



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 (DCLG) on 17 May 2012 of a 'Statement of Intent' that makes explicit reference to TfL's funding arrangements (Appendix 1). It also provides an update on the expected impact of Bus Service Operator Grant devolution proposed by the Department for Transport (DfT) in September 2012.
- 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 of TfL funding via the retained business rates 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 In July 2012, the DCLG published a technical consultation inviting local authorities to comment on the details of the proposed business rates retention mechanism's operation. TfL, jointly with the GLA, has produced a response to the technical consultation, in which the preferred arrangements for TfL and the wider GLA Group are outlined.
- 1.4 On 16 September 2012, in parallel with the main business rates localisation policy, the 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 Board is asked to 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 The LGRR 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
LFEPAs	105
TfL*	771
Council tax support grant	70
Total in retention (local share)	966

Source: GLA latest modelling assumptions for core grant, LFEPAs 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 winter 2012/13.
- 3.4 The Local Government Finance Bill went through the Report Stage in the House of Lords on 16 October 2012 and through the Third Reading on 22 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

LGRR – Central and Local Shares

- 4.1 The Statement of Intent published by the 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.

LGRR – 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 the DCLG on 24 September 2012, which included possible technical arrangement amendments.

LGRR – 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.

LGRR – Detailed Funding Transfer Arrangements from the GLA to TfL

- 4.8 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 2).
- 4.9 The DCLG technical guidelines read "The funding [transferred to business rates] will go to the Greater London Authority for 'transport purposes'." This is not consistent with the wording in the Section 101 of the Greater London Authority Act, which makes transport funding available to the GLA for 'the purposes of Transport for London'. However, TfL still 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.

BSOG – Consultation and Issues

- 4.10 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.
- 4.11 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.

- 4.12 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 leading on the preparation of a consultation response to the DfT.
- 4.13 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.
- 4.14 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.
- 4.15 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 and will recommend this approach to the DfT through the consultation response. The annual value of BSOG currently payable to bus operators in London is around £100m.

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 – DCLG Statement of Intent, May 2012

Appendix 2 – Secretary of State letter to the Mayor, dated 18 May 2012

Appendix 3 – Department for Transport BSOG letter, dated 22 May 2012

List of background papers:

