Finance and Policy Committee

Date: 17 October 2012

Item 5: Local Government Resource Review – Update

This paper will be considered in public

1 Summary

1.1 On 31 May 2012, the Committee received an update on the developments on the Local Government Resource Review (LGRR) and its impact on TfL. This paper updates on progress made since spring.

1.2 Following the Department for Communities and Local Government's (DCLG's) publication of the Statement of Intent to implement the business rates retention mechanism and devolve a proportion of TfL's general transport grant into the system, TfL, jointly with the GLA, has produced a response to the DCLG technical consultation, in which the preferred arrangements for TfL and the wider GLA Group are outlined.

1.3 On 16 September 2012, in parallel with the main business rates localisation policy, the Department for Transport (DfT) published its consultation on the devolution of the Bus Service Operators Grant (BSOG). The DfT has specifically asked TfL to provide a consultation response and work with the DfT to come up with a suitable arrangement of devolving the BSOG out of the DfT's administration and under that of GLA/TfL. The Government's preferred approach is to devolve BSOG into the business rates retention mechanism (BRR).

2 Recommendation

2.1 The Committee is asked to note the updates on the proposed reforms, their likely impact on TfL's future funding arrangements and the key outstanding issues to resolve.

3 Background

Business Rates Reform

3.1 The LGGR was launched by Communities Secretary Eric Pickles in late 2010, after the Government indicated its intention to replace the current 'needs based' system with one that incentivises authorities to grow their business rates base. This reflected a wide consensus that the current system did not incentivise local decisions that supported growth.

3.2 In London, it is expected that the following GLA grants will move into the BRR in 2013/14:

Grant	**Baseline funding (£m)**
Core GLA	20
LFEPA	105
TfL*	771
Council tax support grant	70
Total in retention (local share)	**966**

Source: GLA latest modelling assumptions for core grant, LFEPA and Council tax support grant; TfL's preferred devolution amount of general transport grant.

* Calculated to be 50 per cent of 2014/15, as the last year of the Government Settlement.

Expected Timetable

3.3 The technical consultation was issued in summer 2012, and a GLA group response, including TfL's comments, was submitted on 24 September 2012 (see below). The Government intends to transfer to the new local government funding arrangements from April 2013 and provide local authorities with detailed information about their funding for 2013/14 in advance of that, later in autumn 2012.

3.4 The Local Government Finance Bill went through the Committee Stage in the House of Lords in summer 2012 and will go to the Report Stage on 10 October 2012. Royal Assent is expected to be granted in time for the commencement of the new mechanism operation in April 2013.

4 Latest Developments

Central and Local Shares

4.1 The Statement of Intent published by DCLG confirms that the central share of national business rates will be set at 50 per cent until any 'reset'. Further discussions between the DCLG, GLA and TfL have also emerged with a consensus view that in London, the GLA should retain 40 per cent of the London share of business rates income, with the corresponding 60 per cent going to the boroughs. The 40 per cent share will ensure that the GLA is a marginal tariff authority.

4.2 A tariff authority, as opposed to a top-up authority, has a higher receipt of business rates than its funding requirement, and under the proposed mechanism will have to pay a 'tariff' for the difference to Central Government in the first year of the BRR operation. In subsequent years, the tariff payment will rise in line with inflation, leaving the authority with the scope to retain some of the growth in business rates, if the business rates increase at a rate greater than inflation.

TfL/GLA Joint DCLG Technical Consultation Response

4.3 Following the launch of the DCLG Technical Consultation on the operation of the business rates retention mechanism in summer 2012, TfL has worked with the GLA to prepare a joint response. This covered the proposed inclusion of the general transport grant, business rates exemption for Enterprise Zones, its information requirements from the GLA for budgeting purposes and preference for the levels of safety net and disproportionate growth levy. The joint response was sent to DCLG on 24 September 2012, which included possible technical arrangement amendments.

GLA Position on Disproportionate Growth Levy Ratio

4.4 Some local authorities will experience a disproportionate benefit as a result of rapid growth in business rates. In order to limit this, the Government has proposed to set a levy which will ensure that the authorities never see more than a one per cent increase in their baseline funding level for each one per cent increase in the individual authority's business rates baseline. A levy will be payable by 'tariff' authorities only, as by definition, top-up authorities are not able to collect enough revenue in business rates to meet their funding requirement.

4.5 Under the envisaged 40 per cent share of retained business rates in London, attributable to the GLA, the authority will be able to collect around £1.4bn in business rates in the financial year 2013/14. The GLA's funding baseline is just under £1bn and since the business rates attributable exceed it, the GLA will be classed as a tariff authority and will be liable to pay the disproportionate growth levy. There is also a certain degree of expectation that business rates receipts in London will continue to grow year on year by a higher level than the funding baseline and so the amount charged in levy will increase.

4.6 In the joint consultation response, the GLA has expressed its fundamental disagreement with the proposed principle of applying a growth levy, as it strips away too great a share of the growth in business rates yield and defeats the objective of giving greater financial autonomy to the local authorities.

4.7 TfL has tended to adopt a more cautious approach than the GLA, seeing advantage in the balance of safety net and levy.

BSOG Consultation and Issues

4.8 BSOG is a scheme that refunds some of the Fuel Duty incurred by operators of registered local bus services in the United Kingdom. It is currently payable by the DfT directly to the bus operators.

