funding stream was introduced on a flawed and unfair basis whereby lower tier authorities, which have little in the way of infrastructure funding responsibilities, received 80% of unringfenced NHB funds. They are therefore bound to see a bigger proportionate reduction of their funding.

The current 80:20 split of NHB in favour of shire district and borough councils inadequately reflects the relative responsibilities and costs involved in providing infrastructure to support, nurture and enable growth. It is this inappropriate split of NHB funding that has resulted in district councils' over reliance on this funding.

Removing all NHB funding from county councils would inevitably curb growth in shire areas as potential investors reflect on the poorer support for essential infrastructure. This would also mean that every new home built in England would reduce each and every county council's funding.

The Government should be fully aware of the potential impact at local level of withdrawing all NHB funding from upper tier authorities. For Surrey County Council the NHB funding has been pivotal in enabling us to respond to very particular growth and development needs. This proposal will therefore have very serious implications for the county council's ability to support housing led growth in our area.

County councils like Surrey already spend a high proportion of their NHB money on the essential infrastructure, such as roads and schools, needed to support economic growth and respond to housing growth. The Government's own consultation paper admits that district and borough councils spend a high proportion of their NHB allocations on their general responsibilities. Consequently, requiring counties to pool

all their NHB funding will add little new money to support economic growth, whether through LEPs or councils. Requiring districts and boroughs to pool a reduced amount means those authorities applying the least of their NHB allocations to supporting economic growth will continue to do so, again adding little new money to this important national priority. Requiring county councils to pool all their NHB funding is the least effective way for the Government to achieve its stated objective of increasing economic growth.

Furthermore, this unexpected funding transfer exacerbates the difficulty of medium term planning for local authorities, the prerequisite for which is funding certainty, even if not funding stability. This was recognised by the Government as a key design principle in its original consultation (“*Predictable... We will keep the design features simple and stable to ensure that expected rewards for growth are delivered.*”) In the context of the unprecedented scale of funding reductions (to date and planned) and of the pressure that this will place on councils’ ability to serve their communities, this is an unwelcomed and, in our view unnecessary additional pressure that could be avoided without compromising the Government’s objectives. This adds to an already increasing funding risk profile, given the risks inherent to the business rates retention system and the reductions implied by the current settlement consultation.

Question 4: Do respondents consider that the content of the proposed condition placed on the section 31 grant will be sufficient to enforce the local pooling of the New Homes Bonus funds?

Response

Whilst the stated condition may be sufficient to ensure that the required quantum of funding is passed from councils to LEPs, it would not be sufficient to provide any assurances to local authorities that particular (development specific) infrastructure requirements will be addressed. A loose and general requirement upon LEPs to ‘engage’ with local authorities alongside all other partners is no effective substitute for local authorities being able to make local decisions on how their funding is applied, particularly since LEPs will have free rein to apply the funding as they see fit.

The proposal to pay NHB to local authorities only for them to pass it on to LEPs places an additional administrative burden on local authorities and raises issues about apportionment when there is more than one LEP for local authorities to pay. If the second mechanism is adopted, there seems little point for County Councils to have to carry this burden and the money would be better paid directly by government to the LEPs.

We would support the proposal (discussed by officers at the DCLG/Local Authority New Homes Bonus meeting on 4 September 2013) to allow local authorities the flexibility to substitute capital for revenue funding, when passing on their required contribution to LEPs. We look forward to the Government’s further proposals in this regard.

Question 5: The government considers that the existing accountability arrangements for Local Enterprise Partnership should apply to pooled funding as these are considered to provide sufficient safeguards for the protection of spending. Do recipients agree?

Response

The accountability arrangements for LEPs apply to the safeguarding of public funds through the appointment of an Accountable Body. However as LEPs are not legal entities they cannot be held accountable for the delivery of economic growth outcomes. Neither do they have any direct democratic responsibility. In addition to this, the guidance for LEPs set out in the Growth Deals paper (DCLG July 2013) gives very little beyond high level criteria in the way of guidance for the Strategic Economic Plans. The paper states that "there will be no set format for the Strategic Economic Plan in line with localism." This contrasts with the very rigorous and transparent statutory processes involving Local Planning Authorities in the production of their local plans and the democratic accountability attached to these documents.

