Leaders' Committee

2 June 2015 : 11:30am

At London Councils offices, 59½ Southwark St., London SE1 0AL
Refreshments will be provided
London Councils offices are wheelchair accessible

Labour Group:	Room 2 and 3	10:00
Political Adviser: 07977 401955)		
Conservative Group:	Room 5	10:30
(Political Adviser: 07903 492195)		
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Lunch will be provided in Room 4 for members after the meeting

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***Declarations of Interests**

If you are present at a meeting of London Councils' or any of its associated joint committees or their sub-committees and you have a disclosable pecuniary interest* relating to any business that is or will be considered at the meeting you must not:

- participate in any discussion of the business at the meeting, or if you become aware of your disclosable pecuniary interest during the meeting, participate further in any discussion of the business, or
- participate in any vote taken on the matter at the meeting.

These prohibitions apply to any form of participation, including speaking as a member of the public.

It is a matter for each member to decide whether they should leave the room while an item that they have an interest in is being discussed. In arriving at a decision as to whether to leave the room they may wish to have regard to their home authority's code of conduct and/or the Seven (Nolan) Principles of Public Life.

*as defined by the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012

The Chairman to move the removal of the press and public since the following items are exempt from the Access to Information Regulations under paragraph 3 of Schedule 12(a) of the Local Government Act 1972 (as amended). *Information relating to the financial or business affairs of any particular person (including the authority holding that information).*

London Councils

Minutes of the London Councils Leaders' Committee held on 24 March 2015
Mayor Jules Pipe chaired the meeting

Present:

BARKING AND DAGENHAM	Cllr Darren Rodwell
BARNET	Cllr Richard Cornelius
BEXLEY	Cllr Teresa O'Neill
BRENT	Cllr M. A. Butt
BROMLEY	Cllr Stephen Carr
CAMDEN	Cllr Sarah Hayward
CROYDON	Cllr Tony Newman
EALING	Cllr Julian Bell
ENFIELD	Cllr Doug Taylor
GREENWICH	Cllr Denise Hyland
HACKNEY	Mayor Jules Pipe
HAMMERSMITH & FULHAM	Cllr Stephen Cowan
HARINGEY	Cllr Claire Kober
HARROW	Cllr David Perry
HAVERING	Cllr Roger Ramsey
HILLINGDON	Cllr Peter Corthorne
HOUNSLOW	Cllr Stephen Curran
ISLINGTON	Cllr Janet Burgess
KENSINGTON & CHELSEA	Cllr Nicholas Paget-Brown
KINGSTON	Cllr Kevin Davis
LAMBETH	Cllr Lib Peck
LEWISHAM	Mayor Sir Steve Bullock
MERTON	Cllr Stephen Alambritis
NEWHAM	-
REDBRIDGE	Cllr Jas Athwal
RICHMOND UPON THAMES	Cllr Lord True
SOUTHWARK	Cllr Peter John
SUTTON	Cllr Simon Wales
TOWER HAMLETS	-
WALTHAM FOREST	Cllr Clyde Loakes
WANDSWORTH	Cllr Jonathan Cook
WESTMINSTER	Cllr Philippa Roe
CITY OF LONDON	Mrs Catherine McGuiness
LFEPA	-

Apologies:

HILLINGDON	Cllr Ray Puddifoot MBE
ISLINGTON	Cllr Richard Watts
NEWHAM	Mayor Sir Robin Wales
SUTTON	Cllr Ruth Dombey
TOWER HAMLETS	Mayor Lutfur Rahman
WALTHAM FOREST	Cllr Chris Robbins
WANDSWORTH	Cllr Ravi Govindia
CITY OF LONDON	Mr Mark Boleat
EQUALITIES	Cllr Marie Pye
CAPITAL AMBITION	Mr Edward Lord JP OBE CC

Ex officio (under the provisions of Standing Order 2.5)

GRANTS	Cllr Paul McGlone

London Councils officers and Mr Charlie Parker (Chief Executive of City of Westminster, in his capacity as Chair of the London Devolution and Public Service Reform Chief Executives' Sub Group) were in attendance.

1. Declarations of interest

No interests were declared.

2. Minutes of Leaders' Committee meeting held on the 10 February 2015

Leaders' Committee agreed the minutes of Leaders' Committee held on the 10 February 2015.

The Chair informed the meeting that item 8 *Constitutional Matters - Amendments to the Young People's Education and Skills Board constitution* had been withdrawn.

3. Devolution and Public Service Reform

The Chief Executive introduced the item saying:

- It provided an update on recent work on devolution and reform of public services in London following the agreement to a joint approach with the Mayor of London, seeking talks with Government on the scope of London devolution and public service reform

- The Congress Executive, comprising the Mayor of London and the London Councils' Executive reaffirmed the call for fiscal devolution and endorsed the joint work for negotiation with the incoming Government covering:

    - Skills
    - Employment
    - Housing

    - Health
    - Crime, Community Safety and Criminal Justice

- A more detailed proposition would come back after the General Election encompassing devolution to all levels: the Mayor, boroughs and groups of boroughs.

In response to a question from Cllr Simon Wales (Liberal Democrat, Sutton) about governance, the Chief Executive reported that the work being progressed did not seek to challenge the existing powers of boroughs. Groupings of boroughs, with their own governance arrangements, did exist in varying forms for different functions. These were likely to be very important to a future London devolution settlement. Work had also been commissioned by the Congress Executive on how collectively the overall framework could be subject to shared governance by the Mayor and borough Leaders. This needed to be developed further.

Cllr Phillipa Roe (Conservative, Westminster) pointed out that she thought that the current Mayor was well-disposed towards boroughs and urged that a system of governance be agreed with him.

A number of members including Cllr Lib Peck (Labour, Lambeth), Cllr Sarah Hayward (Labour, Camden) and Cllr Stephen Alambritis (Labour, Merton) expressed their support for the approach being proposed and called for additional capacity to be considered to take the work forward.

Cllr Peter John (Labour, Southwark) saw Leaders' Committee as a useful model in terms of governance but asked for consideration of the issue to be broadened out beyond it.

Mr Charlie Parker argued:

- The point about the need for resources was a good one and contributions may be needed from individual boroughs

- There would be close scrutiny by Government of any proposals developed and agreed

- Government officials would test any model from a range of perspectives from accountability through to viability.

The Chair summed up, arguing that as well as the work streams already mentioned, there was a need to progress straw models of governance, if for no other reason, to allay fears about borough powers being drawn upwards. He saw three immediate areas of concern:

- Housing – determining the extent to which this was a real devolution issue, or the extent to which it was a public policy challenge that any initiative of this type in London needed to address itself to
- The governance that would obtain between groupings of councils, including at the sub-regional level
- The shared governance that would obtain between the Mayor and borough leaders at a pan-London level in respect of the overall framework of a London devolution settlement.

Leaders' Committee agreed to:

- Note the endorsement of the joint work between the Mayor of London and London Councils - to pursue devolution and reform at the Congress Executive on 3 March 2015
- Note the joint work that had been initiated to:
    - Develop a platform to support negotiation with Government after the 2015 General Election and in the run up to the likely Comprehensive Spending Review
    - Explore the potential for streamlined governance in relation to newly devolved responsibilities.

4. No Recourse to Public Funds

The Chair introduced the report saying the number of clients with No Recourse to Public Funds (NRPF) was growing rapidly and placing increasing service and financial pressure on local authorities particularly in London.

Mayor Sir Steve Bullock (Labour, Lewisham) agreed, pointing out that in 2008 his borough had accepted four NRPF cases, a figure that had risen to 132 by 2013.

Leaders Committee agreed to endorse the decision of the Executive for London Councils officers to take forward the following series of actions:

- Maintain pressure to accelerate the discussions on funding through both political and officer engagement

- Continue work to challenge and influence current Home Office policies and practices, which gave rise to increasing pressure on local authorities

- Maintain dialogue with the Home Office and DCLG through the London representatives of the NRPF Steering Group

- Continue to work with the NRPF Network and London boroughs to develop a strong evidence base that fully articulated the level and nature of the financial impact on London local government from NRPF clients and

- Undertake a round of influencing and public affairs engagement to ensure that there was a wider understanding of the pressure on London boroughs from those with NRPF. Some escalation to member level may be required to support this.

5. Assessing Future Funding Options for Local Government

The Corporate Director, Policy and Public Affairs introduced the report saying:

- The Autumn Statement 2014 had provided a broad indication of the public finances up to 2020 and it was clear that local government, and the wider public finances, faced a period of prolonged financial austerity

- Recently, there had been a number of reports and contributions on the future of the current local government finance system and the options for reform

- The report sought guidance on the views of Leaders' Committee on the future funding options set out in it.

Cllr Darren Rodwell (Labour, Barking and Dagenham) pointed to the wide disparities between boroughs and also other local authorities outside London, each having their own particular pressures and Cllr Richard Cornelius (Conservative, Barnet) agreed.

The Chair raised the issue of the balance between funding for assessed need and funding based on incentives. This raised the issue of damping and the need for real transparency about actual levels of need and how the system had damped these. If some transitional damping mechanism had been applied, then they should be explicit and not used at the expense of individual boroughs.

Cllr Corthorne (Conservative, Hillingdon) talked about the need for the system to resist costs being shunted to local government.

Cllr Roe pointed out that her authority, Westminster, received 1m visitors a day placing a substantial unfunded cost on it and Cllr Kevin Davis (Conservative, Kingston) described the steps his borough was seeking to take to change its funding regime from Government but acknowledged that the same would not necessarily work in another borough.

Cllr. Carr (Conservative, Bromley) suggested that future work by London Councils should probe the relationship that now existed between funding and statutory duties.

Cllr Cornelius said that the system needed to catch up with the churn and changing demography of London.

Leaders' Committee agreed that officers prepare a range of background papers now to ensure that any discussions required for the CSR can be fully informed following the outcomes of the General Election.

6. Planning for Housing Delivery

Cllr Claire Kober (Labour, Infrastructure and Regeneration, Haringey) introduced the report saying:

- The paper put forward a strategic approach to supporting London boroughs as they sought to secure affordable housing delivery through the planning system

- The London planning policy context had changed significantly in recent years, with the introduction of the NPPF, further incremental policy reforms and the revised

London Plan, which increased borough housing targets by around a quarter (including for affordable housing)

- London Councils had made the case for the retention of borough powers over planning to help support London's growth and housing market – for example around permitted development rights and short-term lets. There was now a need for a more systematic programme of activity to make a positive case for how the planning system could support delivery in this new policy context

- This might include:

    - Agreeing to support development of a more comprehensive and effective approach to managing Section 106 agreements and development viability negotiations

    - Promoting a wider understanding of how boroughs were using their planning powers and resources to support growth in their areas

    - Supporting development of wider London Councils proposals for planning reform which would assist boroughs in enabling additional and accelerated housing delivery

- Leaders were invited to consider supporting a programme of London Councils activity around these broad themes, with a particular focus on affordable housing delivery.

Cllr Tony Newman (Labour, Croydon) commended the report but argued for firmer action on permitted development which, he argued, all parties opposed

Cllr Sarah Hayward (Labour, Camden) saw the importance of providing for retention of funds secured from Right-to-Buy sales as an important part of any strategy.

Mrs Catherine McGuiness (Independent, City) argued for a more holistic approach to housing in the work being undertaken. It should look at the lack of a broad range of housing, not just affordable. The housing issue was beginning to affect businesses.

Cllr Nicholas Paget-Brown (Conservative, Royal Borough of Kensington and Chelsea) said that the Vacant Building Credit would work against his densely-populated borough and cautioned that amenities needed to be protected as well as housing built.

