Finance and Policy Committee

Date: **31 May 2012**

Item 6: **Local Government Resource Review: Implications for TfL**

This paper will be considered in public

1 Summary

1.1 This paper briefs members on the expected impact of the Local Government Resource Review (LGRR) on TfL, following the publication by the Department for Communities and Local Government (CLG) on 17 May 2012 of a 'Statement of Intent' that makes explicit reference to TfL's funding arrangements (Appendix 1).

1.2 On 18 May 2012, the Secretary of State for Transport followed up publication of the Statement of Intent with a letter to the Mayor (Appendix 2), clarifying that the new arrangements should not be construed as a weakening of Government's support for TfL, and should not reduce the amount of money available to TfL over the Spending Review period. TfL has started briefing the credit rating agencies regarding the proposed changes, and has shared the letter with them.

1.3 Department for Transport (DfT) officials have also written (Appendix 3) to clarify that the reference in the Statement of Intent to the Bus Service Operators Grant (BSOG) was an "administrative error", and should not have been included in the list of grants to be devolved under the new system.

2 Recommendation

2.1 **That the Committee note 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 National Non Domestic Rates (NNDR or 'business rates') in effect became a centralised tax in 1990. A nationally set 'multiplier' is used to determine liabilities for individual properties based on their 'Rateable Value' (closely related to their market rent). The multiplier increases annually in line with RPI. In addition, non-domestic properties are revalued every five years, and any relative increases or falls in value are redistributed, in such a way as to keep the overall tax take constant in real terms. Business rates represents about four per cent of the total UK tax income.

3.2 Collecting authorities (district councils and boroughs) pass business rates to central Government; the money is then redistributed back to local authorities on the basis of a complex formula and supporting data (including population and deprivation).

3.3 The Local Government Resource Review was launched by the Secretary of State for Communities and Local Government in late 2010, after the Coalition 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.

GLA group funding

3.4 In London, the boroughs are the collecting authority for business rates and council tax, with the GLA the major precepting authority (ie able to set a council tax charge that the boroughs are then required to pass to the GLA).

3.5 The key grants (excluding specific grants) received by the GLA and its Functional Bodies under the current system are shown in the table below.

Table 1: GLA and Functional Body – Grants

Grant / Source	**2013/14 amount (SR10 figures, estimated where appropriate)**
Core GLA grant	£47m
London Fire and Emergency Planning Authority (LFEPA) – formula and fire revenue grant	£242m
Mayor's Office for Policing and Crime (formula grant and police grant)	ca £1.9bn
Transport Grant (paid by DfT to the GLA "for the purposes of TfL")	£2.7bn (comprising 'General Grant' of £1.8bn and 'Investment Grant' of £900m)

Expected Timetable

3.6 The Government first consulted on proposals for the introduction of the local retention of business rates in summer 2011, and published final proposals in December 2011. The Local Government Finance Bill, which provides the necessary powers for the reforms, is currently going through Parliament.

3.7 To support the Bill's Third Reading in the Commons on 21 May, CLG published a Statement of Intent on 17 May (Appendix 1), which sets out some key principles regarding how the scheme will operate, and the funding streams to be devolved into it (including the Transport Grant).

3.8 The Bill is due to undergo its House of Lords stages in June, with Royal Assent expected before the summer recess. CLG will then consult on the scheme detail over the summer, with detailed financial information being finalised over the autumn, in advance of the Local Government Finance Settlement in January 2013. The scheme is expected to start in April 2013.

Central and Local shares

3.9 Under the new system, any local growth (or decline) in business rates compared with the base year will be shared between local and central government, until such time as the whole system is 'reset' (see para 3.12 below). Billing authorities (in London, the boroughs) will pay a percentage of the rates they collect to central Government – known as the 'central share' – which will be used in its entirety to fund the local government sector[1], including the 'New Homes Bonus'[2]. It will be supplemented by a 'Revenue Support Grant', in order to meet the spending control totals for local government in 2013/14 and 2014/15 that were announced in the 2010 Spending Review.

3.10 The Statement of Intent published by CLG confirms that the central share will be set at 50 per cent until any 'reset'. This has been set at a level such as to provide a real financial incentive to local authorities (growth on their 'local share' of 50 per cent, while still enabling the Treasury to maintain overall expenditure control in future years. By setting a central share of 50 per cent, which is higher than had previously been expected, the Government will share the risks (of negative growth) and rewards (of positive growth) in business rates with local authorities (collecting authorities and preceptors).