Furthermore, simply diverting county funding to LEPs also reduces democratic control over the prioritisation of locally important investment decisions. This lessening of democratic accountability for prioritising expenditure contradicts an important part of the Government response to Lord Heseltine's recommendations on economic growth.

Question 6: Do recipients agree that locally pooled New Homes Bonus in London should pass to the Greater London Authority to be spent under existing arrangements?

Response

Not applicable. However we would make the point that the GLA is not legally bound by a duty to cooperate across the London boundary and yet development in London can have significant impacts on infrastructure within the authorities bordering London. This is particularly prevalent in Surrey which is on the front line in an area of considerable pressure for development to the South and West of London, especially in the area of Heathrow Airport, which faces some of the most serious traffic congestion in the county.

The Leader of Surrey County Council and the Deputy to the Mayor of London are engaged in ongoing talks about the impact of the growth of London on Surrey. This recognises the county's role in managing the expectations generated by housing growth.

One of the consequences for Surrey of housing growth in adjacent and nearby London Boroughs is that Surrey educates 5% more pupils than it should. While revenue funding follows pupils, the county council has a duty to provide school places, which requires capital expenditure. Government provides some grant support for Surrey's capital expenditure on schools. However the council has to finance a

significant proportion itself. Maintaining the county council share of New Homes Bonus would help alleviate the spending pressures this causes.

Question 7: Do you agree that where an authority is a member of more than one Local Enterprise Partnership, then the proportion to be pooled should be divided equally amongst the Local Enterprise Partnerships?

Response

No we do not agree. We would advocate an approach that allows local discretion to authorities that are part of more than one LEP, to determine how their LEP contribution is to be distributed to each, particularly for upper tier authorities. This would allow a little more leverage for authorities seeking to secure LEP support for particular local infrastructure projects, whilst also having to ensure a good strategic 'fit' to LEP objectives and priorities. This is imperative if the Government is to implement these funding reductions which diminish authorities' ability to take responsibility for meeting and delivering on these demands.

Question 8a: The Government proposes that where local authorities can demonstrate that they have committed contractually to use future bonus allocations on local growth priorities, Local Enterprise Partnerships should take this into account when determining their local growth plan and their priorities for using pooled funding. Do respondents agree with this proposal?

Response

We support this proposal in principle, but would seek a stronger commitment. A requirement to "take this into account" when determining plans and priorities for applying funding may leave local authorities exposed to the risk of having to honour financial commitments made against funding that they were assured would be constant or growing until at least 2016/17. This would be extremely unfair, given that they would have taken the Government at its word in planning on the basis of the promised continuing and increasing funding levels. Moreover, the distinction between commitments to support local growth as opposed to other priorities flies in the face of the previous deliberate non-hypothecation of NHB and will have a major differential effect.

We are concerned that considering only contractual commitments takes insufficient account of the political and policy commitments made by democratically mandated councillors. This is, in effect, an agreement with the electorate. As a minimum, LEPs should be **required** to honour such commitments, particularly where the sum committed exceeds the residual NHB retained by the council. The LEP could be required either to meet the full commitments up to the level of the pooled sum contributed by the authority; or could be required to fund the difference (shortfall) between the NHB retained by the authority and the total sum committed. We understand that the Government will wish to define "commitments" more particularly, so we would hope that this would be taken into consideration at that time.

Draft response to DCLG technical consultation on *Proposals for the use of capital receipts from asset sales to invest in reforming services*

(as at 19 September 2013)

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September 2013

Dear Sir or Madam

Proposals for the use of capital receipts from asset sales to invest in reforming services

Thank you for the opportunity to comment on the Department for Communities and Local Government's consultation on *Proposals for the use of capital receipts from asset sales to invest in reforming services*. This provides a helpful opportunity for local authorities to provide direct feedback to the Department on the implications and impacts of its funding proposals and decisions.

Surrey County Council does not hold material, marketable surplus assets that are likely to produce large capital receipts and are not already identified as potential income streams for capital investment. A significant proportion of our capital programme is to provide school places and maintain Surrey's highways. Surrey has among the most heavily used roads in the UK and educates a significant minority of pupils from outside its boundary. However, capital grant funding supports less than half of Surrey's capital programme and capital receipts fund only 7% of it. Therefore it is unlikely this proposal will offer us an opportunity to fund one-off revenue costs associated with reforming local services.