Cllr Cornelius:

- Pointed to the differences between boroughs both physically and politically
- Wanted an end to the separate Housing Revenue Account (HRA), in most boroughs housing could be a successful stand-alone business
- Did not want a pan-London housing body.

Cllr Steve Cowan (Labour, Hammersmith and Fulham) described the problems caused by converting office buildings to residential, one block in his borough increased in value from £27m to £54m with none of the profit going to help local public services and most of it going abroad.

Cllr John pointed out that only 18,000 homes were built in London last year, well below the Mayor’s annual target and he felt this could only be rectified with greater collaboration around this issue.

Cllr Roe accepted that there may be a need for greater collaboration but not one that dictated what type of housing was built. Sovereignty on such decisions, she was clear, must remain in the boroughs and other members including Cllrs Rodwell and Wales concurred on the sovereignty point.

Cllr Kevin Davis (Conservative, Royal Borough of Kingston) reminded members that house-building had infrastructure implications and saw Housing as a problem beyond London and Cllr Carr (Conservative, Bromley) agreed, saying that while tackling housing supply, demand should be better-managed as well and solutions should reach across the whole of the south-east.

The Chair said it had been a consensual discussion and asked Cllr Kober to sum up which she did saying:

- A range of views had been expressed which crossed party lines

- On Permitted Development, there was a need to strengthen the case on office-residential conversions and it would be helpful to draw out other examples

- She accepted Cllr Hayward's point about Right-to-Buy receipts and Ms McGuinness's on the intermediate end of the housing market which was a priority for the London Housing Board

- Rising population had an impact on amenities and wider community benefit needed to be taken into account

- A further report would be brought to Leaders' Committee in the late summer or early autumn.

Leaders' Committee agreed to:

- Support development of a more comprehensive and effective approach to managing Section 106 agreements and development viability negotiations

- Promote a wider understanding of how boroughs were using their planning powers and resources to support growth in their areas

- Support development of wider London Councils proposals for planning reform which would assist boroughs in enabling additional and accelerated housing delivery.

7. Business Plan 2015/16

The Chief Executive introduced the report saying that it outlined the themes, projects and work programmes which would form the content of London Councils Business Plan for 2015/16.

It had been developed following a series of meetings between portfolio holders and the Chair. The draft business plan and work programmes were considered by the Executive on 3 March 2015.

Cllr Cornelius said that, notwithstanding his concern for the financial well-being of London Councils, its budget should reflect the diminishing budgets of boroughs. As a consequence, he would like to see consideration be given to a saving of 50% over the next four years

Leaders' Committee agreed to note the content of London Councils Business Plan for 2015/16

Item 8 was withdrawn

9 Minutes and Summaries

Leaders' Committee agreed to note the minutes and summaries:

- Draft TEC Executive Sub-Committee – 12 February 2015
- Draft CAB – 18 February 2015
- Draft Pensions CIV Sectoral Joint Committee – 23 February 2015

Leaders' Committee agreed to the removal of the press and public since the items next due for consideration were exempt from the Access to Information Regulations under paragraph 3 of Schedule 12(a) of the Local Government Act 1972 (as amended) *Information relating to the financial or business affairs of any particular person (including the authority holding that information).* resolved to exclude the press and public.

The meeting ended at 12.40p.m.

Action Points

Item		**Action**	**Progress**
3.	**Devolution and Public Service Reform** • A more detailed proposition to come back after the General Election encompassing devolution to all levels: the Mayor, boroughs and groups of boroughs with shared goverenance of the overall framework • Three immediate areas of concern:	**PAPA Strategic policy**	Work continues with Councils, groupings of councils and the Mayor of London

	o Housing – determining the extent to which this was a real devolution issue, or the extent to which it was a public policy challenge that any initiative of this type in London needed to address itself to o The governance that would obtain between groupings of councils, including at the sub-regional level. o The shared governance that would obtain between the Mayor and borough leaders at a pan-London level in respect of the overall framework of a London devolution settlement.		
4.	**No Recourse to Public Funds** • Maintain pressure to accelerate the discussions on funding through both political and officer engagement • Continue work to challenge and influence current Home Office policies and practices, which gave rise to increasing pressure on local authorities • Maintain dialogue with the Home Office and DCLG through the London representatives of the NRPF Steering Group • Continue to work with the NRPF Network and London boroughs to develop a strong evidence base that fully articulated the level and nature of the financial impact on London local government from NRPF clients and • Undertake a round of influencing and public affairs engagement to ensure that there was a wider understanding of the pressure on London boroughs from those with NRPF. Some escalation to member level may be required to support this.	**PAPA Finance, Perform-ance & Procure-ment**	Ongoing.
5.	**Assessing Future Funding Options for Local Government** • Officers to prepare a range of background papers on local government finance options now to ensure that any discussions required for the CSR can be fully informed	**PAPA Finance, Perform-ance & Procure-ment**	Analysis and modelling being developed.

	following the outcomes of the General Election.		
6.	**Planning for Housing Delivery** • A further report to be brought to Leaders' Committee in the late summer or early autumn • Develop a more comprehensive and effective approach to managing Section 106 agreements and development viability negotiations • Promote a wider understanding of how boroughs were using their planning powers and resources to support growth in their areas • Develop wider London Councils proposals for planning reform which would assist boroughs in enabling additional and accelerated housing delivery.	**PAPA Housing**	In hand

LONDON COUNCILS

Leaders' Committee

Business Rates Review discussion paper: response

Item no: 3

Report by: Paul Honeyben **Job title:** Finance Policy Manager, Fair Funding

Date: 2 June 2015

Contact Officer: Paul Honeyben

Telephone: 0207 934 9748 **Email:** paul.honeyben@londoncouncils.gov.uk

Summary

The purpose of this paper is to seek approval for the London Councils response to the Government's discussion paper on business rates.

The discussion paper seeks views on the functioning of the business rates system as both a taxation system and a way to fund local services.

The key messages from the draft response include:

- Business rates are an important element of the local government funding system.
- London government should be able to retain a greater share of its business rates income.
- The Government should seek to strengthen the incentive effect within the current business rates retention scheme.
- Local government needs a funding system that is stable, certain and predictable and the Government should be mindful that any changes do not undermine these principles.
- An inclusive approach, that involves local government working with local business, should be at the heart of any future changes to the business rates system.

Recommendations

Leaders Committee is asked to consider and approve the formal London Councils response to the discussion paper.

Business Rates Review discussion paper: response

Introduction

1. At Autumn Statement 2014, the Government announced a long-term review of business rates. The then Chief Secretary to the Treasury launched this review shortly before Budget 2015 when the Government published a discussion paper setting out the terms of reference.

2. This is the third undertaking associated with business rates reform. It follows on from reviews of the administration of business rates (Summer 2014) and business rates avoidance (February 2015).

3. The deadline for responses is 12 June 2015 with the review scheduled to report its findings by Budget 2016. Between June 2015 and Budget 2016, it is unclear what further formal engagement and consultation will take place. London Councils officers have been in on-going discussions with HMT officials on this issue.

The discussion paper

4. The introduction to the discussion paper outlines the terms of reference (attached at Annex A to this paper), which clearly state the Government's "preference for business rates to remain a tax based on property values, collected by local authorities". It does, however, welcome suggestions of alternative ways of raising business rates and how they could work in practice.

5. Importantly, the review will be "fiscally-neutral and consistent with the Government's agreed financing of local authorities".

6. The discussion paper includes four main sections covering:
   - **business rates as a tax on property values;** The Government's preference is for business rates to remain a property tax, administered and collected by local authorities. Though, it recognises the concern of some that the use of non-domestic property may change as more business is conducted online.
   - **how business rates revenues are used;** HM Treasury recognises that local authorities hold several key levers to drive economic growth at a local level – including planning, transport and local infrastructure. There is a focus on how the use of business rates can be used as a way to improve the incentive for local authorities to drive local growth;
   - **how business rates raise revenue:** there is a question over how business rates could be made more responsive to wider economic conditions and the frequency of revaluations; and
   - **who pays business rates:** this addresses how business rates could take into account the individual circumstances of businesses such as their size or ability to pay.

Proposed Response

7. While the proposals appear broad in scope, the Government has expressed a clear preference in a number of areas. As such, it is felt that the scope for reform is relatively narrow. London Councils officers have prepared a draft response for consideration and approval by Leaders Committee. It is proposed that the submission will include a number of key messages, including:

- **Business rates are an important element of the local government funding system:** In 2015-16, the Government expects London's local authorities to collect over £6.8 billion, which represents almost a third of the national yield of £21 billion. Business rates will fund around half of all local government revenue expenditure, and retained business rates will fund around a quarter of local government spending in London (almost £2 billion).

- **London government should be able to retain a greater share of its business rates income:** London Councils has a long standing position where it is felt that London government should retain 100 per cent of business rates (as well as the full suite of other property taxes). This would include control over setting the tax rates as well as issues such as revaluation, banding, reliefs and discounts (currently worth around £663 million in London). It is felt that greater control over the system could be used more constructively by local areas to shape their local economies, than under the current rigid and centralised system.

- **The Government should seek to strengthen the incentive effect within the current business rates retention scheme:** The direct financial incentive for local authorities to grow their local business rates remains weak with low levels of retention and a narrow definition of growth. Analysis of the impact of business rates retention in London so far suggests that the reforms have had a limited financial impact despite the fact that GVA has increased by around 5 per cent per annum since 2010.

- **Local government needs a funding system that is stable, certain and predictable:** The impact of business rates appeals means that there is a high level of instability and uncertainty in the current system and the Government should be mindful that any changes to the business rates system can have knock-on effects local authority funding.

- An inclusive approach, that involves local government working with local business, should be at the heart of any future changes to the business rates system.

8. The draft response also includes a number of technical comments on the discussion paper.

Recommendations

Leaders Committee is asked to consider and approve the formal London Councils response to the review.

Financial Implications for London Councils
None

Legal Implications for London Councils
None

Equalities Implications for London Councils
None

Annex A - Terms of reference for the review of business rates

1. The review will consider changes to business rates in view of trends in the use of non-domestic property and in response to concerns raised by ratepayers that the business rates system is in need of modernisation to make it fit for a 21st century economy. In order to ensure that business rates continue to raise sustainable revenues to fund public services, the outcomes of the review will be fiscally neutral and aligned with the government's wider fiscal plans. The review will report its findings by Budget 2016.

2. The government's preference is for business rates to remain a tax based on property values, collected by local authorities. However, the government welcomes suggestions of alternative ways of raising local business taxes and how they could work in practice.

3. To inform its recommendations, the review will assess a broad range of options for reform and:
   - conduct a robust analysis of trends in the use of non-domestic property and property values
   - review alternative and international examples of local property and business tax systems and draw lessons from them
   - consider the impact of the current system of business rates on businesses' decisions to invest, grow and create jobs – this will include evaluating the effectiveness of existing reliefs and exemptions that are designed to support particular types of ratepayers
   - consider the role of business rates within the wider tax system, including its responsiveness to economic conditions
   - assess the impacts of any potential changes on the ability of the business rates system to deliver fairness, simplicity and stability to ratepayers
   - encourage a wide-ranging debate among stakeholders of potential options for reform and their impacts

4. When considering possible alternatives or changes to the business rates system, the government will bear in mind:
   - the advantages of predictability and economic efficiency presented by the existing business rates system
   - the suitability of a tax base as a local tax used to fund local public services
   - the practicalities of making a transition to a new system
   - any 'trade-offs' or other changes that would be required to implement successfully any reforms.