3.11 In addition to central and local shares, for two-tier authorities (including London), regulations will specify the percentage of the local share that collecting authorities are required to pass to precepting authorities. The proportionate share in two-tier shire areas will be 20 per cent for the county and 80 per cent for the district. It is again expected that these percentages will be fixed until a full system reset.

Full System Resets

3.12 The Statement of Intent makes clear that the first 'system reset' (a full needs based review of the system and funding requirement for individual authorities) is expected in 2020 at the earliest (to align with the five-yearly revaluation

[1] Policing bodies will be entirely funded from the central share during the SR10 period. Government will review the way in which the police are funded beyond the SR10 period. This could lead to policing being entirely funded from general taxation, which would allow the Government to devolve more local authority funding streams (e.g. social care, benefits support) into the business rates system.

[2] The Government provides additional funding for new homes by match funding the additional council tax raised for new homes and empty properties brought back into use, with an additional amount for affordable homes, for the following six years.

cycle), giving at least a seven year period over which authorities would benefit from growth in their local share. Thereafter, the Government intends the periods between "resets" to last 10 years.

Top up vs Tariff authorities

3.13 To provide a fair starting point for each authority under the rates retention system, there needs to be an initial re-balancing of resources, such that resource-poor authorities (including most London boroughs) receive 'top up' funding, which will be financed from the 'tariffs' paid by resource rich authorities (e.g. City of London, Westminster). If an authority collects more in business rates[3] than its baseline funding requirement[4], it will be required to pay a 'tariff' to central Government; if an authority has a baseline funding requirement that is more than it collects in business rates, it will receive a 'top up'. Tariffs and top-ups will be fixed in 2013/14 and increase annually by RPI until any reset.

3.14 It should be noted that the exposure to risk and reward is smaller for top up authorities (who will receive a share of their 'local' funding in the form of an RPI-linked top-up, and for whom increases in business rates translate into proportionately smaller increases in total available funding) than it is for tariff authorities (for whom the reverse applies). In two tier shire authorities, the 80/20 district / county split is designed to ensure that all counties will be top-up authorities and all districts will be tariff authorities, reflecting the latter's primary role in planning and economic development (and thus more suitable to the greater incentive through being a tariff authority).

3.15 Certain authorities who pay a very significant tariff – for example, perhaps their business rates take is more than double their baseline funding requirement – may experience 'disproportionate' growth, since a small percentage growth in business rates would translate into a much larger percentage change in funding available. It is expected that this will be subject to a 'disproportionate growth levy', the proceeds of which may be used to assist authorities who experience a sudden drop in business rates income – for example, through closure of a major plant. The details of the levy / fund have not been announced, but it is currently thought unlikely to affect the GLA.

4 Proposed Involvement of TfL

4.1 As can be seen from Table 1, the 'core' GLA and LFEPA grants amount to less than £300m per annum, of which half could be centrally funded. This would leave only approximately £150m to be funded through locally retained rates. The growth incentive – perhaps annual growth of one per cent, on a local share of £150m – would thus be minimal for 'core' GLA and LFEPA alone.

[3] calculated using a five year average over the last five years to iron out volatility
[4] This will be derived from authorities' formula grant entitlement in 2014/15, with a separate payment outside the system in 13/14, to ensure that the SR10 settlement is maintained

4.2 The Government has stated that Policing bodies will be entirely funded from the central share during the SR10 period, and Government will review the way in which the police are funded beyond the SR10 period. Consequently, the Government's policy position is that a proportion of TfL's funding should be through locally retained business rates. This was confirmed in the 2012 Budget, which stated:

> *"The Government intends, in principle, that Transport for London (TfL) should receive funding from a locally-retained share of London's business rates that will allow the Mayor of London to continue sustainable investment in transport, and is considering options for how this might be achieved."*

4.3 CLG's Statement of Intent (Appendix 1) now confirms that a proportion of the GLA Transport Grant will be included in the business rates retention scheme from 2013/14. A footnote clarifies:

> *"Funding for TfL will (i) continue to include a Transport Grant payable directly to the GLA for the purposes of TfL, as provided for under Section 101 of the GLA Act; and (ii) include a share of the locally retained business rates passed through the GLA."*

Financial impact on TfL

4.4 The Secretary of State's letter makes clear her intention that the proposed changes should not reduce the overall amount of money available to TfL over the Spending Review period. The 2010 Spending Review ('SR10'), which covered the years to 2014/15, splits TfL's Transport Grant into an 'Investment Grant', which was held constant in real terms, and a 'General Grant', which was subject to a 28 per cent cut, in line with local authority transport funding[5]. The new arrangements are expected to apply to the General Grant component.

