

PUSH Draft Consultation response

Local Government Resource Review

CONSULTATION RESPONSE FROM PUSH (PARTNERSHIP FOR URBAN SOUTH HAMPSHIRE)

The Partnership for Urban South Hampshire, PUSH, is a group of ten local authorities that work together to promote the economic development of South Hampshire and seek to improve the quality of life and well-being for our residents. We are constituted as a Joint Committee and work closely with Solent Local Enterprise Partnership. The boundaries of PUSH, reflect the functional economic area of the sub-region rather than administrative boundaries.

PUSH local authorities will be responding individually to this consultation setting out their own views and the response below is on behalf of PUSH in relation to *strategic* issues that affect the Partnership as a whole.

Qs 1, 2, 3, 4: baselines, tariff and top up

PUSH notes that there is no mechanism in the Component methodology set out at pages 19 and 20 of the consultation document to reflect the potential requirement to adjust the revenue baseline, once the initial baseline has been set, for higher costs falling on local authorities as a consequence of growth.

PUSH has previously received support under the Growth Area Initiative to reflect the additional costs falling on authorities seeking to deliver economic growth and development. For South Hampshire, the major costs are those of renewing the existing over-stretched and outdated infrastructure and servicing new greenfield development. Additionally, given our coastal location, flood protection is a major challenge to development.

Against this background, PUSH is not only concerned at the absence of any recognition in the Resource Review of the structural cost of funding growth but we note that the levy and, potentially, resetting will reduce the quantum of business rates retained by PUSH authorities in the longer term and hence reduce our ability to self-finance the required expenditure from business rate growth. The new funding system should recognise that pursuing a growth agenda has tangible costs for local authorities -which are likely to exceed any uplift that simply follows RPI - and that this needs to be reflected in baselines or in more generous levy arrangements, or a combination of both.

Qs 5, 6, 7, 8: the levy

The general inclination of PUSH authorities is to preserve a strong retained element of business rates as a means of providing the funding necessary to support local business growth. We therefore welcome the increased flexibility that retained business rates will give us and the potential it provides to return local decisions to the local area. We have reservations about the potential impact of the proposed levy

which, as the consultation points out, could severely dilute the incentive effect. PUSH would wish a levy to be set at a minimum level (Q8) to preserve a strong local incentive to promote local business growth.

We recognise however that the nine rating authorities within PUSH will each have a different capacity to grow their rate base. Their growth policies may also be influenced by the commitment to deliver sustainable economic growth which includes a commitment to prioritising the development of the Cities and older urban extensions. By way of illustration, the two cities, Southampton and Portsmouth are the anchors of the local economy, but have a legacy of historical industries experiencing decline, while business parks adjacent to the M27 and M3 motorways located in neighbouring district authorities are popular growth locations. We have therefore collectively agreed a 'cities first' policy that seeks to encourage investment in Southampton and Portsmouth in order to promote regeneration and sustainable development in line with the Government's proposed new planning guidance.

Since some PUSH authorities may not be maximising potential growth in their rates base because of potentially deleterious effects on the sub-region – and conversely some authorities may accept a higher level of development than they would otherwise need - it follows that any levy system should also reflect the position of the sub-region as well as that of PUSH authorities individually. The consultation document does not recognise the importance of strategic coordination between authorities to deliver growth, or indeed the Duty to Cooperate, whereby neighbouring authorities and other bodies such as the Solent Local Enterprise Partnership will work together on strategic priorities . Critically there is a need to acknowledge that economic growth priorities will be taken forward in a strategic cross-boundary context and there needs to be a recognition of the importance of functional economic areas such as Solent, or the new geography of Local Enterprise Partnerships.

To reinforce this point, PUSH would point to its strategic actions across the sub-region to:

- prepare and publish an economic strategy for South Hampshire that has identified target sectors for business growth. The strategy has been adopted by Solent LEP;
- seek to establish a commercial floorspace requirement and identify priority sites for economic development, especially those requiring significant regeneration in existing urban areas;
- assess the requirement for infrastructure investment, including transport infrastructure, working with our partner organisation Transport for South Hampshire;
- assess strategic housing need and agree a level and distribution of housing provision across the sub-region (currently being refreshed);
- agree a green infrastructure strategy for South Hampshire;

- make strategic agreements with the Environment Agency, the Highways Agency and Network Rail. A Stewardship Agreement is in process of being agreed with the Homes and Communities Agency to support development of a portfolio of ex-SEEDA sites in the area.

PUSH therefore believes that the reform of local government funding should take account of the way that authorities in South Hampshire and elsewhere are cooperating to implement growth strategies collectively. This may affect the geography of how business rate income is generated and how costs fall within the sub-region. The impact of the levy in these circumstances – which as described in the consultation relates to individual authorities rather than groups of authorities - is unclear and it would require detailed modelling (which we have not undertaken) to establish whether and how the strategic overlay of PUSH impacts on the business rate growth retained by individual PUSH authorities.