Consultation Response

Business Rates Review – discussion paper response by London Councils

London Councils represents London's 32 borough councils and the City of London. It is a cross party organisation that works on behalf of all its member authorities regardless of political persuasion.

Introduction

1. London Councils welcomes the opportunity to comment on the Government's strategic review of business rates. This response builds on our response to the Business Rates Administration review in June 2014[1].

2. London Councils is concerned that the scope of the discussion paper and terms of references risks being too narrowly focused on ratepayers and the broader business taxation system, without sufficient consideration of the impact that any potential reform could have on local government.

3. Firstly, the Government should be mindful that business rates are a principal funding stream for local government. The Government's recent introduction of its business rates retention scheme created a direct link between local funding levels for an individual authority and local business rates yield. In 2015-16 the Government expects London's local authorities to collect over £6.8 billion, which represents almost a third of the national yield of £21 billion; this is despite having just 16 per cent of the total number of properties in England. In 2015-16, business rates will fund around half of all local government revenue expenditure[2], and retained business rates will fund around a quarter of local government spending in London (almost £2 billion). As a consequence, and before implementing any change, consideration must be given to the impact on local funding levels.

4. Secondly, local authorities, as billing authorities, are also responsible for the collection and administration of business rates, and play a fundamental role in the proper functioning of the taxation system. Historically, business rates have had an in-year collection rate of around 98 per cent, which compares very favourably to other forms of taxation. For example, corporation tax has a tax gap of 9 per cent and VAT, 11 per cent. If the Government is minded to reform the system, due regard must be given to the operational and financial impact of any reforms on local processes.

5. London Councils recognises that this paper is designed to catalyse discussion and thinking on the potential options for reform. In the event that firmer proposals are developed, London Councils would expect that these proposals are supported by robust evidence and driven by detailed consultation and engagement with both ratepayers and local government.

[1] http://www.londoncouncils.gov.uk/download/file/fid/14798

[2] This excludes spending on schools and includes Revenue Support Grant which is funded from business rates

6. This response firstly sets out London Councils' overarching position with regard to business rates, and is followed by more detailed responses to the questions within the discussion paper.

Overarching principles

Stability, certainty and predictability

7. London Councils believes any funding system for local government should be underpinned by the principles of stability, certainty and predictability. These principles underpin more specific goals such as creating incentives to encourage economic growth. While, at the national level, business rates is a relatively stable tax that generates a steady income stream for central and local government, it can be particularly volatile at a local authority level.

8. London Councils recognises that the financial landscape is changing with the funding relationship between central and local government moving from one based purely on centrally allocated grants to one that recognises concepts such as financial incentive, underpinned by risk and reward. This has the potential to create greater incentives to support economic growth and is a principle that London Councils supports. However, if not implemented effectively it can produce unwanted side effects.

9. Uncertainty is one consequence of the current regime. Business rates retention has significantly increased the level of financial risk borne by local government without a corresponding uplift in the opportunity for financial gain. In particular, local authorities remain exposed to the risk of successful rating appeals. The volatility created by appeals, and the lack of clarity about the impact of revaluations on the dynamics of the business rates retention system, produce significant funding uncertainty for local authorities. As a result London local government was obliged to set aside over £500 million in provisions for backdated appeals in 2013-14.

10. The Government should be mindful that any changes it makes to the business rates system can have knock-on effects on local authority funding. For example, the Government's commitment to resolve 95% of outstanding rating appeals in England by July 2015 has created a spike in the number of appeals at the end of 2014-15: this has increased the level of funding uncertainty as London's local authorities have had to increase their appeals provisions.

11. Unpredictable variations in income at borough level are a second consequence of the current regime. Local authorities are at risk from a reduction in their local income from rate payers successfully appealing – a process led through the Valuation Office Agency – to move their hereditaments from local lists to the central list. The impact at a local level could be considerable with evidence that in some London boroughs this could be as much as £1.8 million; possibly higher for others.

12. London local government currently forecasts funding reductions of 60 per cent over the decade to 2020. As a result any major structural reform to this tax must address these issues of stability and predictability and should not create further downward structural pressure on local government funding.

Visibility and local accountability

13. London Councils agrees with the Government's preference for business rates to remain a tax based on property values. It remains a tax that benefits from high levels of collection and is a stable form of taxation. However, London Councils does recognise the claim that more could be done to aid ratepayers' understanding of how the tax is used to fund public services, with few business understanding how the rates they pay are spent by both local and central government. Demystifying the complexity around business rates and its system of reliefs and discounts would also support better relations between local authorities and local businesses.

14. An inclusive approach, that involves local government working with local business, should be at the heart of any future changes to the business rates system.

A stronger growth incentive

15. London Councils disagrees with the Government's contention that the business rates retention system has increased local government's "incentive to encourage enterprise and job creation". Incentives are based on the expansion of rateable floorspace and not on rateable values. The result is a tax regime that does not reward support for high value businesses that do not expand their floor space. London's economy is driven by high value businesses. This continued lack of direct financial incentive is evident by the fact that it has failed to deliver any substantial financial gain for London local government despite average growth in GVA of around 5% per annum since 2010[3].

16. Analysis of publicly available data on business rates suggests that the financial impact of business rates retention appears limited at best. In overall terms, London local government (excluding the GLA) retained £1.833 billion of business rates in 2013-14, representing a shortfall of £85.4 million (4.5 per cent) when compared to the Government's expected target of £1.918 billion. Eighty per cent of boroughs reported a decline in business rates against their target baselines. In 2014-15, boroughs forecast net growth of only £13 million beyond the baseline position (with only half estimating positive growth), and only modest net growth of £49 million in 2015-16. Again only half of London's boroughs are reporting growth.

17. The direct financial incentive for local authorities to grow their local business rates remains weak for several reasons, including:
    - the negative impact of appeals eats into any true growth;
    - the definition of growth only applies to physical rather than revaluation growth;
    - local government is bearing the cost of the RPI inflationary increase on the funding baselines;
    - growth could potentially be removed after 7 years at a reset; and
    - the 50 per cent retention rate remains low.

18. London Councils would advocate a series of immediate changes and refinements to the system that the Government could implement to improve the growth incentive.

19. Firstly, the Government should take steps to mitigate the more negative impact of appeals, either through further adjustments to the system or through changes to the appeals process itself. Appeals cause undue uncertainty in financial planning terms, particularly when three quarters of appeals are unsuccessful. Such a low success rate does suggest there is room for the process to be made more efficient.

20. Secondly, the Government should broaden the definition of "growth" to include revaluation growth, rather than just physical growth. This narrow approach currently makes it incredibly difficult for local authorities, particularly in built-up areas, to benefit financially from the current system as there is a general scarcity of land and any additional physical growth often requires the demolition of existing buildings first.

21. Thirdly, the definition of growth should include the annual RPI increase which is currently lost via an effective requisite cut to Revenue Support Grant.

22. Fourth consideration should be given to how local authorities could keep any additional growth for a fixed period of time to avoid the "cliff edge" effect in the years before a system reset. The current uncertainty of its timing risks acting as a disincentive for developments in those years. Arguably, a system of rolling retention could seek to manage this in a more effective way.

[3] https://www.london.gov.uk/sites/default/files/GVA%28I%29%20%26%20GVA%28P%29%20estimates%20for%20London%20current%20issues%20note%20update%2043.pdf

23. These reforms could create a far stronger platform on which to increase incentives to support economic growth and link councils more closely to their communities. All local authorities should retain 100 per cent of business rates growth, building on the three pilot areas that were announced at Budget 2015. In the longer term, London Councils advocates a fully devolved system where London government retains 100 per cent of all business rates (see next section).

Business rates devolution

24. In the longer term, London Councils would like to see a fully devolved system of business rates where London government retained 100 per cent of business rates collected. London Councils supports the London Finance Commission's call for the full suite of property taxes to be devolved to London Government. Such an approach would include control over setting the tax rates as well as issues such as revaluation, banding and discounts. As made clear in the report of the London Finance Commission, any devolved settlement should be fiscally neutral at the outset of the reforms.

25. London Councils supports recent attempts to ease the financial burden on businesses through the use of the business rates system. That said; the Government should be mindful of the growing number and complexity of the reliefs system and the impact that this could have on local government and the business rates retention system. The wide variety of relief schemes not only causes confusion, it impacts on local authorities' ability to implement local growth plans around, for example, high street regeneration.

26. In the short term, London Councils urges Government to simplify the system of reliefs, to increase understanding of rates bills, and improve local government financial planning. In particular, the Government should also consider reforming charitable and empty property reliefs, the exploitation of which accounts for the vast majority of business rates avoidance and significantly affects some local authorities' retained funding.

27. As part of any longer term devolution, London Councils believes a devolved system should include the freedom for local authorities to tailor all discounts and reliefs to meet the needs of their specific local economies. This would give local areas the ability to create new reliefs and discounts, and alter the suite of existing mandatory reliefs in order to encourage and incentivise certain types of business to their area.

28. In 2013-14, mandatory and discretionary reliefs totalled £663 million in London. London Councils believes that this funding could be used more constructively by local areas to improve local economies if its use were devolved to London boroughs.

29. Combined with a system of 100 per cent retention of business rates, this would also enable greater dialogue and engagement between local government and businesses. Local authorities would become better placed to respond to and enhance local economies. This in turn could reduce perceived unfairness by business.

Detailed response to questions

Business rates as a tax on property values

1) What evidence and data can you provide to inform the government's assessment of the trends in use and occupation of non-domestic property?

London Councils has no comment.

2) Is there evidence to suggest that changing patterns in property usage are affecting some sectors more than others?

London Councils believes the information supplied by the Valuation Office Agency's experimental data (used in Charts 2a, 2b, and 2c in the discussion paper), is useful but that there is a clear need to improve access to VOA and HMRC data in order to ensure compatibility with open data initiatives which can seek to match it with other data sets to create more useful information.

3) What, in your view, does this evidence suggest about the fairness and sustainability of business rates as a tax based on property values?

London Councils does not wish to make value judgements about the fairness of the tax, however the evidence supplied in Chapter 2 of the paper does suggest that business rates as a tax based on property values remains sustainable.

4) What evidence is there in favour of the government considering a move away from a property based business tax towards alternative tax bases? What are the potential drawbacks of such a move?

As stated above, London Councils would be concerned if the Government was minded to move away from a property based business tax towards alternative tax bases without any strong evidence and an understanding of the potential impact on local government funding levels. The Government should be mindful to avoid jeopardising the stability and predictability of the revenue that this current tax generates and the likelihood that any replacement tax would be as efficient to collect as business rates.

5) What examples from other jurisdictions and tax systems should the government consider as part of this review? What do you think are the main lessons for the business rates system in England?

London Councils has no comment.

How business rates revenues are used

6) How can government use business rates to improve the incentive for local authorities to drive local growth?

See paragraphs 15 to 29 (above).

7) What impact will increased local retention of business rate revenue have on business growth? What will the impacts be on local authorities?

See paragraphs 15 to 29 (above).

8) What other local incentives should the government consider to further incentivise business growth?

Government should commit to work with business and local government on a detailed protocol for the far wider use of tax increment finance (TIF), particularly the way in which risk is managed and ensuring a clear business mandate for spending priorities. The objective of this will be to make TIF a far more widely available and locally-driven tool for leveraging additional investment in the drivers of economic growth.

How business rates raise revenue

9) Should business rates be reformed to make them more closely reflective of wider economic conditions and if so, how?

As stated above, London Councils would urge against any wholesale reform of the method or timescale for revaluations without sufficiently robust evidence and an understanding of the impact on local government and ratepayers. A revaluation is likely to have a significant impact on local business rates yields, either upwards or downwards. This will have a significant impact on the architecture of the business rates retention scheme and have profound consequences for the risk profiles of those authorities most affected. Increasing the frequency of revaluations would increase the level of uncertainty for local authorities.