4.5 The new system will start in 2013/14, and is expected to be applied broadly as follows:

(a) In 2013/14, the amount of funding TfL receives from the GLA through business rates (the baseline amount) will equal to 50 per cent of the General Grant in 2014/15, deflated to 2013/14. The remaining funding required to 'top up' TfL's General Grant to the 2013/14 amount agreed under SR10 is expected be paid as grant from DfT.

(b) In 2014/15, TfL's business rates funding received from the GLA will equal the baseline (2013/14) amount, increased by RPI. Thus in 14/15, there will be a 50/50 split in TfL's general funding between the General Grant (from DfT) and business rates (from the GLA), reflecting the split between central and local shares at a national level, as described in paragraph 3.9.

[5] These are paid as a single grant under s101 of the GLA Act

(c) From 2015/16 (ie beyond the current spending review period) until a ‘system reset’, TfL’s grant would be determined by Ministers in future spending review(s). This determination would be based on TfL continuing to receive business rates funding from the GLA, increasing annually at RPI, as well as an assessment of the need and case for continued investment in London’s transport, and overall fiscal affordability. As under the current regime, the Secretary of State may then review future TfL funding levels if there is significant deviation from mutually agreed commitments (which would include funding from business rates).

The next Spending Review must take place by Autumn 2014 (and could take place sooner, although it is assumed that TfL’s settlement for 2014/15 would be maintained).

4.6 The Mayor, rather than TfL, would thus benefit directly from any real terms growth in business rates, and DfT would not take account of it in future spending review (which would have removed the incentive for the Mayor). The Mayor could, of course, choose to spend the proceeds of that growth through TfL, on projects that support his growth agenda.

4.7 The table below shows the estimated funding streams available to TfL and the Mayor under the old and new systems. Where applicable, grant amounts in the post Spending Review period have been held constant in real terms.

Funding comparison under current system and post LGRR.

	Total £m	SR10 2013-14	SR10 2014-15	Post SR10 (assumed funding rolled forward in real terms) 2015-16	2016-17	2017-18	2018-19	2019-20
Current system								
Funding received from DfT								
Investment Grant	6,907	904	928	956	985	1,014	1,044	1,076
General Grant	11,808	1,840	1,541	1,587	1,635	1,684	1,734	1,786
Overground Grant	209	28	28	29	30	31	32	32
Funding received from GLA								
Council Tax precept	42	6	6	6	6	6	6	6
Total Recurring Grants	**18,966**	**2,778**	**2,503**	**2,578**	**2,655**	**2,735**	**2,816**	**2,901**
Post LGRR								
Funding received from DfT								
Investment Grant (no change)	6,907	904	928	956	985	1,014	1,044	1,076
Overground Grant (no change)	209	28	28	29	30	31	32	32
General Grant (50% of General Grant in 14/15 under SR10)	5,732	1092	771	794	817	842	867	893
Funding received from GLA								
Council Tax precept	42	6	6	6	6	6	6	6
Locally retained business rates passed to TfL (RPI linked from 13/14 until reset)	5,732	748	771	794	817	842	867	893
Recurring Grants and Business Rates Funding	**18,966**	**2,778**	**2,503**	**2,578**	**2,655**	**2,735**	**2,816**	**2,901**
Potential real growth in Business Rates available to the Mayor[6]	119	-	5	10	16	22	29	36
Total Potential Funding	**19,084**	**2,778**	**2,508**	**2,588**	**2,671**	**2,757**	**2,845**	**2,936**

Credit Rating Agencies

4.8 The credit rating agencies have placed importance on the close relationship between TfL and the DfT, evidenced through the continued payment of the Transport Grant, and its basis in law (section 101 of the GLA Act 1999).

4.9 It is therefore helpful to have the Secretary of State’s confirmation in writing that no change will be made to the legal basis of the Transport Grant, which will continue to be paid to the GLA ‘for the purposes of Transport for London’ and passed straight to TfL. The Secretary of State’s letter also reaffirms the strategic importance of London transport to the national economy, and that the changes should not be construed as any weakening of the Government’s

[6] Assumes a 35 per cent GLA share of the London local share (which would make the GLA subject to a fairly small tariff), and 0.5 per cent real annual growth. Should growth be higher (1%) and the GLA take more risk / reward by taking a 50 per cent share and paying a higher tariff, the upside to the Mayor could be around £350m over the seven years before a possible reset in 2020.

support - indeed, they represent an opportunity to benefit financially from London’s continued growth, and potentially to reinvest that benefit in transport.