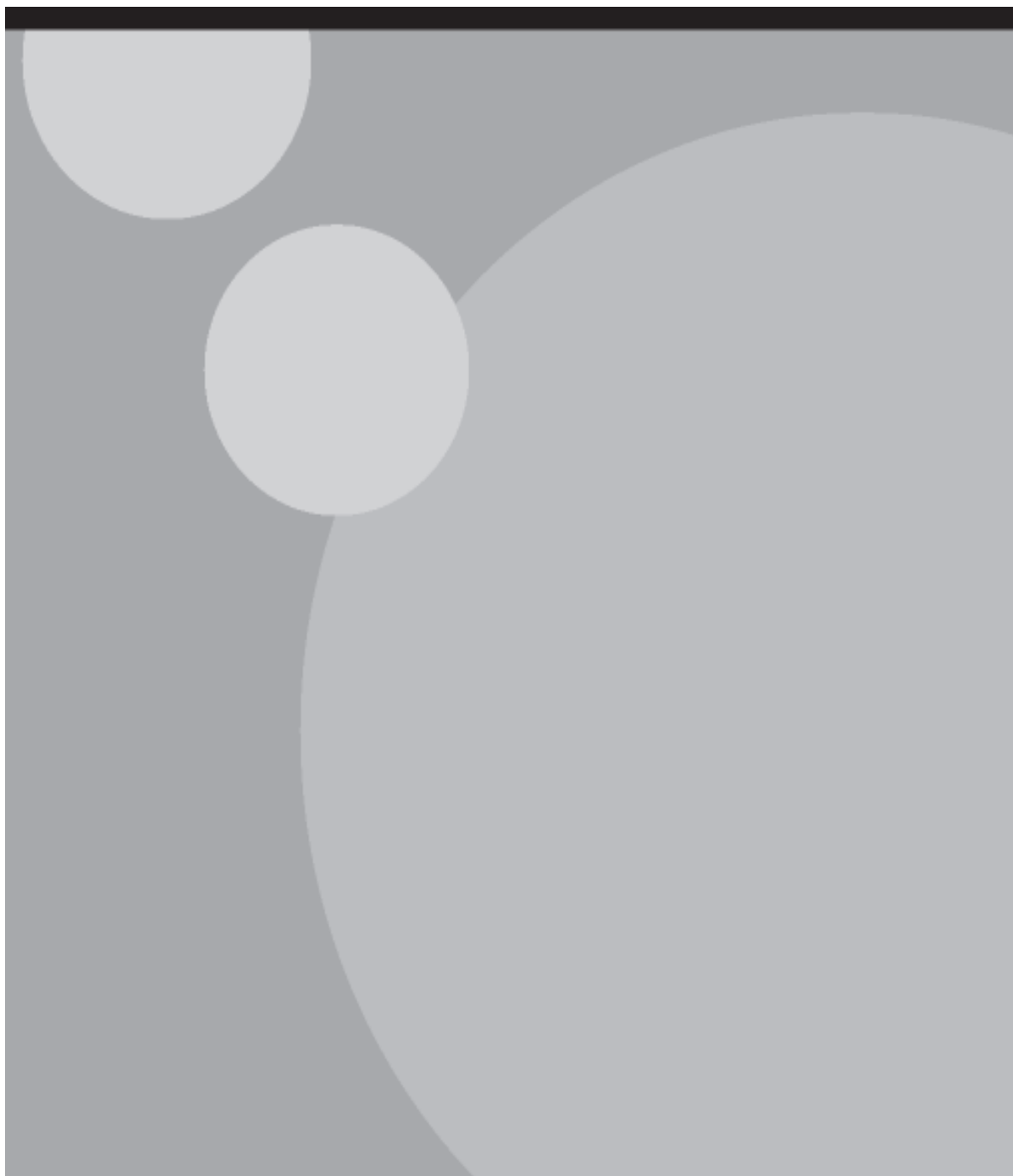
- 1 Papers to Finance and Policy Committee on 31 May and 17 October 2012
- 2 Department for Transport consultation on the devolution of the Bus Service Operators Grant
- 3 TfL/GLA Joint DCLG Technical Consultation Response

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



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

© Crown copyright, 2012

Copyright in the typographical arrangement rests with the Crown.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence. To view this licence, visit <http://www.nationalarchives.gov.uk/doc/open-government-licence/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or e-mail: psi@nationalarchives.gsi.gov.uk.

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

Any enquiries regarding this document/publication should be sent to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

May, 2012

ISBN: 978-1-4098- 3487-8

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 consultation³, 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 business rates would instead be shared between central and local government on a percentage basis:
 - 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 Bodies⁴ 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 1988⁵, 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

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 Grant⁶
- Early Intervention Grant⁷
- GLA General Grant
- A proportion of GLA Transport grant⁸
- Homelessness Prevention Grant
- A proportion of Lead Local Flood Authorities Grant⁹
- Department of Health Learning Disability and Health Reform Grant
- A proportion of Sustainable Drainage Systems Maintenance Costs Grant¹⁰

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

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

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

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.

Bert Wishes,

Justine

JUSTINE GREENING

Steve Allen
Managing Director, Finance
Transport for London
Windsor House
42-50 Victoria Street
London
SW1H 9TL

Jonathan Sharrock
Director Olympics
Zone 3/01
Department for Transport
Great Minster House
33 Horseferry Road
London
SW1P 4DR
Direct Line: 020 7944 4080
Email: Jonathon.Sharrock@dft.gsi.gov.uk
Web Site: www.dft.gov.uk

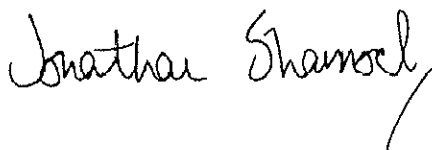
22 May 2012

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