As with changes to valuation methods, the frequency of property valuations has an impact on the volume of business rates appeals which disproportionately affect London boroughs. There is currently no evidence to suggest that increasing the frequency of revaluations would reduce the number of appeals or benefit ratepayers as a whole. At the very least, more frequent valuations would lead to the potential for more appeals - as there would be more valuation lists to appeal against.

In relation to the suggestion that CPI rather than RPI should be used as the measure of business rates inflation, London Councils would be question how this move would be funded. London Councils would expect that any such move would be funded by central government, rather than by local government (in a similar way to the 2 per cent cap in 2014-15 and 2015-16).

London Councils would also suggest that consideration should be given to where business rates sit within a broader analysis of property costs. Many businesses make fixed payments to property owners, which include rent, business rates, and service charges. As such, the Government should be mindful that it is not guaranteed that businesses would feel the benefit of linking business rates more closely with changing economic conditions.

Who pays business rates

10) If business rates remain a property tax, how do you suggest business rates could take into account the individual circumstances of businesses such as their size or ability to pay rates?

London Councils believes that local authorities are best equipped to take into account individual circumstances of businesses in their areas, and that devolution of responsibility for setting the rate, as well as the parameters and extent of local reliefs and discounts, would benefit more businesses than the current centralised system.

11) How does the proportion of total operating costs accounted for by business rates vary by the sector and size of a business?

London Councils has no comment.

12) What is the impact of the business rates system on the competitiveness of UK businesses? Are there any particular impacts on SMEs?

London Councils has no comment.

13) How could the government better target support for SMEs given that the size of a company may not be reflected in the rateable value of a property it uses?

London Councils has no comment.

14) Should investment in plant and machinery, energy efficiency improvements or other similar property improvements be treated differently by the business rates system? If so what changes could be made?

The current system provides a disincentive for some businesses to improve their properties. London Councils believes that local authorities should be able to determine locally whether investment in property improvements should be treated differently within the business rates system.

15) What evidence and analysis should the government take into account when evaluating the impact of and any changes to the range of reliefs and exemptions present in the business rates system?

London Councils believes local areas should ultimately have full control over the suite of discounts and reliefs (see paragraphs 23-27 above). In the shorter term, there could be scope to reduce the number and complexity of different reliefs, and focus on the two reliefs that are most commonly subject to avoidance: charitable relief and empty property relief.

When evaluating the impact of any changes to reliefs and exemptions, the Government should take into account data that shows the distribution of charities and empty properties across local authorities. This includes academies, which qualify for charitable relief. For example, local areas with larger brownfield industrial areas or with high streets that are economically challenged may be subject to greater exploitation of these two reliefs.

There is considerable variation in the concentration of businesses claiming these reliefs both between local authority areas, and within each local authority. To illustrate across London boroughs in 2013-14, reliefs in one authority represent 14 per cent of gross rates payable, while at the other end of spectrum they only represent 5 per cent on gross rates payable.

While the initial business rates baselines took these characteristics into account (based on the distribution in 2010-11 and 2011-12), changes since then will not be captured and will be impacting on growth for certain authorities. This would be particularly true of areas that have seen a large proportion of schools become academies in recent years.

Leaders' Committee

Assessing Future Funding Options for Local Government: Update   Item 4

Report by: Paul Honeyben   **Job title:** Finance Policy Manager, Fair Funding

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Summary

At its meeting in March 2014, Leaders Committees considered a paper on future funding options for local government.

During these discussions, London Councils officers were asked to further consider possible future funding options to support potential discussions that may follow with Government as part of the Spending Review 2015 process.

Work has focused on the four principal elements of the current local government finance system, namely:

- The grant regime,
- The role of financial incentives,
- Council tax, and
- Business rates.

This report provides an update of the work carried out to date.

Recommendations

Leaders Committee is invited to comment on the issues raised in this report and in particular the questions raised in paragraphs 23, 30, 38 and 46.

Assessing Future Funding Options for Local Government: Update

Introduction

1. The approaching end of the current Spending Round period (2015-16) represents a significant moment for London local government to influence government thinking about the future financial relationship between the centre and localities.

2. In anticipation of the forthcoming Spending Review 2015, Leaders Committee considered a report[1] in March, highlighting some of the issues that could potentially emerge from efforts to reform how local public services are funded. While there are no current commitments to wholesale reform, London Councils officers were commissioned to further consider how fiscal reform could support London local government during what will undoubtedly remain a challenging financial climate. Following the discussions at Leaders Committee in March, London Councils have focused their work on the four principal elements of the current finance system, namely:
   - The grant regime,
   - The role of financial incentives,
   - Council tax, and
   - Business rates.

3. This paper provides an update on this work and seeks guidance from Leaders on the key issues within each area.

Context: The Financial Outlook for London local government

4. London's Leaders have considered a series of linked reports over the last three years on the long-term financial prospects for London. Previously, it has been reported that London local government faced a potential funding gap (between total projected income and total forecast expenditure) of as much as £3.4 billion by 2019-20 (projecting from 2012-13).

5. Since this analysis, there have been a number of developments, which have allowed an improved understanding of the potential financial pressure on local authorities in London, including:
   - A series of Government announcements, including Autumn Statement 2014 and Budget 2015, that have provided further information on the likely future trajectory of public expenditure up to 2019-20,

[1] http://www.londoncouncils.gov.uk/committees/agenda.htm?pk_agenda_items=5916

- Greater understanding of emerging policy issues and their financial impact. This includes the Care Act, No Recourse to Public Funds and the Transfer of 0-5 Health Responsibilities, and
- More detailed and up-to-date data and information on service demand driven by population projections, demographic changes and inflation.

6. In light of the above, London Councils has updated and refined its modelling on the long term financial prospects for London local government The latest modelling suggests a potential funding gap of as much as £2.4 billion (23 per cent) over the course of the next Parliament (2015-16 to 2019-20).

7. Previously, it had been reported that London local government faced a financial pressure of £3.4 billion from 2012-13 to 2019-20. On a like-for-like basis, the position has stayed broadly the same; however, the current modelling prudently assumes local government funding will share some of the anticipated growth in public spending in 2019-20 (outlined at Budget 2015), that each borough will raise its council tax by 1.5 per cent each year and that business rates will continue to grow. These are assumptions for modelling purposes only, however, and it is likely that there will be divergence from these which will impact on the scale of the forecast funding pressure.

8. Putting the potential uplift in public spending in 2019-20 to one side, public spending is forecast to fall faster in the next three years than previously thought. Analysis suggests that over the next three years to 2018-19, the financial outlook for London local government is set to worsen by a further £0.3 billion compared to the previous model.

9. While the modelling has focused on the next five years, it is acknowledged that both Spending Review 2010 and Spending Round 2013 have significantly reduced the resources available for local government since 2010-11. Taking this period into account, core government support to local government potentially set to fall by 60 per cent over the decade to 2019-20.

10. In the absence of a detailed reduction in statutory responsibilities[2] or additional resources, local authorities are likely to experience steady erosion in their level of control over spending decisions. Population growth and demographic change will, arguably, mirror the trend in central government where greater levels of expenditure are driven towards health and social care. By 2020, this analysis suggests that the principal statutory responsibilities of local

[2] As at March 2011, local authorities had over 1,300 statutory duties. This figure excludes responsibilities introduced such as Public Health, local council tax support schemes or those under the Care Act.

government – namely, social care[3] and waste – could account for 75 per cent of all revenue expenditure (£5.3bn).

11. Given their statutory nature, these costs are to a certain extent, unavoidable and the subsequent impact on the wider range of non-statutory and other services could be considerable. On this basis, funding for non-protected services could be squeezed by as much as 44 per cent from 2014-15 to 2019-20 as local authorities in London seek to operate within their assumed resource constraints.

12. Modelling so far into the future is obviously dependent on a number of assumptions and there remains considerable uncertainty about the funding trajectory for local government. Some further detail may emerge from the Summer Budget (8 July), but Spending Review 2015 (late autumn) is likely to provide the more definitive picture. That said; the model does confirm our previous conclusions – that, in the absence of radical changes to service delivery models, the existing system of local government funding appears less and less sustainable in its current format.

Potential Options for Reform

13. In considering future funding options, London Councils officers have focused on the four principal elements of the current finance system, namely:
    - The grant regime,
    - The role of financial incentives,
    - Council tax, and
    - Business rates.

14. These are considered to be the fundamental building blocks of the finance system and the principal drivers behind local income levels. It is also recognised that there is a high level of interaction between all four issues and as such, it is difficult to consider change to one without acknowledging the possible impact elsewhere within the system. Indeed, HM Treasury consider these holistically when making their own assessment of local government spending levels.

15. In discussing change, there appear to be two principal considerations, namely:
    - *The Scope of Reform:* This is principally about the extent to which any reform could be introduced through changes to the current finance system or whether a more ambitious

[3] Includes the ring-fenced public health

and fundamental approach is required – whether that is at a national level or another spatial level below this.

- *The Nature of Reform:* This issue focuses on the principles underpinning the local government finance system and the balance between incentivising certain behaviours (such as the delivery of economic growth or house building) and recognising need.

The Grant Regime

16. Historically, the distribution of funding has been wholly driven by an assessment of ‘need’ and the unique and relative characteristics of an area. When the formula was frozen in April 2013, there was a clear shift from need as the key determinant of funding levels to one where certain behaviours were incentivised such as the growth of the domestic and/or non-domestic taxbase (New Homes Bonus and business rates retention respectively).

17. London Councils officers have undertaken analysis to consider the extent to which local population, demographics and other characteristics have changed since the formula was frozen in 2013. From this work, it is clear that there are two factors which have the most significant impact on pre-damping funding levels in London. These are population estimates and taxbase figures.[4] Analysis suggests:

- London’s population has increased by c.181,500 compared to the figures contained within the formula and for some boroughs, the difference is as much as 5 per cent. London’s population growth rate of 2.1 per cent is also significantly higher than the England average of 0.7 per cent, representing just over half of the total population growth in England despite representing 16 per cent of the population.
- London’s taxbase has increased by c. 186,500 (6 per cent) compared to the figures contained within the formula and for some boroughs, the difference is as much as 13 per cent.

18. It is clear from the above that London’s funding allocations are becoming less and less representative of the size of its population and that large numbers of its residents are not recognised within the formula. This does raise the question of fairness within the funding allocations. It is highly likely that if the formula was updated for the latest population figures, London local government would see an uplift in its grant allocation. Of course, it is also likely that any benefit may be partially offset by London’s growing taxbase and the assumption that local authorities in London are able to raise more of its income locally (via council tax). It is also unclear how any future damping policy would interact with the reopening of the formula and the extent to which it sought to manage any significant swings in the formula.

[4] This metric is included to reflect the amount of council tax an individual authority can generate to fund local services.

19. London Councils has a long history of involvement with CLG on the funding formula. On-going analysis, combined with previous work, has highlighted other areas where the formula has historically failed to reflect London's characteristics. These include day visitors, population mobility, the Area Cost Adjustment and levels of deprivation.

20. Related to the mechanics of the formula is the issue of damping. In 2013-14, London, overall, benefitted from damping by £182 million. The impact of this policy within London however, is variable. Sixteen local authorities received £279 million from floor damping and 17 local authorities were scaled by £97 million. Of course, the extent to which local authorities see themselves as benefitting from this policy or not will depend on how they view the funding formula itself and its perceived level of accuracy. That said, freezing the formula in 2013 has introduced a secondary type of unfairness within the system as damping levels have been locked in at 2013 levels.