4.10 TfL has begun the process of briefing the credit rating agencies of the proposed changes, and has shared the Secretary of State’s letter to the Mayor with them.

Bus Service Operators Grant (BSOG)

4.11 In addition to mentioning the Transport Grant, Annex A of the Statement of Intent also makes reference to BSOG in London, stating that it would form part of the business rates retention scheme. DfT has confirmed that the inclusion of BSOG in the list was an “administrative error” and does not represent current policy (Ministers remain committed in principle to devolving the London element of BSOG, but have not yet decided how or when this should happen, and intend to consult on a package of BSOG measures over the summer).

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 GLA colleagues over the coming months to address these, which include:

(a) The proportionate shares of the business rates baseline in London. This could be set at such a level as to make the GLA a tariff authority, giving a greater exposure to risk and reward, which may be appropriate given the GLA’s role as London’s strategic planning authority with responsibility for economic development, and the ability to ‘pool’ risk across London. As a tax on property (including unoccupied property), business rates have historically been relatively stable, even in economic downturns, and projections for growth in London’s population and economy give grounds to believe that they are likely to remain stable or grow. However, taking greater risk would require agreement within the GLA on how any downside risk would be managed.

(b) The detailed arrangements within the GLA Group, including funding flows between the GLA and TfL and profiling, and how decisions on allocating the proceeds of growth will be taken.

List of appendices to this report:

Appendix 1 – Statement of Intent
Appendix 2 – Secretary of State letter
Appendix 3 – BSOG letter

List of Background Papers:

These are attached as Appendices 1, 2 and 3.

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Communities and Local Government

Business rates retention scheme: The central and local shares of business rates

A Statement of Intent

Business rates retention scheme: The central and local shares of business rates

A Statement of Intent

May, 2012
Department for Communities and Local Government

This document/publication is also available on our website at www.communities.gov.uk

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LOCAL GOVERNMENT FINANCE BILL

STATEMENT OF INTENT

Business Rates Retention Scheme: The central and local shares of business rates

1. *Local Growth: realising every place's potential*[1] outlined a new approach to local growth, shifting power away from central government to local authorities, citizens and independent providers. It highlighted the Local Government Resource Review and stated that the Government would consider the opportunities that local retention of business rates could offer to strengthen the incentives to support growth and give local authorities greater financial autonomy.

2. The Government has made clear from the outset that, within a system of business rates retention, some business rates income would need to be retained by central government so that the scheme operates within the existing spending control totals, which are critical to our efforts to get the deficit under control, and so that the scheme will be fiscally sustainable in future.

3. The consultation: *Local Government Resource Review: Proposals for Business Rates Retention*[2], set out the Government's proposed approach for achieving this:

    - Forecast business rate revenues above set expenditure limits for 2013-14 and 2014-15 would be set aside and directed to local government through other grants.

4. The Government's response to consultation[3], published in December 2011, confirmed its intention to ensure the scheme is fiscally sustainable. But in response to the views of local government about the potential risk of being expected to pay a fixed sum in business rates to central government, the Government announced that <u>business rates would instead be shared between central and local government on a percentage basis</u>:

    - The local share of business rates will be retained in full by local government - set at a level sufficiently large to maintain a strong incentive for growth upon all local authorities. The sector will retain all growth on the local percentage share, which will be fixed for the duration of the reset period. The local share will form the baseline for setting each authority's baseline funding level and therefore tariff or top up amounts.

    - The central share of business rates will be paid by each billing authority to the Secretary of State. It will be used by central government in its entirety to fund the local government sector.

[1] www.bis.gov.uk/assets/biscore/economic-development/docs/l/cm7961-local-growth-white-paper.pdf
[2] http://www.communities.gov.uk/documents/localgovernment/pdf/1947200.pdf
[3] http://www.communities.gov.uk/publications/localgovernment/resourcereviewgovtresponse

5. By sharing business rates in this way, some of the reward of positive growth, but also some of the risk of negative growth, will be borne by central government.

6. The police will be treated differently. Local Policing Bodies[4] will receive guaranteed funding at the levels agreed in the 2010 Spending Review for these years (subject to adjustments to reflect subsequent policy decisions, for example on public sector pay restraint). This will be paid from the central share. The Government will fully review the way in which the police are funded beyond this Spending Review period.