Qs 12, 13: Other uses of the levy

Following from the above, PUSH proposes that a proportion of the proceeds of the levy should be retained *locally* for redistribution to PUSH authorities to ensure that:

- resources are available to support strategic sub-regional investment; and
- no individual local authority within PUSH is disadvantaged by working in partnership to deliver sub-regional growth.

In the South Hampshire area, we are acutely aware of the need to underpin growth by investment in infrastructure at a strategic level – transport, water supply, flood protection and drainage, power supply etc – and equally of the need to invest in particular redevelopments that have strategic significance for growth. These include for example, the new community at Fareham of around [7-8000] dwellings and the redevelopment of Southampton and Portsmouth city centres.

PUSH has considered setting up an investment fund to support growth across the sub-region and there is an option to use a proportion of any levy to deliver this approach. This would enable PUSH to support investment in local infrastructure at the discretion of our local partnership, working in collaboration with Solent LEP.

Qs 16, 17, 18, 19, 20: Resetting

Individual PUSH authorities may each have a view on these questions but the PUSH response is to seek certainty and predictability in the new approach to funding local government. This is because strategic projects frequently have a long term planning and delivery horizon. PUSH therefore favours a fixed interval for resetting the system. We also favour a longer timescale for resetting so long as this does not prejudice authorities (or groups of authorities such as PUSH) seeking to fund growth. PUSH would not favour an indeterminate review period set by Government which we feel could undermine our investment decisions and reduce the confidence of our business partners - especially the lenders - in the predictability of funding.

Qs 21, 22, 23, 24: Pooling

Pooling has particular resonance with PUSH as a group of local authorities working collectively to deliver prosperity and economic growth across the area. PUSH comprises part of Hampshire County, the whole of two unitary authorities (Southampton and Portsmouth), the whole of four district authorities (Eastleigh, Fareham, Gosport, Havant), and part of three other districts (East Hampshire, Winchester, Test Valley).

PUSH operates across a functional economic area and it is therefore unclear how pooling might operate for us or similar areas where our operational boundary does not correspond to that of a county.

Were PUSH to operate as a pool, a second issue would be how to deal with billing authorities whose administrative area is only *partly* included in the Solent sub-region and within the boundaries of PUSH and the Solent LEP.

Notwithstanding these issues, PUSH would welcome an incentive to pooling in the form of additional retained business rates to support strategic investment but, as has been indicated throughout this submission, there needs to be some alignment with the economic and strategic planning area. While the county boundary of Hampshire is clearly significant for some purposes, it is not the functional boundary in terms of business growth. The economic geography, which is reflected in the boundaries of both the Solent and Enterprise M3 LEPS, is that there are two strategic growth areas within the county boundary. In PUSH's case, the economic unit is southern Hampshire, Southampton and Portsmouth.

Qs 26, 27: New Homes Bonus

PUSH is disappointed that New Homes Bonus is to be funded by a top-slice from the business rate system. Our view is that this is inconsistent with the localism agenda. We welcome local retention of business rates as an incentive to economic growth but question the wisdom of imposing a levy to deduct some of that income in order to fund a *centralised* grant to support additional *local* housebuilding. PUSH's housing aspirations are derived from our economic strategy and consistent with it, and our view is that we should therefore retain sufficient business rate to fund the planned level of house building in the sub-region.

Qs 29, 30, 31, 32, 33: Tax Incremental Finance/Enterprise Zone

PUSH welcomes the proposed introduction of Tax Incremental Finance and agrees that it should fall under the prudential system already utilised by some PUSH authorities.

We would expect the demand for TIF to be high and we therefore recognise that some safeguards on its use will be necessary. Given the undoubted risk to authorities of incurring high levels of debt, PUSH believes that it will be impractical for most authorities to fund *major* TIF projects except by using option 2 under which there would be a guarantee that business rate growth could be used to service debt.

The Government may wish to consider going further and underwriting the debt for particular high profile projects.

However, PUSH suggests that this should not be an either/or choice between options 1 and 2 but that there should be a menu of TIF options open to local authorities. This would include retaining option 1 for smaller low risk local projects, and the possibility of enabling groups of authorities like PUSH to create a pool of incremental business rates for investment in strategic and cross-boundary projects. This would need to be insulated from the levy and the effects of resetting. We feel that there is further work to be done on this and PUSH already has a well-advanced TIF project that we wish to explore with the Department.

Solent LEP supported by PUSH was successful in its bid for an Enterprise Zone at Daedalus, west of Portsmouth Harbour to establish a manufacturing and technology cluster focused on the marine and aerospace sectors. We welcome the proposal to provide for retention of all incremental business rates in the Zone over a 25 year period.