21. Of course, discussions on equalisation and the assessment of need focus on the distribution of resources <u>between</u> local authorities. It does not address the overall quantum of money available to local government as a whole. Under a scenario where the government reopened the assessment of need and London local government were to benefit by 10 per cent, this would equate to £375 million in 2015-16. While this level of additional funding is not insignificant and should not be discounted, it remains relatively insignificant when compared to the overall size of the funding challenge ahead. As such, equalisation is likely to form a limited, but nonetheless important, part of a much wider package.

22. As the formula currently stands, it is complex and contains a large number of different, interrelated metrics. As such, it is difficult to unpick and confirm, with any certainty, the impact of any one change on the funding allocations for any one local authority. At the present time, there is no indication that the Government will reopen the formula until the system is potentially reset in 2020. If it is assumed that an assessment of need should underpin funding allocations, there remain questions about when this should happen and the scope and ambition of any reform. Some may favour a complete overhaul of the current formula and all of the metrics within it. Others may prefer a focus on a limited number of cost drivers, which are likely to have the most material impact on service delivery and subsequently reflected within the funding allocations.

23. **Government has not yet indicated any specific plans to change the grant regime. In that context Leaders are asked to offer guidance on the emphasis that officers should**

place on developing different approaches to reform that could be incorporated in CSR submissions in the near future. In particular:

- **What priority should be given to pressing for reforms to the grant regime?**
- **Should either simple reforms or a fundamental re-design of needs assessment have a higher priority?**

<u>The role of financial incentives</u>

24. In considering the nature of the local government finance system, there have been longstanding concerns from some that a model of funding purely based on 'need' may create some perverse incentives and foster a culture of dependency within local government. There may well be some local authorities who wish to operate outside the broader grant funding regime and any needs assessment.

25. One way could be to allow local authorities to retain more local business rates, thereby removing the need for the Government to distribute revenue support grant (RSG) to some authorities. While this could be a possibility for some local authorities in London, it is unlikely to work for all boroughs. Consideration would then be needed about the extent to which any 'RSG-free' local authorities would then be subject to a system reset and other scheme parameters (such as the levy and safety net).

26. In response to some of the challenges on this issue, the Government has, over recent years, attempted to introduce greater levels of financial reward and incentive – whether that is the business rates retention system, the introduction of New Homes Bonus or as part of negotiated arrangements within individual Growth Deals.

27. Given the scale of the challenge ahead for the overall public sector finances, it is highly likely that the debate on devolution to England's cities and beyond will continue to be underpinned by a drive for more integrated and cost-effective approaches to local public services. Based on other initiatives such as the business rates pilots, the Government may pursue funding models that are based on risk and reward principles, allowing only those local authorities that can exceed agreed performance targets to benefit financially.

28. In considering further how financial incentives should influence funding allocations, London's Leaders may wish to consider how these concepts should apply to the funding of local government services. For example, should they apply to all services or do some services require a level of funding stability that would be impossible to guarantee under a risk and

reward scenario? For example, it may be felt that services such as children's safeguarding play such a critical role in supporting the most vulnerable that they need a high level of funding certainty and stability. As such, this could lead them away from a funding model that solely relies on the performance (and potential volatility) of the local economy.

29. In turn, there could be an argument to say that there are other issues, which are more naturally linked to models of financial risk and reward and whose resource-base could be more responsive to economic cycles. There may also be an aspiration to link certain services and activities to specific funding streams and taxes. For example, it could be argued that landfill tax, and control over its operation, could be devolved to London government. In return, there could be performance targets that would aim to facilitate a faster shift to improved recycling rates and other activities that impact on climate emissions.

30. **Leaders Committee is asked to provide a steer on the extent to which financial incentives should influence funding allocations within local government.**

Council Tax

31. Council tax remains a significant and stable source of funding for local government, representing 37 per cent of principal income. While the Government has not expressed plans for change, council tax has nonetheless been the focus of much debate within other reviews of local government finance.[5]

32. As agreed at the last Leaders Committee, analysis has been undertaken of the council tax system in London and across England. Consideration has also been given to a broader range of measures linked – both directly and indirectly – to council tax, including population, income and wealth.

33. From this analysis, the key headlines are that:
    - London's tax base is proportionately larger than the rest of the country with the higher valued properties in the capital meaning a greater proportion of properties in the higher bands.
    - However, there is large variation between boroughs with outer London boroughs, in general, having a much smaller relative tax base.
    - London has a disproportionate number of properties for all bands from Band C upwards compared to the national average.

[5] London Finance Commission (2013) Independent Commission into Local Government Finance (2015), Institute for Fiscal Studies (2015).

- London has a consistent share of population, households and dwellings at c.15 per cent of the national total.
- Its share of overall council tax yield is higher at 17 per cent, reflecting its higher property values and therefore its larger tax base.
- Its share of both national income and estimated housing wealth is yet larger still at 24 per cent.

34. From the above, there are perhaps a couple of initial conclusions that could be drawn in discussing reform, namely:
    - Council tax continues to be regressive in nature,
    - There is a weak link between levels of council tax and the housing market, including levels of housing wealth, and
    - Were the system to more closely reflect the current property market in London, this could increase the net income to London boroughs – acting either as an additional source of income or when combined with greater control of the discount system, address some of the perceived unfairness within the current charging regime.

35. In considering the efficacy of the current system, attention inevitably focuses on council tax bands and the ratios between them. As such, it is felt that three broad scenarios exist, which could help to draw out some of the key issues within council tax. These include:
    - *Scenario One:* An update of individual property values with an overall fixing of the tax base.
    - *Scenario Two:* An update of both the current band system and individual properties with band ratios either fixed or readjusted.
    - *Scenario Three*: In line with other proposals, additional bands could be created either as additions to the existing system or as part of a more fundamental approach.

36. Consideration would also need to be given to the spatial level at which any reforms could be introduced – whether that was nationally, regionally or locally (including individual authorities or groupings).

37. **London Leaders are asked to provide a steer on what further analysis may be helpful.**

Business Rates

38. The business rates retention scheme is currently entering its third year. London Councils has consistently put forward a view that the current system lacks a sufficiently strong financial incentive. The fact that the Government only retains half of business rates; that any

growth could potentially be removed at the next reset; and that the definition of growth only applies to physical growth (not RPI or revaluation growth), all mean that the direct financial incentive for local authorities rates remains weak. At the same time, local authorities in London remain disproportionately exposed to the risk of successful rating appeals.

39. Analysis of publicly available data on business rates suggests that the financial impact of business rates retention in London appears limited at best. In overall terms, London local government (excluding the GLA) retained £1.833 billion of business rates in 2013-14, representing a shortfall of £85.4 million (4.5 per cent) when compared to the Government's expected target of £1.918 billion.[6] While the position appears to improve in future years, the financial gain remains relatively small, particularly when set against the scale of the financial challenge ahead. The table below sets this out in more detail.

	2013-14	2014-15	2015-16
	Final Outturn	Forecasts	Forecasts
Number of boroughs growing	7	19	17
Number of boroughs declining	26	14	16
Gross growth (£m)	12.4	40.6	65.3
Gross decline (£m)	-97.8	-27.2	-15.9
Net growth (£m)	-85.4	13.4	49.4
Number of boroughs in safety net	4	2	0
Value of safety net payments (£m)	51.7	4.9	0
Number of boroughs paying levy	0	5	4
Value of levy payments (£m)	0	-4.3	-9.1
Net retained growth after levy & safety net (£m)	-33.7	14	40.3

40. Since the introduction of the system, the Government has sought to reform the wider business rates system. Over the past few years, the Government has launched three different reviews and is due to report on its current review at Budget 2016. London Councils' proposed response to the current review is covered elsewhere in this agenda. For the purposes of this paper, it appears that the scope (and ambition) for change is limited, particularly given the fact that any reform must be fiscally neutral.

[6] This is the baseline sum of business rates that the 32 London boroughs and the City of London are permitted to retain after the respective payments to central government (50 per cent) and the GLA (20 per cent). Known as the business rates baseline, this is the figure against which top ups and tariffs are set and against which 'growth' is judged.

41. That said; greater control over reliefs and discounts does appear to offer an opportunity for local authorities to develop a local system that meets the needs of their local economies. This would give local areas the ability to create new reliefs and discounts, and alter the suite of existing mandatory reliefs in order to encourage and incentivise certain types of business to their area. In 2013-14, mandatory and discretionary reliefs totalled £663 million in London. Arguably, this funding could be used more constructively by local areas to shape their local economies, than under the current rigid and centralised system.

42. Traditionally, business rates income has been earmarked to fund local authority services and local government should not lose sight of the fact that business rates represents an increasingly important income stream not only for itself, but for HM Treasury too. Analysis suggests that as total business rates income rises and the local government control total reduces, there will soon be significant surplus of business rates in the system. This could potentially be as much as £9 billion by 2020. Budget 2015 recognises the importance of business rates as a funding source with figures suggesting that it will rise as a proportion of overall departmental revenue expenditure from 8 per cent in 2014-15 to 10 per cent in 2019-20.

43. In theory, this emerging surplus could be used to fund existing activity historically met through general taxation and other Whitehall departments. Alternatively, it could fund specific Government-led initiatives. (Equally, the Government could choose a combination of the two.) If the Government is minded to adopt the first approach, it does raise questions about the link between business, business rates and local services (and their ability and/or appetite to have a stronger influence over local spending decisions). The second approach would, arguably, strengthen central government's already considerable influence over local government spending through the use of ring-fencing and targeted grants. Both approaches would also raise familiar questions about equalisation and the extent to which fairness underpins any form of redistribution.

44. Of course, reform to business rates should be seen in the context of the wider discussion on fiscal devolution. Budget 2015 announced that there will be pilots in Cambridgeshire, Peterborough, Greater Manchester and East Cheshire where 100% of any additional growth in business rates <u>above</u> expected forecasts will be retained. As a minimum, it would be argued that these arrangements are extended throughout local government.

45. Leaders will be aware that it is a longstanding position that London government should retain more of its business rates. Though, it has been recognised that such an arrangement would need to be fiscally neutral at the outset and would increase the financial risk for local

authorities as other funding streams fall away to compensate for the increased levels of retention.

46. **In this context, Leaders may wish to consider whether they would wish to return to previous discussions on business rates pooling as a way of managing potential future financial risk.**

47. It remains difficult to see how business rates reform would, by itself, completely address the scale of the financial challenge ahead. Meaningful financial gain, through business rates growth, appears limited in London, particularly when the impact of RPI and revaluation growth is neutralised within the system. This remains an area where further reform could deliver a financial uplift for London overall, In addition, greater control of the business rates system could be used to provide more focused support to local businesses, providing the opportunity for more qualitative improvements to the finance system such as greater financial flexibility, stability and certainty.

Conclusion

48. It is clear that the financial challenge ahead remains significant, particularly over the next three years and this continues to raise questions about the form and nature of local public services in London and how to fund them. There is a general consensus that reforms to the finance system are required, particularly as funding levels in London are becoming less and less reflective of local communities and local spending patterns.

49. This paper looks at the four fundamental building blocks of the local government finance system. In each area, there is arguably a question about the potential for reform, the scope and nature of any changes and the subsequent balancing of financial risk and reward.

50. Even with potential changes to the finance system, the scale of austerity is likely to remain considerable. While fiscal reform could form part of an effective financial strategy, it is likely to offer only partial solutions for any local authority. Arguably, only a more ambitious and transformational approach is likely to support London government to address the financial challenge ahead. One which both devolves fiscal responsibility and freedom to London government and seeks to reform public services within London.