Setting the level of local share and reset period

7. In determining the percentage of business rates that is localised, the Government has had regard to the spending control totals for local government set in the 2010 Spending Review; the functions and services to be funded through retained business rates; the interests of local government and the need to ensure future fiscal sustainability.

8. The Government has considered the scope for further simplification of funding and will include the specific grants listed at **Annex A** in the business rates retention system from April 2013.

9. As a result, the Government is able to set the local share at 50% which delivers our objectives on growth and localism whilst allowing for future fiscal control to protect the interests of the taxpayer and the wider economy. From April 2013, councils will keep all of the growth upon their share of business rates, subject only to the levy on disproportionate benefit. In all cases, the more an authority grows its business rates base, the better off it will become.

10. The local share percentage will be fixed at 50% until any reset of the system. A reset involves reviewing baseline funding levels for each local authority to take account of changes in relative need and resource. The length of the reset period or the way it will be done will not be set in regulation.

11. The Government does not intend to reset the system until 2020 at the earliest, except in exceptional circumstances. This provides the long term certainty of reward that will incentivise local authorities to take pro-growth decisions, whilst taking a pragmatic approach to align resets with revaluation years. At each five yearly business rates revaluation, tariffs and top-ups will be adjusted to ensure that an authority's retained rates income is not affected. Aligning resets with revaluation years will avoid the need to adjust tariffs and top-ups more frequently

[4] Section 1 of the Police Reform and Social Responsibility Act 2011 (c. 13) replaces police authorities in England and Wales, other than in London, with police and crime commissioners. Section 3 of the same Act replaces the Metropolitan Police Authority with the Mayor's Office for Policing and Crime. It is intended that section 1 will come into force in November 2012 and section 3 came into effect in January 2012. Police and crime commissioners, the Mayor's Office for Policing and Crime and the Common Council of the City of London (which retains its role as police authority for the City of London) are referred to collectively in the Act as "local policing bodies".

than necessary and increase certainty for local authorities within the system. Longer term, the Government remains committed to its aspiration for 10 year reset periods.

Revenue Support Grant

12. Under the current system the amount of business rates collected has not been sufficient to fully fund the services local government provides, after allowing for funding raised through council tax and specific grants. The Government has made up this difference with Revenue Support Grant, based on a distribution set out in the Local Government Finance Report.

13. The local share of business rates has been set at a level which allows for future fiscal control to protect the interests of the taxpayer and the wider economy and is below the current spending control totals set for local government. The Government will provide Revenue Support Grant to make up the difference between the local share of business rates at the outset of the scheme and the spending control totals for local government in 2013-14 and 2014-15, having taken into account the amount which will be required to fund the New Homes Bonus. (The spending control totals will be adjusted to take account of the additional grants rolled into the rates retention system, listed at annex A). So, in addition to locally retained business rates, each authority within the rates retention scheme will also receive Revenue Support Grant. Taken together, an authority's retained rates at the outset of the scheme and its Revenue Support Grant will ensure that it receives its share of the spending control total in any given year.

14. The amount of Revenue Support Grant for 2013-14 and 2014-15 will be set out in the 2013-14 Local Government Finance Report. In future years, the total amount of grant funding will be determined through Spending Reviews and the Government will set out the basis for its distribution in annual local government finance reports.

Local Government Finance Bill

15. Paragraphs 4, 5 and 6 of new Schedule 7B to the Local Government Finance Act 1988, as inserted by Schedule 1 to the Bill, provide for the means of sharing the rewards and risks of the rates retention scheme between central and local government through central and local shares.

16. Paragraph 4 places a requirement on the Secretary of State to determine the central and local share percentages of business rates for each billing authority, for each year. It is intended that the percentage shares set at the outset of the scheme will remain unaltered for seven years to 2020 in order to provide authorities with the certainty that they need to plan and budget.

17. Paragraph 5 requires the determination of the central and local shares, provided for under Paragraph 4, to be set out in a local government finance report. By requiring central and local shares to be specified in a local government finance

report, which itself must be debated and approved by the House of Commons, we will ensure that Parliament is able to exercise the necessary scrutiny of this critical component of the rates retention scheme.

18. Paragraph 6 provides that, where a local government finance report has been approved by the House of Commons, billing authorities are to pay the central share specified in the report, to the Secretary of State. The payment from authorities is to be of an amount equal to that share of their business rates income.

19. Paragraph 7 provides for the Secretary of State to make regulations about the way in which billing authorities will be required to make central share payments, provided for under Paragraph 6.