4.9 Following a brief mention of the devolution of BSOG out of the DfT's administration in the DCLG's Statement of Intent in summer 2012 (subsequently clarified by an official level letter), in September, the DfT published a consultation document inviting local authorities to comment on the proposed transfer of BSOG administration to local authorities. The extract of the Consultation document looking specifically at the devolution of BSOG in London is:

4.25. Within London, bus operators have a contract with TfL and claim BSOG separately. This means that effort is duplicated by both operators, who have to work out their claims, and central government which has to assess them.

4.26. The Government now intends to move quickly to devolve BSOG for all services currently provided under contract to TfL, ensuring that bus support is channelled through local government in London.

4.27. Our intention is to commence regulations and devolve funding on 1st October 2013. Once the legislation is in place, bus operators who work under contract to TfL would no longer be allowed to claim BSOG. If in the light of the consultation that is currently being carried out by the Department for Communities and Local Government the Government concludes that the London element of BSOG should be funded through locally retained business rates, the funding would be included in the Business Rate Retention Scheme with effect from 1st April 2014.

4.28. We will now invite TfL to work alongside DfT so that the change-over to the new arrangements can be made from this date. We do not intend to provide a transitional period for this change after the regulations are made.

Source: DfT Bus Service Operator Grant Consultation, pages 14-15.

4.10 TfL is specifically asked to comment on the arrangements in London and work with the DfT on coming up with suitable transfer arrangements. Surface Transport is expected to lead on providing a consultation response to the DfT.

4.11 Outside London, local authorities will receive an amount in grant each year, broadly equivalent to the level of BSOG which would otherwise have been paid to operators for running tendered services. Over time, there is clearly a risk that the amount of funding for bus services is eroded as part of general public expenditure reductions.

4.12 It appears that outside London, the Government intends to devolve BSOG funding on 1 October 2013. In London, the Government's stated intention in the Consultation document is to devolve BSOG funding formally on 1 April 2014.

4.13 The DfT's consultation contemplates devolving BSOG either directly to TfL via a grant or to the GLA, through the BRR. Given that outside of London the grant will be paid directly to the local authorities, TfL proposes that BSOG in London be treated in the same way. The annual value of BSOG currently payable to bus operators in London is around £100m.

Detailed Funding Transfer Arrangements from the GLA to TfL

4.14 On 18 May 2012, the then Secretary of State, Justine Greening, wrote to the Mayor confirming that the changes to the arrangements for payment of Transport Grant should not be construed as any weakening of the Government's support (see Appendix 1). TfL expects the amount of business rate income replacing the Transport Grant to be paid over directly from the GLA. Clearly, if there is additional funding available to the GLA through growth in business rate income, TfL would expect to be able to make a case for investing some of this growth in transport projects. The arrangements for such a process have yet to be finalised by the GLA.

5 Key outstanding issues

5.1 Although the principles have now been established, a number of more detailed issues still need to be resolved. TfL will be working closely with the GLA over the coming months to address these, which include:

(a) publication of the business rates baseline for London, based on the 50 per cent local share and envisaged 40 per cent GLA share of London's business rates take; and

(b) the response to the BSOG consultation and inclusion of the BSOG into the BRR.

List of appendices to this report:
Appendix 1 – Secretary of State letter to the Mayor, dated 18 May 2012

List of background papers:
1 Paper to Finance and Policy Committee on 30 May 2012
2 Department for Communities and Local Government Statement of Intent and Technical Consultation
3 Department for Transport consultation on the devolution of the Bus Service Operators Grant
4 TfL/GLA Joint DCLG Technical Consultation Response

Contact Officer: Steve Allen, Managing Director, Finance
Number: 020 7126 4918
Email: StephenAllen@tfl.gov.uk

Appendix 1

Department for
Transport

From the Secretary of State

Great Minster House
33 Horseferry Road
London SW1P 4DR

Tel: 020 7944 3011
Fax: 020 7944 4399
E-Mail: justine.greening@dft.gsi.gov.uk

Web site: www.dft.gov.uk

Boris Johnson
Mayor of London
Greater London Authority
City Hall
The Queen's Walk
More London
London
SE1 2AA

18th May 2012

Dear Boris,

The Communities Secretary yesterday announced Government's proposals to allow local authorities to retain a share of business rates in their areas, to provide a direct financial incentive for delivering local economic growth.

Subject to enactment of the Local Government Finance Bill currently before Parliament, this will enable Transport for London (TfL) to receive a proportion of funding through a locally retained share of London's business rates, replacing part of the funding currently paid as Transport Grant and allowing the Mayor and TfL to share in the rewards of London's growth.

DfT will continue to pay a Transport Grant to the GLA for the purposes of TfL, as provided for under Section 101 of the Greater London Authority Act 1999. Section 101(2) shall continue to apply so that Transport Grant will be paid for the purposes of Transport for London and I expect the GLA to continue to pay it straight to TfL.

I continue to recognise the strategic importance of London transport to the national economy. The changes to the arrangements for payment of Transport Grant should not be construed as any weakening of the Government's support. My intention is that these proposed changes should not reduce the overall amount of money available to TfL over the Spending Review period, as set out in the SR funding agreement letter, taking into account the continuing section 101 grant and the locally retained share of business rates available for TfL.

In due course, we will need to agree an amendment to the funding agreement letter to reflect these proposed changes. However, the shared commitments to the operations and investment in transport in London set out in the SR10 settlement letter of 20 October 2010 remain in place. As under the current regime, I would also expect to review future spending review settlements, including in year, if there is significant deviation from the mutually agreed commitments.

Best Wishes,

Justine

JUSTINE GREENING