Recommendations

Leaders Committee is invited to comment on the issues raised in this report and in particular the questions raised in paragraphs 23, 30, 38 and 46.

Financial Implications for London Councils
None

Legal Implications for London Councils
None

Equalities Implications for London Councils
None

Leaders' Committee

Summaries and Minutes Item no: 5

Report by:	Derek Gadd	**Job title:**	Head of Governance
Date:	2 June 2015		
Contact Officer:	Derek Gadd		
Telephone:	020 7934 9505	**Email:**	Derek.gadd@londoncouncils.gov.uk

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Summary Summaries of the minutes of London Councils

Recommendations Leader's Committee is recommended to note the attached summaries:

- Audit Committee – 19 March 2015
- TEC – 19 March 2015
- Grants Committee – 25 March 2015
- Pensions CIV Sectoral Joint Committee – 25 March 2015

Minutes of the Meeting of the Audit Committee
19 March 2015

Cllr Roger Ramsey was in the Chair

Members Present:

Cllr Roger Ramsey (LB Havering)
Cllr Stephen Alambritis (LB Merton)
Cllr Simon Wales (LB Sutton)
Mr Roger Chadwick (City of London)

In Attendance:

Ciaran McLaughlin, Engagement Leader, PricewaterhouseCoopers LLP
Anna Simmonds, Internal Audit Section City of London

London Councils' officers were in attendance.

1. Declarations of Interest

Councillor Simon Wales informed Audit Committee that he was also a member of the London Councils' Grants Committee.

2. Apologies for Absence

An apology for absence was received from Councillor Jas Athwal (LB Redbridge).

3. Minutes of the Audit Committee meeting held on 26 September 2014

The minutes of the Audit Committee meeting held on 26 September 2014 were agreed as being an accurate record.

4. Internal Audit Plan 2015/16

The Audit Committee received a report of the draft internal audit plan for 2015/16, as proposed by the City of London's Internal Audit section under terms of service level agreement for financial and payroll services. The report also provided details of the proposed rolling five-year programme covering the period up to 2019/20.

David Sanni (Head of Financial Accounting, London Councils) introduced the internal audit plan 2015/16, which could be found at Appendix A of the report. He said that Anna Simmonds (Internal Audit Section, City of London) was present to answer any questions. He also said that Anna Simmonds along with her colleague, Chris Harris, have been brought in by the City from Baker Tilly to manage the internal audit service while Paul Nagle (Head of Audit & Risk Management, City of London) is on secondment for a year.

Councillor Alambritis asked why a review of the Parking and Traffic operations would not be carried out until 2018/19. Frank Smith (Director of Corporate Resources) said that a review of this area was currently taking place and the outcome would be presented to the Audit Committee on 18

June 2015. Councillor Wales asked if there would be any changes to the number of days spent on the reviews (page 9, Appendix A). Frank Smith said that 50 days would continue to be spent on reviews, including 3 days set aside for contingency. He said that the auditors would also use the 15 days planned for the grants review would be spent auditing some of the funded groups within the London Councils' Grants scheme.

The Audit Committee approved the internal audit programme for 2015/16 and the rolling five-year programme, as proposed by the City of London in Appendix A of the report.

5. External Audit Plan 2014/15

The Audit Committee considered a report that informed members of the scope of the external for London Councils, in respect of the 2014/15 financial year, as detailed in the draft audit plan attached to the report.

Ciaran McLaughlin (Engagement Leader, PricewaterhouseCoopers) presented the External Audit Plan 2014/15 report. He made the following comments:

- The Executive Summary, with PwC's responsibilities could be found on page 18 of the report;
- Details of the significant or elevated risk guidance were described on pages 21 to 23;
- The significant risks were considered to be the management override of controls, the risk of fraud in revenue and expenditure recognition and the implications of the new London Councils' Pensions Collective Investment Vehicle (CIV);
- Overall materiality level was stated on page 24 of the external audit plan;
- The Audit Committee was asked if it was aware of any risks of fraud (pages 26 and 27);
- The Audit fees could be found on page 29 – the core fees were the same as before, although the ACS Company and Pension CIV Joint Committee work would need to be factored into the costs;
- Cost arising from the objection to the 2012/13 accounts in respect of the POPLA service had been reflected in the fees. Up until the end of February 2015, this had cost approximately £75,000 (which would be recharged to the British Parking Association – BPA); and
- It was noted that four boroughs had received objections to their accounts for 2013/14 relating to the POPLA issue.

The Audit Committee approved the draft audit plan for 2014/15 as detailed in Appendix A of the report.

6. Internal Audit Reviews

The Audit Committee received a report that provided members with an update of the internal audit reviews completed by the City of London's Internal Audit section since the last meeting held in September 2014.

David Sanni introduced the internal audit reviews report. He informed members that there were five appendices (A to E) attached to the report. The following comments were made:

- *Appendix A* outlined the spotcheck on London Councils' petty cash, safe and inventory. controls. It revealed that the relevant controls were operating satisfactorily, but highlighted that the inventory list had still not been updated following the recommendations made in the 2013/14 review.
- *Appendix B* related to the spotcheck on London Councils' recruitment and payroll adjustments for 2014/15, the review found robust controls in place and no recommendations were made to improve them.

- *Appendix C* related to the follow-up exercise for London Councils' Grants programme for 2013-15. It was acknowledged that no bidding round had taken place since the recommendation requiring additional references was made, therefore, the successful implementation could not be assessed.
- *Appendix D* related to a follow-up exercise for London Councils' ICT review in February 2014. It highlighted that nine out of the eighteen recommendations were still outstanding five of which had an amber rating. It referred to a security breach which exploited a weakness in remote access controls identified during the original review. Officers have taken action to address this weakness.
- *Appendix E (page 80)* related to the follow up exercise on the London Lorry Control Scheme (LLCS) review carried out in July 2013. It revealed that one out of the six recommendations was still outstanding. The recommendation relates to the debt registration functionality of the LLCS system. The system development for this has been completed but is still subject to further testing before it can be signed off as fully functional.

The Chair asked how serious the security breach to the IT system was. Frank Smith said that a Trojan virus was placed in the server by an unknown third party, which generated random access codes over an unknown time period until it generated the access code to the system. This was discovered and quarantined. At no stage was any personal data accessed. However, lessons had been learned and amendments to the system had been made, including rearrangements to the firewall. Tiered levels of security are being put in place and a second level of user authentication is being installed when accessing the network.

Councillor Alambritis asked whether the disabling of USB drives had been considered. Frank Smith said that the Corporate Management Board (CMB) had considered this and had now decided to restrict use of external devices on the network USB ports. He stated that individuals now rarely brought in memory sticks to London Councils and all future use of USB ports would be encrypted memory sticks. Councillor Wales enquired about the PSN issues. Frank Smith said that the Government was still deciding whether to insist on local authorities having this level of security and it was currently a "grey" area.

Councillor Alambritis congratulated officers on the good work carried out on recruitment and payroll.

Councillor Wales queried the implementation dates in the reports. In Appendix D, there had been no update since 2014. He said it was difficult to ascertain whether the targets had been completed or not. Frank Smith confirmed that the table at paragraph 7 (page 47) gave the revised implementation dates. The IT strategy went to London Councils' CMB last week and an updated version would be sent to all staff at the end of the financial year. Councillor Wales said that there were still target implementation dates showing for the London Lorry Control Scheme of August 2013 (Appendix E, pages 81 and 82). It was agreed that this would be looked into.

The Audit Committee:

- Considered and commented on the contents of the internal audit reports attached at Appendices A to E of the report,
- Agreed that the target dates of August 2013 for the London Lorry Control Scheme in Appendix E would be looked into, and
- Noted that there were no significant control weaknesses identified in the reviews completed during the period.

7. Risk Management – Chief Executive's Directorate Risk Register

The Audit Committee received a report that presented members with the current Chief Executive's Directorate Risk Register.

Christiane Jenkins (Director of Corporate Governance, London Councils) introduced the CEX Risk Register. She informed members that the London Councils' directorate risk registers would be presented to the Audit Committee on a rotational basis. She said that one of the new inclusions to the risk register was the London Councils' Pensions Collective Investment Vehicle (CIV). Hugh Grover (Programme Director of LGPS CIV) and Frank Smith were present to answer any questions that members might have on the CIV. Hugh Grover informed members that Mark Boleat, City of London, was the Chair of the CIV Sectoral Joint Committee.

The Chair asked for an update on the relocation of the Parking and Traffic Appeals Service (PATAS). Frank Smith confirmed that the tenders had been received for the refurbishment work, and the prices were within the range that was originally estimated. The landlords at Angel Square, however, had asked for London Councils to vacate the building by the 24 June 2015, instead of 24 July, as originally requested. London Councils was currently in the process of trying to negotiate an increase in the rent for one month. The other alternative was to ask the contractors to complete the work on the new premises more quickly (which would be considerably more expensive). Members would be updated on the position when more information was received.

Councillor Wales asked what is considered to be a "huge financial loss" referred to on page 89 of the risk register. Frank Smith said that this would depend on the nature of the operational activity. For instance, the level applicable to the concessionary fares scheme would be different to that of a smaller service. Each service across the organisation would need to be looked at individually, including the new London Ventures and the Pensions CIV. Councillor Wales said that the risk rating without control, on page 103 did not add up to the figure of 6 (2 + 2). Christiane Jenkins confirmed that this would be amended.

The Audit Committee:

- Noted the current Chief Executive's Directorate Risk Register, and
- Agreed to amend the risk rating figures on CG8, page 103, of the CEX risk register

8. Accounting and Audit Arrangements

The Audit Committee received a report that informed members of the implications of the repeal of the Audit Commission Act 1998 and the implementation of the new Local Audit and Accountancy Act 2014 on London Councils accounting and audit arrangements from 2015/16. Under the new legislation, London Councils would no longer have the statutory obligation to prepare accounts and for the accounts to be subject to audit.

David Sanni introduced the Accounting and Audit Arrangements report. He said that from 2015/16, London Councils no longer had a statutory obligation to produce a set of annual audited accounts under the new act, although London Councils does have other existing obligations other than those currently imposed by the Audit Commission Act. The DCLG would be issuing guidance on voluntary arrangements for joint committees in May 2015 and a procurement exercise would have to be carried out to ensure an external auditor was in place for the start of the planning phase of the 2015/16 audit. David Sanni said that it was recommended that London Councils continue to prepare accounts in accordance with the Local Authority Accounting Code of Practice, as this was consistent with other local authority bodies.

Frank Smith said that the Joint Committee had been excluded from the new accounting arrangements. He said that London Councils had over £90 million worth of transactions going through its annual statutory accounts and it appeared odd that London Councils had not been considered for inclusion in these new arrangements. DCLG was willing to discuss this issue further with London Councils and we were currently awaiting their guidance. Frank Smith said that following the receipt of guidance from DCLG a procurement exercise for a new auditor should be carried out and audited accounts should continue to be produced. It was important for members to continue to receive this financial information. The Chair said that, although the accounts were no longer required, this seemed like the sensible thing to do. He said that members now needed to agree to allow officers to procure an external auditor.

The Audit Committee:

- Noted that under the Local Audit and Accountability Act 2014, London Councils would not have a statutory obligation to prepare annual accounts that were subject to audit with effect from 1 April 2015;
- Noted that London Councils had existing obligations outside of the Audit Commission Act 1998 to prepare and arrange the independent audit of annual accounts and the benefits of continuing with this practice;
- Agreed for London Councils officers to commence arrangements to procure an external audit service for 2015/16 onwards;
- Considered a revision to its Terms of Reference to include the responsibility to make a recommendation to the Leaders Committee on the appointment, reappointment and removal of the external auditor; and
- Agreed that London Councils would continue to prepare accounts in accordance with the Local Authority Accounting Code of Practice (the Code).