The council believes DCLG's bid assessment criteria seem fair. However further information on how DCLG will apply them would be useful, as such details will be critical to ensuring practical implementation of the proposals. The council believes DCLG's proposed timetable appears reasonable. However it is concerned there is no room for slippage.

We look forward to the Department's published response to the consultation, in due course.

Yours faithfully

Sheila Little
Chief Finance Officer and Deputy Director of Business Services

Surrey County Council response to DCLG technical consultation questions on *Proposals for the use of capital receipts from asset sales to invest in reforming services*

Question 1: Do you consider that the proposal to allow some flexibility for use of capital receipts from new asset sales will provide you with a useful additional flexibility for one-off revenue costs associated with restructuring and reforming local services to deliver longer term savings?

Response

Surrey County Council does not hold material, marketable surplus assets that are likely to produce large capital receipts and are not already identified as potential income streams for capital investment. Capital receipts fund only 7% of our total capital programme for 2013-18. Therefore it is unlikely that this proposal will offer us an opportunity to fund one-off revenue costs associated with restricting or reforming local services.

The council is currently developing a long-term capital strategy to contribute to its objective of increasing its long term financial resilience and decreasing its future reliance on government grants and council tax increases. Part of this strategy is the potential for investments in assets to enhance the council's income and provide additional financial support for delivering its services.

Our asset management planning already identifies opportunities to dispose of surplus assets and this proposal would not provide any additional incentive to do so. In addition, the council carefully manages the timing of property disposals to ensure it maximises receipts.

This proposal is likely to be more beneficial for authorities who have marketable surplus assets, and a limited requirement for further asset investment.

It is possible that the proposal may offer greater flexibility in relation to finding solutions to implementation funding required when evaluating rationalisation and co-location opportunities with public sector partners.

Question 2: To evidence base the response to question one, we would welcome (in no more than 400 words) your initial ideas for change(s) that you consider would benefit from the flexible use of capital receipts policy?

Response

Please see comments in relation to Question 1. In addition, in assessing large projects or proposals of this type we would expect future savings initially to recover the implementation costs.

Question 3: Do you agree that these criteria should be used, or would you suggest alternative or additional measurements to decide a bid based approach?

Response

The council agrees the criteria seem fair. However further information on how DCLG will apply them would be useful, as such details will be critical to ensuring practical implementation of the proposals. For example how will DCLG assess whether or not the project would not be able to go ahead without this flexibility? Would this be based on the levels of reserves available as in the current situation with capitalisation directions?

The criteria regarding the possible use of an asset gives examples of selling at less than full market value to a community group. This appears to create a conflict of purpose as the authority would want to maximise the receipt in order to increase the amount of revenue support allocated.

The consultation states that the sale of the asset should be part of a wider asset management plan and is not being sold purely to gain this flexibility. This criterion is difficult. For example, this proposal might give a council an opportunity which makes disposal of an asset in this scenario better than retaining it, effectively meaning the asset is being sold to gain the flexibility.

In addition, we believe it will be difficult to prove that a project which a council would look to fund through this route would not be undertaken without this flexibility. If the project meets the council's objectives then it could still go ahead without this flexibility, but it would be at the expense of something else.

Question 4: Do you agree that a direction letter mechanism would be the best method of delivering the aims of the policy proposal?

Response

The council agrees a direction letter would be the best method of delivering the policy proposal. The alternative is to change statutory regulations, which would make central government control of the amounts allocated and projects developed more difficult.

The consultation contains no further detail on the issue of councils only being able to use a proportion of the capital receipts gained from asset sales. Will Government set this proportion, or is it just for cases where the value of the asset exceeds the direction?

Questions 5 & 6: Is the proposed timetable realistic to allow for the practical implementation of the flexible use of capital receipts proposal? If you felt the timetable was not realistic, what changes would you make to the proposed implementation of the policy to allow for the practical delivery of the flexible use of capital receipts?

Response

The timetable looks reasonable. However, there is no room for slippage in the decision making. Authorities will need to know by the spring of 2014 if their bids are successful in order to include this in their budget planning for 2015/16.

While the flexibility in spending will not be implemented until April 2015, the capital receipt used to fund it can occur from August 2013. This means that authorities might have to make decisions in the latter half of 2013 on whether to commence or proceed with the sale of a capital asset without knowing whether they will have the required flexibility to use the receipts for revenue purposes, or what the precise criteria of the bid mechanism are.