Regulations

20. Government will define in regulations what a billing authority's business rates income is for the purposes of determining the local and central shares.

21. The Government intends that the definition is tied to the business rates payable to the authority, in respect of occupied and empty property, in that year, and will take into account the effect on that amount of:

i) Mandatory rate reliefs
ii) Discretionary relief
iii) Losses on collection
iv) Hardship relief
v) Repayments of refunds in respect of previous years.

22. The Local Government Finance Bill provides that the regulations may make provision for the calculations of the central share payments to be made by reference to the total business rates collected by it for the year under sections 43 and 45 of the Local Government Finance Act 1988[5], subject to such adjustments as may be specified and/or any payments received from the Secretary of State.

23. Taking the total paid to an authority in respect of the year under these sections without adjustment would simply give the gross amount of rates due to a billing authority. Therefore, the Government intends that the definition of income for billing authorities will include a number of adjustments to deal with a range of issues, including:

- Central share payments
- Payments to major precepting authorities
- Tariff and top ups

[5] Section 43 of the Local Government Finance Act 1988 is the ratepayer's liability to pay business rates in respect of occupied hereditaments on the local rating list. Section 45 is the ratepayers liability to pay business rates in respect of unoccupied hereditaments on the local rating list.

- Reliefs (mandatory and discretionary)
- Costs of collection
- Losses in collection
- Income in respect of areas and classes of hereditament as set out in Part 10

24. The exact treatment of these issues in the income definition is still being considered and Government has been working through the detail of the business rates retention scheme with the Local Government Finance Working Group. Government will consult on the precise definition of income for the purposes of calculating central share payments over the summer.

25. It will not be possible to know the precise amount a billing authority will be liable to pay until after the end of the financial year, though it will be necessary for them to make central share payments in advance of this point, based on their budget forecasts. Government will also define in regulations the timing and manner of central share payments – for example over how many payments, and at what intervals during the course of the year the total amount will be paid. It is our initial view is that this will be done through 10 monthly payments between April and January.

26. It is intended that a fixed schedule of payments for a given financial year is set on the basis of forecast income. The initial view of the Local Government Finance Working Group is that these should be payable from billing authorities' collection funds. It is intended that any surplus or deficit is shared between all parties who are eligible for receipts from the collection fund – the billing authority itself, any major precepting authorities and central government. It is intended that this will be done through an adjustment to the following financial year's schedule of payments.

Department for Communities and Local Government
May 2012

ANNEX A

LIST OF GRANTS INCLUDED IN THE BUSINESS RATES RETENTION SCHEME FROM 2013/14:

- Bus Service Operators Grant – London buses element only
- 2011-12 Council Tax Freeze Grant
- Council Tax Support Grant[6]
- Early Intervention Grant[7]
- GLA General Grant
- A proportion of GLA Transport grant[8]
- Homelessness Prevention Grant
- A proportion of Lead Local Flood Authorities Grant[9]
- Department of Health Learning Disability and Health Reform Grant
- A proportion of Sustainable Drainage Systems Maintenance Costs Grant[10]

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[6] Excluding the amount that will be paid to Local Policing Bodies directly.
[7] Excluding funding for free early education for two year olds, announced by the Chancellor in his Spending Review and Autumn Statement.
[8] Funding for TfL will (i) continue to include a Transport Grant payable directly to the GLA for the purposes of TfL, as provided for under Section 101 of the GLA Act; and (ii) include a share of the locally retained business rates passed through the GLA.
[9] Further details will be set out in the upcoming summer consultation on business rates retention.
[10] Further details will be set out in the upcoming summer consultation on business rates retention.

Department for
Transport

From the Secretary of State

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Boris Johnson
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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

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Steve Allen
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Dear Steve

As you know, CLG published a 'Statement of Intent' document last Thursday noting the Government's intention to include a proportion of the GLA Transport Grant in the BRR scheme. We consulted your team on the wording of this text, including the accompanying footnote.

It's come to my attention that the published version of this document also lists the London element of Bus Service Operators Grant (BSOG) as a grant to be included in BRR from 2013/14 onwards. This is an administrative error, and I am writing to clarify that the London element of BSOG should not have been included in this list. As you know, Ministers remain committed in principle to devolving the London element of BSOG, but have not yet decided how or when this should happen. Our intention is to consult on a package of BSOG measures over the summer and we will obviously include TfL in this consultation.

Yours sincerely,

Jonathan Sharrock

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