9. Treasury Management Update

The Audit Committee received a report that provided members with an update on London Councils' treasury management strategy. London Councils' cash balances are held by the City of London under the service level agreement for the provision of financial support services. It was agreed at the meeting of the Audit Committee in September 2009 that the Committee would receive annual reports on the City of London's treasury management activities.

David Sanni introduced the Treasury Management update report, which is presented to members on an annual basis and was for noting. The City of London indemnifies London Councils against any potential future losses of cash balances (paragraph 5, page 113). Roger Chadwick informed the Audit Committee that the City of London's Court of Common Council had approved the Treasury Management Strategy for 2015/16. Councillor Wales said that UK companies were still being invested in, even though the UK had lost its triple A rating. Roger Chadwick said that the City was "risk averse".

The Audit Committee noted and commented on the City of London's Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16, as at Appendix A of the report.

10. Date of Audit Committee 2015/16

The Audit Committee received and agreed a report that notified members of the proposed Audit Committee meeting dates for 2015/16

The meeting closed at 11.20am

Action Points

Item	Action	Progress
7. CEX Risk Register	Agreed to amend the risk rating figures on CG8, page 103	
8. Accounting & Audit Arrangements	Agreed for London Councils officers to commence arrangements to procure an external audit service for 2015/16 onwards	

Leaders' Committee

Report from the Transport & Environment Committee – 19 March 2015

Item no:

Report by: Alan Edwards **Job title:** Governance Manager

Date: 2 June 2015

Contact Officer: Alan Edwards

Telephone: 020 7934 9911 **Email:** Alan.e@londoncouncils.gov.uk

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Summary: Summary of the minutes of the London Councils' Transport & Environment Committee held on 19 March 2015

Recommendations: For information.

1. Attendance: Cllr Lynda Rice (LB Barking & Dagenham, Deputy), Cllr Dean Cohen (LB Barnet), Cllr Don Massey (LB Bexley), Cllr Phil Jones (LB Camden), Cllr Kathy Bee (LB Croydon), Cllr Julian Bell (LB Ealing, Chair), Cllr Feryal Demirci (LB Hackney), Cllr Wesley Harcourt (LB Hammersmith & Fulham), Cllr Stuart McNamara (LB Haringey), Cllr Barry Kendler (LB Harrow, Deputy), Cllr Robert Benham (LB Havering), Cllr Claudia Webbe (LB Islington), Cllr Tim Coleridge (RB Kensington & Chelsea), Cllr David Cunningham (RB Kingston-upon-Thames), Cllr Alan Smith (LB Lewisham), Cllr Nick Draper (LB Newham), Cllr Stephen Speak (LB Richmond-upon-Thames), Cllr Mark Williams (LB Southwark), Cllr Jill Whitehead (LB Sutton, Deputy), Cllr Clyde Loakes (LB Waltham Forest), Cllr Caroline Usher (LB Wandsworth), Michael Welbank (City of London) and Alex Williams (Transport for London, Deputy).

2. Apologies for Absence: Cllr Cameron Geddes (LB Barking & Dagenham), Cllr George Crane (LB Brent), Cllr Chris Bond (LB Enfield), Cllr Varsha Parmar (LB Harrow), Cllr Amritt Mann (LB Hounslow), Cllr Ian Corbett (LB Newham) and Richard DeCani (Transport for London).

3. Future of the London Underground and London Rail

A presentation on the future of London Underground and London Rail was made by Mike Brown - Managing Director of London Underground. A brief outline of the main comments made is listed below:

- Capacity for the current network needed increasing. This would be in the form of Crossrail, the Northern Line extension and various other schemes
- Demand continues to rise and was set to increase to 91% by 2024
- Investment was being made on some of the busiest lines and the DLR
- Up to 2.5% of London Underground track was being replaced each year
- First section of Crossrail opens on 31 May 2015, and
- 24 hour tube was coming soon – up to 50% of journeys would be people going to and from work.

The Chair said that there were a large number of individual borough issues. He suggested having some form of "tube surgery", which could be carried out through email.

4. Mayor’s Infrastructure 2050 Plan

Matthew Pencharz (Senior Adviser to the Mayor, Environment and Energy) made a presentation to members on the Mayor’s Infrastructure Plan. He also wanted to touch on air quality, in particular, Local Air Quality Management (LAQM). The population of London was expected to increase by 11 million by 2050 and a step change would be required to deliver infrastructure that would be needed to deal with this population increase

Matthew Pencharz informed members that the Infrastructure Delivery Board would be meeting shortly to discuss ways of better integrating the infrastructure. A “green infrastructure” task force had been set-up and was working jointly with the National Trust, Public Health England, the Chair of TEC and others.

The Committee: **(i)** noted ad commented on the presentation on the Mayor’s Infrastructure 2050 Plan, and **(ii)** agreed that boroughs would be consulted further on future LAQM proposals.

5. Report from the London Waste & Recycling Board (LWARB) Local Authority Support

. The Committee received a paper that presented members with an update on the establishment of the new London Waste Authority Support Programme for 2015 and beyond, through a strategic partnership between LWARB and WRAP (the successor of the current LWARB Efficiencies Programme), branded “Resource London”. Councillor Loakes introduced the report and said that Antony Buchan and (Head of Programme, Resource London) and Wayne Hubbard (LWARB) were present to update members on the latest developments.

The following main comments were made:

- The programme had links to investment being made in waste infrastructure, new businesses and to the circular economy
- Efficiencies programme would achieve savings of £11million per year, over the next 5-years (from 2015/16 onwards)
- A new programme would focus on local authority recycling rates and have a 50% recycling target by 2020, and
- Arranging to meet with local authorities to identify what the biggest recycling opportunities were and where.

The Committee: **(i)** noted the report and the new strategic partnership between LWARB and WRAP, and the local authority budget for 2015/16, and **(ii)** noted in 2015/16 Resource London and London Councils intended to develop a London Recycling Guarantee, as set out in paragraph 22b of the report.

6. Oak Processionary Moth (OPM)

The Committee considered a report that briefed members on the Oak Processionary Moth (OPM), its implications for London and what boroughs (a) must, and (b) could do to complement the Forestry Commission’s (FC) actions to control it.

The Committee: **(i)** noted the report and the public information leaflet, as attached at Appendix 1 of the report, and **(ii)** noted the good practice guidance for handling oak material in areas affected by OPM, as attached at Appendix 2 of the report.

7. Chair’s Report

The Committee received and noted a report that updated members on transport and environment policy issues since the last TEC meeting on 11 December 2014 and provided a forward look until the next TEC meeting on 18 June 2015.

8. Consultation on Setting the Levels of Penalty Charge Notices (PCNs) for Offences Relating to Builders’ Skips

The Committee considered a report on the setting of PCNs payable for offences relating to builders’ skips, as per the London Local Authorities and Transport for London Act 2013. To date these charges had not been set. London Councils had been approached by the London Borough of Croydon and asked to set these charges. Past practice required London Councils to consult on the levy of penalty.

The Committee agreed that London Councils consulted on the levels of PCNs for offences relating to builders' skips, as set out in the LLA and TfL Act 2013.

9. Consultation on Setting Fixed Penalty Notice Levels for Offences Relating to Bird Feeding, Noise in Streets and Public Urination in the City of Westminster

The Committee received a report that informed members of the three byelaws that the City of Westminster had under Section 235 of the Local Government Act 1972, namely, "noise in streets and other public places", urinating etc", and "feeding of birds prohibited". Under Section 16(6) of the LLA Act 2004, it was the joint committee, under London Councils' Transport and Environment Committee (TEC) responsibility to set the levels of fixed penalties for byelaws.

The Committee agreed that London Councils consulted on the levels of fixed penalties for breaching byelaws in the City of Westminster for noise in streets, public urination and the feeding of birds.

10. Freedom Pass 2015 Reissue Update

The Committee received a report that provided members with an update on the progress of the renewal of approximately 970,000 Freedom passes that were due to expire on 31 March 2015, and the development of a new first time application process.

The Committee: **(i)** noted the progress on the Freedom Pass 2015 reissue since the last report to this Committee in December 2014, and **(ii)** noted the work continued to establish new procedures for first time Freedom Pass applicants.

11. Parking on Private Land Appeals (POPLA) Service – Contract Tender Decision

The Committee received a report that provided members with an update on the progress of the project to renew approximately 940,000 Freedom Passes that were due to expire on 31 March 2015.

The Committee: **(i)** noted the progress on the Freedom Pass 2015 reissue since the last report to this Committee in October 2014, and **(ii)** noted that work continued to establish new procedures for first time Freedom Pass applicants.

12. Car Club Strategy

The Committee received a report on the Car Club Strategy (Appendix 1) that had been jointly developed by members of the Car Club Coalition, which included representatives from the industry, London Councils, the GLA and TfL. The Strategy set out a collaborative approach between the commercial and public sector players to accelerate the growth of the sector in London and maximise their potential benefits for London, which were achieved by providing an alternative to private car ownership.

After careful consideration and discussion the Committee agreed that the draft Car Club Strategy would be resent to TEC members to allow them a further two weeks in which to add any other comments to the Strategy.

13. TEC Committee Dates 2015/16

The Committee noted and agreed the dates for the TEC and TEC Executive Sub Committee for 2015/16.

14. Minutes of the TEC Executive Sub Committee held on 12 February 2015

The minutes of the TEC Executive Sub Committee meeting held on 12 February 2015 were noted.

15. Minutes of the TEC Main meeting held on 11 December 2014

The minutes of the TEC Main meeting held on 11 December 2014 were agreed as an accurate record.

16. Any Other Business

It was noted that Cllr Tim Coleridge had been elected as the new Conservative Vice Chair of TEC. Councillor Acton asked for clarification on the proposed 10 minute grace period regarding parking and CCTV. It was noted that the exact wording of the legislation had not been received yet.

The meeting finished at 17:00pm

Leaders' Committee

Report from the Grants Committee – 25 March 2015 Item no:

Report by:	Ana Gradiska	**Job title:**	Principal Governance and Projects Officer
Date:	2 June 2015		
Contact Officer:	Ana Gradiska		
Telephone:	020 7934 9781	**Email:**	Ana.gradiska @londoncouncils.gov.uk

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Summary: Summary of the minutes of the Grant Committee held on 25 March 2015

Recommendations: For information.

Attendance: Cllr Darren Rodwell (LB Barking and Dagenham), Cllr Stephen Carr (LB Bromley), Cllr Alison Gowman (Dep - City of London), Cllr Ranjit Dheer (LB Ealing), Cllr Johathan McShane (LB Hackney), Cllr Sue Fennimore (LB Hammersmith and Fulham), Cllr Sue Anderson (LB Harrow), Cllr Melvin Wallace (LB Havering), Cllr Gerard Hargreaves (RB Kensington and Chelsea), Cllr Julie Pickering (RB Kingston upon Thames), Cllr Paul McGlone (Chair – Lambeth), Cllr Joan Millbank (LB Lewisham), Cllr Edith Macauley (LB Merton), Cllr Forhad Hussain (LB Newham), Cllr Dev Sharma (LB Redbridge), Cllr Simon Wales (LB Sutton), Cllr Liaquat Ali (LB Waltham Forest). Rachel Halford from Women in Prison was in attendance for Item 5.