The timetable provides for 2.5 years within which to dispose of the asset. There is currently no information in the proposal about what would happen if the disposal is not made within this period or if the disposal is made at less than the allocation agreed. The unpredictability of the timing and receipts of asset disposals means that further thought will need to be given to:

- the requirements of local authorities in relation to identifying the asset to be sold;
- having reasonable assurance that the sale will be secured;
- making a prudent assessment of the proceeds that will be generated; and
- keeping the future receipt under review.

Briefing note on DCLG's *Business Rates Retention - Pooling Prospectus 2014/15*

Introduction

The business rates retention scheme enables local authorities to opt to pool their business rates. Pooling treats the designated pooled authorities as a single entity for calculating tariffs, top-ups, levies and safety net payments. It also supports collaboration to generate additional growth and smooth the impact of rates income volatility across a wider economic area.

For 2013/14, the Secretary of State designated 13 pools, comprising 90 authorities. Those authorities forecast their collective business rates income will grow by about £44 million. Pools' lower levy rates mean the authorities expect to keep £17 million (39%) more of that growth than they would otherwise have done.

DCLG has updated the pooling prospectus for 2014/15. New elements include:

- existing pools do not need to re-confirm their intention to pool for 2014-15;
- DCLG published an online calculator to help authorities explore scenarios; and
- final proposals will need to be signed off by each pool authority's s.151 officer.

Timetable for proposals for 2014-15

DCLG needs to make new pool designations in time for the 2014/15 Settlement process.

Any proposals for new pools must be made to DCLG by 31 October 2013.

Existing pools do not need to re-confirm their intention to pool for 2014-15. Any changes to expand or contract existing pools needs Government to revoke the designation and pools must notify DCLG by 31 October 2013.

Benefits of Pooling

The Government believes setting up pools can help increase joint working and can result in wider benefits. Pooling business rates income across a wider and economically coherent area ensures all authorities can benefit from economic growth across that wider area. This can make strategic decisions about infrastructure investment easier.

The 90 authorities in 13 pools provisionally forecast rates income growth by £44 million. The pools' lower levy rates mean they expect to keep £17 million more of that growth than they would otherwise have done.

Pools should also consider the impact of business rates income fluctuations. Some authorities may find a fall in business rates income, which would have received a safety net payment, would no longer do so, as the pool is above its safety net threshold. Each pool needs to decide whether and how it supports members facing significant drops in income.

The business rates retention system charges high tariffs on all districts and boroughs in Surrey and pays a low top-up to the county council. Because of this and the 50% cap on the business rates levy, a pool of all twelve Surrey councils would retain less business rates income than if the authorities remained as they are, not in a designated pool.

Making an application

Proposals for a new pool for 2014-15, must clearly set out the following.

- Membership - the identity of each authority to be part of the pool.
- Benefits - the potential benefits to pool members from pooling their business rates.
- Lead Authority – for channelling payments to and from DCLG.
- Governance Agreement – covering rights and obligations of pool members.
- Final proposals will need to be signed off by each pool authority's s.151 officer.

Selection criteria

DCLG will consider all applications received by 31 October 2013 using the following criteria:

- the likely benefits for local authorities and the Government's wider objectives for growth, and improved strategic and service delivery;
- the proposed governance arrangements; and
- proposals' affordability in terms of the rates retention scheme as a whole.

Depending on which authorities apply to pool, this could affect the levy income needed to fund the safety net. The Government will consider factors such as the overall affordability of the rates retention scheme in deciding to designate a pool.

Generally, DCLG expects pools to have continuous boundaries, but will not enforce them rigidly. For example, not all authorities in a LEP area may want to pool, leaving a gap within the boundary, or one authority might want to leave an existing pool, also creating a gap.

Withdrawal and dissolution of pools

To withdraw from a designated pool for 2014/15, authorities must write to DCLG within 28 days of the publication of the provisional Local Government Settlement report and before the final report is laid before the House of Commons. If an authority withdraws from a designated pool, it means the pool cannot continue and those authorities who had been members of the pool revert to individual positions.

After this, a request to dissolve a pool can be made anytime during the year. However the effect will be felt in the following financial year (2015/16) as it is too disruptive to dissolve a pool part way through the year. Members of dissolved pools return to their individual tariff, top-up and levy amounts.