1. Apologies for Absence

Apologies were received from Cllr Gareth Bacon (LB Bexley), Cllr Mohammed Butt (LB Brent), Jeremy Mayhew (City of London), Cllr Maureen O'Mara (LB Greenwich), Cllr Sue Fennimore (LB Hammersmith and Fulham), Cllr Peter Morton (LB Haringey), Cllr Douglas Mills (LB Hillingdon), Cllr Asima Shaikh (LB Islington), Cllr Meena Bond (LB Richmond), Cllr James Maddan (LB Wandsworth), Cllr Steve Summers (City of Westminster).

2. Deputies Declaration of Attendance

Alison Gowman deputized for Jeremy Mayhew (City of London).

3. Minutes of the Grants Committee AGM held on 26 November 2014.

The minutes were agreed as an accurate record of the meeting which took place on 26 November 2014 with the proviso that the Cllr Guy Senior is deleted from the list of attendees.

The order of the agenda was then taken as follows:

5. Thematic Review – Women in Prison – Presentation

Rachel Halford gave a presentation on the work done by Women in Prison which is funded by the Grants Programme. Members said that they thought this was a worthwhile project. The Chair said that the Grants team at London Councils were compiling a list of other organisations who were interested in presenting at future meetings, and that the members could decide at the next meeting which organization

4. Performance of Grants Programme and 6. Review of Projects

Simon Courage, Head of Grants, said that the majority of the commissions were either steady or going up, but that there were eight commissions whose performance had worsened compared to last quarter. Members asked for more detail on the RAG ratings. It was also decided that a Grants Executive meeting be set up in June/July to discuss performance targets for commissions.

7. Month 9 Revenue Forecast 2014/15

Frank Smith, the Director of Corporate Resources at London Councils introduced this report which outlines actual income and expenditure against the approved budget to the end of December 2014 for the Grants Committee and provides a forecast of the outturn position for 2014/15 for both actual and committed expenditure on commissions, including matched funded ESF commissions, and the administration of all commissions.

The meeting ended at 12:25

Pensions CIV Sectoral Joint Committee (PSJC)
25 March 2015

Minutes of a meeting of the Pensions CIV Sectoral Joint Committee held on Wednesday 25 March 2015 at 3:00pm in the Conference Suite, London Councils, 59½ Southwark Street, London SE1 0AL

Present:

City of London	Mark Boleat (Chair)
Barking and Dagenham	-
Barnet	Cllr Mark Shooter
Bexley	-
Brent	Cllr Shafique Choudhary
Camden	Cllr Rishi Madlani
Croydon	-
Ealing	-
Enfield	-
Greenwich	-
Hackney	-
Hammersmith and Fulham	Cllr Iain Cassidy
Haringey	-
Harrow	Cllr Bharat Thakker (Deputy)
Hounslow	-
Islington	Cllr Richard Greening
Kensington and Chelsea	-
Kingston Upon Thames	Cllr Eric Humphrey
Lambeth	Cllr Adrian Garden
Lewisham	Cllr Mark Ingleby
Merton	Cllr Imran Uddin
Newham	Cllr Ted Sparrowhawk (Deputy)
Redbridge	Cllr Elaine Norman
Richmond Upon Thames	-
Southwark	Cllr Fiona Colley
Sutton	Cllr Sunita Gordon
Tower Hamlets	Cllr Clare Harrisson
Waltham Forest	-
Wandsworth	Cllr Maurice Heaster
City of Westminster	-

Apologies:

Bexley	Cllr John Waters
Ealing	Cllr Yvonne Johnson
Hackney	Cllr Roger Chapman
Haringey	Cllr Jason Arthur
Harrow	Cllr Keith Ferry
Hounslow	Cllr Mukesh Malhotra
Kensington & Chelsea	Cllr Quentin Marshall
Newham	Cllr Forhad Hussain
Richmond-upon-Thames	Cllr Thomas O'Malley
City of Westminster	Cllr Suhail Rahuja

Officers of London Councils were in attendance as was Mr Ian Williams (Director of London LGPS CIV Ltd)

1. Declaration of Interests

1.1. There were no declarations of interest that were of relevance to this meeting.

2. Apologies for Absence & Notification of Deputies

2.1. Apologies and deputies are listed above.

3. Minutes and Matters Arising from the Meeting held on 25 February 2015

3.1. It was noted that Cllr Harrisson's name had been spelt incorrectly on the minutes (attendance list) and agreed that this would be corrected, subject to which the minutes of the PSJC meeting held on the 25 February 2015 were agreed as an accurate record.

3.2. It was noted that any further borough contributions to the CIV would be brought before this Sectoral Committee

3.3. In respect of item 8; there being no substantive comments to the draft Heads of Terms it was noted that the Programme Director would commission the lawyers to draw up revised Articles of Association and a draft Shareholders Agreement and bring these to a future meeting for agreement/adoption.

3.4. It was noted that a paper on voting would be brought to the next meeting for discussion.

3(i) Programme Update (added as an additional item by request of the Chair and unanimous agreement of the Committee)

3.5. The Chair invited the Hugh Grover (Programme Director London LGPS CIV) to provide a brief update on the current status and progress of the programme, the following points were noted:

- Work was well underway to prepare the operating company for FCA authorisation, including the drafting of a substantial document forming authorisation application. Current plans were for the application to be submitted by the middle of May 2015.
- Work had been completed on analysing current borough investments and negotiations were underway with those Investment Managers that had common mandates across more than one borough. It was anticipated that proposals for the fund structure for launch would come to the committee and then to all participating boroughs in the summer.
- It would be necessary for each borough to convene pension committee (or equivalent) meetings at an appropriate point to align decision making with the FCA process for fund authorisation. The programme team would liaise with colleagues across the boroughs to agree the timing and make the necessary arrangements.
- In summary, the current programme plan targets company authorisation to be in July 2015 and fund authorisation in September 2015, with significant assets to be under management by end of the year (subject to decisions of

the boroughs). The FCA process required the operator to be authorised first, followed by the fund.

3.6. It was agreed that a programme progress update would be added to all future agendas as a standing item.

4. Governance Overview

4.1. The Chair invited Anthony Gaughan (Partner, Deloitte) to introduce this item and give a presentation on the ACS Operator Governance Model:

- Current proposals would lead to the ACS Operator having a number of committees making up its governance structure:

  i. *Board of Directors*; would play a critical role, and each director would be individually approved by the FCA as being fit and proper to perform relevant controlled functions. The Board would be the ultimate decision making body for the Operator.

  The Board would be constituted of a balance of 3 Executive Directors (CEO, Chief Operating Officer (COO) and Investment Oversight Director (IOD)) and 3 Non-Executive Directors (NEDs), of which one NED would be the Chair.

  Board meetings would convene formally quarterly. The Executive Team would meet formally monthly, with the meetings being minuted, but would undoubtedly meet more frequently for day-to-day operational matters.

  Job descriptions for the NEDs were still being considered, but it seemed likely that the Chair would be from a financial background (possibly an ex-borough Treasurer). Of the other two NEDs might be a financial services professional with investment experience and the other might be an operations professional with experience in third party outsourcing and management of outsourced contracts.

  ii. *Investment & Risk Committee;* would be responsible for ensuring that the operator fulfils its obligations in meeting the agreed investment guidelines. The committee would have oversight of investment decision making and will ensure the operator is following the agreed investment strategies.

  The committee would be constituted of the CEO, IOD, Chair of the Investment Advisory Committee (borough officer committee) and the appropriate NED.

  Formal meetings would be convened monthly with ad-hoc meetings as required.

  iii. *Operational Risk Committee*; would be responsible for the oversight of operational risks arising from the current and proposed activities of the CIV and would be tasked with ensuring that the company is managing operational risks in line with regulatory requirements.

The committee would be constituted of COO, IOD, Compliance Officer and the appropriate NED.

Formal meetings would be convened quarterly with ad-hoc meetings as required.

iv. *Compliance Oversight Committee*; would be responsible for ensuring the Operator meets its compliance responsibilities for both itself and the fund.

The committee would be constituted of COO, Compliance Officer and the appropriate NED.

Formal meetings would be convened monthly with ad-hoc meetings as required.

v. *Valuation and Pricing Committee*; would be responsible for ensuring the integrity of the NAV sign-off process and fair valuations of fund assets at the manager level. In conjunction with the Depositary it would have oversight of the NAV creation process carried out by the outsourced provider.

The committee would be constituted of the CEO, COO, IOD, Operations Manager, with NEDs having the right of attendance.

Formal meetings would be convened quarterly with ad-hoc meetings as required.

vi. *Audit Committee*; would be responsible for appointing and monitoring the external auditor and reviewing the integrity of the financial statements and the financial controls. It would oversee both company and fund audits. This Committee would also review the systems and controls in place for the prevention of fraud and anti-bribery.

The committee would be constituted of the NED Chair, and both other NEDs, with the COO having the right of attendance.

Formal meetings would be convened bi-annually with ad-hoc meetings as required.

4.2. **The Committee** discussed the presentation noting the following points:

- The Chair asked to what extent the committee structure was “set in stone”. He voiced concern that the proposals could result in an unnecessarily complex structure. Mr Gaughan noted that there might be some scope for simplification but that the FCA had stringent requirements for governance and oversight and may not authorise a company where they had concerns about the robustness of the arrangements. The Chair proposed that some of the committees could be merged, especially where the membership was similar.

- Councillor Heaster said that a remuneration committee was missing from the Governance structure.

- Councillor Greening proposed that efforts should be made to try and dilute the “parings” between Executives and NEDs to ensure the ongoing independence of NEDs.

4.3. **The Committee** agreed that officers would come back with proposals regarding NEDs, a remuneration committee or requirement to consult the Committee on remuneration. The Programme Director would take legal advice regarding these matters.

5. Structuring the Investment Advisory Committee (IAC)

5.1. The Chair invited Hugh Grover to introduce this item.

5.2. It was noted that the IAC (previously referred to as the “Investment Committee”) would be made-up of borough officers, who would deal with the technical work associated with overseeing the fund and making recommendations about how it might be developed over time. This work would be used to inform the consideration and decisions of this committee (the PSJC). The report presented a draft set of Terms of Reference for members to consider. Borough treasurers would be invited to comment on the proposals.

5.3. **The Committee** discussed the report noting the following points:

- Councillor Ingleby asked whether there could be some elected member involvement in the IAC, and not just officers. It was noted that the IAC was proposed to be made up of officers who would be engaging in detailed technical work that would come to the PSJC for consideration and decision making in a similar way to borough officers informing the deliberations of borough pension committees. The IAC would act as an officer advisory body.

- For clarity it was confirmed that ultimate ‘decisions’ would always be made by the operator as a regulated body, but that the PSJC would decide how it would like the operator to develop the fund and those decisions would be acted upon other than in circumstances where due diligence or some other technical reason prevented it.

- The wording on page 15 of the report (“this Committee” etc.) should be looked at again and redrafted if necessary.

- Councillor Greening proposed that there needed to be member involvement in reviewing the performance of fund managers. He said that a small group needed to be convened to perform this work on behalf of members. A mechanism needed to be in place to be able to do this. it was confirmed that the Technical Sub Group was looking into the issue of Fund Manager review meetings and proposals would be coming to a future meeting of the committee.

6. Executive and Non-Executive Director Recruitment

6.1. The Chair invited Hugh Grover to introduce this item.

6.2. It was noted that the report informed the Committee about the processes being adopted to appoint permanent executive and non-executive directors to the

Board of the CIV operating company (London LGPS CIV Ltd.) to replace the current interim directors

6.3. **The Committee** noted the contents of the report.

7. Any Other Business

7.1. There was no other business.

The meeting resolved to exclude members of the press and public to consider the Exempt item of the agenda (E1 Exempt section of the minutes on 25 February 2015).

The meeting closed at 16:10pm